

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 19

TO: Valley Clean Energy Alliance Board

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

SUBJECT: Delegation for Procuring 2021 Price Hedging Energy

DATE: September 12, 2019

RECOMMENDATION

Staff recommends the Board adopt a resolution that:

- (1) Authorizes SMUD to procure up to 100% of the forecast hedging energy needs for 2021;
- (2) Authorizes the General Manager to approve the actual procurement strategy employed for this procurement.

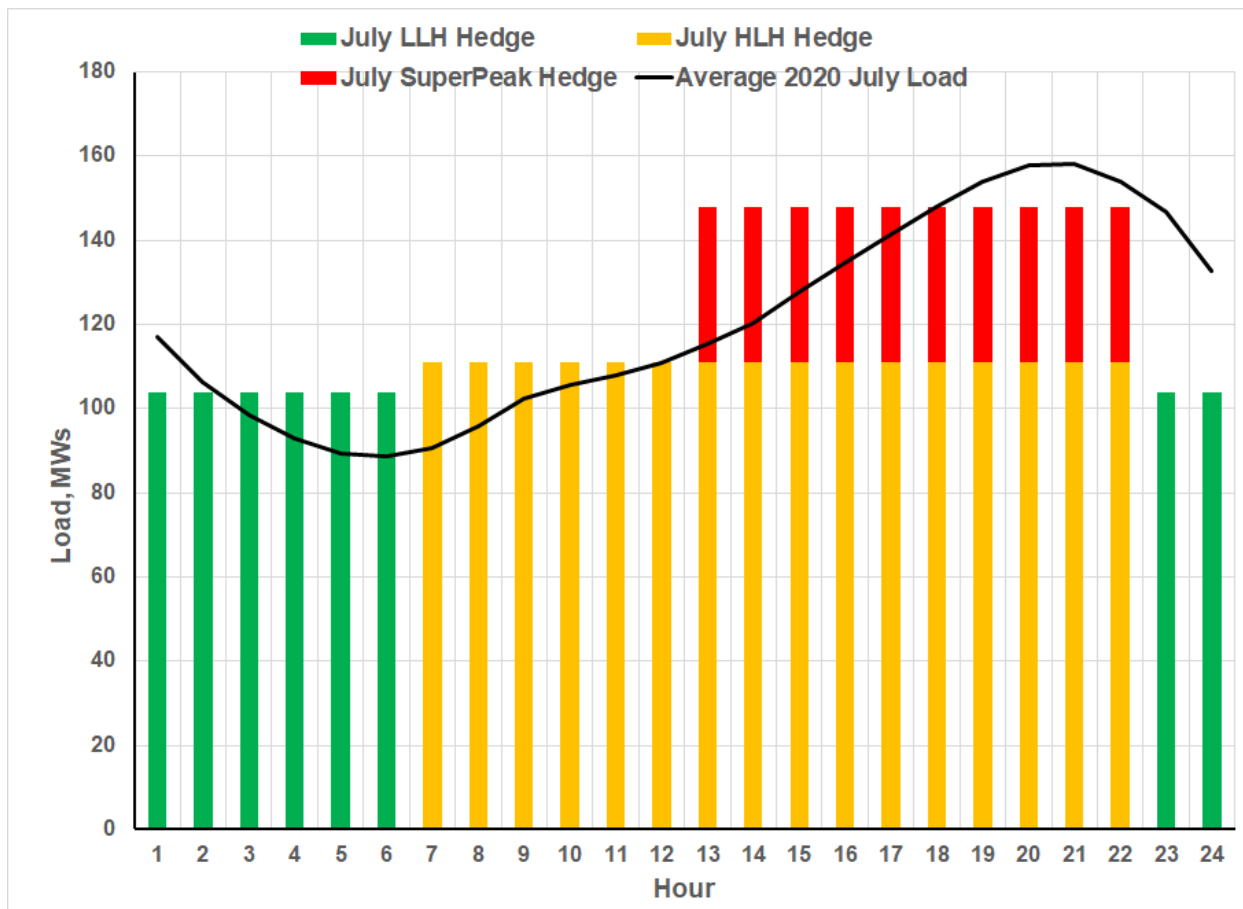
BACKGROUND AND ANALYSIS

SMUD, as VCE's Wholesale Energy Services provider, procures "forward" energy contracts in order to fix the cost of market energy to be supplied VCE by the California Independent System Operator (CAISO). Under these hedging contracts VCE will pay a supplier a fixed price for monthly blocks of energy, sized to match as closely as possible VCE's forecast load. The supplier then essentially pays the positive difference and gets paid the negative difference between the actual market price for energy and the contract's fixed price. By doing so, the supplier thereby takes the risk in market price fluctuations, and VCE's market energy costs for these volumes is fixed.

At its January 23, 2019 meeting, the Board delegated to SMUD the authority to procure price hedging energy for VCE's expected 2020 needs, with no delegation to procure hedging energy beyond 2020. SMUD has almost completed the 2020 price hedging procurements for VCE.

Figure 1 below, using actual July 2020 hedges and forecast load, shows how the hedge products are layered in underneath VCE loads.

Figure 1. July 2020 Hedging Energy



RECENT ENERGY FORWARD MARKET PRICE TRENDS

After having risen significantly last Fall and Winter, power market forward prices have been dropping. Figures 2 and 3 below show the changes in the monthly forward prices for power for delivery in 2019, 2020, and 2021, for heavy load hours (HLH) and light load hours (LLH), respectively, starting in Fall of 2017 when power supply models were first developed for VCE.

The color gradations represent time, with the lighter colored curves representing pricing farther back in time, and the darker colored curves represent pricing more recent in time.

The charts indicate that forward prices are at or near the lows of their trading history shown.

Figure 2. Heavy Load Hour Forward Price Trends

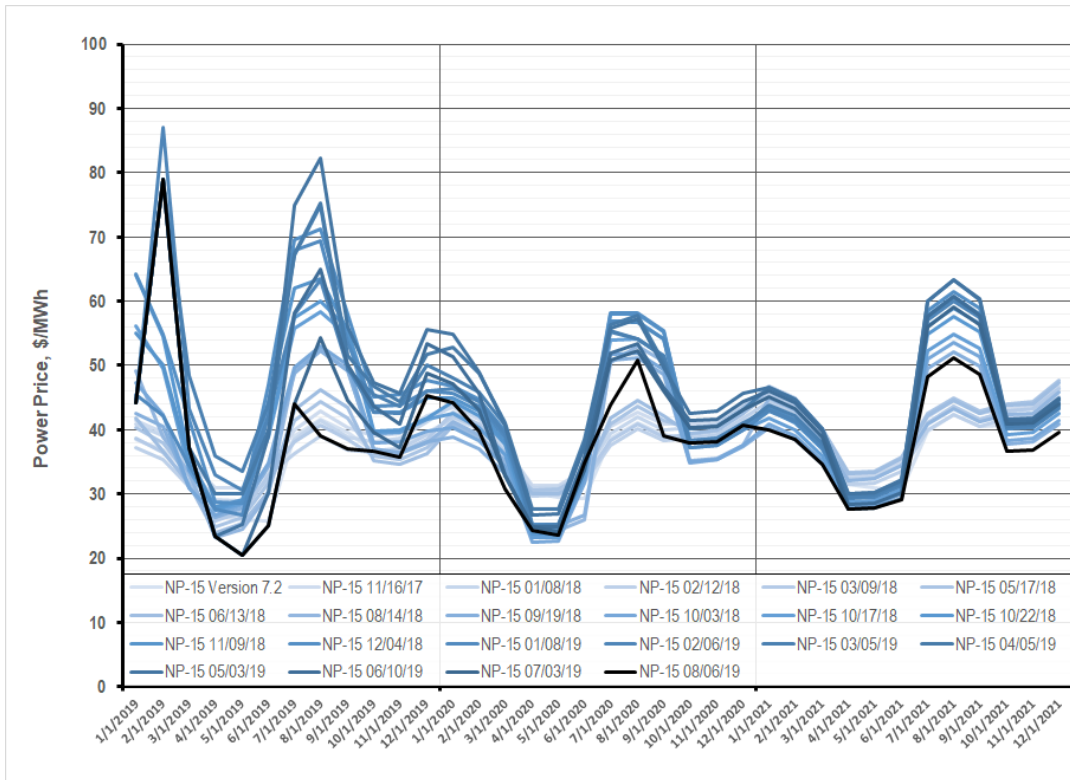
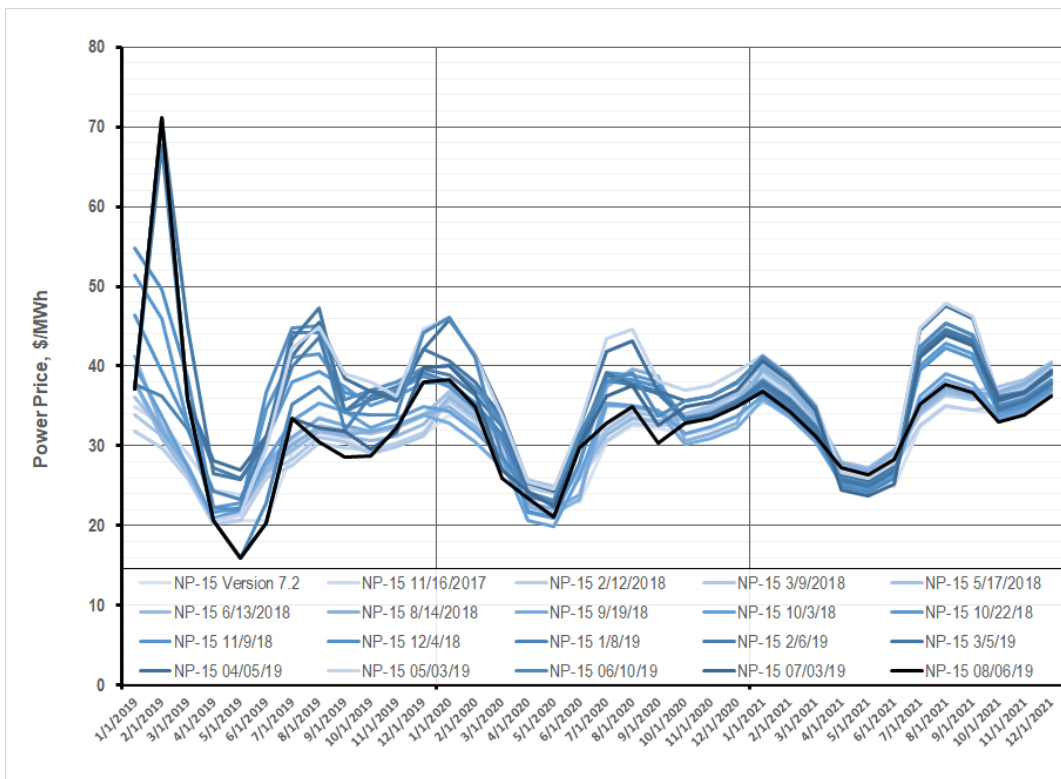


Figure 3. Light Load Hour Forward Price Trends



RECOMMENDATION

Because of the dropping of forward prices for 2021 staff is recommending that the Board approve proceeding with procurement of 2021 hedging energy. Power Prices have dropped significantly since the July 11, 2019 presentation to the Board of the Q2 Power Procurement Update to the extent that 2021 Market Energy costs are projected to be over \$4 million lower than projected in July.

Table 1 below shows the current power budget comparison for 2021.

Table 1. 2021 VCE Power Supply Cost Forecast/Comparison

2021 Power Supply Cost	Baseline Forecast	Current Forecast	Net Savings (Costs)
Market Energy	\$ 35,560,603	\$ 31,452,515	\$ 4,108,088
CAISO Variable Fees	\$ 141,690	\$ 141,690	\$ -
REC Costs	\$ (1,072,185)	\$ 900,996	\$ (1,973,180)
Resource Adequacy Cost	\$ 9,584,707	\$ 12,340,652	\$ (2,755,944)
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	\$ 46,685,085	\$ (762,915)

At its August 29, 2019 monthly meeting, the VCE Enterprise Risk Oversight Committee (EROC) reviewed the market information presented here and delegated to SMUD (within the existing delegated authority of the EROC) to proceed with procuring up to 50% of the 2021 hedging energy need.

The EROC recommended seeking the Board's delegation to procure up to 100% of the 2021 hedging Energy needs to take advantage of the current low forward pricing.

REQUESTED ACTION

Staff requests the Board adopt a resolution that:

- (1) Replaces the August 29, 2019 EROC delegation, and Authorizes SMUD to procure up to 100% of the forecast hedging energy needs;
- (2) Authorizes the General Manager to approve the actual procurement strategy employed for this procurement.

VALLEY CLEAN ENERGY ALLIANCE

RESOLUTION NO. 2019- _____

A RESOLUTION OF THE VALLEY CLEAN ENERGY ALLIANCE DELEGATING PROCUREMENT AUTHORITY TO VCEA STAFF AND SMUD FOR ENERGY PROCUREMENT OF FORECAST HEDGING ENERGY NEEDS FOR 2021 AND AUTHORIZE INTERIM GENERAL MANAGER TO APPROVE PROCUREMENT STRATEGY FOR THIS PROCUREMENT

WHEREAS, the Valley Clean Energy Alliance (“VCE”) is a joint powers agency established under the Joint Exercise of Powers Act of the State of California (Government Code Section 6500 et seq.) (“Act”), and pursuant to a Joint Exercise of Powers Agreement Relating to and Creating the Valley Clean Energy Alliance between the County of Yolo (“County”), the City of Davis (“Davis”), and the City of Woodland (“City”) (the “JPA Agreement”), to collectively study, promote, develop, conduct, operate, and manage energy programs; and

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, SMUD has almost completed the 2020 price hedging procurements for VCE and the forward prices for 2021 are dropping.

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

1. Authorize the replacement of the August 29, 2019 EROC delegation and authorize SMUD to procure up to 100% of the forecast hedging energy needs for 2021; and,
2. Authorize the Interim General Manager to approve the actual procurement strategy employed for this procurement.

PASSED, APPROVED, AND ADOPTED, at a regular meeting of the Valley Clean Energy Alliance, held on the _____ day of September 2019, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Tom Stallard, VCE Chair

Alisa M. Lembke, VCE Board Secretary