



AGENDA REPORT

SAN CLEMENTE CITY COUNCIL MEETING
Meeting Date: November 19, 2019

Agenda Item 60

Approvals:

City Manager [Signature]
Dept. Head [Signature]
Attorney [Signature]
Finance [Signature]

Department: Finance & Administrative Services
Prepared By: Michael Johnston, Management Analyst

Subject: *CONTRACT APPROVAL FOR THE PURCHASE OF ELECTRICITY FROM CALPINE ENERGY SOLUTIONS.*

Fiscal Impact: Yes. \$68,000 reduction in annual city-wide electricity costs.

Summary: Currently, the City is purchasing electricity through Calpine Energy Solutions on a two-year fixed contract at \$33.42 per Kilo-watt hour, which expires December 31, 2019. A new contract will be required for calendar year 2020 and beyond.

Background: The City has purchased energy under the Direct Access program, which allows large energy consumers to purchase electricity directly from Energy Service Providers (ESP's) authorized by the California Public Utilities Commission (CPUC) to market electricity in California, rather than from local utilities. The City has purchased electricity under one and two-year fixed rate contracts since January 1, 2011.

The current contract expires on December 31, 2019 and staff recommends that the City continue to purchase electricity through the Direct Access program. San Diego Gas & Electric rates are significantly higher than the rate the City pays through the Direct Access program.

Discussion: The market rates for one and two-year "futures" contracts fluctuate on a daily basis. Rates are seasonal in nature, typically spiking in the summer and again during peak winter demand periods. The City has historically executed contracts in the fall between the summer and winter demand peaks. SDG&E, SoCal Edison and PG&E have all been cutting power in recent weeks due to high winds and low humidity during red flag fire conditions. These blackouts have led to a significant demand reduction across California resulting in an opportunity to potentially lock in favorable long-term rates prior to this winter's peaking. Recently, prices are slightly down due to strong natural gas storage levels and improving infrastructure. Calpine Energy Solutions staff projects that current rates will increase from now through the peak winter season. The rate for a two-year contract is currently \$37.88 per Kilo-watt hour, or 13% higher than the existing contract price of \$33.42. In tracking prices this calendar year, the lowest price for a two-year contract prior to this point had been \$38.05, and had been as high as \$44.78 back in May. Therefore, this current price presents the lowest price and best opportunity for the City to lock-in before the prices rise again in the winter months.

Electricity prices are likely to increase over the long-term and the opportunity exists now to secure very favorable pricing to protect against these projected increases. The

City's contract strategy has been an effective tool in mitigating energy costs for the City, saving an estimated \$235,000, or 18%, when compared to SDG&E rates in calendar year 2020 and 2021.

Staff is recommending that Council authorize the City Manager to execute an agreement to purchase electricity for a two-year contract not to exceed \$37.88 per Kilo-watt hour. The longer term contract is recommended to take advantage of very favorable market rates and to stabilize electricity costs for the next two calendar years (2020 and 2021). The \$37.88 per Kilo-watt hour price is well below SDG&E's current rate structure.

Recommended

Action: STAFF RECOMMENDS THAT the City Council approve and authorize the City Manager to execute a two-year contract for electricity with Calpine Energy Solutions for an amount not to exceed \$37.88 per Kilo-watt hour.

Attachments: Electricity Sales and Purchase Agreement

Notification: None

**Addendum for Fixed Price, Load Following Electricity
With Hourly Demand Caps and Floors**

Reference:
ELECTRICITY SALES AND PURCHASE AGREEMENT
Between Calpine Energy Solutions, LLC ("Seller")
And City of San Clemente ("Buyer")
As of October 05, 2010 (the "Effective Date")
Addendum Date: October 29, 2019

This Addendum (the "Addendum") supplements the Electricity Sales and Purchase Agreement referred to above (the "Agreement"). The Parties hereby agree to the terms and conditions set forth herein for Buyer's Facilities served at the Delivery Point. Capitalized terms not otherwise defined in this Addendum shall have their meanings set forth elsewhere in the Agreement, including its Appendices.

1. **PRODUCT.** Contract Prices for Electricity set forth in this Addendum include each component in the table set forth below that is indicated by an [X], which are referred to herein collectively as "Electricity."

ELECTRICITY*	
(Generation Components)	
<input checked="" type="checkbox"/>	Electric Energy
<input type="checkbox"/>	Ancillary Services
<input type="checkbox"/>	Administrative ISO/QSE/SC Charges and Fees
<input type="checkbox"/>	Distribution/Transmission Losses
<input type="checkbox"/>	Unaccounted for Energy (UFE)
<input type="checkbox"/>	Bid Cost Recovery (BCR)
<input type="checkbox"/>	Real Time Congestion Offset (RTCO)
<input type="checkbox"/>	Resource Adequacy
<input type="checkbox"/>	Renewable Portfolio Standards
<input type="checkbox"/>	Locational Basis

2. **DELIVERY PERIOD.** This Addendum shall be in full force and effect as of the Addendum Date. The terms set forth herein shall apply from the Start Date through the End Date:

Start Date:	End Date:
January 01, 2020	December 31, 2021

3. **LOCATION AND DELIVERY POINT.**

Market Area	Supply Point	Delivery Point	Buyer's Local Utility
CAISO	EZ GenHUB SP - 15	SDGE LAP	SDGE

4. **PRICING.**

4.1 **Contract Price:** Buyer shall pay the following Contract Price (expressed in USD per MWh) for all monthly Electricity usage that is (1) within the Balanced Monthly Usage, and (2) below the Maximum Peak (both of which are set forth in the tables, below).

Contract Price (in US\$/MWh)
\$37.88

4.2 **Balanced Monthly Usage:** The term "Balanced Monthly Usage" shall mean the volume of electrical energy that is between the Lower Limit and the Upper Limit as set forth below:

Balanced Monthly Usage Limits	
Lower Limit (Percent below Buyer's Baseline Monthly Quantity)	Upper Limit (Percent above Buyer's Baseline Monthly Quantity)
10%	10%

4.3 **Pass-Through Charges:** The Contract Price set forth above includes only the components set forth in Section One of this Addendum and reflects the value of Marginal Losses and the costs and credits associated with Congestion Revenue Rights. Seller shall pass through to Buyer all other RTO or Buyer's Local Utility charges associated with Electricity delivery to the Delivery Point. Buyer acknowledges that Seller may be subject to Renewable Portfolio Standards and Resource Adequacy requirements imposed by the CPUC or CAISO in connection with serving Buyer's electricity requirements. Buyer further acknowledges that all additional costs incurred by Seller in order to comply with these requirements will be the responsibility of Buyer. When the Locational Basis component is not included in Section

1 above, the Locational Basis charge shall be added to the Contract Price. The Locational Basis charge shall be calculated each hour as an amount equal to the Day Ahead Locational Marginal Price ("LMP") at the Delivery Point less the Day Ahead LMP at the Supply Point. If the Locational Basis component is not included and Distribution/Transmission Losses are included in Section 1, then the Locational Basis charge shall be adjusted by the appropriate loss factor.

4.4 Changes in Circumstances:

4.4.1 Accuracy of Supplied Information: The Contract Price for Electricity is established in reliance on the accuracy of information provided to Seller concerning Buyer's load requirements. Seller may pass through to Buyer any incremental costs incurred by Seller as a result of inaccuracies in any such information provided to Seller.

4.4.2 If a change in Law occurs that a) re-defines or alters the congestion zone(s) where Buyers' Facilities are located or b) alters the RTO market structure or protocol design, causing additional costs to Seller due to Buyer's service, Seller may pass through such additional costs to Buyer.

4.4.3 The Contract Price set forth above may include ancillary services, wholesale or network transmission, RTO market charges, or other services administered or provided by Buyer's RTO. Buyer acknowledges that such charges are based on the established rates, operations and/or protocols applicable to Buyer's service that are in effect as of the Addendum Date. In the event of changes in such rates, protocols, and/or operations that cause additional costs to Seller, Seller may pass through such additional costs to Buyer.

5. **CONTRACT QUANTITY.** Seller shall service 100% of Buyer's Electricity requirements at Buyer's Facilities. The Contract Quantities for this Transaction are set forth below. Buyer's Baseline Monthly Quantity set forth below shall be included in the Contract Quantity for the purposes of calculating any termination payments owed pursuant to the Agreement.

The Contract Price relates to the Contract Quantities at (choose one)				
<input checked="" type="checkbox"/> the Delivery Point <input type="checkbox"/> Buyer's Meter				
Electric Energy Commodity				
Month	Demand Cap (in MW)	Demand Floor (in MW)	Buyer's Baseline Monthly Quantity (in MWh)	Estimated Resource Adequacy Obligation (in kW)
1/2020	-	-	896.96	2297
2/2020	-	-	807.31	2836
3/2020	-	-	903.70	2590
4/2020	-	-	1014.97	2833
5/2020	-	-	968.96	2566
6/2020	-	-	1017.31	2278
7/2020	-	-	1171.47	2858
8/2020	-	-	1197.57	2769
9/2020	-	-	1116.00	2895
10/2020	-	-	1088.13	3067
11/2020	-	-	1022.38	3239
12/2020	-	-	887.36	2434
1/2021	-	-	889.09	2297
2/2021	-	-	781.30	2836
3/2021	-	-	910.49	2590
4/2021	-	-	1012.69	2833
5/2021	-	-	968.25	2567
6/2021	-	-	1020.35	2281
7/2021	-	-	1171.39	2858
8/2021	-	-	1208.29	2769
9/2021	-	-	1126.75	2895
10/2021	-	-	1096.51	3067
11/2021	-	-	1047.13	3239
12/2021	-	-	890.39	2434

6. **MONTHLY BILLING SETTLEMENT.** Seller shall invoice Buyer as follows

6.1 **Demand Above Demand Cap:** For any settlement interval in which Buyer's demand exceeds the Demand Cap set forth above, Buyer shall pay Seller for the quantity above the Maximum Peak the real time market energy price at the time of delivery (the "Real Time Price") plus all related delivery charges, as defined by the RTO at the Delivery Point, plus 1.00 dollar(s) per MWh.

- 6.2 **Demand Below Demand Floor:** For any settlement interval in which Buyer's demand is less than the Demand Floor set forth above, Buyer shall pay Seller for the quantity below the Demand Floor in amount equal to the positive difference, if any, between the Contract Price and the Real Time Price.
- 6.3 **Usage Above Upper Limit:** During any month of delivery, if Buyer's usage, excluding any quantities settled in conjunction with the Cap and Floor, as set forth above, exceeds the Upper Limit ("Excess Quantity"), Seller shall invoice Buyer an amount equal to the Upper Limit multiplied by the Contract Price. For the Excess Quantity, Buyer shall pay Seller at the monthly weighted average of real time energy prices plus all related delivery charges as defined by the RTO at the Delivery Point, plus 1.00 dollar(s) per MWh. If Buyer's usage, excluding any quantities settled in conjunction with the Cap and Floor above, exceeds the Upper Limit ("Excess Quantity") for three consecutive months, then the Balanced Monthly Usage Limits will be set to 0% until the Buyer's usage is within the original Balanced Monthly Usage Limits for three consecutive months
- 6.4 **Usage Below Lower Limit:** During any month of delivery, if Buyer's usage, excluding any quantities settled in conjunction with the Cap and Floor, as set forth above, is less than the Lower Limit ("Underused Quantity"), Seller shall invoice Buyer for an amount equal to the Lower Limit multiplied by the Contract Price and shall credit Buyer's account by an amount equal to the Underused Quantity multiplied by the monthly weighted average of real time energy prices as defined by the RTO at the Delivery Point, minus any imbalance charges. If Buyer's usage, excluding any quantities settled in conjunction with the Cap and Floor above, is less than the Lower Limit ("Underused Quantity") for three consecutive months, then the Balanced Monthly Usage Limits will be set to 0% until the Buyer's usage is within the original Balanced Monthly Usage Limits for three consecutive months.
7. **DEMAND RESPONSE.** If Buyer participates in any demand response programs, Buyer shall notify Seller and reimburse Seller for any costs incurred by Seller as a result of Buyer's participation.

As supplemented by this Addendum including its Schedules, if any, all other Terms and Conditions contained in the Agreement remain in full force and effect.

This Addendum is subject to the Schedule(s) identified below:

CALPINE ENERGY SOLUTIONS, LLC

CITY OF SAN CLEMENTE

Sign: _____

Sign: _____

Print: _____

Print: _____

Title: _____

Title: _____

Fixed Price, Load Following Electricity (CAISO)

Rev. 06.18.2019

For Seller's Use Only	406842.1-1
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