

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 15

TO: Board of Directors

FROM: Mitch Sears, Interim General Manager
Gordon Samuel, Assistant General Manager & Director of Power Services

SUBJECT: Power Content Policy Strategy Adjustments for Calendar Year 2022

DATE: May 13, 2021

RECOMMENDATION

Informational – no action requested.

OVERVIEW

The purpose of this agenda item and report is to gather feedback from the Board on two related power procurement policy issues. The Board feedback will inform development of a recommendation on these policies and will be incorporated into the final draft FY 2021-2022 budget which will be presented to the Board in June. The two policy issues are:

1. Should VCE extend the Power Content Policy strategy adjustments approved by the Board last June? The policy strategy adjustments approved by the Board last June reduced procurement of short-term renewable resources (RECs) for one year and were put in place to partially mitigate financial impacts of rising Power Charge Indifference Adjustment (PCIA) and Resource Adequacy (RA) costs in fiscal year 2020-2021.

If yes;

2. What Renewable Portfolio Standard (RPS) target should VCE consider for the current RPS compliance period (2021 – 2024)? The minimum compliance requirement is an average of 40% renewable portfolio content over the compliance period while VCE's internal target has been 42% since launch. Staff has modeled a 42% average in this report for Board consideration.

Note: The Community Advisory Committee will also be considering these topics at their May 27th meeting.

BACKGROUND AND DISCUSSION

In June 2020, the VCE Board adopted policy adjustments to scale back VCE's near-term acquisition of renewable and GHG-free power content. This policy was adopted by the Board to address: (1) the objective of aligning VCE's short and long-term power procurement efforts,

(2) the increasing/unpredictable PCIA, and (3) volatility in RA power pricing which have created uncertainty for CCA programs across the State. The policy adjustments partially mitigated the negative financial impacts that an increasing and volatile PCIA and more costly RA market have on VCE. The policy adjustments placed VCE in a better position to maintain competitive rates and clean power content for its customers while meeting its baseline compliance obligations.

Fiscal Impacts

The procurement policy adjustments performed as expected, saving an estimated \$2.25M in the current fiscal year (FY 2020-2021). The drivers of the need for this policy (listed above) have not diminished, therefore staff has incorporated the policy adjustment savings into the budget forecasts over the past year and in the draft FY 2021-2022 budget.

As noted above, staff will be making a formal recommendation on the policy adjustment extension next month as part of the FY 2021-2022 budget adoption. If the policy adjustments are not extended and VCE maintains its 42% RPS procurement approach for 2022, the power costs in the draft FY 2021-2022 budget will increase by approximately \$1.5M; this is less than the savings from the current fiscal year since VCE’s long-term PPAs will begin providing lower cost renewable energy in FY 2021-2022, displacing a portion of the higher cost short-term renewable energy credits (RECs) that would otherwise be procured by VCE.

Power Content Policy Strategy Adjustments for 2021

Board approval of the policy resulted in a 2021 power content target of 10% renewable, 10% large hydro for a combined 20% carbon free. Staff and SMUD have procured to these adopted targets for 2021. Below is the current outlook for 2021.

Table 1 – 2021 RPS/GHG Free Power Outlook

VCEA Retail Load	719,098	
Renewable Supply	77,458	11%
Aquamarine Solar	23,028	
Indian Valley	1,500	
Putah Creek Energy Farm	930	
Short Term RECs	52,000	
Large Hydro	79,427	11%
Hydro Contract	29,427	
PG&E Allocation Estimate	50,000	
System Power	562,213	78%

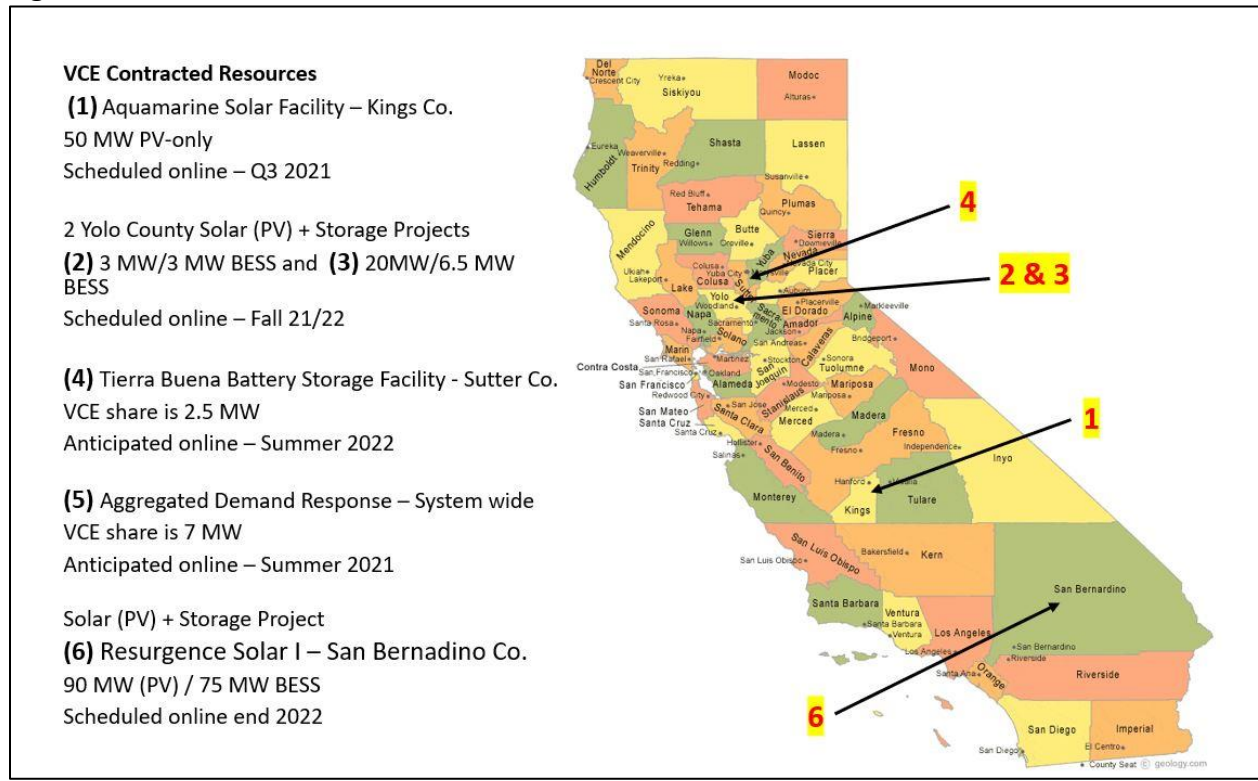
Note: over the period discussed in this report, VCE does not plan to contract for additional large hydro (GHG-free) other than the allocations received from PG&E (approx. 5-10%).

Contracted Resources

As the Board is aware, VCE has been active in negotiating long term PPAs and managing the exact date on which power begins to serve VCE’s customers can fluctuate. VCE has entered into six agreements (four provide energy and RA capacity and two provide RA capacity only) and the online dates range from the 3rd quarter of 2021 through the end of 2022, totaling over 450,000 MWhs (approximately 60% of VCE’s demand). The on-line timing of these projects is important

since they factor into VCEs short-term procurement strategy. For reference, Figure 1 below shows general information on these projects and anticipated on-line dates.

Figure 1 – VCE Contracted Resources



Power Content Policy Strategy – Alignment with RPS Compliance Requirements

All California Load Serving Entities (LSEs), including VCE, are required to meet minimum levels of renewable content in their respective portfolios. This Renewables Portfolio Standard (RPS) is measured as an average percentage over a 4-year compliance period. The current compliance period runs from 2021 through the end of 2024 and requires an average of 40% renewable content. Because VCE’s larger long-term PPAs will come on-line half-way through the current compliance period, it allows for procurement of a lower amount of relatively expensive short-term renewable resources (RECs) in the first half of the compliance period.

In approving the power content policy strategy last June, VCE opted to reduce the amount of short-term RECs purchased in 2021 which resulted in the cost savings outlined earlier in this report. If this fiscal mitigation strategy were to be adopted for 2022, this would require VCE to be well above the state renewable standard in years 2023 and 2024 in order to meet the targets for this compliance period (‘21-’24). Chart 1 below illustrates implementation of the strategy combined with VCEs signed long-term PPA’s coming on-line over this period. This is the 42% average strategy achieving approximately 20% renewable in 2022, and approximately 70% in years 2023 and 2024.

Policy Options

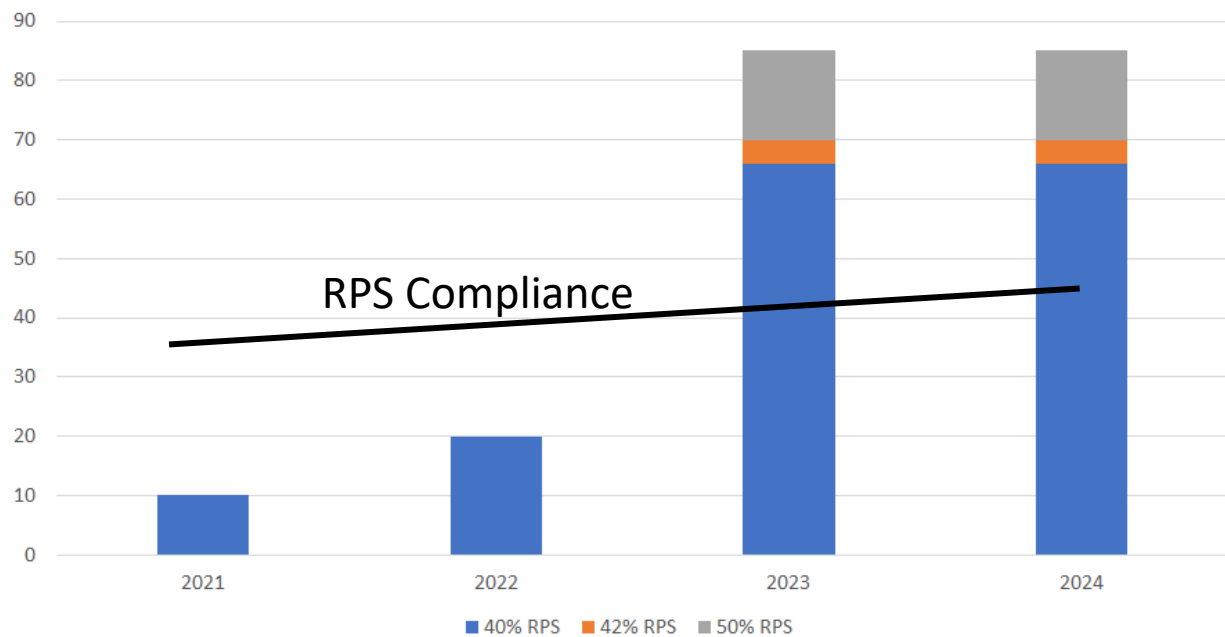
Under the strategy outlined above and shown in Chart 1, VCE would average 42% renewable content over the 21'-24' compliance period. If the Board opted to increase its renewable content target to 50%, VCE would exceed the State requirements by 10% with costs rising approximately \$3.86M over the four-year compliance period. Staff is seeking feedback from the Board on the following policy options which will in turn be incorporated into the draft FY 2021-2022 budget that will be before the Board in June.

1. Should VCE extend the Power Content Policy strategy adjustments approved by the Board last June?

If yes;

2. What Renewable Portfolio Standard (RPS) target should VCE consider for the current RPS compliance period (2021 – 2024)? 40%, 42%, or 50%

Chart 1 – VCE 2021-2024 RPS Compliance Strategy –% Avg RPS Option



CONCLUSION

Staff is recommending that the Board consider the power procurement policy strategy for the efficient incorporation of long-term renewable contracts into VCE's portfolio and to address fiscal year 2021/2022 PCIA and RA cost impacts. Board feedback at this meeting on the policy strategy options will help inform staff's recommendation on the power procurement policy strategy and the final draft 2021-2022 FY budget scheduled for consideration at the Board's June meeting.