



Date: June 20, 2017
To: Patrick H. West, City Manager *P.H. West*
From: Bob Dowell, Director of Long Beach Gas and Oil *Bob Dowell*
For: Mayor and Members of the City Council
Subject: Community Choice Aggregation Study in Long Beach

This memorandum is to provide a summary of the actions the City of Long Beach (City) has taken to monitor the status of Community Choice Aggregation (CCA) development throughout the state of California and, to a lesser degree, other states. The memorandum will provide an update on current CCAs, briefly highlight some of the benefits and risks, discuss staff's participation to date, and provide a summary of recommended next steps for the City.

Background

In 2001, the California legislature approved AB 117 (Migden, Chapter 836, Statutes of 2002), which allows cities, counties, and joint powers authorities (made up of municipalities) that do not operate municipally-owned electric utilities to create a variation of a utility known as CCA. The CCA becomes responsible for electrical power procurement, rate setting for the electricity commodity component, and customer programs.

When a city, county, or combinations thereof, create a CCA program, it becomes the default provider of electricity for all residents and businesses within its jurisdiction. However, under State law, such customers are provided an opportunity to opt out of the CCA program and remain a customer of the private utility, such as SCE, if they so choose. The current Investor-Owned Utilities (IOUs), Southern California Edison (SCE) in the case of Long Beach, would continue to provide transmission and distribution (poles and wires) services for the electric power, grid maintenance, meter reading, and customer billing.

Long Beach Gas and Oil (LBGO) staff has actively tracked the status of CCAs in California since AB 117 was signed into law in September 2002. Since approval, a number of reports published on the feasibility of CCAs in California have been reviewed by staff. A typical conclusion of many early reports is that of the 2008

Community Choice Aggregation Pilot Project Final Report (CEC-500-2008-091) prepared for the California Energy Commission, which states that CCAs “may be a viable alternative for some communities that are willing to accept the risks that go along with it.” This report, however, like other early studies, was drafted prior to the formation of any functioning CCAs in the state.

To date, the following eight operational CCAs have formed in California:

- Marin Clean Energy (MCE), 2010
- Sonoma Clean Power (SCP), 2014
- Lancaster Choice Energy (LCE), 2015
- CleanPower San Francisco (CleanPowerSF), 2016
- Peninsula Clean Energy (PCE) in San Mateo County, 2016
- Apple Valley Choice Energy, 2017
- Silicon Valley Clean Energy, 2017
- Redwood Coast Energy Authority, 2017

The following three CCAs are scheduled to launch in 2017:

- Alameda County (East Bay Community Energy)
- Los Angeles County – Phase 1 (Los Angeles Community Choice Energy)
- Yolo County – City of Davis (Valley Clean Energy Alliance)

As evident, many of the CCAs have recently activated or have not yet procured and sold any electrical power and, as a result, have generated little or no data for adequate analysis.

The launch of functioning CCAs in California has sparked a number of environmental advocates to step up pressure on California cities and county governments to explore CCA formation. In March 2015, the Los Angeles County Board of Supervisors, led by Don Knabe, instructed its Internal Service Department (ISD) Office of Sustainability to investigate the feasibility of establishing a CCA program for Los Angeles County (County). The City is an attractive participant for many CCA advocates due to its large electrical load and buying power in the electric commodity procurement market.

Potential Benefits of CCAs

CCAs state their potential to offer a variety of benefits to their customers. Most frequently cited is the goal of CCAs to supply larger quantities of renewable energy resulting in a greater reduction of Greenhouse Gas (GHGs) emissions than the IOUs. Current California CCAs generally procure and resell a power mix between 50 percent and 100 percent clean energy to their customers. Going forward, these

claims of “greener” power portfolios must be balanced against California’s increasingly stringent GHG regulatory climate under which all power generation must be 50 percent renewable by 2030.

CCAs have also highlighted their ability to provide greener electricity at competitive rates. Several key factors may explain how CCAs accomplish these competitive rates. Chief among these variables is the procurement of cheaper renewable energy relative to IOUs and the flexible use of Power Purchase Agreements. Recent decreases in the cost of renewable power has enabled CCAs to purchase power more cheaply than did IOUs when they entered into more expensive long-term procurement contracts. Many of these IOU long-term contracts have expired, or are set to expire, which may serve to offset a substantial portion of the cost advantage early CCAs currently enjoy. Recent studies have shown that rate differential between CCA and IOU portfolios have decreased and, in some cases, inverted wherein the CCA ratepayer costs exceed the IOUs.

Proponents of CCAs frequently state increased access of ratepayers to decision-making process relative to IOU ratepayers. Under traditional IOU jurisdictions (like SCE), most decisions affecting rates and rate setting are made by the California Public Utilities Commission (CPUC). CPUC Commissioners are appointed by the governor and oversee the regulation of very large service territories. The argument is that, though the CPUC decision-making process entails vetting by energy professionals, the CPUC proceedings are complex and difficult to follow for many ratepayers. By contrast, CCAs focus on smaller territories and are overseen by democratically-elected local officials sensitive to local issues. Critics note that local officials may not understand the complexities of wholesale power markets, which may lead to crucial procurement errors resulting in mass opt-outs and stranded costs to the CCA.

Potential Risks of CCAs

It is very important to recognize, acknowledge, and fully analyze the potential risks that could negatively impact every resident and business served under a CCA. The procurement of electricity generation in the open competitive marketplace is a very risky and complex endeavor that can be highly unpredictable. Procurement contracts are non-cancellable and can span 30 to 40 years into the future. With the IOUs, consumers and stockholders share market risks. With CCAs, the ratepayers bear the full risk. Because withdrawal from a CCA is cost-prohibitive, a city’s decision to participate binds future City Councils and future generations of taxpayers.

Renewable energy is also heavily subsidized by government and, without these subsidies, renewable energy sources could not survive because they are not cost-effective. Any reduction or elimination of renewable subsidies would negatively impact CCAs and their ability to provide cost-effective electricity. CCAs reliance on subsidized renewables also creates risk, uncertainty, and makes energy markets vulnerable to losses or even collapse, should subsidies be discontinued.

One key unresolved component of CCAs is how customers leaving the IOUs for CCAs are allocated the higher costs of legacy utility procurement contract purchases on those customers' behalf prior to their departure from IOU utility service – the so-called “exit fees.” The CPUC terms this fee as the Power Charge Indifference Adjustment (PCIA). Thus far, California is the only state to allow such an exit fee. CCAs and their proponents view these fees as an anti-competitive cost-shifting tool to protect their monopoly status among additional criticisms including lack of transparency and flawed methodologies. Interestingly, IOUs have also expressed criticism noting that PCIA fees do not go far enough to prevent cost shifting to remaining bundled service customers. As a result, IOUs have recently filed with the CPUC to replace the PCIA methodology with a Portfolio Allocation Method (PAM). In either case, the exit fee issue is far from resolved and the final outcome may have dramatic impact on the economic feasibility of CCAs.

City of Long Beach Monitoring Actions

In March 2015, LBGO staff met with representatives of SCE to discuss the perspective of the City either forming its own CCA, or participating in a CCA. SCE's position at the meeting is best described as “agnostic.” SCE has maintained this position in subsequent public forums on the matter. This may, in part, be as result of 2011 legislation that prohibits utilities from using ratepayer funds for anti-CCA efforts, or the fact that state law requires SCE to remain completely neutral when a government agency is considering or proceeding with the establishment of a CCA.

Since October 2015, LBGO staff has attended a series of County CCA Task Force meetings to discuss the formation of a County CCA, which would include the 82 eligible cities within the County. LBGO staff attended all County CCA Task Force meetings, reviewed the economic report and business plan (published in June 2016 by EES), as well as the proposed Joint Powers Agreement by which the county-wide CCA (subsequently rebranded as the Los Angeles Community Clean Energy) proposes governance. Additionally, LBGO staff has also attended many local symposiums focused on the topic of CCAs.

In March 2016, staff presented an overview of CCA in California to the Sustainable City Commission. In that overview, staff presented Mr. Howard Choy, the General Manager of the County of Los Angeles Office of Sustainability, who provided a summary of the County's efforts to date.

In January 2017, LBGO staff met with Mr. Gary Gero, Chief Sustainability Officer for Los Angeles County, to discuss the County's CCA efforts and address any questions. LBGO staff also met with the legal counsel to The Utility Ratepayers Network (TURN) in April 2017 to gain their perspective on the CCA matter. Lastly, LBGO staff has also recently held conversations with South Bay Clean Power, a consortium of 13 Los Angeles cities, to discuss their CCA options.

Next Steps

In May 2017, LBGO received approval from the City Council to enter into a Non-Disclosure Agreement with SCE to obtain the electrical consumption data for all customers within the City. Understanding the City's various types of customers, and their respective electric load requirements, is the first step in accessing the viability of any CCA. It is anticipated that staff will receive this data in the next four to six weeks.

Given the potential benefits and risks related to the formation and operation of a CCA in Long Beach, staff recommends utilization of a qualified third-party consultant to conduct a CCA feasibility study which would include:

- Analyzing electric load consumption load data by classification
- An economic study with pro-forma financials
- Load forecasts
- Procurement support recommendations
- Customer Risks
- Market Risks
- Regulatory Risks
- Political Risks
- Budget Risks

The RFP development effort is anticipated to take two to three months to complete with issuance in late 2017. Staff is hopeful to have a full recommendation to present to the City Council in early 2018.

Should you have any question, please contact Bob Dowell, Director of Long Beach Gas and Oil, at (562) 570-2001.

cc: Charles Parkin, City Attorney
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