



## CITY OF HEALDSBURG CITY COUNCIL AGENDA STAFF REPORT

**MEETING DATE:** December 4, 2023

**SUBJECT:** Provide direction to staff regarding the sale of in-state bundled Renewable Energy Credits

**PREPARED BY:** Terry Crowley, Utilities Director

**STRATEGIC INITIATIVE(S):**  
Provide Effective Governance

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**RECOMMENDED ACTION(S):**

Adopt a Resolution directing staff to sell bundled in-state renewable energy credits and authorizing the City Manager to execute such agreements through the Northern California Power Agency.

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**COMMUNITY ENGAGEMENT/OUTREACH:**

No community engagement was sought or received for the sale of renewable energy credits as this is an initial request for direction from the City Council. Substantial community engagement was employed in the development of the Climate Mobilization Strategy, the implementation of which could be advanced with funding from the proposed sale.

**BACKGROUND:**

Since the 1980s the City of Healdsburg has received local geothermal power from The Geysers geothermal field. Over these years, geothermal energy has been a major portion of Healdsburg's energy supply. More recently and in response to Council goals to provide Healdsburg with 60% renewable energy by 2025 and lower Healdsburg's energy carbon content to less than 200 pounds per megawatt-hour (MWh), the City has recently added additional sources of renewable energy including the Antelope Project (solar), the floating solar project, and small hydroelectric generation from South Feather River Water & Power. Combined these projects extend Healdsburg's renewable energy sources beyond the State's Renewable Standard Portfolio (RPS) requirements and position the City to meet the 2030 compliance target of at least 60% renewable energy supplied to retail customers.

Under the State's RPS regulations, load serving entities, like Healdsburg, have intermediate targets to demonstrate progress toward meeting the 2030 60% RPS requirement. These intermediate targets create regulatory compliance needs for entities that do not have enough

renewable energy contracts to meet the targets. To meet compliance targets, entities who are short can purchase excess renewable energy from entities with excess renewable energy. The increasing compliance targets have created shortages for certain agencies and driven the price of renewable energy higher.

Due to Healdsburg’s early adoption of geothermal energy beyond state targets, the city could sell renewable energy credits to agencies at risk of failing to meet current and future RPS requirements. With recent market price increases, a potential sale of 24,000 megawatt-hours of in-state renewable energy could generate between \$1.3 to \$1.6 million in revenues. This is many times higher than the revenue potential under the pricing that was in place in previous years.

**DISCUSSION/ANALYSIS:**

Under the State’s RPS regulations, early adopters of renewable energy who exceeded State RPS requirements, such as Healdsburg, have been granted historic carryover credits that can be used to meet future RPS requirements. These historical carryover credits are based upon the amount of excess renewable energy generated between 2004 and 2010. Currently Healdsburg holds 201,762 historical carryover credits, an amount roughly equivalent to cover Healdsburg’s minimum RPS requirements for the next five years. This bank of historical credits allows the City Council to consider selling renewable energy generated in calendar year 2024 and through the end of 2028.

If the City Council chooses to sell off future renewable energy credits, the City will still be able to meet RPS requirements but will see an impact the City’s Power Content Label (PCL). The PCL is a regulatory report mailed each October to all City electric customers and is intended to clearly represent the amount of renewable energy supplied and carbon intensity of the City’s power sources. If renewable energy credits are sold, the City could no longer claim the energy and the PCL will reflect increased unspecified market purchases (a blend of statewide energy sources mostly comprised of natural gas). The table below compares 2022’s PCL, an estimate of 2023’s PCL, and 2024’s PCLs should the City sell its available renewable energy credits. As an estimate, overall renewable energy could drop from roughly 50% to 10% and carbon intensity would increase from roughly 377 to 590 pounds per MWh (statewide average is 422 lbs/MWh). Of note is that the PCL is used to complete countywide GHG inventories, an indicator of the City’s progress toward reducing GHG emissions.

Combined PCL	2022	2023 Est.	2024 With REC Sale
Renewable	50%	45%	10%
Large Hydro	15%	35%	25%
Natural Gas	20%	20%	30%
Unspecified	15%	0%	35%
Carbon Content	377	220	590

*Table 1: Combined energy supply for both Standard and Green Rate customers. Percentages shown for 2023 are estimates and percentages for 2024 assume the sale of all RECs except RECs necessary to supply existing customers on the City’s Green Rate.*

Due to the annualized construct of the PCL, the purchase of excess large-hydro generation

during the spring run-off could neutralize the carbon of unspecified market energy purchases. The purchase of hydro-generation is subject to availability, largely dependent upon rainfall in the northwest, and would lower the net revenue associated with the sale of bundled in-state RECs. Another method to preserve Healdsburg's current carbon content is to purchase Unbundled RECs. Unbundled RECs are REC separated from their energy source to allow the sale of only the environmental attribute of the energy. While Unbundled RECs are often used to cover (neutralize) carbon content, the PCL regulations do not recognize this construct and continue to obligate retail energy providers to include the carbon content of all generation facilities and unspecified market purchases.

Based upon current estimates of future renewable energy production, the City Council could consider the sale of roughly 24,000 MWh of bundled in-state renewable energy credits per year. Under current market conditions, this level of REC sales would generate roughly \$1.3 to \$1.6 million dollars in additional revenue. To sell RECs in an open market, City staff will need to work through the Northern California Power Agency. To protect the City against generation plant failures that could reduce or interrupt the production of sold renewable energy, the sale terms would not guarantee any amount of production. The lack of guarantee will likely result in a lower sale price but is not expected to reduce pricing by more than five percent.

As potential revenue will not be realized until the end of calendar year 2024, it is not the intent of this agenda item to direct funding toward existing or new projects and/or programs. However, for illustrative purposes the revenues generated could support several electric and electrification focused measures within the recently adopted Climate Mobilization Strategy. These measures could include City-owned solar and battery projects to increase clean energy generation, development of additional public EV charging stations, funding for demand response programs, and to increase customer incentives for electrification. In any case, staff recommends that revenues generated through the sale of RECs should be directed back to the benefit of Healdsburg electric customers.

Should the City Council wish to engage in the sale of bundled in-state RECs, staff recommends the Council direct staff to sell up to 24,000MWh for both calendar year 2024 and 2025. This amount will reserve roughly 6,000MWh of renewable energy to support customers enrolled in the City's Green Rate program. Staff further recommends that the Council delegate authority to the City Manager to execute agreements developed through the NCPA and approved by the City Attorney. Staff is not recommending the purchase of additional large-hydro energy due to concerns with availability and delivery times that don't align with actual energy use in Healdsburg. Staff is also not recommending the purchase of unbundled RECs as they will not change the carbon content reported on the annual PCL. Through the offer to sell RECs, staff and the NCPA will set a minimum price of not more than 15% below current market pricing. Should bids not exceed this price, staff will seek further direction from Council.

#### **ENVIRONMENTAL STEWARDSHIP:**

While statewide carbon emissions will not increase or decrease due to this action, the sale of RECs will temporarily assign additional carbon emissions to the City of Healdsburg. Consequently, even though the actual sources of energy deployed in Healdsburg would not change, certain metrics, such as those on the Power Content Label, would suffer temporarily.

However, the revenues generated could fund programs that over their lifetime may create equivalent or greater carbon reductions.

**ALTERNATIVES:**

As an alternative, the City Council could direct staff to sell more or fewer RECs and/or provide direction regarding the purchase of replacement power (large hydro) or unbundled RECs. The City Council could also extend the period for the sale of RECs through 2028. As mentioned above, staff does not recommend the purchase of large-hydro or unbundled RECs. Staff also does not recommend extending an authorization beyond calendar years 2024 and 2025 due to the uncertainty of future market changes, which may include increased pricing.

Additionally, the City Council could consider adjusting the minimum sale price for REC. With current pricing for bundled REC selling between \$67 and \$72 per MWh versus \$16.50 per MWh at this time last year, staff does not recommend adjusting the minimum sale price below staff's recommendation.

**FISCAL IMPACT:**

The recommended action would generate additional revenues within the Electric Departments operations budget. However, participation in energy markets is inherently risky. Some of the risks included, but may not be limited to, lower market pricing (lower revenues), failure to deliver the product sold, and changes in regulatory environments or interpretations. Contracts executed by the City will include terms defining the sale amount as estimated and not a guaranteed delivery amount. This will help mitigate some of the risks due to unforeseen plant outages or other reasons that may prevent delivery of the RECs sold. While changes to the regulatory environment are possible, significant changes are not expected within the next two years.

**ENVIRONMENTAL ANALYSIS:**

Pursuant to Title 14, the California Code of Regulations, Section 15302(c) of the California Environmental Quality Act ("CEQA") guidelines, the proposed action is an administrative activity of the City that will not result in direct or indirect physical changes to the environment.

**ATTACHMENT(S):**

Resolution

CITY OF HEALDSBURG

RESOLUTION NO. -2023

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HEALDSBURG DIRECTING STAFF TO SELL BUNDLED IN-STATE RENEWABLE ENERGY CREDITS AND AUTHORIZING THE CITY MANAGER TO EXECUTE SUCH AGREEMENTS THROUGH THE NORTHERN CALIFORNIA POWER AGENCY

WHEREAS, since the early 1980's the City has supplied the Healdsburg community with renewable geothermal power; and

WHEREAS, more recently and in response to Council goals of providing Healdsburg with 60% renewable energy by 2025 and lowering the energy carbon content to below 200 pounds of CO<sub>2</sub>e per megawatt-hour, city staff have in increased the amount of renewable energy supplied to Healdsburg; and

WHEREAS, this early action has put Healdsburg ahead of regulatory compliance obligations and in a position of holding excesses renewable energy credits (REC); and

WHEREAS, current energy markets, driven by increasing regulatory requirements, have driven the price of bundled in-state renewable energy to record highs; and

WHEREAS, the State's regulatory compliance allows for the use of historical carryover credits to meet Renewable Portfolio Standard obligations; and

WHEREAS, the higher prices and Healdsburg's bank of historical carryover credits provide Healdsburg the opportunity to sell RECs and generate additional revenue; and

WHEREAS, while the sale of RECs will generate revenues, the sale of RECs will increase the City's purchase of unspecified market energy (predominately natural gas) and increased carbon content shown on the annual Power Content Label; and

WHEREAS, Pursuant to California Environmental Quality Act and Title 14, the California Code of Regulations ("CEQA Guidelines"), Section 15378(b)(2), continued administrative actions do not qualify as a "Project".

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Healdsburg hereby:

1. Find that Pursuant to California Environmental Quality Act and Title 14, the California Code of Regulations ("CEQA Guidelines"), Section 15378(b)(2), continued administrative actions do not qualify as a "Project".

2. Direct City staff to sell up to 24,000 megawatt-hours of bundled in-state renewable energy credits per year for calendar years 2024 and 2025 at not less than 15% of current market pricing.
3. Authorize the City Manager to execute REC sale agreements with third parties developed through the Northern California Power Agency.

PASSED, APPROVED, AND ADOPTED by the City Council of the City of Healdsburg, this 4th day of December 2023, by the following vote:

AYES: Councilmembers: ( )

NOES: Councilmembers: ( )

ABSENT: Councilmembers: ( )

ABSTAINING: Councilmembers: ( )

SO ORDERED:

ATTEST:

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Ariel Kelley, Mayor

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Raina Allan, City Clerk