VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 15
Confidential & Proprietary

TO: Valley Clean Energy Alliance Board

FROM: Mitch Sears, Interim General Manager
Gary Lawson, Sacramento Municipal Utility District (SMUD)

SUBJECT: Q3 2019 Procurement Update (Informational)

DATE: November 14, 2019

CONTEXT

In accordance with VCE's Wholesale Energy Risk Management Policy, staff is providing this Q3 2019 Procurement Update.

SUMMARY

All forward 2020 procurements have been completed.

We expect 2019 power costs to come in slightly above forecast (as set in May), at an increased cost of $0.377 million. Current power cost projections for 2020, compared to the May estimates, are $0.529 million higher driven by significant increases in RA prices and increased costs for short term renewable procurement, largely offset by the drop in forward market power prices.

Our current estimate of 2021 power costs is looking $2.307 million worse than prior estimates for two primary reasons: 1. We've changed assumptions on when in 2021 the pending new long-term renewable contracts begin delivering, and have factored in the increased expected cost of those renewables; and, 2. The increase in RA prices seen recently in the market are negatively impacting RA procurement costs for 2021.

The 2020 Year Ahead Resource Adquacy Filing was made on Octobr 31, 2019, and we were able to demonstrate full compliance with the minimum regulatory requirements.

CURRENT POWER PORTFOLIO NET POSITION

Table 1 shows VCE's current power portfolio net position.

Table 1. VCE Net Position

[redacted]

2019

[redacted]

2020

[redacted]

2021 & 2022

[redacted]

MARKET POWER PRICES

Forward prices for market power for 2019, 2020, and 2021 have continued to trade on the low side of recent historical prices. [redacted]

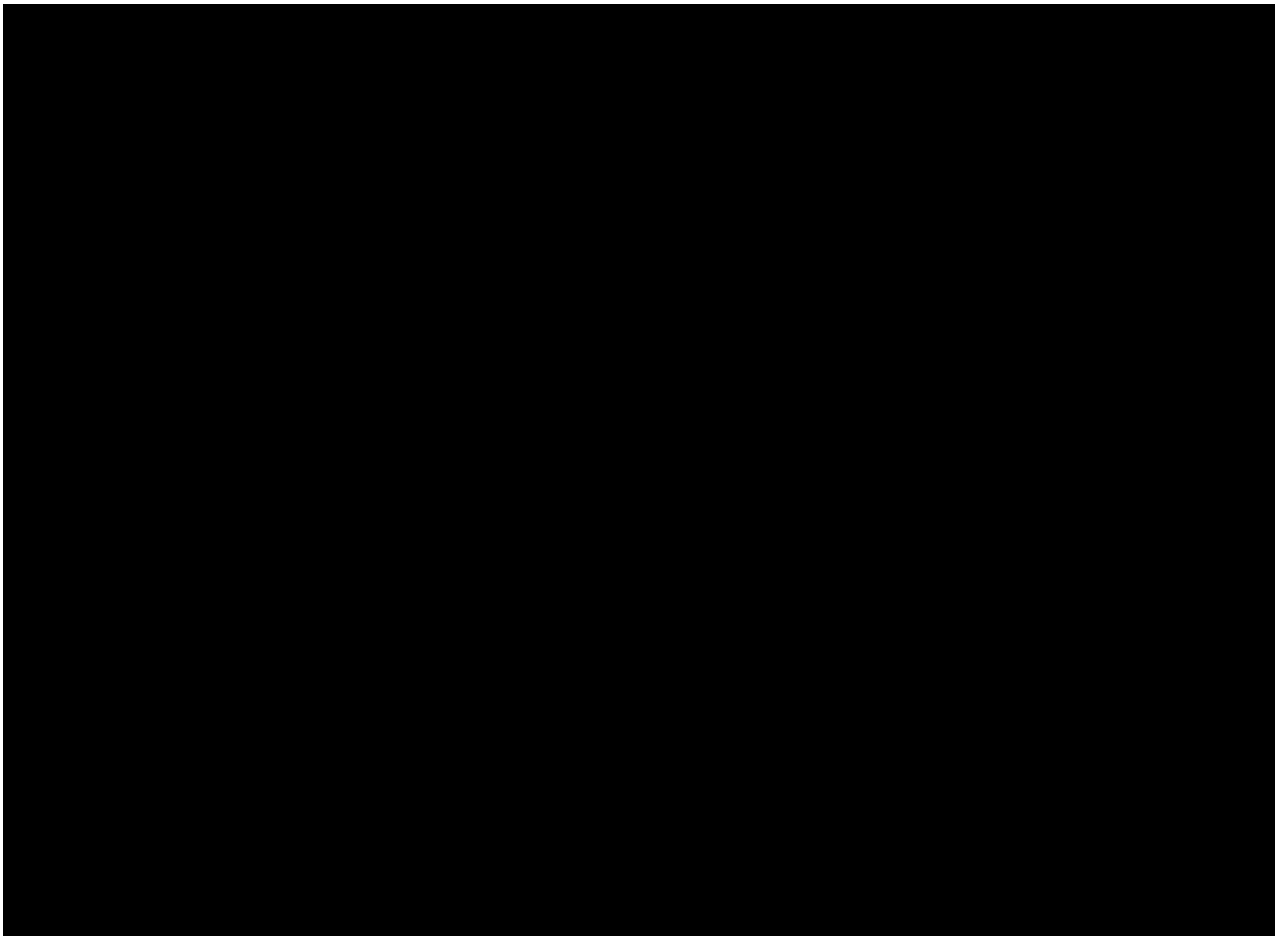
Figures 1 and 2 below show the trend of On Peak and Off Peak NP-15 from January of 2018.

Figure 1. On Peak NP-15 Forward Power Prices

[redacted]

The most recent price curves are the darkest, and the price curves lighten, the farther back in time their vintage represents.

Figure 2. Off Peak NP-15 Forward Power Prices



CURRENT POWER SUPPLY COST PROJECTIONS

Tables 2, 3, and 4 below show the current power supply costs compared with forecasts from May.

2019

For 2019, power cost projections are slightly higher than projected, due to slighthly higher market power prices.

Table 2. 2019 Power Budget Comparison

2019 Power Supply Cost	Target Budget	Current Budget	Net Savings (Costs)
Market Energy	$ 27,541,065	$ 27,883,242	$ (342,177)
CAISO Variable Fees	$ 123,723	$ 123,723	$ -
REC Costs	$ 3,377,424	$ 3,377,424	$ -
Resource Adequacy Cost	$ 7,844,033	$ 7,839,750	$ 4,282
CAISO GMC Cost	$ 311,952	$ 311,952	$ -
Market Services Charge	$ 66,037	$ 66,037	$ -
System Operations Charge	$ 233,915	$ 233,915	$ -
SCID Fee	$ 12,000	$ 12,000	$ -
Carbon Free Premium	$ 1,032,870	$ 1,072,251	$ (39,381)
2019 Total Power Cost	**$ 40,231,067**	**$ 40,608,343**	**$ (377,276)**

2020

For 2020 power cost projections are worse by $0.529 million, driven by significant increases in RA prices, and increased costs for short term renewable procurement, largely offset by the drop in forward market power prices. Large Hydro costs came in $0.203 million over estimates, as well.

Table 3. 2020 Power Budget Comparison

2020 Power Supply Cost	Baseline Forecast	Current Forecast	Net Savings (Costs)
Market Energy	$ 35,190,464	$ 30,778,675	$ 4,411,788
CAISO Variable Fees	$ 133,350	$ 133,350	$ -
REC Costs	$ 2,806,279	$ 4,186,763	$ (1,380,483)
Resource Adequacy Cost	$ 7,559,691	$ 10,916,350	$ (3,356,659)
CAISO GMC Cost	$ 335,291	$ 335,291	$ -
Market Services Charge	$ 71,176	$ 71,176	$ -
System Operations Charge	$ 252,115	$ 252,115	$ -
SCID Fee	$ 12,000	$ 12,000	$ -
Carbon Free Premium	$ 1,272,271	$ 1,476,091	$ (203,820)
2020 Total Power Cost	**$ 47,297,346**	**$ 47,826,520**	**$ (529,174)**

2021

Our current estimate of 2021 power costs is looking $2.307 million worse than prior estimates for two primary reasons: 1. We've changed assumptions on when in 2021 the pending new long-term renewable contracts begin delivering, and have factored in the increased expected cost of those renewables; and, 2. The increase in RA prices seen recently in the market are negatively impacting RA procurement costs for 2021.

The renewable supply for 2021 has not been locked in yet, and VCE will have a better idea of 2021 costs once we execute the long-term renewable PPA that we are negotiating with a supplier for. Also, with regard to increasing power cost on VCE's overall financial picture, a key off-setting factor to rising power costs is the downward pressure on the Power Charge Indifference Adjustment (PCIA) that higher RA market prices will have. This is expected to provide some cost relief going forward. In addition, future years will have the cost benefit of

long-term renewable contracts in place for the full year whereas 2021 will only have that for half-year as those projects come on-line.

Table 4. 2021 Power Budget Comparison

2021 Power Supply Cost	Baseline Forecast	Current Forecast	Net Savings (Costs)
Market Energy	$ 35,560,603	$ 31,777,551	$ 3,783,052
CAISO Variable Fees	$ 141,690	$ 141,690	$ -
REC Costs	$ (1,072,185)	$ 831,919	$ (1,904,104)
Resource Adequacy Cost	$ 9,584,707	$ 13,629,571	$ (4,044,863)
CAISO GMC Cost	$ 355,511	$ 355,511	$ -
Market Services Charge	$ 75,627	$ 75,627	$ -
System Operations Charge	$ 267,884	$ 267,884	$ -
SCID Fee	$ 12,000	$ 12,000	$ -
Carbon Free Premium	$ 1,351,843	$ 1,493,722	$ (141,879)
2021 Total Power Cost	**$ 45,922,170**	**$ 48,229,965**	**$ (2,307,795)**

RESOURCE ADEQUACY

[redacted]

Table 5 below shows the current month ahead compliance view of VCE's RA portfolio.

Table 5. VCE Month Ahead RA Compliance

[redacted]

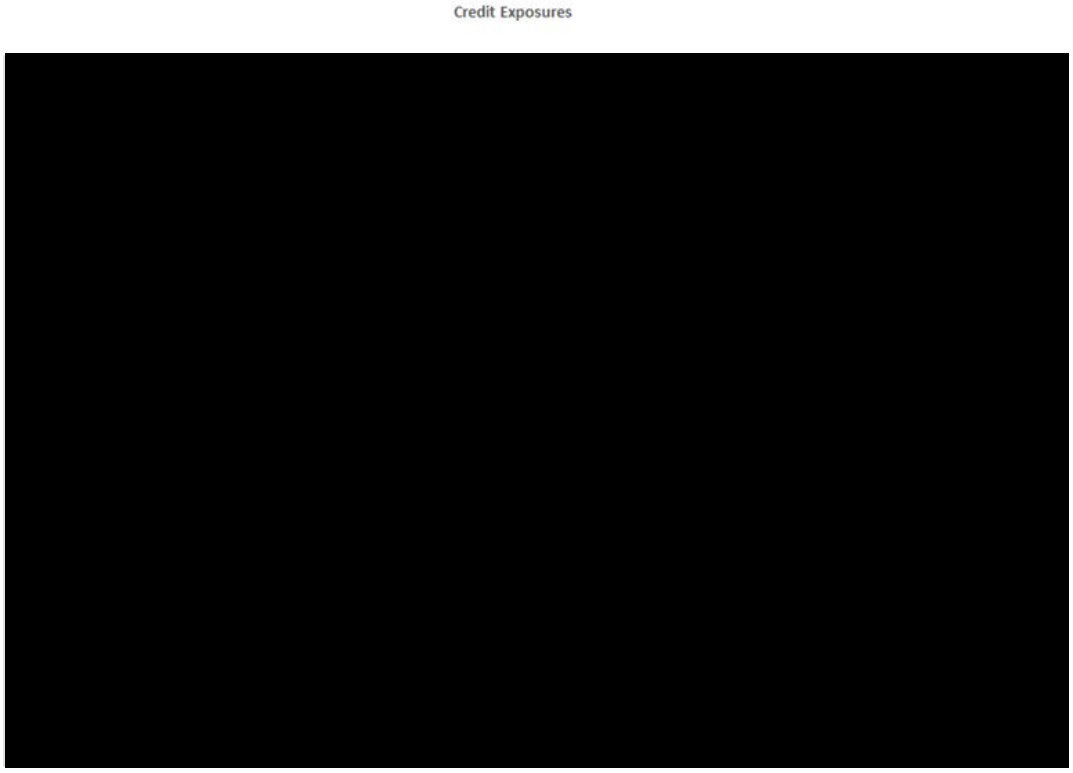
[redacted]

CREDIT/EXPOSURE

Figure 3 shows the current credit/exposure to various VCE counter parties.

[redacted]

Figure 3. Current Credit/Exposures



FORECAST VS ACTUAL LOADS

Figure 4 shows VCE's forecast retail loads for 2019, compared with actual loads to date. At the time of publication, we have loads reported through July. Retail loads are coming in 7.8% below the forecast. Wholesale loads are similar, running 8.1% below forecast. The lower-than-forecast loads for January through March have been factored into VCE's net position (Table 1). It appears that the load forecast is biased to the highside, which will evaluated when VCE's load forecast is updated in Q1 next year.

Figure 4. 2019 Retail Loads – Forecast vs. Actual