

Agenda Report

July 22, 2019

TO: Honorable Mayor and City Council

FROM: Water and Power Department

SUBJECT: AUTHORIZE AN AGREEMENT WITH THE SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY AND THE ALLIANCE FOR COOPERATIVE ENERGY SERVICES POWER MARKETING, LLC FOR ENERGY PORTFOLIO MANAGEMENT SERVICES

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3) (Common Sense Exemption or General Rule);
2. Authorize the City Manager, or his designee, to enter into two separate contracts, without competitive bidding pursuant to City Charter Section 1002 (F) Contracts for professional or unique services, with the Southern California Public Power Authority ("SCPPA") and the Alliance For Cooperative Energy Services Power Marketing, LLC. ("ACES") for energy portfolio management services in an amount not to exceed \$750,000 per year for an initial three-year term with two one-year extensions not to exceed \$750,000 per year; and,
3. It is further recommended that the City Council grant the proposed contracts an exemption from the Competitive Selection process pursuant to Pasadena Municipal Code ("PMC") Section 4.08.049(B) contracts for which the City's best interests are served.

EXECUTIVE SUMMARY:

The Pasadena Water and Power ("PWP") portfolio of energy and fuel supply resources must be continuously monitored and adjusted to ensure adequate supplies and cost effective utilization of PWP's resources consistent with sound risk management policies. Furthermore, in order to participate in the California Independent System Operator ("CAISO") markets, PWP or a designated agent must operate an around-the-clock power scheduling desk to interact with the CAISO and ensure system reliability. Collectively, these activities are referred to as "energy portfolio management services."

Prior to 2007, PWP staff performed all such services and met CAISO requirements. However, due to increasing complexity of energy markets and growing demands on

existing staff, PWP contracted with SCPA and ACES in 2007 to perform real-time (same day) and weekend scheduling functions and to provide additional risk management and settlement (accounting) functions. PWP has contracted with ACES and SCPA for these services from 2007 to the present for a total of 12 years. The existing contracts expire on August 31, 2019.

Recognizing the potential benefits of economies of scale that may be realized through joint procurement, SCPA conducted a competitive selection process to select a vendor to provide a wide range of energy portfolio management services. The ACES proposal was determined to provide the best combination of cost, depth of services, and relevant experience. On May 16, 2019, the SCPA-ACES Service Agreement ("Service Agreement") was approved by SCPA, making ACES services available to all SCPA members that execute the Service Agreement and a member-specific Exhibit A ("Service Schedule") to the Service Agreement that defines the specific terms and scope of services applicable to the participating SCPA member. To be clear, staff is recommending authorization for the City Manager to sign both the Service Agreement applicable to all SCPA members and the Pasadena-specific Service Schedule (collectively, the "Contracts").

It is in City's best interest to enter into the recommended Contracts, without Competitive Selection pursuant to PMC Section 4.08.049(B). These energy portfolio management services are necessary to support ongoing reliable and economical electrical utility operations. In fact, PWP could not continue operating without such services. As a result of the competitive solicitation process conducted by SCPA, combined with the collective buying power of SCPA members, the Contracts result in annual cost reductions of approximately 25% from the current cost PWP is incurring for the same services.

BACKGROUND:

Joint procurement of energy portfolio management services can provide Pasadena and other participating SCPA members experienced staff resources and sophisticated software systems that would otherwise be too costly to independently procure and maintain. Experienced portfolio managers, traders, and schedulers are difficult to recruit and retain. Staff estimates that performing real-time energy management services alone would require a minimum of five additional full-time employees at an approximate cost of \$1.1 million annually. Procuring, maintaining and utilizing high-caliber risk management software, along with retaining experienced portfolio risk management staff capability, can add several hundred thousand dollars on top of that each year.

Vendor Selection Process

At the request of multiple members, SCPA issued a Request for Proposals ("RFP") on September 25, 2017 to solicit competitive proposals for a wide range of energy portfolio management services including energy scheduling, settlements, and credit and risk management services. A total of nine functional areas of services were detailed in the RFP.

SCPA received proposals from nine vendors, none of which were located in Pasadena. The proposals were evaluated in four categories: qualification of the vendors based on

nine areas of service (45%), experience and cost (30%), quality/methodology (20%), and references (5%). A SCPPA evaluation team made up of representatives from SCPPA, City of Glendale and City of Pasadena listed the top three scoring vendors out of the nine (ACES, City of Riverside and Tenaska Power Services), and the top three vendors were invited to make a presentation to all interested SCPPA members. They also provided specific pricing to each SCPPA member based on their unique markets and desired level of services. SCPPA ultimately selected ACES based on their extensive experience with public power clients, specific experience in the California market, as well as the value of ACES having performed these services for SCPPA members over the last 12 years.

SCPPA-ACES Service Agreement

The Service Agreement enables SCPPA members to secure ACES services by executing the Service Agreement and a member-specific Service Schedule (counter-signed by ACES) that defines the specific terms and scope of services that meets each participating SCPPA member's particular needs. Each Service Schedule is incorporated into the Service Agreement as an Exhibit. Service Schedules may be amended over time by the participating member in a manner similar to a change order. In order to participate and take services from ACES, Pasadena must become a party to the Service Agreement by signing Service Agreement and a Pasadena-ACES Service Schedule pursuant to the terms of the Service Agreement.

Pasadena-ACES Service Schedule

The Pasadena-ACES Service Schedule will designate ACES to act as an agent on PWP's behalf for performing real-time transactions and scheduling in bilateral and CAISO energy markets, and it will enable ACES to be designated to perform similar services for natural gas should those services be needed in the future. In addition to transaction services, ACES will provide analytical support including energy portfolio position analysis, reporting, and optimization; counterparty credit evaluation and monitoring; and, transaction confirmation and settlement activities. ACES will use proprietary software tools to model PWP's assets, loads, and current trade positions. The Contracts allows PWP to retain control and key decision making authority at all transaction levels.

All services will be provided in accordance with PWP's Energy and Credit Risk Management Policy approved by City Council on March 5, 2018. ACES maintains rigorous internal controls, including continuous monitoring of portfolio and credit positions, and ensuring that all trades are conducted with authorized counterparties and within authorized limits. PWP and ACES will continue to utilize documented practices and procedures, trading controls, and an authority matrix that have been developed and refined over the past 12 years in order to ensure all activities are performed in accordance with the Energy and Credit Risk Management Policy and related procedures.

ACES will provide the essential "base services" required by PWP for annual fee of \$525,000 for up to five years. The Contracts provides for additional "as-needed" portfolio management services that may be needed on a time and materials basis or a quoted by ACES. Staff is recommending authorization not to exceed \$750,000 annually in order to accommodate additional gas and energy portfolio transaction management, analytics,

credit monitoring, risk management, and/or reporting services that may be necessary to meet PWP's evolving needs.

Under the terms of the Contracts, liability is strictly limited and damages are limited to \$1,000,000 annually in the event of gross negligence or willful misconduct.

PWP has spent a combined total of approximately \$9.7 million on ACES contracts. The cost for services from September 1, 2018 through August 31, 2019 was \$710,004.

COUNCIL POLICY CONSIDERATION:

The proposed action supports the City Council Strategic Planning goals to maintain fiscal responsibility and stability by allowing PWP to take advantage of economies of scale. This recommended action will allow the scheduling of energy to meet the City's needs.

ENVIRONMENTAL ANALYSIS:

The proposed action is the execution of an agreement for professional services related to energy transactions, energy scheduling, settlements, and credit and risk management services. This action has been determined to be exempt from environmental review pursuant to State CEQA Guidelines Section 15061(b)(3), the common sense exemption (formerly the general rule) that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Such is the case for the proposed professional services agreement for energy portfolio management services.

FISCAL IMPACT:

The total cost of this action will be an amount not to exceed \$3,750,000 including the two additional one-year extensions. Funding for this action will be addressed by the utilization of existing budgeted appropriation in Power Operating Fund Other Contract Services (44405610-811400). It is anticipated that up to \$625,000 of the cost will be spent during the current fiscal year. The remainder of the costs will be spent over the next five fiscal years.

Cost of Contracts for Three Years (Not to Exceed)	\$2,250,000
Two Additional One-year Extensions (Not to Exceed)	\$1,500,000
Total Fiscal Impact (Not to Exceed)	\$3,750,000

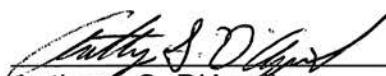
The anticipated impact to other operational programs or capital projects as a result of this action will be none.

Respectfully submitted,



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