



Council Letter No. 20-

August 10, 2020

Honorable Mayor and
Members of the City Council
City of Warrensburg, Missouri

Dear Mayor & City Council,

Subject: Consideration of an Ordinance Authorizing the City Manager to Enter into an Agreement with Kansas City Power and Light Company for participation in Renewables Direct

BACKGROUND:

The city has been approached by a representative from Evergy to participate in the Renewables Direct program. The Renewables Direct program allows commercial and industrial customers to offset some or all of their energy usage through a renewable resource. Customers subscribe to a certain amount of megawatt hours up to 100% of their annual energy usage and pay a fixed dollar per megawatt hour rate (\$/mwh) for the term of the agreement. The purpose of this program is to provide an opportunity for companies to cost-effectively reach their sustainability goals.

The subscription rate includes the cost of energy and transmission related to the procured renewable resource plus \$0.10/mwh for a 20-year term or \$0.30/mwh administration fee for all other terms. Consumers are still responsible for their standard bill based on metered usage each month. However, depending on the difference between the subscription charge and the wholesale market price, a renewable adjustment will be reflected on the total bill as an additional charge or credit.

ISSUES:

The renewable resource identified for the city is a wind farm in western Kansas that will come online this winter. The city can enter into an agreement for a 5, 10, 15 or 20-year term subscribing for up to 1.5 megawatts. The subscription rate for the city is \$17.00/mwh. Subscribing to 1.5 megawatts entitles the city to declare itself 100% renewable. Enrolling in the Renewables Direct program allows the city to contribute to the green grid and use renewable resources without the initial cost and ongoing maintenance costs associated with renewable energy infrastructure.

Enrolling in the program does not affect the price the city pays for electricity. If the wholesale market price for renewable energy is above \$17.00/mwh, the city will receive a credit to its monthly standard bill. If the wholesale market price is below \$17.00/mwh, the city will have an additional charge on its monthly standard bill. Historically, the wholesale market price has been above \$17.00/mwh, but there have been months recently where the wholesale market price dropped below \$17.00/mwh, particularly the first half of 2020. Ranging from \$33.50/MWh to \$14.28/MWh the average monthly wholesale market price from January 2016 to July 2020 is

\$22.29/MWh. The wholesale market price was below \$17.00/MWh only 8 of the 54 months of data available to the city. Four of those months were February, March, April and May of 2020.

The decrease in commercial electricity demand is attributed to the economic slowdown resulting from COVID-19 mitigation efforts. The U.S. Energy Information Administration expects the wholesale electricity prices to be lower in 2020 than in 2019 due to the decrease in demand. However, over the next several years it projects overall demand for electricity to grow modestly with renewable energy being the fastest-growing generation source due to decreasing capital costs and financial and tax incentives. As renewable energy becomes more competitive with other energy sources along with policy targets for renewable energy, demand for renewable energy is also expected to increase.

STRATEGIC PLAN:

Focus I: Investment in Infrastructure

FISCAL IMPACT:

The city has the option to subscribe up to 1.5 MW. Based on the city’s historical usage numbers, the potential liability to the city could be \$109,313 annually if the wholesale market price is \$0/MWh. This is an unlikely scenario. However, using the average price of \$22.29/MWh, the city could see a potential credit of \$34,015 annually. Below are estimates of the credit or charge the city could experience at the different annual offset percentages.

wholesale market price	annual offset		
	50%	75%	100%
\$22.29/MWh (average)	\$17,007	\$25,511	\$34,015
\$14.28/MWh (low)	(\$8,745)	(\$13,117.00)	(\$17,490.11)
\$0.00/MWh	(\$54,656)	(\$81,984.00)	(\$109,313.00)

In addition to the subscription rate, there is a \$0.30/MWh administration fee if the term of the agreement is 5, 10, or 15. This is estimated at \$1,929 annually for 100% annual offset. There is a \$0.20/MWh discount in the administration fee for entering in the 20-year contract. However, at the end of the five years, the city could have the opportunity to re-enter into another 5-, 10-, or 15-year agreement for at the same subscription rate and offset percentage. If capacity is available, the city would also be eligible to increase its subscription amount.

The Energy & Sustainability Task Force recognizes the financial challenge the city is experiencing for the 2021 fiscal year; however, it also recognizes the opportunity to achieve the city’s sustainability goals by offsetting its energy usage with renewable energy and potentially seeing a credit on its energy bill.

RECOMMENDATION:

The Energy & Sustainability Task Force recommends enrolling in the Renewables Direct program and entering into an agreement for a 5-year term for a 50% annual offset.

Sincerely,

Energy & Sustainability Task Force

Cc: City Manager

Attachments: Ordinance
Renewables Direct agreement