



COUNCIL AGENDA: 2/13/24
FILE: 24-68329
ITEM: 6.1

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lori Mitchell

**SUBJECT: LONG TERM POWER
PURCHASE AGREEMENT WITH
ZETA SOLAR, LLC**

DATE: January 22, 2024

Approved

Date

1/31/24

RECOMMENDATION

Adopt a resolution authorizing the Director of the Energy Department or her designee to negotiate and execute a long-term power purchase agreement with Zeta Solar, LLC, a subsidiary of Longroad Development Company, LLC, to buy renewable energy, renewable energy credits, resource adequacy, battery tolling rights, and attributes associated with a solar photovoltaic and battery storage facility for a term of 20 years, beginning 2027 through 2047, in an estimated annual amount of \$11,227,000 and a not-to-exceed amount of \$224,540,000 in aggregate, to be paid solely from the San José Clean Energy Operating Fund and subject to the annual appropriation of funds.

SUMMARY AND OUTCOME

This memorandum requests adoption of a resolution to authorize the Director of the Energy Department or her designee to enter a long-term agreement with Zeta Solar, LLC (Zeta) for a new solar plus battery storage project to serve customers of San José Clean Energy (SJCE). Approving the recommendation to negotiate and execute the agreement will contribute towards the Energy Department achieving California Public Utilities Commission (CPUC) requirements. The capacity from Zeta will make significant contributions toward meeting the CPUC 2027 and 2028 Mid-term reliability requirements. Additionally, Zeta will contribute a modest amount of capacity toward SJCEs monthly resource adequacy and procurement requirements. The agreement will also add resources identified as needed to achieve state and local climate goals in SJCE's 2022 Integrated Resource Plan.

BACKGROUND

CPUC Resource Adequacy Slice of Day Requirements

On July 15, 2021, the CPUC released Decision 21-07-014 on Phase 2 of the Resource Adequacy Reform Track. In this decision, the CPUC adopted a new regulatory framework for resource adequacy, a program to ensure there are sufficient power resources to reliably meet demand. The new regulatory framework requires load serving entities to show they have contracted with sufficient power resources to meet their demand every hour of the day on the peak day of each month. Since 2021, the CPUC has been refining the rules for this new structure. To utilize batteries as resource adequacy, the rules require that load serving entities demonstrate they have enough power resources above their peak demand to charge the batteries. Considering these rules, stand-alone batteries are only valuable to the extent load serving entities have sufficient excess supply that qualifies for charging. Conversely, a solar project co-located with batteries, like the Zeta project, is particularly valuable because the solar can charge the batteries. The Zeta project will make a modest contribution towards meeting SJCE's peak resource adequacy requirements in the new regulatory framework.

CPUC Procurement Mandate and SJCE Integrated Resource Plan

On June 6, 2021, the CPUC released Decision 21-06-035 Requiring Procurement to Address Mid-term Reliability (2023-2026) due in part to the phased retirement of the Diablo Canyon Power Plant in 2024 and 2025, and the decision is unlikely to be changed even if Diablo Canyon continues to operate. The decision requires all load serving entities to procure their proportional share of 11,500 megawatts of resource adequacy. The procurement must be available during the month of September, the peak demand month in the state, via long-term agreements that come online over the period of calendar years 2023 through 2026. The CPUC assigned SJCE 247 megawatts of this procurement requirement. On February 2, 2023, the CPUC released Decision 23-02-040 that extended the deadline for part of this requirement to 2028. That decision also added to the procurement requirements in Decision 21-06-035, such that all load serving entities must procure their proportional share of 4,000 megawatts of resource adequacy. Again, the procurement must be available during the month of September, the peak demand month in the state, via long-term agreements that come online over the period of calendar years 2026 through 2027. The CPUC assigned SJCE 80 megawatts of this additional procurement requirement, and the Zeta project will contribute a significant amount towards SJCE's 2027 and 2028 procurement requirement.

On October 25, 2022, the City Council approved SJCE's 2022 Integrated Resource Plan. SJCE's Integrated Resource Plan incorporates the requirements of Decision 21-06-035 and identifies a need for additional resources to achieve state emission reduction requirements and the City's objective to be climate neutral by 2030. The Zeta project will also make a modest contribution towards the City's objective to be climate neutral by 2030.

Solicitations

On March 22, 2023, the Energy Department issued a joint solicitation with Ava Community Energy (formerly East Bay Community Energy) seeking proposals for new clean resources, including renewables and batteries. Nearly 50 entities submitted 73 bids in response to the solicitation. Most bids were for stand-alone storage which have limited contribution to resource adequacy without a charging source. Bids for solar plus storage and/or wind were limited. These results may be due to robust competition for new renewable resources as the state, local governments, and large corporations strive to meet aggressive greenhouse gas reduction goals. Additionally, the CPUC's new rules for resource adequacy have increased demand for renewable resources capable of providing resource adequacy. The Energy Department analyzed the offers, considering factors such as value, technology, location, project risk, emissions mitigation, and counterparty experience. The Zeta project was one of eight projects shortlisted.

Risk Oversight Committee Review

On January 11, 2024, the City Manager's Risk Oversight Committee recommended that the Energy Department submit to City Council for approval a resolution to authorize the Director of the Energy Department or her designee to negotiate and execute a long-term agreement with Zeta.

ANALYSIS

Benefits of the Agreement

The agreement with Zeta will provide SJCE renewable energy, resource adequacy, and dispatchable batteries. The project will contribute towards SJCE's ability to meet the new CPUC resource adequacy requirements and the procurement requirement for 2027 and 2028. The agreement is particularly valuable because it includes solar energy to charge the co-located batteries. The agreement allows the Energy Department to make progress towards achieving San José's aggressive goal to be carbon neutral by 2030. The **attachment** - Summary of Material Terms for the Agreement with Zeta Solar, LLC – provides further information about the agreement.

Project Developer

Longroad Development Company, LLC's subsidiary Zeta is building a new utility-scale solar photovoltaic facility with a four-hour electric battery storage project in Merced County, California. Longroad Development Company, LLC was founded in 2016 and focuses primarily on the development and operation of utility-scale wind, solar, and battery energy storage projects throughout the United States. It has successfully brought 1.9 gigawatts of projects online in recent years. Longroad Development Company, LLC, is not a publicly traded company. The City

had previously executed another long-term power purchase agreement with a different subsidiary of Longroad Development Company, LLC, Sun Pond LLC.

Project Terms

Estimated annual cost: \$11,227,000

Maximum total contract cost: \$224,540,000

Term: 20 years

Expected commercial online date: 2027

Interconnection Risk

Zeta faces a reasonable risk that, until a key substation is upgraded, the project will not qualify to provide resource adequacy or compliance with the CPUC procurement requirements for the entire capacity of the batteries. The upgrade is scheduled to be completed in 2028, but it could be delayed. The agreement addresses the risk by requiring that, from commercial operation and throughout the term, Zeta will provide resource adequacy, and hence compliance with the CPUC procurement requirement, equal to at least 75% of the capacity of the batteries. In addition, Zeta will pay damages to San José for any reductions in resource adequacy below 100% of the battery capacity until the project qualifies for full capacity following the upgrade of the relevant substation. Although the project faces a degree of interconnection risk, staff recommends going forward with the agreement because there are limited projects available to provide the services needed and the agreement includes provisions to reduce the potential adverse impacts. Most other viable projects are facing similar risks due transmission upgrades that are needed to bring new renewable projects online.

Climate Smart San José Analysis

Proceeding with the agreement with Zeta promotes San José's ability to provide renewable power to SJCE customers at a reasonable price, thus increasing demand for renewable energy.

EVALUATION AND FOLLOW-UP

No additional follow-up is expected at this time.

COST SUMMARY/IMPLICATIONS

Entering into the agreement with Zeta is estimated to cost up to \$11,227,000 annually, beginning in 2027, and \$224,540,000 over the life of the agreement.

Funding for the agreement in the San José Clean Energy Fund (Fund 501) will be brought forward as part of future budget processes beginning with the development of the 2026-2027 operating budget and is subject to City Council-approved appropriation of funds. The Energy

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Department recommends SJCE customer rates to City Council on an annual basis sufficient to meet the department's costs, including power costs, considering all its agreements.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the February 13, 2024 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

LORI MITCHELL
Director, Energy Department

For questions, please contact Lori Mitchell, Director of the Energy Department, at lori.mitchell@sanjoseca.gov or (408) 535-4880.

ATTACHMENT:- Summary of Material Terms for the Agreement with Zeta Solar, LLC

ATTACHMENT - SUMMARY OF MATERIAL TERMS FOR ZETA SOLAR, LLC

Buyer: The City of San José.

Seller: Zeta Solar, LLC

Product: Renewable energy, capacity attributes (as defined under the agreement), which includes resource adequacy, green attributes (renewable energy certificates), the right to dispatch the battery and ancillary services.

Facility: Seller will develop, design, permit, construct, own, and operate the facility, which is a solar photovoltaic and battery energy storage system located in Merced County, California.

CAISO Scheduling Coordinator: SJCE will be the CAISO Scheduling Coordinator for the facility.

Delivery Term: The delivery term for the project is 20 years.

Pricing: \$11,227,000 Estimated Annual Cost, \$224,540,000 Maximum Total Cost.

Guaranteed Commercial Operation Date: 2027

Environmental Attributes: Portfolio Content Category 1 renewable energy.

Insurance: Consistent with the requirements approved by Risk Management.

Designated Fund and Appropriation of Funds: The agreement will include provisions that will limit the City's liability to the San José Clean Energy Operating Fund (Designated Fund). This fund is used solely for the City's costs and expenses associated with operating San José Clean Energy. The agreement will provide that payment obligations are special limited obligations of the City payable solely from the Designated Fund, and that those obligations shall not be a charge upon the revenues or General Fund of the City of San José or upon any non-San José Clean Energy moneys or other property of the Energy Department or the City of San José. The agreement will also not financially bind future governing bodies and will not constitute an obligation of future legislative bodies of the City to appropriate funds.