



Legislation Text

File #: 19-1232, **Version:** 1

Recommendation to receive and file a report on the feasibility of a Long Beach Community Choice Aggregation (CCA);

Direct City Manager to continue to monitor the energy market/regulations and report to the City Council annually or sooner if substantial market changes occur;

Direct City Manager to prepare a study that analyzes the potential CCA governance options of forming a stand-alone City enterprise, creating a new Joint Powers Authority (JPA), or joining an existing JPA;

Direct City Manager to perform community outreach regarding the CCA concept along with potential benefits and risks to customers, as well as to gain feedback on how supportive the community might be of a Long Beach CCA;

Direct City Manager to continue the City's partnership with Southern California Edison to raise awareness of existing programs that provide Long Beach residents and businesses with various options to purchase a greater mix of renewables and utilize energy more efficiently; and

Defer for two years any decision whether to participate in a CCA, in any format, or sooner if new information becomes available solidifying benefits, to allow for possibly increased stability in the California electricity market, which will lessen possible risk to residents and businesses. (Citywide)

State law allows the City of Long Beach (City) to form or join a Community Choice Aggregation (CCA) enterprise to replace Southern California Edison (SCE) in procuring electricity as a commodity on behalf of all Long Beach residents and businesses. Under a CCA, SCE would still provide the transmission and distribution of the electricity (power lines, poles, substations, etc.) and would provide billing services to residents. A Long Beach CCA would involve annual electrical commodity purchases of approximately \$100 to \$140 million. While the City's natural gas and water utilities also expend substantial dollars in purchasing of their respective commodities, it should be noted that purchasing power is a much more complex endeavor as electricity is largely produced and consumed instantly, with limited ability to store for later usage. With this increased complexity in power purchasing comes increased financial risk.

To assess whether the creation and operation of a CCA would be potentially beneficial, outweighing the costs and risks to both the City and its residents/businesses, the City Council authorized City staff to hire various expert consulting firms to prepare a CCA Feasibility Study

(Study) (Attachment). MRW & Associates (MRW) served as the lead consulting firm in the Study's preparation.

Key subject matters in the Study included likely net savings (or costs) to residents in their monthly electricity bill, greenhouse gas (GHG) emission reduction, forecasts of power needs/supplies and purchasing costs, financial risks and possible mitigation strategies, economic benefits, the regulatory environment, and start-up issues.

Impact on Customers' Monthly Electricity Bills

If everything proceeded as intended with a CCA, the CCA would generate monthly savings, as measured by comparing the CCA's power purchase costs (plus the required payment of exit fees to SCE) against SCE's generation charges that would be paid if the CCA did not exist. The CCA's savings could potentially be used to reduce the electricity rates paid by Long Beach residents and businesses and/or, if desired, provide some funding for increased purchases of renewable power or funding of alternative energy incentive programs such as solar installations or electric vehicles.

However, the uncertainties in the current electric energy market, combined with very recent California Public Utility Commission (CPUC) actions, make it uncertain as to whether the CCA will save much money, if at all. As a point of comparison, the two primary CCAs currently in operation in Southern California offer savings of roughly 1 percent to 2 percent to their residential customers in comparison with SCE's rates for equivalent renewable power content of 37 percent. If a Long Beach CCA chose to provide its customers with a default power supply with greater renewable content, say 50 percent or 100 percent, this would likely result in the Long Beach CCA charging Long Beach residents and businesses rates higher than they currently pay to SCE.

For the foreseeable future, a Long Beach CCA could not serve its largest industrial customers, representing approximately 25 percent of the entire Long Beach electrical load, at rates competitive with SCE. Therefore, this component of the Long Beach customers would remain customers of SCE and not be served by a Long Beach CCA. This large component of industrial load makes Long Beach relatively unique among cities considering the establishment of a CCA.

Unfavorable market or regulatory conditions could result in a Long Beach CCA having a higher cost than SCE for electricity purchases, possibly resulting in Long Beach residents and businesses paying higher electric bills than if they had remained fully bundled customers of SCE. While not common, such situations have occurred with other CCAs, primarily during the initial years of their existence. Beyond the risk of higher electric bills for Long Beach customers is the risk of a substantial number of customers opting to leave the CCA and return to SCE. This could cause serious harm to the CCA if the CCA is financially burdened with supply contracts for customer load that has returned to SCE.

It is also very likely that most Long Beach residents and businesses are unaware of the CCA concept and how the risks and uncertainties involved with a Long Beach CCA might impact their monthly electric bills, positively or negatively. Most public information is largely about the potential benefits of CCAs while the alternatives and potential risks have generally not been as clearly described. If the City Council wishes to continue consideration of a CCA, a public outreach program on CCAs, their benefits, risks, and alternatives would likely be helpful in informing residents and businesses.

Greenhouse Gas Emission Reductions

The City's formation of a CCA would not inherently reduce GHG emissions, as SCE and a Long Beach CCA would be subject to the same State renewable requirements of reaching 60 percent by 2030 and the goal of 100 percent by 2045. Both a Long Beach CCA and SCE would be purchasing power in the same renewable energy marketplace. SCE's current supply portfolio includes 52 percent of its power from non-fossil fuel sources of which 37 percent is from renewable energy.

A Long Beach CCA, however, would have the ability to achieve greater GHG emission reductions than the State's requirements by deciding to purchase a dramatically greater amount of hydropower or renewable energy. While achieving greater GHG emission reductions, these greener power purchases would be at a potentially much higher price, reducing a Long Beach CCA's ability to offer rate savings to its customers. Additionally, as SCE is also required by law to move towards 100 percent clean energy, the City's formation of a CCA would, at best, make only a very modest incremental difference in the GHG savings.

For those Long Beach residents and businesses that are willing to pay a premium for greener power, they individually have the option today to take advantage of programs SCE offers that allow customers to specify how much of their energy use at their home or business is renewable energy, either 50 percent or 100 percent.

Local Economic Benefits

Depending upon the governance structure of a Long Beach CCA, the CCA would, at most, have roughly 10 to 27 employees, generating local economic activity as would any similarly sized small company. If the City formed its own CCA, a significant part of that economic activity would likely occur in Long Beach; if the City joined an existing CCA JPA, it is likely that little of that economic activity would benefit Long Beach as the employment would likely be outside of Long Beach.

Any net savings or net costs realized on customers' monthly electric bills would increase or reduce economic activity in Long Beach. However, because the level of net savings or costs are too uncertain, it is best to assume this aspect of a CCA's economic benefit is indeterminate at present.

Regulatory Environment and Market Conditions

The California electric industry is currently in a state of flux from which significant changes are expected to occur over the next two years impacting both CCAs and the Investor Owned Utilities (IOU's) such as SCE. Some of the causation factors include the wildfire catastrophes and impacts to State-wide transmission operations, the bankruptcy and possible dissolution of Pacific Gas and Electric (PG&E) in Northern California, the potential establishment of a new State agency to procure electricity, changes to the Power Charge Indifference Adjustment (PCIA) fees to CCA customers, as well as numerous other major energy regulatory issues currently evolving in California. These potential regulatory and industry changes could detrimentally impact the finances of a Long Beach CCA by millions of dollars annually.

Similarly, the California electric energy market is undergoing an evolution with factors such as the reduction in renewable energy costs over the past decade, the introduction of battery storage that will impact market conditions, and California's move to greater electrification. Each will create uncertain impacts to future power purchasing/supply decisions, further increasing risks. For example, electrification will increase demand, exacerbating the future challenges of insufficient power supplies to meet growing demands.

While the track record for CCAs in Northern California is more substantive, the introduction of large-scale CCAs in Southern California is very recent, only entering full service within the past year or so. This lack of well-established, large CCAs in SCE's territory makes it somewhat difficult to gauge the likelihood of a successful Long Beach CCA. Another significant difference is that PG&E has long been reviled by many of its customers in Northern California, and is now in bankruptcy, causing many customers to welcome any alternative to PG&E. However, customers in Southern California generally seem to have a more favorable perception of SCE, generally viewed as having responsibly served its customers for over a hundred years.

Start-Up Issues

CCAs have generally been able to start-up successfully and have returned start-up costs to investors. The start-up costs for a Long Beach CCA are estimated at \$15 million. The City might need to invest \$1 million to \$5 million of that amount, likely from the General Fund. The repayment to the General Fund by the operational CCA would likely be within a year or so. The CCA would likely finance the remainder.

As part of start-up, the City would have a policy decision to determine whether to create a City utility enterprise that would act as a CCA, to join an existing CCA that was formed as a JPA, or to create a new JPA with one or more partners. There are various pros and cons of the alternatives and they have not been fully studied. Basically, a City enterprise CCA would provide the most local control over rates and program offerings but also incur the highest

start-up costs and risks. Opting to join an existing JPA or forming a new JPA would likely give the City less control but reduce start-up costs and risk.

Working with SCE

SCE has been the electricity provider to Long Beach for over one hundred years. As the City continues to monitor and contemplate the formation of a CCA, the City should also look to continue to partner with SCE to better promote and support SCE's numerous existing green energy and energy efficiency programs of which Long Beach residents, businesses, and the City itself can take advantage. Importantly, such a partnership would not, in any way, prevent the City from forming a CCA at any time.

As previously mentioned, these programs include the ability today of Long Beach customers who want to be environmentally friendly to voluntarily pay a premium to have SCE purchase more renewable energy on their behalf, either 50 percent or 100 percent renewable energy. Another possible program is for the City to opt to become an anchor tenant for SCE's Community Solar program whereby all participating income-qualifying customers would receive a 20 percent discount off their monthly SCE electric bills.

Next Steps

Based upon the concerns, risks, and unknowns outlined in this letter, it is prudent that the City defer for two years any decision to participate in a CCA, in any format, or sooner if new insights become available that clarify the California energy market and regulatory direction. This decision to allow time to gain some stability and better information will lessen the potential risks that the formation of a Long Beach CCA may pose to residents and businesses.

During this postponement, City staff will continue to monitor the energy market and regulatory actions impacting CCAs. Staff will report to the City Council whenever substantial new information becomes available or major changes occur that might help provide direction in regard to deciding to move forward with a CCA.

So as to better be prepared if the decision is ultimately made to participate as a CCA, a study will be prepared that analyzes in detail the potential options of CCA governance structure, including a stand-alone City enterprise, creating a new JPA with another government agency, or joining an existing JPA. The study will provide the distinct advantages and disadvantages involved with each of these governance options.

Very importantly, the residents and businesses must be engaged through City outreach so that they can better understand the CCA concept, including both potential benefits and risks to themselves as electric customers. This outreach can also help determine how supportive, if at all, the community might be of a Long Beach CCA. The better informed residents are of

the CCA concept, the better they can help determine the direction the City ultimately takes.

Lastly, the City will step up its ongoing partnership with SCE so as to increase residents' awareness and possible participation in already existing programs that allow for greater renewable power purchasing and energy efficiency opportunities. Staff will return to the City Council with a report on the various programs that the City and SCE will push out to the community. As mentioned before, any activity undertaken in conjunction with SCE will not preclude the City from any future participation as a CCA.

This matter was reviewed by Deputy City Attorney Richard F. Anthony and Finance Director/CFO John Gross on November 26, 2019.

This item is presented to provide a timely response to a City Council request for a CCA feasibility study.

Implementation of these recommendations is expected to cost approximately \$60,000, with most of the cost associated with monitoring the energy market and regulatory activity and preparing updated reports. Moderate time for high-level staff would be required to implement the recommendations, mostly associated with the public outreach. Funding is expected to come from the Gas Fund as a continuation of the original Gas Funding for the feasibility study. Any actual CCA start-up would likely be funded from the General Fund. There is expected to be moderate time required for high-level staff to implement a start-up and it would likely have some adverse impact upon existing City Council priorities and staff's ability to address them in a timely manner. There is no job impact associated with this recommendation.

Approve recommendation.

ROBERT M. DOWELL
DIRECTOR OF ENERGY RESOURCES

CHRISTOPHER J. GARNER
GENERAL MANAGER, LONG BEACH WATER

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
ACTING CITY MANAGER

