Report on Feasibility of Community Choice Aggregation (CCA)

City Council | December 10, 2019

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Community Choice Aggregation

- General goal is to provide cost savings and greater renewable energy content than currently provided by SCE
- A Long Beach CCA would replace SCE as the purchaser of electricity for Long Beach residents/businesses, except for large industrial users
- The CCA would purchase $100 - $140 million of electricity annually
- SCE would continue to deliver the electricity over its poles and wires and would continue to handle the billing

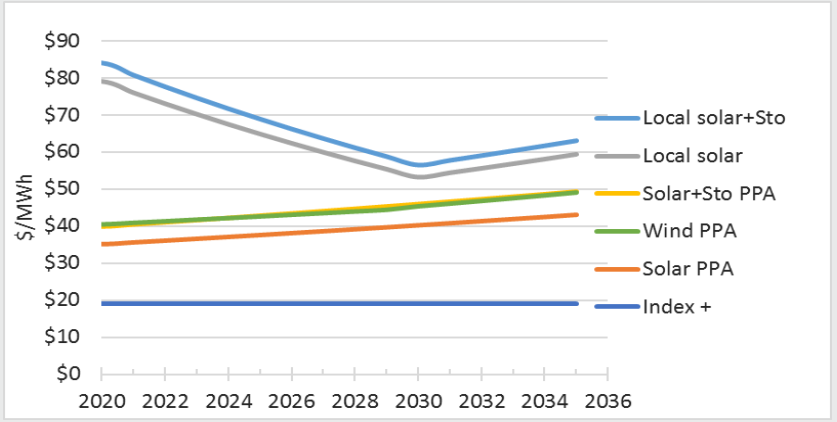
Feasibility Study

- As requested by City Council, a team of expert consultants prepared a feasibility study on the possibility of creating a Long Beach CCA
- Three city department heads with decades of experience in energy, utilities and finance have reviewed and summarized the 138 page study
- A peer review expert was engaged to review the study and assist with confirming the summary and recommendations

Potential Long Beach CCA Customers and Associated Load

	Customers	Annual Load (MWh)
Residential	158,480	746,292
Small Commercial	16,512	591,646
Medium Commercial	2,638	456,615
Large Commercial & Industrial		
On TOU-8 Sub-transmission	28	853,323
On other Tariffs	78	366,780
Total Large C & I	106	1,220,104
Other*	1,967	67,636
Total	179,703	3,082,293

Projected Average Renewable Power Costs



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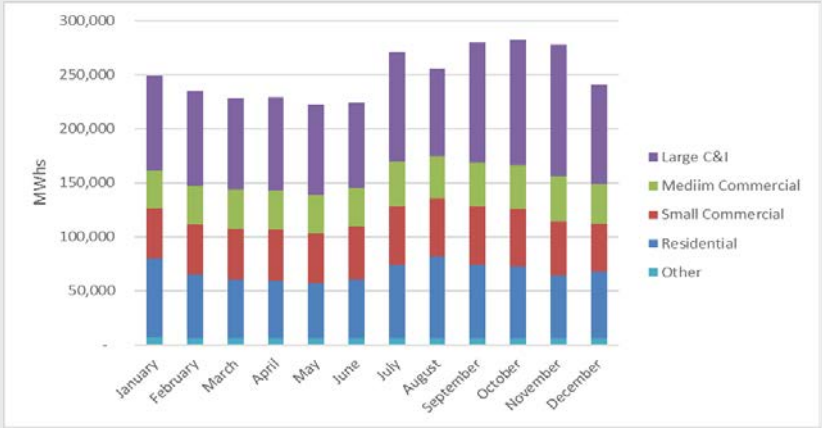
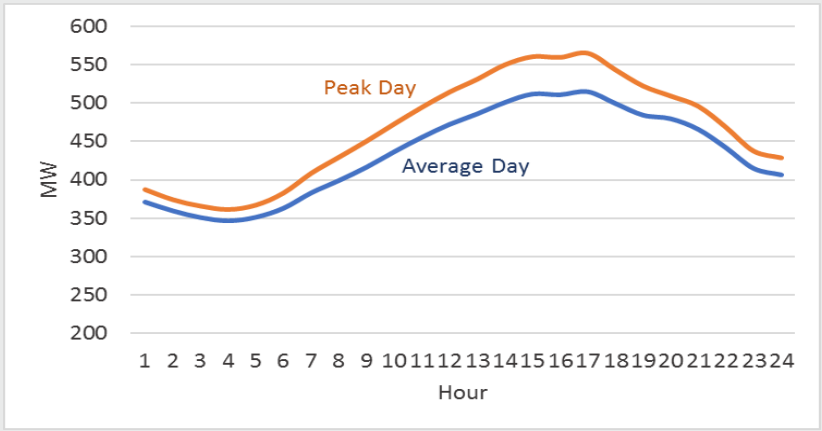
Feasibility Study

- **Main topics**
  - Economic Study – methodology and inputs
  - Cost and benefit analysis
  - Sensitivity of results to key inputs
  - Hypothetical 5-year cash flow and financial strategy
  - Risks and mitigating strategies
  - Macroeconomic inputs
  - Overview of power agency design and implementation process options
  - Start-up schedule and milestones
- **Appendices**
  - Parcel scores for potential PV solar development
  - CCA energy risk management
  - Detailed pro forma outputs

Long Beach CCA Load (Monthly, 2020)



Long Beach CCA Load Shape (September)



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Main Goals for a CCA

Will there be LOWER CUSTOMER ELECTRIC BILLS?

- Rate savings to CCA customers compared to SCE's rates ?

Will there be Greenhouse Gas (GHG) EMISSION REDUCTIONS?

- Lower GHG emissions than SCE?

Will there be LOCAL JOBS created?

- New jobs associated directly with the CCA?
- Lower electricity costs; solar installations by electrical contractors, etc.?

Lower Electric Bills? Possible, But Could Be Higher

- Very minimal savings, customers may save only 1% to 2% on their monthly bills
- Savings are not certain and there is a significant risk that CCA customers could see higher electric bills
- The CCA's rates would not be competitive for large industrial users (25% of City's load) so those customers would remain with SCE

GHG Emission Reduction? Likely Negligible

- Both the CCA and SCE would be subject to the same requirements for meeting the State renewable energy percentages
- SCE's electricity is already 52% GHG free, including 37% renewable, going to 80% clean energy by 2030, and 100% by the 2045 target
- If a CCA was to provide higher renewable energy percentages than SCE currently, the CCA would likely charge higher rates than SCE
- Today, Long Beach customers can voluntarily opt to have SCE provide them with 50% or 100% renewable electricity

Job Creation? – Very Modest at Best

- For a stand-alone City CCA, only 10-27 direct jobs. Economic impact similar to that of any small company
- If the City joins an existing Joint Power Authority (JPA) CCA, there would be no jobs created in Long Beach. No direct economic benefit
- CCA customer rates may be lower or higher than SCE's; if rates are lower, the local economic impact will be positive - which indirectly creates jobs, or, if rates are higher, a negative impact - which indirectly reduces jobs
- A CCA could dedicate some funding to subsidize renewable projects, e.g., solar installations, but would result in higher CCA rates than they would otherwise be

Governance Model and Start-up Costs

- To move forward with creation of a CCA, City Council needs to determine the CCA governance model: create a utility or join or create a JPA
- The governance model impacts the level of local control, the risks, costs and other factors
- More detailed analysis is needed to properly develop a governance recommendation, including the pros/cons of the various options
- Start-up costs could be up to $20 million, requiring a General Fund investment loan of $1 to $5 million, to be repaid if CCA is created
- Residents are likely unaware of CCA's impacts; outreach is suggested before consideration of a CCA

Risks and Uncertainties

- Electricity Market Price Volatility
- Balancing Purchases vs Sales
- Opt-Out Risk
- SCE Rate Competitiveness
- Increased Direct Access
- Increased SCE Exit Fee
- Transmission Operational Change
- Legislative Changes
- Regulatory Changes
- Resource Adequacy Requirement
- Central Procurement Entity
- Political Risk

Risks and Uncertainties

California Public Utility Commission statement on the uncertain and changing electricity market (November 19, 2019)

> "…impending *potential electricity shortages* in California…current electricity supplies are tight…creating *uncertainty in electricity supply*"
>
> "…tight supply is driven by several market trends … including *shifts of system peak loads*; growing penetration of levels of wind and solar resources that require integration into the grid; *retirement of aging natural gas plants*; and a *decline in reliable imported electricity* to meet peak demands as other states increase their renewable generation."

Timeline and Key Steps, If Implementing

- Year 1 – Make major decisions and hire staff
  - Determine that market and regulatory stability is adequate to move forward
  - Decide on governance structure
  - If instability is significant, develop a business plan where costs and customer rates may be either lower or higher than SCE or, preferably, if positive stability exists, develop a business plan that anticipates lower costs/rates
  - Hire key staff (if City enterprise)
  - Take related Council actions and submit mandated implementation plan (by end of calendar year)
- Year 2 – Enter into contracts
  - RFP issuance and contract awards for power providers, management, financing, etc.
  - Public roll-out and communications
  - Demonstrate to CPUC that everything is in place
- Begin Operations
  - Final verifications
  - Opt-out notice options to customers
  - Transfer of accounts and begin operations

Conclusions

- A CCA is feasible but it is highly uncertain that desired benefits would be achieved
- Long Beach residents would likely see savings of only 1%-2% if at all, and could see higher electric bills
- GHG emission reductions will be not be much different than remaining with SCE
- Financial projections are too uncertain to develop normal business or implementation plans or to predict job or economic impact, either positive or negative

Recommended Actions

1. Continue to monitor the California energy market and regulatory environment
2. Report to City Council any material market and regulatory changes, particularly those conducive to creation of a successful CCA
3. Conduct a study on pros and cons of the CCA governance models and provide a recommendation to City Council
4. Conduct balanced community outreach to increase CCA awareness
5. Partner with SCE to better promote green energy options that are currently available for residents and businesses
6. Defer consideration of a creation of a CCA - a major financial and operational decision - for two years, or sooner if stability occurs, in order to minimize financial risk to residents and businesses

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