ALAMEDA COUNTY COMMUNITY DEVELOPMENT AGENCY

Chris Bazar
Agency Director

224
West Winton Ave
Room 110

Hayward
California
94544

phone
510.670.5333
fax
510.670-6374

www.acgov.org/cda

AGENDA ITEM No._____
June 3, 2014

May 22, 2014

Honorable Board of Supervisors
Alameda County Administration Building
Oakland, CA 94612

Dear Board Members:

SUBJECT: PROPOSED COMMUNITY CHOICE AGGREGATION (CCA) PROGRAM – REQUEST FOR AUTHORIZATION TO PROCEED

RECOMMENDATIONS:

1. Authorize County staff to pursue actions that could result in formation of a new Joint Powers Agency (JPA) agency to implement a Community Choice Aggregation program for Alameda County, including outreach to jurisdictions, steering committee formation, load data procurement, hiring and retention of consultant(s) as necessary to help prepare the Feasibility Study, Feasibility Study preparation, peer review of the Feasibility Study, public outreach by staff and consultants, bid solicitation, and development of implementation plans.

2. Authorize the expenditure of up to $1,325,000 for the tasks described in Item 1 above, without appropriation of new funds.

BACKGROUND:

The Alameda County Board of Supervisors Transportation and Planning (T&P) Committee has directed County staff to bring the concept of Community Choice Aggregation (CCA) program to the full Board for its consideration. This issue has been heard before the T&P Committee at two hearings in 2014, as well as by all Board members at your May 2014 retreat.

California State Assembly Bill 117 (AB 117), passed and signed into law in 2002, gave California cities and counties the ability to aggregate the electric loads of residents, businesses and public facilities to facilitate the purchase and sale of electrical energy in a more competitive market. As a result of the California energy crisis of 2000-2001, issues such as reliability and energy independence moved to the forefront, along with price stability and renewable energy (The Goldman School of Public Policy, University of California, Berkeley, Community Choice Aggregation: The Viability of AB 117 and its Role in California's Energy Markets, June 13, 2005). Community Aggregators or CCAs have the options of supplying power through wholesale purchase contracts and spot market purchases and/or through ownership and operation of generating plants. However, the responsibility for all aspects of power delivery (transmission, distribution, metering, billing, and customer service) remains with the utility (Bay Area Economic Forum, The Economics of Community Choice Aggregation: The Municipalization of Local Power Acquisition and Production, June 2007).

Existing Community Choice Aggregation programs in other states, as well as studies performed specifically for local California communities, indicate substantial cost savings benefits for

consumers and communities. CCAs can also offer energy independence, price stability and more efficient Energy Efficiency programs. Increased reliance on renewable and alternative energies, and boosts to local employment may also be considered beneficial. (Goldman School of Public Policy, 2005)

SUMMARY/ANALYSIS:

A CCA would allow an entity, either a jurisdiction or a JPA, to become an energy purveyor and to purchase electrical energy on the wholesale market from any source, including fossil fuel, nuclear or renewable sources, and small-producer energy (such as home solar energy). The CCA would compete with traditional private utilities such as PG&E to provide electrical power to the end users within its boundaries. Upon formation of the CCA and approval by the CPUC, all users within the boundary would be enrolled as customers, with the option to opt-out and return as a customer to the prior energy provider. A customer of the CCA would then get a combined CCA/Utility billing for actual electricity used, for ongoing maintenance and usage. Ideally under a CCA, the combined bills would be competitive with those of the private utility company, and could potentially be lower.

A CCA entity could take net revenues and either use them to reduce overall electric bills, invest in local renewable energy sources and installations, or provide grants to lower-income homeowners and businesses to install renewable energy on their properties.

Like a private utility, a CCA must meet State Renewable (Energy) Portfolio Standards (RPS), which is basically the minimum fraction of a purveyor's overall energy portfolio that must come from renewable sources. Right now, the RPS for California is set at minimum 33% renewable by the year 2020 and for each year after that. Ideally, a CCA could economically exceed this RPS requirement, and offer its customers a higher blend of renewable energy.

(CPUC website, http://www.cpuc.ca.gov/PUC/energy/Renewables/hot/33RPSProcurementRules.htm, modified June 17, 2013).

Starting up a CCA Program:

There are several tasks involved in starting up a CCA program, with associated costs. These are:

1. Feasibility Study – Study to demonstrate whether the program can meet its stated goals, and the economic feasibility of providing the benefits the program is to achieve.
2. Raising Initial Set-Up Costs – The action would entail costs to develop the business/feasibility study, and also legal fees associated with setting up the Joint Powers Agency/Authority (JPA).
3. Forming a Joint Powers Authority – A CCA program would be established to implement the aforementioned business plan. The program would be organized under a Joint Powers Authority (JPA) that would register with the CPUC and be responsible for managing the program.
4. Community Choice Agency - An initial task of the JPA Board of Directors would be to create a Community Choice Agency under the direction of a Chief Executive Officer or Executive Director to be appointed by the Board, with legal and regulatory support provided by in-house legal counsel.
5. Bid Solicitation – The bid process entails interviewing and selecting probable energy providers with which to negotiate power prices and purchases, and so enter into agreements with them.
6. Implementation Plan - The CPUC, which ultimately must approve the Community Choice program, requires that the CCA JPA submit an Implementation Plan that covers all aspects of the set-up and operation.

7. Program Roll-Out: Once all of the above steps are completed, the agency will need to undertake a series of start-up activities that will likely begin 6-12 months prior to the first power sales. These activities include hiring staff; setting renewable and local portfolio goals (percentage of power from renewable and local sources), planning of market procurement as a bridge source of energy until the most desirable local and renewable sources can be contracted, planning for local build-out and phasing-in of customers, satisfying capital requirements, setting initial rates, customer outreach, marketing and information.

Benefits and Risks:

A CCA program could achieve a number of benefits:

• Substantial total energy demand reduction through energy efficiency, conservation, and demand response.
• Large increases in local renewable energy resources.
• The creation of many skilled jobs as a result of enhanced investment in renewable energy
• Substantial reductions in greenhouse gas emissions.
• Stabilization and possibly reduction of electricity rates.

CCA establishment is not without risk. Good management and experience can mitigate most of them, but the following risks should be specifically noted:

• *Competitive Rates*: Can the program provide power with the desired renewables mix at a competitive price? Can demand reduction and local renewables be developed at an overall system cost that provides electricity prices competitive with the incumbent utility?
• *External Risks*: It is possible that third-party energy suppliers could default or for some reason not provide the renewable energy that was originally contracted for, forcing the CCA agency to enter the potentially expensive short-term market to meet customer needs. If prices increase when the CCA is in the market for new or replacement contracts, it could require the CCA to raise rates. Conversely, if the program locks in long-term contracts and the overall price for power subsequently falls, it could be holding a higher-cost portfolio.
• *Contracting for Power at the Right Levels*: It is possible for the CCA to buy too much or too little electricity, requiring either excess sales into the market or more spot-market purchases from the market.
• *Unfavorable Regulatory Changes*: It is always possible that the CPUC could institute policies that are unfavorable to an East Bay program. These could range from higher bonding or PCIA (Purchased Cost Indifference Amount) charge calculations to additional reporting requirements. The PCIA surcharge itself – an extra fee that CCA customers pay – could vary from year to year, and while it is expected to decline, regulatory action could change that.

While all of these risks can be mitigated, they cannot be eliminated completely. It should be noted, however, that many municipal utilities in California, including that of the City of Alameda, have operated for decades and successfully managed commodity, credit and operational risks.

Financing:

Based on discussions with Sonoma County staff regarding their experience establishing a CCA program, staff estimates that the total cost to establish a CCA for Alameda County to be approximately $3,225,000 over a three-year period. Of that amount, approximately $1,325,000 in staff, consultant and other costs would be needed to gather data, seek input from interested jurisdictions and other parties, hold public meetings and conduct a feasibility study and analysis over a period of approximately 18 months. This

first-phase cost could be temporarily absorbed by CDA through a combination of re-allocating expenditure priorities, re-assigning some existing staff, utilizing currently vacant positions in different portions of the Agency, and fee credit payment funds from the Surplus Property Authority. These start-up expenditures may be partially or completely recoverable, should the project result in a functioning CCA, through a "buy-in" requirement from other jurisdictions into the JPA and/or through rate-payers.

Assuming that the first phase of this program results in a positive feasibility analysis and the Board agrees to continue, the second phase of the program would be to establish and staff the JPA, with an estimated cost of $1,910,000. Because these costs are clearly recoverable from rate-payers, the funds for this portion of the program could be in the form of a loan from the Surplus Property Authority, utilizing funds generated by fee credit payments made by developers of Authority properties in Dublin (this is a variable cash flow source that is coming in now due to the improvement in the economy). Upon repayment of the loan (with interest), the funds would then be deposited in the County's Emerald Fund.

After the CCA program is successfully established and operating, it would become self-sustaining and able to provide all the electrical needs of the CCA community at a reasonable price and with a large fraction of renewable energy. It would also provide full recovery of start-up costs. However, as stated above, start-up financing would be necessary to begin the process. It is difficult to say with high precision what those costs would be pending the feasibility study, but millions of dollars would be required, which the CCA Agency would need to recoup via sales revenues in order to pay back loaned money.

ENVIRONMENTAL ANALYSIS

Staff has tentatively determined that this proposal is statutorily exempt from analysis under the California Environmental Quality Act (CEQA) for the reason that it is not a project. CEQA Guidelines, Section 15378(b)(5), states that a project does not include "Organization or administrative activities of governments that will not result in direct or indirect physical changes in the environment." Forming or joining a CCA presents no foreseeable significant adverse impact to the environment over the existing condition because state regulations such as the Renewable Portfolio Standard (RPS) and Resource Adequacy (RA) requirements apply equally to CCAs as they do to Private Utilities.

Very truly yours,

Chris Bazar, Director
Community Development Agency

Attachments: