

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lori Mitchell

**SUBJECT: ELECTRICITY CONGESTION
REVENUE RIGHTS**

DATE: June 28, 2019

Approved

D. D. S. L.

Date

6/28/19

INFORMATION

EXECUTIVE SUMMARY

Electricity Congestion Revenue Rights (CRRs) are financial rights to collect or pay for congestion costs on the electric transmission network. CRRs are used to offset possible congestion charges, mitigate price volatility, and allow the ratepayers who pay for the electric transmission system through the transmission access charge to receive funds that offset transmission costs. San José Clean Energy (SJCE) is eligible to receive CRR allocations as it is a Community Choice program that serves load in California. By participating in the CRR market, SJCE could see costs related to grid congestion in certain months; however, on an annual basis SJCE estimates a net revenue increase of \$2-2.5 million dollars annually. To realize this additional revenue, the Director of Community Energy intends to enter into a CRR Agreement with the California Independent System Operator (CAISO). The CAISO has refused to accept the Designated Fund (SJCE Operating Fund) language in the CRR agreement which would limit any obligations in the CRR Agreement to the revenues of SJCE. As a result, it is remotely possible that the General Fund could be at risk for payment of obligations related to this contract if the SJCE fund is not able to meet the obligation. However, based on the risk mitigation strategies proposed below by SJCE, the City Manager has determined that the risk to the General Fund is minimal whereas the opportunity to realize revenue on behalf of SJCE customers is high.

BACKGROUND

In Resolution 78980, the City Council delegated authority to the Director of Community Energy to execute agreements with the CAISO to perform SJCE's obligations as a Scheduling Coordinator. SJCE is negotiating with the CAISO to become its own Scheduling Coordinator. In the meantime, the Northern California Power Authority is providing Scheduling Coordinator services to SJCE. Because SJCE is a load serving entity, if it were its own Scheduling Coordinator, it would also enter into a CRR contract to participate in that market and transact CRRs for the benefit of its retail customers. Northern California Power Authority is not load serving entity, and it cannot enter into a CRR Agreement to sell SJCE's CRRs in the market. However, SJCE may enter into the CRR agreement directly to supplement the Scheduling Coordinator obligations that are currently fulfilled by Northern California Power Authority.

ANALYSIS

Community Energy's Designated Fund (SJCE Operating Fund)

Consistent with City Council policy and direction, SJCE includes provisions that limit SJCE's liability to the Department of Community Energy's Designated Fund in all of its contracts. The Designated Fund is used solely to cover SJCE's costs and expenses. The CAISO will not accept revisions to their standard CRR participation agreement, which is pre-approved by the Federal Energy Regulatory Commission in a rulemaking proceeding to ensure fair treatment to all market participants. The CAISO has rejected requests to include provisions limiting payment to the Community Energy Designated Fund; therefore, by signing the CAISO participation agreement there is some risk that the General Fund could be at risk for payment of obligations related to this agreement.

General Fund

To protect the General Fund against payment obligations related to this agreement, SJCE will utilize the following strategies to minimize the risk: (1) SJCE will budget to cover payments associated with this market as part of its power supply budget; (2) SJCE will fund an operating reserve to cover unexpected costs associated with this agreement as well as other market costs; (3) SJCE will terminate the agreement and limit further CRR participation if market conditions indicate that participation in this market will not generate additional revenue. SJCE may terminate the agreement at any time by providing a 90-day notice to the CAISO. Under worst case conditions, SJCE would terminate the agreement, satisfy all CAISO financial obligations, and cease participation in this market.

COST SUMMARY/IMPLICATIONS

With the input of industry consultants, SJCE reviewed recent congestion market data and expects that CRR revenues would cover congestion costs. Over the last two and half years, it is estimated that only three months would have resulted in negative CRR revenue for SJCE. In 2017, SJCE would have experienced positive revenues for each month of the year. In 2018, SJCE would have experienced two months of negative CRR revenues. In 2019, SJCE would have experienced one month of negative CRR revenue and would have received \$839,734 in net revenue for the first five months of the year. Annually, it is estimated that SJCE will increase revenue by \$2- \$2.5 million dollars by participating in this market.

/s/
LORI MITCHELL
Director, Community Energy

For questions, please contact Lori Mitchell, Director of Community Energy, at (408) 535-4880.