



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Administrative Services

Meeting Date: June 10, 2024

Report #:2404-2844

TITLE

Adoption of a Resolution Approving Revisions to the City of Palo Alto Energy Risk Management Policy

RECOMMENDATION

Staff recommends the City Council adopt the attached resolution (Attachment A) revising the City of Palo Alto Energy Risk Management Policy (ERMP) (Attachment B).

EXECUTIVE SUMMARY

The City's ERMP is the overriding document for the monitoring, measuring, and controlling risks associated with electric and gas commodity transactions. Proposed changes to this Policy are:

1. Memorializing the Utility Risk Oversight Coordination Committee's decision to have the City Council receive semi-annual updates from the City Manager regarding energy risk management activities versus quarterly.

BACKGROUND

City of Palo Alto Utilities purchases gas and electricity to serve the energy needs of residents and businesses in the City. An energy risk management policy is necessary because commodity markets are dynamic, commodity purchases are large transaction amounts, and authority to commit the City to these transactions is delegated down to staff.

The ERMP is the overarching document for the management of the City's risks associated with purchasing electric and gas commodities. In addition to the ERMP, there are two more detailed sets of documents that support it: the Energy Risk Management Guidelines (Guidelines) and the Energy Risk Management Procedures (Procedures). The documents describe key policies and control structures to minimize risks by, for example, ensuring transparent and appropriate purchasing procedures, segregating duties, establishing acceptable risk parameters and limits, and instituting multiple review processes.

The Guidelines are more detailed than the ERMP and are reviewed and approved by the Utilities Risk Oversight and Coordinating Committee (UROCC), which consists of the General Manager of Utilities, Director of Administrative Services, Director of Public Works, and a representative from the City Manager's Office. The Procedures, which cover operational actions, are approved by the General Manager of Utilities and the Administrative Services Director. The ERMP clearly delineates that all of the City's utility contract transactions, whether carried out under Master Agreements or not, must fully comply with the Municipal Code. Transactions carried out by the Northern California Power Agency, including scheduling, are covered under a separate Member Services Agreement.

ANALYSIS

Council last approved the ERMP on June 22, 2020 (Staff Report # 9813). The proposed update reflects minor changes needed to align the document with current City of Palo Alto Utilities procurement practices.

Proposed changes to this Policy are:

1. Memorializing the Utility Risk Oversight Coordination Committee's decision to have the City Council receive semi-annual updates from the City Manager regarding energy risk management activities versus quarterly.

Prior to June 2020, the City utilized services provided by the Northern California Power Agency (NCPA) to more effectively manage the electric utility and lower operating costs. In June 2020¹(CMR ID # 11086), Council approved entering into the Amended and Restated Market Purchase Program (MPP) Agreement to enable the City to utilize NCPA staff and resources for the City's medium-term electric portfolio planning and resource management functions, functions that were carried out in-house. This authorized NCPA to purchase and sell market power, resource adequacy capacity products, and renewable energy credits on behalf of the City. Contracting with NCPA for these functions has enabled Palo Alto to achieve operational efficiencies and freed up additional staff time to devote to other projects and programs and shifted the risk associated with this to NCPA staff. The purchases and sales made by NCPA on Palo Alto's behalf under the MPP Agreement conform to NCPA's Energy Risk Management Policy and Regulations, and to the City's Energy Risk Management Policies.

To put this into context, the Table 1 below has the three-year actual electric commodity purchases and excess energy sales by megawatt-hour (MWh). Based on the average three-year MWh, 95.5% of electric commodity purchases are under long-term agreements that are not

¹ <https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmr/yr-archive/2020/id-11086-mini-packet-062220.pdf>

part of this proposed semi-annual reporting. These agreements have and are approved by the City Council as they are enacted and/or renewed. Of the remaining, 2.5% (Spot Market) net purchases and sales are done by NCPA under their Risk Management Program. Prior to the NCPA MPP Agreement, City staff did these purchases and sales. City Utility staff coordinates with NCPA the amount of MWh purchases and sales needed. A City staff sits as a voting member of their Risk Oversight Committee and attends their Finance Committee to monitor their activities. Around 1.9% of commodity purchases and sales (Forward Market) are done by City staff and is the focus on the proposed semi-annual report.

Table 1: Electric Commodity Purchases and Excess Energy Sales - Megawatt-Hour (MWh) by Calendar Year

Resources	2021		2022		2023		Three Year Average	
Calaveras	46,497	5.7%	63,719	7.5%	232,332	26.9%	114,182	13.5%
COBUG		0.0%	3	0.0%	21	0.0%	8	0.0%
Landfill	104,441	12.7%	96,930	11.4%	101,912	11.8%	101,094	12.0%
Solar	311,975	37.9%	330,752	39.0%	362,488	42.0%	335,072	39.7%
Western	208,961	25.4%	96,383	11.4%	275,030	31.9%	193,458	22.9%
Wind	121,300	14.7%	39,012	4.6%	29,341	3.4%	63,218	7.5%
Sub-Total	793,174	96.4%	626,798	73.9%	1,001,124	116.0%	807,032	95.5%
Forward Market (City Staff)	(3,136)	(0.4%)	64,339	7.6%	(12,120)	(1.4%)	16,361	1.9%
Spot Market (NCPA)	32,666	4.0%	157,404	18.6%	(125,614)	(14.5%)	21,486	2.5%
Sub-Total	29,530	3.6%	221,743	26.1%	(137,734)	(16.0%)	37,847	4.5%
Grand Total	822,705	100.0%	848,541	100.0%	863,390	100.0%	844,879	100.0%

Note: negative amounts represent (net) excess energy, typically due to Hydro generation, that are sold.

As a result, based on the above especially because around 1.9% of the commodity purchases and sales are done by City Staff, semi-annual reporting to City Council is recommended. A “redlined” version of the document is included as Attachment B.

FISCAL/RESOURCE IMPACT

Approval of the recommendation will not have a financial impact.

STAKEHOLDER ENGAGEMENT

Staff works internally with the UROCC and Utility department for the proposed change.

ENVIRONMENTAL REVIEW

This Council informational report is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment.

ATTACHMENTS

Attachment A: Resolution of the Council of the City of Palo Alto Approving Revisions to the City
of Palo Alto Energy Risk Management Policy

Attachment B: Proposed Energy Risk Management Policy with Redline Changes

APPROVED BY:

Lauren Lai, Administrative Services Director