

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 17

TO: Board of Directors

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

SUBJECT: 2021 Procurement Plan, Including Directives and Delegations for 2021 Power Procurement Activities

DATE: January 21, 2021

RECOMMENDATION

Staff recommends the Board adopt a resolution that:

1. Approves the 2021 Procurement Plan contained in this staff report.
2. Approves Directives and Delegations to SMUD for procuring portions of VCE's power portfolio for calendar year 2021 through 2023, guided by the principals described in this report.
3. Approves the elimination of specific portfolio renewable and carbon-free targets in 2022 to improve procurement and financial flexibility as long-term renewable projects come online.

OVERVIEW

The recommended actions would approve VCE's procurement actions for portions of VCE's portfolio for calendar years 2021 through 2023. These directives and associated delegations are presented in Table 1 below.

BACKGROUND AND ANALYSIS

On December 12, 2019, the Board approved VCE's Procurement Guide which established the procurement plan for 2020 forward.

The purpose of this staff report is to update the approval of delegations necessary for VCE and SMUD staff to continue procurement activities on behalf of VCE's power supply portfolio. This update provides a high-level overview of the products necessary to meet compliance

obligations and maintain a balanced power portfolio while meeting power supply portfolio targets set by the VCE Board.

Principles Guiding Procurement and Delegations of Authority

The procurement plan and delegations of authority will be guided by the following principles and allow VCE and SMUD staff to:

- Meet VCE's compliance, regulatory, and business practice requirements under the California Public Utilities Commission (CPUC), California Independent System Operator (CAISO), and other relevant regulatory agencies;
- Satisfy the power supply portfolio targets set by the VCE Board;
- Minimize the potential risk exposure of the portfolio, according to practices defined in VCE's Wholesale Energy Risk Manual;
- Provide the appropriate amount of administrative flexibility for staff to carry out procurement actions.

Product Categories

Resource Adequacy

As a CPUC jurisdictional Load Serving Entity, VCE is required to meet the compliance obligations of the Resource Adequacy (RA) program. The RA program ensures sufficient resources are available to support the anticipated demand in California. The CPUC along with CAISO administer the program and define the requirements necessary to meet reliability standards. VCE is allocated its share of obligations based on its load ratio of PG&E's service territory. The delegation for this product allows VCE to meet its RA obligations in a timely manner, support reliability of the grid, and avoid financial penalties.

Renewable Energy

CPUC sets minimum renewable energy requirements under its Renewable Portfolio Standards (RPS) program. Along with meeting any annual renewable targets set by the Board, VCE is obligated to adhere to required renewable percentages over the CPUC-defined compliance periods. Some of this renewable energy obligation will be met with Power Purchase Agreements (PPAs) for resources that are still under construction (e.g. 50MW Aquamarine Solar project). The rest of the requirements can be met with short-term purchases of RPS-qualified energy from existing resources in the market. The delegation approvals are designed to allow staff to procure around the uncertain new resource online dates to meet renewable energy portfolio targets. Procurement of these short-term purchases of RPS-qualified energy are expected to diminish in future years as VCE's long-term PPA's displace the need.

Carbon-Free Energy

Carbon-Free energy is a voluntary product that reduces the carbon content of VCE's power supply. This comes mainly from large-hydro generation resources that do not qualify as Renewable under the RPS program. The delegation for this product allows staff to procure

enough carbon-free energy to meet the target set by the Board, taking into consideration the uncertainty of annual PG&E carbon-free allocations.

Price Hedging Energy

Purchasing energy on a forward basis allows VCE to fix some of its power supply costs ahead of more volatile and uncertain spot market prices. A procurement milestone is set to ensure the targeted amount of energy hedging is completed in a timely manner. Under VCE's Enterprise Risk Management Policy, VCE's Enterprise Risk Oversight Committee (EROC) reviews and provides guidance to staff on the timing and execution of the hedging strategy to meet procurement directives and minimize budget exposure.

CAISO Market Energy and Congestion Revenue Rights

CAISO Market Energy is scheduled for VCE daily into the Day Ahead Market, as required by the CAISO, based on daily forecasts of VCE hourly wholesale loads. SMUD staff currently purchase and sell energy on a daily basis to maintain balance between forecasted demand and supply. This practice will be evaluated based on actual benefits and risk tolerances to determine if the practice should be maintained or modified. The VCE EROC will assess evaluations and approve any changes to this practice along with the hedging strategy.

Congestion Revenue Rights (CRRs) are financial instruments allocated by the CAISO to Load Serving Entities for the purpose of hedging the cost of transmission congestion between generation sources and load. Although CRR portfolio management can be quite complex, with auction mechanisms involving multiple hubs on the system, this delegation allows VCE's portfolio manager to only nominate CRRs that are directly related to VCE's supply portfolio. VCE is restricted to participation in the allocation process that does not involve price bidding or speculation.

Portfolio Composition Approach

VCE's portfolio management strategy is evolving as it's portfolio matures. VCE has signed multiple long-term renewable PPAs, contributing to the renewable composition of the California grid. Renewable PPAs bring a level of uncertainty regarding construction completion and online dates, as well as annual output. Whereas VCE's early procurement actions focused primarily on firm volume deliveries from existing generation assets, VCE will be the off-taker of variable output resources under the long-term agreements. Once all PPA assets are online, VCE anticipates exceeding renewable targets set by the California RPS program. But the uncertainty during the transition to new resources complicates the achievement of internal portfolio targets. Irrespective, VCE is required to achieve the renewable target for the California RPS program compliance period and is on course to meet these minimum requirements. The upcoming RPS compliance period is 2021-2024.

Based on the Board's decisions at the January 2021 meeting on PG&E's carbon-free allocations

for calendar year 2021, these carbon-free allocations are expected to contribute to VCE’s carbon-free portfolio content in the form of large hydro resources paid for by VCE customers in the Power Charge Indifference Adjustment (PCIA). However, if the staff recommendation is approved, the exact volumes of these resources will not be certain until after the calendar year is complete.

Board Action on Portfolio Targets – June 2020

Based on VCE’s current financial outlook, in June 2020 the Board set minimum targets of 10% renewable, 20% carbon-free for 2021. VCE staff estimate that renewable PPAs could contribute 20% renewable composition in 2022, and allocations could result in a 30% carbon-free (overall) 2022 composition. Staff recommend that the Board not set specific renewable or carbon-free targets for 2022 at this time. Setting internal targets at this time could result in over-procurement if PPA resources come online earlier than expected. Therefore, staff believes it would be prudent for VCE to retain the flexibility to procure short-term renewable energy credits (RECs), to meet RPS compliance obligations if PPA power deliveries are delayed for any reason (e.g. supply chain disruptions). When VCE’s finances are reassessed on the next fiscal year cycle, 2022 portfolio targets could be added at that time. Based on these factors, staff is recommending flexibility to achieve compliance without imposing additional targets during the transitional year from short-term RECs to long-term PPAs.

Procurement Directives

Taking into account the considerations outlined in the sections above, Table 1 shows the specific Procurement Directives and Delegations recommended for 2021 - 2023.

Table 1. 2021-2023 Procurement Directives

Valley Clean Energy Power Procurement Directives and Delegations for Calendar 2021					
Product	For Year	Procurement Milestone Date	Cumulative Percentage Procured by Milestone Date	Delegated To	Notes
CAISO Market Energy					
CAISO Market Energy	2021	Daily	100%	SMUD	Procure Day Ahead and Imbalance Energy for 100% of VCE wholesale load.
Congestion Revenue Rights					
Congestion Revenue Rights	2021	Monthly During Year	Up to 100%	SMUD	Request monthly allocations, if economic, as approved by VCE AGM.
Congestion Revenue Rights	2022	October 31, 2021	Up to 100%	SMUD	Request annual and/or quarterly year ahead allocations, if economic, as approved by VCE AGM.
Price Hedging Energy					
Price Hedging Energy	2021	Daily/Balance of Month	TBD	SMUD	Daily hedging strategy to be revisited, contingent upon analysis of Daily and/or Balance of Month hedging efficacy, changes upon approval of EROC.
Price Hedging Energy	2022	December 31, 2021	100%	SMUD	Quantity and timing contingent upon review by the VCE EROC of forward market power prices/trends.

Product	For Year	Procurement Milestone Date	Cumulative Percentage Procured by Milestone Date	Delegated To	Notes
Renewable Energy					
Renewable Energy	2021	September 30, 2021	100%	SMUD	True up procurement based upon actual loads/updated load forecast.
Renewable Energy	2022	December 31, 2021	100%*	SMUD	Minimal short term renewable procurements anticipated, based upon expected long term renewable PPA deliveries. Once greater certainty regarding renewable online dates, procure short term PCC1 power as approved by GM.
Large Hydro Energy					
Large Hydro Energy	2021	July 1, 2021	100%	SMUD	100% of the forecast need for Large Hydro.
Large Hydro Energy	2022	December 31, 2021	up to 100%	SMUD	Up to 100% of the forecast need for Large Hydro, based upon pricing and availability, as approved by VCE GM. Only needed if VCE sets 2022 carbon-free portfolio target that exceeds expected PG&E allocation volume.
Resource Adequacy Capacity					
Resource Adequacy Capacity	2021	October 31, 2021	100%	SMUD	Procure for remaining monthly RA deficiencies and sell monthly RA surpluses, as approved by GM.
Resource Adequacy Capacity	2022	October 31, 2021	100%	SMUD	All RA products forecast, including some provision for RA from possible CEC Load Forecast adjustments or Local RA obligation increases, required to achieve compliance by October 31, 2021 for 2022. Procurement amount may exceed 100% in total for year to insure that all months achieve at least 100% compliance.
Resource Adequacy Capacity	2023	October 31, 2021	Up to 100%	SMUD	Including RA anticipated from the long term renewables under contract, but excluding possible RA from CEC load forecast adjustments, upon approval of GM. Whether to proceed based upon decision of VCE EROC and in consideration of CPUC requirement for multi-year procurement and VCE strategy related to 2023 Central Procurement Entity transition.
<i>Note: Procurement milestone dates represent targets but do not represent expiration of SMUD delegation. Where necessary to achieve compliance, procurement is approved under this delegation until the next calendar year delegation is approved by the Board of Directors.</i>					

REQUESTED ACTION

Adopt a resolution approving:

1. The 2021 Procurement Plan.
2. Directives and delegations to SMUD for procuring portions of VCE's power portfolio for calendar year 2021 through 2023.
3. The elimination of specific portfolio renewable and carbon-free targets in 2022 to improve procurement and financial flexibility as long-term renewable projects come online.

ATTACHMENT: Resolution 2021 Procurement Plan

VALLEY CLEAN ENERGY ALLIANCE

RESOLUTION NO. 2021-___

**A RESOLUTION OF THE VALLEY CLEAN ENERGY ALLIANCE
APPROVING THE UPDATES TO THE 2021 PROCUREMENT PLAN, DIRECTIVES AND
DELEGATIONS FOR PROCURING PORTIONS OF VALLEY CLEAN ENERGY'S POWER
PORTFOLIO FOR CALENDAR YEAR 2021 THROUGH 2023 AND THE ELIMINATION OF
SPECIFIC PORTFOLIO RENEWABLE AND CARBON-FREE TARGETS IN 2022**

WHEREAS, in order to achieve its strategic goals, VCE has established procurement policies and goals and on January 18, 2018 the Board approved VCE's Procurement Guide which provided the roadmap for implementation and established the procurement plan for 2018 and 2019 power portfolio, along with delegations to Sacramento Municipal Utilities District ("SMUD") to execute on this plan;

WHEREAS, on January 23, 2019, the Board adopted via Resolution 2019-002 a revised Procurement Guide and delegated authority to VCEA Staff and SMUD to procure energy for calendar years 2020, 2021 and 2022, including the procurement of price hedging energy for VCE's expected 2020 needs with no delegation to procure hedging energy beyond 2020, consistent with the procurement policy and guide;

WHEREAS, on September 12, 2019, the Board adopted via Resolution 2019-013 the replacement of the August 29, 2019 EROC delegation, authorized SMUD to procure up to 100% of the forecast hedging energy needs for 2021, and authorized the Interim General Manager to approve the actual procurement strategy employed for this procurement;

WHEREAS, on December 12, 2019, the Board adopted Resolution 2019-018 approving the 2020 Procurement Plan, directives and delegations for procuring VCE's power portfolio for calendar year 2021, the targeted portfolio mix, and the maintenance of minimum renewable target for 2021;

WHEREAS, at the Board's June 11, 2020 meeting, policy strategies were adopted to plan for incorporation of long-term renewable contracts into VCE's portfolio, to address fiscal year 2020/2021 Power Charge Indifference Adjustment (PCIA) and Resource Adequacy (RA) cost impacts;

WHEREAS, at the Board's July 9, 2020 meeting, the 2020 Procurement Plan was updated to incorporate policy strategies adopted at the Board's June 11, 2020 meeting approving specific directives and delegations to SMUD for procuring power for calendar year 2021 and portions of the

power portfolio for 2022, and updated 2021 portfolio mix targets of 10% renewable and up to 10% large hydro, as needed to achieve 20% carbon-free power content; and

WHEREAS, VCE’s Procurement Plan needs to be updated for 2021 to include directives and delegations for 2021 through 2023 power portfolio and specific portfolio renewable and carbon-free targets in 2022.

NOW, THEREFORE, the Board of Directors of the Valley Clean Energy Alliance resolves as follows:

1. Approves the 2021 Procurement Plan contained in this staff report.
2. Approves Directives and Delegations to SMUD for procuring portions of VCE’s power portfolio for calendar year 2021 through 2023, guided by the principals described in this report.
3. Approves the elimination of specific portfolio renewable and carbon-free targets in 2022 to improve procurement and financial flexibility as long-term renewable projects come online.

PASSED, APPROVED, AND ADOPTED, at a regular meeting of the Valley Clean Energy Alliance, held on the ____ day of January 2021, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Dan Carson, VCE Chair

Alisa M. Lembke, VCE Board Secretary