BOARD OF SUPERVISORS
AGENDA LETTER

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:

Department Name:	P&D
Department No.:	053
For Agenda Of:	May 5, 2015
Placement:	Departmental
Estimated Time:	1 hour
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO: Board of Supervisors

FROM: Department Director: Glenn Russell, Ph.D, 568-2085
Contact Info: Dianne M. Black, 568-2086

SUBJECT: **Community Choice Aggregation (CCA)**

County Counsel Concurrence
As to form: Yes

Auditor-Controller Concurrence
As to form: NA

Recommended Actions:

That the Board of Supervisors:

A. Receive and file this briefing on Community Choice Aggregation; and,
B. Find this action is not a project pursuant to CEQA 15262, which exempts feasibility or planning studies related to possible future actions.

Summary Text:

One of the projects in the *2014-15 Long Range Planning Division Work Program* for Planning and Development is investigating potential grants to conduct a feasibility study for Community Choice Aggregation (CCA). Staff concluded that there are no available grant sources to fund the feasibility study. However, in the course of searching for grants, staff gathered information about the process of establishing a CCA. On March 24, 2015, during the discussion of the Board of Supervisors long range calendar, your Board requested Planning and Development provide the Board a briefing on CCA.

SUMMARY/ANALYSIS:

Authority for CCA: 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. 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.

Definition of CCA: Community Choice Aggregation (CCA) allows local governments to become an energy purveyor and to purchase electrical energy on the wholesale market from any source. A CCA chooses the source of electrical power for the community and sets its own rates. All Investor Owned Utility (IOU) customers within the area defined as a CCA would be included in CCA unless they choose to opt out of CCA and remain customers of the IOU. A CCA's primary mission is to serve its local constituents, rather than to maximize profits for shareholders, as is the case with an IOU. In addition, a CCA is not a municipal utility. A CCA only provides electricity and does not own poles or wires; electricity would continue to be delivered using the IOU's transmission and distribution lines. IOU's are obligated to continue to deliver electricity to CCA customers under the same terms and conditions as their own customers, perform billing duties and provide customer service. CCA customers pay a potentially lower cost for the electricity itself. This includes a Cost Responsibility Surcharge (CRS) to cover the cost of delivering the electricity, including the cost of existing infrastructure. This charge, which is regulated by the CPUC, is charged directly to customers as part of their monthly bill, and helps to ensure that customers that stay with the IOU do not have increases in their rates as a result of other customers joining the CCA.

Establishing a Community Choice Aggregation Program - Three Phase Process: The following is a brief overview of the process to establish a CCA. The process is detailed, resource intensive, and time consuming. This **first phase** is referred to as a feasibility evaluation. This phase addresses the feasibility of creating a CCA, including a careful consideration of potential benefits and risks. This process includes the definition of objectives and evaluation of the economic feasibility of achieving those objectives given local circumstances, including financial, political, administrative, and regulatory considerations. Based upon information from other jurisdictions who have gone through the CCA evaluation process, the phase often includes outreach to other jurisdictions potentially interested in joining the CCA, forming a steering committee, load data procurement, hiring consultant services to help manage and prepare the feasibility study, preparation of the feasibility study, public outreach, and development of initial implementation plans.

If the feasibility analysis results in a decision to pursue a CCA, the **second phase** includes adoption of a resolution by the local government(s) proclaiming its intention to form a CCA and preparation of the Implementation Plan for submittal to and for consideration by the California Public Utilities Commission. The Implementation Plan proposes how the CCA will be set up and how it will function. Important issues to be addressed include the operational structure, a detailed discussion of source(s) of electricity, rate setting, participation with other local jurisdictions (e.g. JPA), rights and responsibilities of program participants, and a Statement of Intent. The Statement of Intent addresses the issues of

universal access, reliability, customer class equity, and other requirements. A key component of CPUC consideration is determination of the Cost Responsibility Surcharge (CRS), which is imposed on CCA customers to shield remaining customers of the IOU from any increases in cost that would otherwise result from customers switching to the CCA. The calculation of the CRS is based on a number of factors, including past costs incurred by the IOU that are still being paid off by the rate payers. These costs are transferred to CCA customers who pay the CRS directly on their monthly bill. This phase of the CCA set-up process is the most resource intensive as it involves setting up the CCA. A rough estimate of the cost of this phase is $1 to $2 million.

The **third phase** is enrollment of customers, where customers may opt out of the CCA without penalty during a specified enrollment period. Finally, all applicable accounts of new CCA customers are transferred to the new supplier. There are relatively small costs associated with this phase.

Benefits and Risks of CCA:

There are a variety of potential benefits from a CCA. These include:

- Customer choice in selecting or influencing the selection of energy resources serving the community.
- Local accountability for selection of energy resources, rate-setting, and administration of the CCA.
- Reduced energy costs through the negotiation of energy prices below those offered by investor-owned utilities, or from CCA-owned or financed generation.
- Increased price stability through a diversified energy supply portfolio, which includes long-term power purchase agreements and ownership of low-cost generating resources.
- Affordable renewable energy through economies of scale achieved by aggregating customer load and using public financing.
- Environmental benefits related to the procurement of energy from renewable and/or low-emission resources.
- Opportunities to influence and implement effective energy efficiency and demand side management programs within the community.

There are also a number of potential risks associated with establishing a CCA, including:

- Potential reaction of the IOUs as more customers switch to CCAs. While IOUs are prohibited from utilizing ratepayer funds to oppose CCA formation, shareholder revenue may be utilized.
    - During the last legislative session, AB 2145, which would have provided significant barriers to prevent the formation of CCAs, was introduced but defeated. Other legislative or market reactions to CCAs could occur in the future to make IOUs more competitive with CCAs.
- Cost Responsibility Surcharge can offset the rate benefits to CCA customers.
- Long-term power purchase agreements, where benefits of the long-term agreements may be less advantageous as market forces shift.
- Rates could end up higher than current rates.
- Legislative climate could reduce some of the benefits of CCAs. If the legislature continues to pursue increasing the requirement for alternative energy in IOU portfolios, as is currently underway with SB 350, the environmental benefits of CCAs may reduce.

Organization of CCA: Santa Barbara County is unique in that it is served by two separate IOUs, Southern California Edison and Pacific Gas and Electric. Given that, there are a number of possibilities for organization of a CCA:

- Establish a CCA only for customers in the unincorporated County.
- Set up a Joint Powers Authority. The Joint Powers Authority could include some combination of Ventura County, San Luis Obispo County, and cities within the tri-county area.
- Set up the CCA through a phased approach with one IOU initially or both IOUs at the same time.

The organization would be one of the issues evaluated in a feasibility study.

Funding**:** There are a variety of potential funding sources for all phases of CCA set-up:

- Loan from the General Fund to be repaid from revenues during the first year of CCA operation.
- Loan from a bank.
- Grant from a foundation.
- Seek funding from the APCD.

Costs and Staffing: Based on the experience of other local governments, this would require somewhere between 2 and 4 FTE during Phase 1. The County of Alameda authorized the expenditure of up to $1,325,000 for their initial Phase I process. The budgets for the Phase 1 processes for the Counties of Marin and Sonoma were roughly $2,000,000. Also based on the experience of other local governments, the feasibility analysis should be conducted by dedicated staff, in addition to consultant resources, located in a new CCA division of a department to ensure a smooth transition from the feasibility phase to the implementation phase. There is no obvious answer as to where initial and ongoing efforts should be housed. No matter where CCA is housed, it includes activities and responsibilities that are currently not part of the mission of any existing County department.

Another consideration for the location of start-up activities flows from the likely multi-jurisdictional approach to establishing a CCA. A multi-jurisdictional start-up team could be established at the outset, with members contributing resources, but one entity taking the lead. Such a team could include participating agencies (cities and other Counties in the tri-county area), Air Pollution Control Districts and could also include organizations such as the Community Environmental Council (CEC).

Next Steps: Should the County decide to form a CCA, these would be the next steps. These steps are associated with the phase 1 feasibility phase portion of the CCA process.

- Determine source of funding for CCA set up process.
- Identify staff and department(s) who will have the lead in preparation of the feasibility study.
- Decide if the CCA will be phased in to include only SCE, PG&E, or both at the same time.
- Outreach to potential members of a JPA.
- Prepare RFP for consultant(s) assistance with set up process.
- Prepare feasibility study.
- Begin public outreach and marketing.

Fiscal and Facilities Impacts:

Budgeted: Yes

Fiscal Analysis:

Funding Sources	Current FY Cost:	Annualized On-going Cost:	Total One-Time Project Cost
General Fund	$6,000		
State			
Federal			
Fees			
Other:			
Total	$ 6,000.00	$ -	$ -

Narrative: Budgeted. The 2014-15 Long Range Planning Work Program (page D-212 in the 2014-15 Adopted Budget for Planning and Development includes) $6,000 to seek grant funding to conduct a feasibility study for CCA; these funds were used to prepare this report. Costs associated with conducting a feasibility study and establishing a CCA are not currently budgeted.

Key Contract Risks:

NA

Staffing Impacts:

NA