

**CITY COUNCIL WORK SESSION
CITY OF WATERTOWN
May 9, 2022
6:00 p.m.**

Mayor Jeffrey M. Smith Presiding

Present: Council Member Patrick J. Hickey
Council Member Clifford G. Olney III
Council Member Sarah V.C. Pierce
Council Member Lisa A. Ruggiero
Mayor Jeffrey M. Smith

Also Present: Kenneth A. Mix, City Manager

City staff present: James Mills, Michael Delaney

DISCUSSION

Hydro-Electric Revenue Options – Skip Trimble, Managing Director of Amber Energy US, Inc.

Mr. Trimble was introduced as the consultant hired by the Hydro Committee to review the possibilities for how the City should approach and handle the expiration of the Power Purchase Agreement (PPA) with National Grid in December 31, 2030.

Mr. Trimble presented a slideshow portraying a summary of his full Watertown Hydro-Electric Project Revenue Options report, which was given to the City and the Hydro Committee last week. Both the slideshow and report are on file in the City Clerk's Office. Stating his presentation provides an overview of the products for revenue, an analysis, summary and his recommendations, he explained the objective was to replace the revenue stream from the National Grid's PPA in the most optimal way and noted that City Manager Kenneth Mix and Hydro Committee Chair (former Mayor) Joseph Butler allowed him to explore all options without worrying about the political impact. He advised that this was a business, market and engineering analysis only, noting it is an historic snapshot based on prices, weather, flow, generation and other actual historic metrics. He stressed that this is not a prediction of future values and is not an exact science due to the dynamic market place. As an example, he explained that renewable energy credits (REC) are currently changing and capacity will be changing, so the future values could be much higher than currently.

Moving to the products available for revenue options, Mr. Trimble informed Council that there are four elements of a generator (energy, capacity, renewable energy credits (RECs) and synchronous spinning reserve) and that each could be in the portfolio to be sold, and therefore create revenue. For each of these products, he provided an explanation of what it is, how it is generated, how the price is determined and the role that each took in his analysis. He added that RECs and spinning reserve are both very lucrative and have a potential upside in the future for the City. Although not included in this analysis, he pointed out that the spinning reserve's current tariff prices are currently \$750/MWH and compared this to significantly lower prices for the other products. He advised that a metering and communications plan is being developed, which could cost between \$30,000 to \$80,000, but has the potential to add \$660,000 in additional revenue if used only 10% of the year. In response to Hydro Committee Chairman Butler's comment, he confirmed that his calculations were extremely conservative and that

the additional revenue from RECs and spinning reserve is not included in his calculation because further investigation is ongoing.

Lastly, Mr. Trimble offered the option of selling energy to City residents and explained the framework for Community Choice Aggregation (CCA) Program. He suggested the City buy energy at a Local Base Margin Price (LBMP) and sell it at a 10% discount to National Grid's tariff. He noted that NYSERDA has technical consulting and a toolkit to assist in developing a CCA program and that the City would need an ESCO to handle the buying, billing and administration of the program.

Hydro Committee Chairman Butler pointed out that Mr. Trimble's calculations are net numbers, so the cost of the ESCO is built into his analysis.

Mr. Trimble then turned to his analysis of the following six revenue options: 1. Sell the Hydro Plant outright; 2. Sell only wholesale market generation products; 3. Sell residential market only; 4. Sell wholesale market generation products and residential market sales; 5. Create an Electric Cooperative; and, 6. Create an Electric Municipal Utility. He reviewed each option in detail, noting the pros and cons of each, the calculated value range per year, expected value per year and his opinion. He stressed that the City should not sell the hydro plant because it is an infinite resource and the value of the products from the generator will continue to grow. Regarding options No. 2, No. 3, No. 4, Mr. Trimble stressed that option No. 3 was the best option for optimal revenue for the City. He explained the option of creating an Electric Cooperative was not investigated further once it was determined that New York State does not allow for a Cooperative. Lastly, he advised that an Electric Municipal Utility would require the addition of eight new employees and additional expenses, and Watertown does not have the economies of scale to make this feasible. He highly recommended the option of the City selling wholesale generation products and residential market sales as the most profitable for the City.

Mr. Trimble concluded his presentation by reviewing the 11 recommendations at the end of his report. They are the following:

1. Residential Sales program under NYSERDA's Community Choice Aggregation program should be evaluated before the termination of the National Grid agreements. National Grid should be included in that evaluation process.
2. Exploration of the possibility of the New York Department of Public Service (NYSDPS) helping out with the approximately \$500,000 of O&M per annum should continue. The economic "need" for this O&M help must be explained.
3. Exploration of capital for hydro plant capacity expansion from the New York Department of Public Service should continue. Needed: additional discussions of capital opportunities with the NYDPS.
4. Spinning reserve needs to be further evaluated. The New York Independent System Operator (NYISO) finally agreed that the City's plant may operate this ancillary service. We need to evaluate how the billing will be enacted and how to model the valuation of this product.
5. RECs need to be followed as they are undergoing significant NYPSC and NYSERDA changes. Specifically, Tier 2 is applicable to plants (and Watertown is one of them) that existed prior to January, 2015.
6. An ESCO needs to be found to sell the wholesale products to the NYISO. This ESCO needs to be a NYISO member, have appropriate credit with the NYISO and have a track record of transacting with the NYISO.

7. An ESCO needs to be found to handle the NYSERDA Community Choice Aggregation program. This ESCO needs to be able to buy energy from the grid, work within the NYSERDA CCA framework and is EDI and HEPFA certified. The wholesale and CCA frameworks may be a single ESCO.
8. Immediately, the Watertown hydro-generation unit should apply for “Qualified Facility” status with FERC. Steve Wood, Northeast Energy Service LLC, has the application that can be self-certified and Watertown personnel are capable of completing the form. “QF” status is from the 1978 PURPA legislation and reduces regulatory load for the QF, guarantees grid access and guarantees that the local utility must purchase the generated energy at an avoided cost. These are critical characteristics and a necessary guarantee for Watertown.
9. The City needs to develop GADS and GATS knowledge. Training sessions have been identified and the GATS knowledge is already in the Watertown Hydro Team’s portfolio.
10. It is highly recommended to not sell off the hydro-generation unit. This resource is an infinite resource, i.e. it will be an asset for centuries to come. It also holds sustainable, carbon-less generation, supports local jobs and is a New York State grid support resource. Also, the value of the generation products will asymptotically grow in value due to its unique and important characteristics
11. Most importantly, is the recommendation that The City of Watertown pursue selling both wholesale generation products and residential supply under NYSERDA’s CCA. This recommendation is based solely on developing maximal revenue streams for the City’s future with the hydro assets and the citizen’s asset of electric load. This recommendation offers an opportunity for Watertown participants to get a reduction to the National Grid electric energy tariff, maximize the hydro generator by selling all of its generation products that are not now being utilized by National Grid and consequently maximizing the future revenue stream for the City without the City running an energy business.

Hydro Committee Chairman Butler thanked Mr. Trimble for his presentation and recommendations and thanked Mayor Smith, who was responsible for forming the Hydro Committee. He said that this report is an important document for the City to have going forward in preparation of the expiration of the contract with National Grid.

Mayor Smith thanked Mr. Trimble, as well as the Hydro Committee members, for their time and hard work put into reviewing this topic. He mentioned that it appears that the City could immediately start capturing the spinning revenue.

Council Member Pierce also thanked Mr. Trimble and asked when the discussion with NYSERDA regarding the Community Choice Aggregation program should begin.

Mr. Trimble replied that it should start right away. He also confirmed Council Member Pierce’s statement that the funding for capital projects from New York Department of Public Service is competitive, but they have funds available waiting for people to apply with a plan. In regard to Council Member Ruggiero’s question about the cost of obtaining a Qualified Facility status, he stated it is less than \$1,000 and the City’s other consultant, Steve Wood, has the application nearly completed and it is waiting for the City’s authorization to finalize it.

Council Member Ruggiero noted that Mr. Trimble was unable to obtain certain information from National Grid and asked if the information could be received from FERC.

Mr. Trimble indicated that it could be obtained from FERC once the City is ready to move forward.

City Manager Mix responded to questions regarding an offer to buy the plant referenced on page 9 of the report. He clarified that he was approached about a year ago, but it was not a hard offer and there were still a lot of questions.

Mr. Trimble clarified for Council Member Olney that the RECs are owned by National Grid throughout the term of the agreement. He referred to his report which cited legal cases confirming that National Grid owns them. He also explained to Council Member Olney the importance of a Qualified Facility status, as well as how the City could buy energy at LBMP and sell it at a discount to the City residents.

The incentives to the City residents buying from the City versus from their current provider was discussed further, as well as the delivery of this service and its cost.

Council Member Olney asked how long the City has had the opportunity to do this.

Mr. Trimble stated this is new within the last six months. He also confirmed for Council Member Hickey that at the end of the National Grid contract, the City will own what it currently owns now, which would include the hydro plant and substation. He added the difference will be that the City can then control what is done with the hydro plant and sell all the products. He clarified that the City does not own the distribution, which was sold at the beginning of the National Grid contract.

Council Member Olney mentioned that selling electricity to the residents can be a new venture separate from the current agreement with National Grid, which can begin now and become a new revenue stream for the City. He asked further questions regarding how this service would be billed and stated he thought the City could handle that process.

Mr. Trimble explained that an ESCO should be responsible for this since they are competent in looking at electronic data interface (EDI). He said the ESCO could pull down the information, track it and then bill for it. He confirmed for Council Member Olney that the City could only sell to City residents and not County residents.

Mayor Smith summarized that the capacity and RECs charges are not available through the end of the National Grid contract, but the City could implement the spinning reserve process, as well as buying electricity on the market to sell to residents now.

Council Member Olney suggested increasing the capacity by changing the type of turbines. He asked if spinning reserve has to do with a specific time of the day.

Mr. Trimble said that it is on demand and not time contingent. He explained that each day the City would set aside a level of spinning reserve for that day and that the City could decide to do none for another day. He noted that the value set is based on what is in the City's best interest for that day.

Hydro Committee Member William Johnson expressed concern with the City selling at a 10% discount because it is similar to what solar companies are doing. He asked why a customer would switch to the City.

Mr. Trimble noted that the 10% was just a bookmark level, which can be changed to fit what the City feels is best.

Discussion turned to bitcoin and the ability to allow a data bank in the City.

Hydro Committee Chairman Butler mentioned that the spinning reserve is a more immediate revenue stream and discussed what the City would need to implement that. He added that more information will be coming from the other consultant, Mr. Wood.

Further discussion occurred about the City buying electricity from the market and selling it at a discount to the City residents, and potential revenue from this.

Mayor Smith added that the City should proceed with becoming a Qualified Facility soon.

Council Member Olney turned the discussion to increasing capacity by changing the type of turbines. Further discussion on the effect of the contract and the ability to do this with the current contract and FERC license. It was noted that this would be dependent on the cost of construction.

More discussion ensued on the funding available to assist with operating and maintenance costs, as well as capital improvements. Mr. Trimble stressed that it is all based on showing an economical need, which would be difficult to prove with the rate that the City is now receiving from National Grid but could possibly be proven at the end of the contract.

Mayor Smith commented that the plant would have to be shut down in order to change the turbine and he advised against doing that at this point, since the rate received from National Grid is at its highest and continues to grow for the remainder of the contract.

City Engineer Michael Delaney described the potential work that would need to be done for this. He noted that he and his two predecessors have reviewed changing the turbines to a higher capacity turbine and have done a cost analysis but there was not a benefit to the City.

Council Member Olney offered possible ways to keep the plant operational while the turbines are changed.

Mr. Delaney advised that the City would not recoup the cost of the construction.

Hydro Committee Chairman Butler concluded the presentation by thanking Mr. Trimble and stressing the importance of this document. He informed Council that the Hydro Committee expects to receive a report from Mr. Wood on the other issues soon and then the Committee will formulate a final report and document to be presented to Council.

Work session ended at 7:23 p.m.

Ann M. Saunders
City Clerk