



CITY OF BANNING STAFF REPORT

TO: CITY COUNCIL

FROM: Douglas Schulze, City Manager

PREPARED BY: Jim Steffens, Deputy Director of Electric
Art Vela, Director of Public Works

MEETING DATE: May 14, 2024

SUBJECT: Consideration of Resolution 2024-62, Authorizing the City Manager to Approve and Execute Agreements for the Sale of the Banning Electric Utility's Excess Renewable Energy Credits

RECOMMENDATION:

Adopt Resolution 2024-62.

BACKGROUND:

The State of California has implemented the Renewable Portfolio Standard (RPS) program as one of its tools to decarbonize the electric utility sector. The RPS program mandates that electric utilities meet specified targets of renewable energy to serve their customers. The method by which utilities comply with these RPS targets is by obtaining Renewable Energy Credits (RECs) and retiring the RECs for the RPS program. Utilities can obtain RECs by generating/purchasing their own renewable energy, or they can purchase RECs in the secondary markets. There are three types, or "buckets", of RECs for the RPS program: Portfolio Content Category 1 RECs (PCC1 RECs), Portfolio Content Category 2 RECs (PCC2 RECs), or Portfolio Content Category 3 RECs (PCC3 RECs). PCC1 RECs are the most important and most valuable because utilities must use at least 70% PCC1 RECs to meet their RPS targets.

The secondary market for RECs has skyrocketed over the last year. For example, PCC1 RECs have historically sold for around \$15 each. However, the current market for PCC1 RECs has risen to between \$60 to \$70 each due to high demand and market scarcity. The scarcity has been driven by COVID and the resulting supply chain issues. Many utilities had subscribed to renewable projects that they were going to use to meet their RPS targets. However, COVID postponed many of these projects from getting completed. Therefore, there are many utilities that are currently in the market for PCC1 RECs, driving up the prices.

The City of Banning Electric Utility Department (Utility) entered an 8 MW geothermal project that began on January 1, 2022, resulting in the Utility being 81.3% renewable in 2022. Therefore, the Utility is way ahead of the RPS targets and has excess RECs now and for the foreseeable future. Given the elevated market for PCC1 RECs, on September 26, 2023, the City Council approved the Utility to sell 40,000 PCC1 RECs to the City of Pasadena at a price of \$62 per REC. Additionally, on February 13, 2024 the City Council approved the Utility to sell 20,000 PCC1 RECs to the City of Burbank at a price of \$65 per REC.

The Utility desires to sell additional RECs in the coming years to boost the financial health of the Utility. The Utility has attempted to expand its pool of potential REC buyers by including REC brokers and dealers in its Requests for Bids. However, the brokers and dealers have indicated that they cannot enter

into deals that have to wait for and are contingent upon a City Council approval. They need to know that when they close a deal that it is a done deal and can be transacted quickly. To accommodate the transactional needs of the REC brokers and dealers, the Utility desires that the City Manager have the authority to sign the REC sales agreements. This authority would result in the REC sales agreements being executed timely enough to meet the brokers and dealers transactional needs. By expanding the pool of buyers that are bidding upon the Utility's excess RECs, it would significantly increase the probability of the Utility receiving higher bids for their excess RECs.

JUSTIFICATION:

The Utility desires to receive the highest prices for its excess RECs. Being able to include REC brokers and dealers in its Requests for Bids will open up the Utility to a much larger purchasing market. This wider market will most likely result in the Utility receiving higher revenues for its excess RECs.

FISCAL IMPACT:

The exact fiscal impact is unknown. However, it is rational to assume that by increasing the pool of buyers who are bidding on the Utility's RECs, there is a strong probability that the Utility will receive higher bids, resulting in higher revenues.

ALTERNATIVES:

1. Adopt Resolution 2024-62, without amendments.
2. Do not adopt Resolution 2024-62, which would preclude the Utility from marketing its RECs to REC brokers and dealers.

ATTACHMENTS:

1. [Resolution 2024-62, REC Energy Credits.docx](#)