

# **SAN DIEGO COMMUNITY POWER**

## **PROCUREMENT AND BOARD APPROVAL OVERVIEW**

SDCP Finance and Risk Committee Meeting

May 12, 2020

# Agenda

- Receive update on types and categories of power procurements
- Receive update on 2020/2021 timeline for procurement and Board approvals
- Receive update on 2021 RPS/GHG targets
- Receive preview on Energy Risk Management and Delegation of Authority Policy

# Resources SDCP Will Need to Procure

## System Energy

- Energy from the California Independent System Operator (CAISO) (CAISO serves as the central clearinghouse for all energy delivered into its balancing authority).

## Renewable Energy

- Energy produced by solar, wind, biomass, geothermal, small hydro, and other biofuels.

## GHG-Free Energy

- Energy that is produced from non-carbon emitting resources such as nuclear and large hydro facilities (over 30 MW).

## Resource Adequacy (RA) Capacity

- Generating capacity that is procured to ensure system reliability.
- RA products are categorized in consideration of resource locations and operating characteristics: System, Local, and Flex RA.

# Renewable Energy Compliance Categories

## Portfolio Content Category (PCC) 1

- Bundled electric energy and RECs contemporaneously delivered to a California Balancing Authority without substituting electricity from another source.
- Highest cost
- Can be zero or very low GHG emissions, depending on technology

## Portfolio Content Category 2

- Bundled renewable energy generated outside of California with incremental electric import requirements
- GHG emissions are based on source of imported power

## Portfolio Content Category 3

- Unbundled renewable/environmental attributes
- Lowest cost
- Limited value

# Preliminary Procurement and Board Approval Timeline

	Board Approvals	Procurement Milestones
MAY	Preliminary approval of renewable and GHG-free targets	SDG&E issues Resource Adequacy (RA) RFO* SDCP issues Resource Adequacy (RA) RFO
JUNE	Approve Risk Management Policy and Delegation of Authority	SDCP submits offer to SDG&E for RA* SDCP executes contracts for RA SDG&E issues RFO for renewables* SDCP issues RFO for long-term renewables
JULY		SDCP submits offer to SDG&E for renewables*
AUGUST	Approve Integrated Resource Plan	SDCP executes contract with SDG&E RA if awarded*
SEPTEMBER	Approval to sign long-term renewable contract with SDG&E if awarded*	SDCP executes contract with SDG&E for long-term renewables if awarded*
OCTOBER		SDCP issues RFO for California System Power
NOVEMBER		SDCP issues RFO for short-term renewables and executes contracts** SDCP issues RFO for GHG-free resources and executes contracts**
DECEMBER	Approval to sign California System Power contracts	

\* Ultimate timing dependent on SDG&E's timeline

\*\*Assumes appropriate Delegation of Authority provided by Board approval of Risk Policy in June

# Preliminary 2021 Portfolio Recommendation

- Default Service Offering\*
  - 50% renewable energy
  - 5% other GHG-free energy
  - 45% system energy
- Optional
  - 100% renewable energy

\* Renewable energy supply to be comprised of 82% PCC 1 and 18% PCC 2 per RPS program limits. Default resource mix to be finalized by end of 2020.

# SDCP Renewable and GHG-Free Targets

- Proposed targets are *preliminary*, reflective of current market conditions
- Figures do not include SDCP's proposed voluntary 100% RPS/GHG free product option
- SDCP would be at least 60% GHG-free (inclusive of RPS) by 2024

Year	CA RPS	SDG&E Renewable*	SDCP Renewable	SDCP Overall GHG- Free
2021	36%	46%	<b>50%</b>	<b>55%</b>
2022	39%	47%	<b>52%</b>	<b>57%</b>
2023	41%	48%	<b>52%</b>	<b>54%</b>
2024	44%	46%	<b>56%</b>	<b>60%</b>

\* 2021-2022 data extrapolated from SDG&E 2019 RPS Procurement Plan (Plan); 2023-2024 from Plan.

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# **SAN DIEGO COMMUNITY POWER**

## **PREVIEW OF RISK MANAGEMENT POLICY**

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# Purpose of a Risk Management Policy

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- During its normal course of business, SDCP will be managing risks associated with its participation in California's wholesale energy markets.
- A key component of effectively managing procurement and portfolio risks is being able to identify, measure, and control market and credit risks.
- The Energy Risk Management Policy provides the framework around which SDCP manages various market and credit risks and outlines the roles and responsibilities for those responsible for managing risks.

# Key Energy Market Risks

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Market Price  
Risk

Counterparty  
Credit Risk

Load and  
Generation  
Volumetric Risk

Operational  
Risk

Liquidity Risk

Regulatory and  
Legislative Risk

# Elements of Risk Management Policy

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## 1. Define Risk Management Goals and Principles

- SDCP manages its energy portfolio with the purpose of reducing energy-related greenhouse gas emissions, promoting electrical rate price stability, and fostering local benefits while minimizing risks at the same time.

## 2. Internal Control Principles

- Internal control principles consists of business practices designed to prevent errors and improprieties, ensure accurate and timely reporting of results of operations and information pertinent to management, and facilitate attainment of business objectives. Key principles include the segregation of duties between front, middle and back office functions, and delegation of authority for procurement.

## 3. Risk Management Business Practices

- A key component of the Risk Management Policy is the requirement to report risk metrics such as open positions, value-at-risk, and credit exposure on a routine basis.

## 4. Risk Management Governance

- SDCP's Board may delegate the oversight of the Risk Management Committee to any existing or new Committee it chooses.

# Preview: SDCP Energy Procurement Delegation of **DRAFT** Authority

- **Purpose:** Delegation of Authority (DOA) is a policy tool that allows timeliness and efficiency in energy transactions, set at an amount commensurate with expected procurement levels and inclusive of designated executive staff and leadership.
- **DOA Amount:** The dollar thresholds used to set the DOA are based on the notional value of each individual transaction.
- **Oversight:** It is envisioned that the DOA will be overseen and managed by an energy Risk Oversight Committee (ROC to be formed later this year) that is advisory in nature and comprised of SDCP leadership and procurement staff.
- **Request:** Provide feedback on draft DOA levels outlined in next slide.

# Preview: Sample Energy Procurement DOA **DRAFT**

<b>DRAFT EXAMPLE</b>					
Estimated average procurement transaction sizes and terms for individual confirmations					
SDCP estimated annual power supply costs \$450 - \$500 Million annually					
<b>CEO authority for notional value up to \$50 million</b>	<b>Average Annual Total MW or MWh</b>	<b>Usual Term</b>	<b>Term Used for Calculation</b>	<b>Price (\$/MWh or \$/KW-mo)</b>	<b>Notional Value</b>
System Power	400,000	1-3 years	3	\$ 36.00	\$ 43,200,000
Resource Adequacy	1,200	1-3 years	3	\$ 7.50	\$ 27,000,000
Short-term Renewables	400,000	1-3 years	3	\$ 16.00	\$ 19,200,000
GHG-free	100,000	1-3 years	3	\$ 5.00	\$ 1,500,000
<b>Risk Oversight Committee authority for notional value up to \$75 million</b>					
System Power (larger size)	500,000	1-3 years	3	\$ 36.00	\$ 54,000,000
<b>Board approval required for notional value above \$75 million</b>					
Long-term Renewables (fixed price)	400,000	10 years +	15	\$ 35.00	\$ 210,000,000
Long-term Renewables (index plus)	600,000	10 years +	10	\$ 15.00	\$ 90,000,000
System Power (for launch, 2 counterparties)	5,303,592	1-3 years	3	\$ 36.00	\$ 190,929,308
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