



## CITY OF BANNING STAFF REPORT

**TO:** CITY COUNCIL

**FROM:** Douglas Schulze, City Manager

**PREPARED BY:** Jim Steffens, Acting Electric Utility Director

**MEETING DATE:** February 13, 2024

**SUBJECT:** Consideration of WSPP Agreement/Confirmation between the City of Banning and the City of Burbank, CA for the Sale of Project Energy Bundled with the Associated Renewable Energy Credits (RECs)

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### **RECOMMENDATION:**

Staff recommends that the City Council approve the proposed WSPP Agreement/Confirmation between the City of Banning and the City of Burbank, CA for the sale of project energy bundled with the associated Renewable Energy Credits (RECs), and authorize the City Manager to execute the WSPP Agreement/Confirmation on behalf of City Council.

### **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 RPS program sets soft targets for specific years, and hard targets for Compliance Periods, which are periods of three to four years. For example, we are currently in Compliance Period 4, which runs from 2021-2024.

The method by which utilities comply with these RPS targets is by obtaining RECs and retiring the RECs for the RPS compliance periods. 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. PCC1 RECs are RECs that are bundled with the associated renewable energy that produced them, and the renewable energy must be generated in California.

The secondary market for PCC1 RECs has skyrocketed over the last year. Historically, PCC1 RECs have 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. Many utilities are very short of meeting the 2024 RPS soft target and very short of meeting the hard target for Compliance Period 4, which ends on December 31, 2024.

The City of Banning Electric Utility (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 for Compliance Period 4 and has excess PCC1 RECs. 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.

The Utility desires to sell additional RECs, but an issue with WREGIS (the semi-governmental agency that creates and distributes all RECs in the western states) has temporarily stopped the creation of RECs for many generators. Unfortunately, our COSO geothermal resource is one of the facilities that has been affected by the WREGIS software bug. To get around this issue, the Utility has negotiated a contingent deal with the City of Burbank. The amount of RECs to be sold in the deal is contingent on the WREGIS issue getting resolved in a timely manner to complete the deal. If the WREGIS issue is resolved timely, the deal will be for 20,000 RECs. If the WREGIS issue is not resolved in a timely manner, the deal will only be for 5,000 RECs. This contingency protects the Utility from breach of the agreement in case the WREGIS issue turns out to be a prolonged issue. The price we will be receiving per REC is \$65.00.

Because PCC1 RECs are bundled with the energy that produced the REC, the deal must be signed prior to the corresponding energy being produced. This fact makes it much more optimal to sign a contingent deal now, as opposed to waiting for the WREGIS issue to be resolved before doing a deal. If we waited, we would lose the ability to sell the RECs that were produced prior to the deal being signed.

The only downside to selling RECs is that when we publish our annual Power Content Label (PCL), it will show us as being less renewable. In other words, the PCL will show us as being less than our current level of 83.1% renewable. There is no regulatory mandate for being a certain level of renewable on the PCL. The PCL is more of an informative document to show our customers how renewable we are. The Utility will strive to find the correct balance between the desire for additional revenues from selling RECs and the desire to show a respectable level of renewability.

The sale will be transacted through a Confirmation to the WSPP Agreement, including Service Schedule R of the WSPP Agreement. The WSPP Agreement is a standardized contract that is used by almost all in the power industry. The purpose of the WSPP Agreement is to allow market participants to transact deals quickly, without having to negotiate a contract for every deal. A WSPP Confirmation states that the deal is governed by the WSPP Agreement, and provides the details of the deal, such as parties, product, volume, price, etc. A link to the WSPP Agreement, including Service Schedule R, is below:

[https://www.wspp.org/pages/documents/08\\_26\\_22\\_current\\_effective\\_agreement.pdf](https://www.wspp.org/pages/documents/08_26_22_current_effective_agreement.pdf)

**JUSTIFICATION:**

The Utility is in an advantageous position of having excess PCC1 RECs during a time when the secondary market prices of RECs are extremely elevated. By selling our excess PCC1 RECs, the Utility can improve its cash flow position, and possibly delay the need for a rate increase.

**FISCAL IMPACT:**

The Utility is looking to sell 20,000 2024 vintage PCC1 RECs to the City of Burbank at \$65 each, which will generate \$1,300,000 in revenue.

**ALTERNATIVES:**

1. Approve the sale of PCC1 RECs as recommended and authorize the City Manager to execute the WSPP Confirmation.
2. Do not approve the sale of PCC1 RECs and provide alternative direction to staff.

**ATTACHMENTS:**

1. [Banning - Burbank PCC1 Confirmation 2024 Vintage 20,000 RECs.pdf](#)