

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 14

TO: Board of Directors

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

SUBJECT: Resource Adequacy Sale to Central Procurement Entity (PG&E)

DATE: May 13, 2021

RECOMMENDATION

Authorize the Interim General Manager to execute the letter from Sacramento Municipal Utility District (SMUD) authorizing SMUD to sell Resource Adequacy to the Central Procurement Entity and VCE assumes the PG&E default risk.

BACKGROUND

The California Public Utility Commission (CPUC) issued [D.20-06-002](#) on June 11, 2020 in the Resource Adequacy (RA) rulemaking (R.17-09-020). The CPUC action adopted implementation details for the central procurement of multi-year local RA procurement to begin for the 2023 compliance year in the PG&E and SCE (but not SDG&E) distribution service areas. The action also identified PG&E and SCE as the central procurement entities (CPEs) for their respective distribution service areas and adopted a hybrid central procurement framework.

The Decision rejected a settlement agreement between CalCCA and seven other parties that would have (1) created a *residual* central buyer structure (i.e., it would have let CCAs continue to procure their local RA and only shortfalls between what they procured and what was actually needed would then be procured by a CPE, allowing CCAs to retain their autonomy over local RA procurement) and (2) multi-year requirements for system and flexible RA.

Under the decision, if a load serving entity (LSE) procures its own local resource, it may (1) sell the capacity to the CPE, (2) utilize the resource for its own system and flexible RA needs (but not for local RA), or (3) voluntarily show the resource to meet its own system and flexible RA needs, and reduce the amount of local RA the CPE will need to procure for the amount of time the LSE has agreed to show the resource. Under option (3), by showing the resource to the CPE, the LSE does not receive one-for-one credit for shown local resources (i.e., it discourages a CCA from procuring local RA since it does not get full credit for it for RA compliance purposes). A competitive solicitation (RFO) process will be used by the CPEs (IOUs) to procure RA products. (PG&E recently [issued](#) notice of this solicitation.) Costs incurred by the CPE will be allocated ex post based on load share.

Prior to PG&E being assigned the role of the Central Procurement Entity for Local RA, each LSE was mandated to procure Local RA on a 3 year rolling basis. This means VCE has procured its Local RA obligation through 2023. Now that the CPE has taken over the Local RA procurement obligation on behalf of all LSE's in their territory, VCE will have excess RA positions in 2023. Because all LSE's will no longer have to satisfy the local RA obligation except PG&E, VCE will have no option but to sell its local RA positions to PG&E in order to recover its costs. VCE could choose not to sell to PG&E and hold onto its local RA positions, but would not receive compensation in any form for having excess capacity beyond its system RA obligation. In addition to this, VCE will still have to pay its load-based share of costs for what the CPE/PG&E procures on behalf of all LSE's in its footprint.

ISSUE

VCE and SMUD entered into a master professional services agreement in October 2017. Under this agreement SMUD provides wholesale energy services to VCE including the transaction of RA products. SMUD's internal credit risk policy currently prohibits sales to PG&E as a result of PG&E's current financial condition from the bankruptcy filing. As such, a waiver approved by the SMUD's board is necessary for SMUD to move forward with any sales to PG&E on behalf of VCE. In order to receive approval for the waiver, SMUD needs VCE's written consent and approval that it is accepting the risk and permitting SMUD to sell to PG&E on its behalf.

VCE's General Counsel has reviewed the attached SMUD letter and has found no legal risk associated with VCE signing the letter.

RECOMMENDATION

Based on the limited options related to the existing 2023 Local RA position, staff believes that VCE is better served authorizing SMUD to sell the excess 2023 Local RA to the CPE and have VCE assume the risk in the event of a PG&E default.

In summary, the staff recommendation to the Board is:

1. The Interim General Manager is authorized to execute the letter from Sacramento Municipal Utility District (SMUD) authorizing SMUD to sell Resource Adequacy to the Central Procurement Entity and VCE assumes the PG&E default risk.

ATTACHMENT

Resource Adequacy Sale to Central Procurement Entity letter



April 21, 2021

Mitch Sears
General Manager
604 2nd Street
Davis, CA 95616

Via email: mitch.sears@valleycleanenergy.org

RE: RESOURCE ADEQUACY SALE TO CENTRAL PROCUREMENT ENTITY

Dear Mr. Sears,

Valley Clean Energy (VCE) and the Sacramento Municipal Utility District (SMUD) are parties to the Master Professional Services Agreement, dated October 25, 2017 (Agreement). Under the Agreement, SMUD provides Wholesale Energy Services to support VCE as a community choice aggregation program.

The purpose of this letter is to confirm in writing VCE's instruction for SMUD to sell local Resource Adequacy (RA) to the new Central Procurement Entity, Pacific Gas & Electric (PG&E). SMUD has procured on behalf of VCE local RA for year 2023. Later this year, PG&E intends to issue a solicitation as the Central Procurement Entity and VCE has instructed SMUD to bid the 2023 local RA to sell to PG&E. However, due to PG&E's low credit rating, SMUD must first obtain approval from its Board of Directors to enter into such a transaction with PG&E. SMUD intends to bring this issue to its Board of Directors for approval before the solicitation opens, and SMUD's agreement to bid the local RA is conditioned on SMUD's Board of Directors authorizing the sale.

In addition, this letter confirms our agreement that VCE assumes the default risk in the event PG&E declares bankruptcy or is otherwise unable to perform its obligations as the Central Procurement Entity. The Agreement does not contemplate that SMUD would assume this default risk and this letter confirms this understanding.

Please sign below to acknowledge your agreement with the above, effective upon the date of last signature.

Sincerely,

Russell Mills
Director of Risk Management & Treasurer



Sacramento Municipal Utility District -

Signature: _____
Russell Mills

Title:

Date:

Valley Clean Energy

Signature: _____
Mitch Sears

Title:

Date: