



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager



Date: November 18, 2014
Board Meeting Date: December 9, 2014
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Jim Eggemeyer, Director, Office of Sustainability

Subject: Community Choice Aggregation

RECOMMENDATION:

Accept the report and provide direction to the staff regarding next steps for Community Choice Aggregation for San Mateo County.

BACKGROUND:

In 2002, the California State Assembly enacted AB 117 permitting the creation of Community Choice Aggregation programs (CCAs) in California. Under AB 117 and codified as Public Utilities Code §366.2, a city, county or joint powers authority comprised of two or more cities and/or counties may implement a CCA. Through a CCA, municipalities and certain special districts may aggregate (or pool) the electricity loads of their residents, businesses and municipal facilities in order to purchase and develop power on their behalf. This gives local communities a much greater input in the type of energy purchased, such as renewable energy from solar and wind. In 2011, AB 117 was amended by SB 790, which established a utility code of conduct to prohibit the marketing by investor-owned utilities (e.g. PG&E) against CCAs as well as other administrative amendments.

Formed by local ordinance and certified by the California Public Utilities Commission, a CCA has the option of supplying power for its local customers through wholesale power contracts, spot market purchases, and/or the ownership and operation of generation plants. The utility (in the case of San Mateo County, PG&E) retains responsibility for all other aspects of power transmission and delivery, account metering, grid maintenance and consolidated customer billing. Once operational, the CCA becomes a community's default electric procurement provider and all customer accounts may be enrolled with the option of "opting out" if they prefer the power mix offered by the incumbent utility. In either case, customers continue to receive their gas services, power delivery, and billing from the utility.

CCAs in other states, as well as those in California, are achieving energy independence, price stability, and consumer choice over their power supply. CCAs in California also offer increased renewable energy supply. In addition to power procurement, CCAs may choose to optimize their program by offering other energy-related services in their community. Current examples include: community-based solar projects, energy efficiency retrofits, demand response technology, electric vehicle charging stations, energy-in-schools programs, and local job training programs in the energy sector.

DISCUSSION:

To date, Community Choice Aggregation programs in California have been driven by both economic and environmental goals. They are responsive to State and local policies such as AB 32 (The Global Warming Solutions Act), the state's Renewable Portfolio Standard (RPS), and the Governor's Renewable Energy Mandate of 12,000 MW new, distributed renewable energy by 2020.

In addition, many local Climate Action Plans (CAPs) have identified CCAs as a primary strategy to cut greenhouse gas emissions through the procurement of cleaner power supply. In the County of San Mateo, eleven cities have CAPs and nine are in the process of developing them. The City of Menlo Park has CCA as a potential GHG reduction strategy in its Five Year Climate Action Plan Strategy Update. The City of San Mateo's draft CAP (currently in re-development) also includes CCA as a recommended measure. In addition, the County's Energy Efficiency CAP (prepared by the Planning and Building Department, approved by the Board of Supervisors, June 4, 2013, Resolution No. 072557) includes a measure to investigate opportunities in a CCA by conducting a feasibility study in order to reduce the County's greenhouse gas emissions from energy consumption. Implementing a CCA can help meet County-wide goals for greenhouse gas emission reduction and increased renewable energy.

The Office of Sustainability has assessed the level of knowledge about CCAs among municipal staff members in the County's twenty incorporated cities. There is a wide range of knowledge and interest about the subject among the cities. In addition to the cities of San Mateo and Menlo Park, the cities of Millbrae, Foster City, Daly City, Redwood City, and San Carlos all have staff members with basic knowledge of CCAs and believe that their City Council would be receptive to learning more about the subject. A focused effort on outreach and education would be needed to fill in the gaps of knowledge about CCA among the cities.

Currently, there are two CCAs operational in Northern California: Marin Clean Energy—launched in 2010—and Sonoma Clean Power—launched in May of this year. The City of Lancaster is poised to begin service early next year in Southern California Edison's territory. There are several other jurisdictions throughout the State investigating CCAs for their economic and environmental potential. In the Bay Area, Alameda County has allocated more than \$1 million to explore a CCA. Unincorporated Napa County has joined Marin's program, and interest is growing in Contra Costa County as well. Several communities in Santa Clara County are also considering CCA formation.

The CCAs in Marin and Sonoma are yielding proof of concept results that are being increasingly noticed by other California municipalities interested in offering local energy choice while achieving local policy objectives. To date, both Marin Clean Energy and Sonoma Clean Power are:

- Cash flow positive with reserves
- Offering electrical generation rates below those of PG&E
- Meeting or exceeding the State's Renewable Portfolio Standard
- Achieving better greenhouse gas reductions than PG&E
- Creating new local and union jobs
- Offering local energy programs tailored for their community

However, establishing a CCA is not without risk. While many of the early concerns and risks - including joint and several liability issues and intense utility opposition - have been mitigated, the programmatic risks associated with CCA generally fall into four categories:

- 1) Rate risk – the risk that the CCA's rates are higher than those offered by the incumbent utility.
- 2) Opt-out risk – the risk that customer opt-outs are too high and the program is thus economically infeasible.
- 3) Operational risk – the risks associated with commodity, credit, vendor default, poor management and oversight.
- 4) Legislative/regulatory risk – the risks associated with unfavorable state legislation or regulation that could threaten or harm the program.

However, it is worth noting that many municipal utilities in CA, including several in the Bay Area, have operated for decades and successfully managed commodity, credit and operational risks. It should also be noted that each CCA must post a bond in the amount of \$100,000 so that in the event of program failure, CCA customers are returned to utility service without interruption or financial penalty to the customer or the member jurisdictions of the CCA/joint powers authority.

There are several tasks associated with the formation of a CCA, each with associated costs. These are:

- 1) Technical Feasibility Study – A study that analyzes local load data, historic and current pricing, and other factors to determine whether the CCA can meet economic, environmental and consumer benefit goals.
- 2) Public Outreach & Education – A robust public education and information program is imperative during formation and at the time of customer enrollment.
- 3) Forming a Joint Powers Authority –Includes all the administrative and legal costs associated with forming a new JPA such as developing a JPA ordinance and operating policies, hiring staff, governance, Board recruitment, etc.
- 4) Preparation of Required Documents –Documents may include the CCA Implementation Plan, the Utility Service Agreement, and various vendor contracts including power supply. These documents include information about customer products

(e.g. Light Green or Dark Green) and rate design, power portfolio, the relationship between the utility and the CCA, etc.

5) Commodity and Credit – Although a CCA is ultimately self-sustaining through ratepayer revenues, a CCA will require some level of financial backing and credit through the initial start-up phase and first power supply contract.

6) Program Roll Out – Tasks associated with program roll-out include hiring staff, commencing JPA Board meetings, selecting a power supplier and other key vendors, customer phase-in and rate setting, customer enrollment and marketing.

While this staff report does not include a detailed budget or timeline, the experiences in Marin, Sonoma and Lancaster indicate that the costs and time associated with CCA formation are decreasing, primarily due to shared/open resource documents and a standardized development process. The financing requirements of CCA formation follow a phased approach and a 24-month timeline that generally looks like this for a program serving a population the size of San Mateo County:

Phase I Months 0-9	Process planning/internal organizing; CCA load data and technical study, local government / stakeholder engagement and due diligence	~\$500,000
Phase II Months 9-18	JPA ordinance and formation; CCA Implementation. Plan and other required documents; vendor and power supply RFPs, robust public outreach program	~\$1M-\$1.5M
Phase III Months 18-24	Energy supply and vendor selection, rate design and product offerings, early staffing/JPA operations, customer marketing and enrollment	~ \$1M

If San Mateo County and interested cities decide to move forward, it is estimated that start-up costs (not including the cost of the initial power contract) will range from a low of \$2M to a high of \$3.5M depending on program size. A detailed timeline can be drafted, but a CCA serving San Mateo County could be formed in 24 months, barring any major interruptions.

It is important to note that the costs of CCA formation can be recovered through early program revenues. Thus, if a CCA moves forward and successfully launches, the JPA will be self-sustaining (not government subsidized) and any funds allocated for start-up can be repaid within the first 1-3 years of operation.

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PROPOSED NEXT STEPS:

Upon approval by your Board, the Office of Sustainability would initiate the proposed next steps to further explore the feasibility of a CCA in San Mateo County. These steps will be executed by Office of Sustainability staff with the support of LEAN Energy US. The first step is a focused outreach effort to educate and engage staff, City Managers, and City Councils about CCA. This may entail: a) presenting a CCA overview to the County of San Mateo Council of Cities, City Manager's Association, or other collaborative organizations, b) holding workshops that provide a more detailed framework about CCA, and/or c) individually contacting city staff and elected officials. The outreach step will ensure all cities in the County have a basic understanding of CCA so they can make an educated decision on any future commitments to CCA efforts.

The second step is to prepare a workplan, timeline, and budget for Phase I of the CCA development process (see above). At a future meeting your Board would make a decision on whether to proceed with Phase I, which would include a technical feasibility study and expenditures of up to \$500,000. A comprehensive technical feasibility study would require a resolution of support and authorization to obtain load data from the incorporated cities.

SHARED VISION 2025:

Studying the feasibility of a CCA contributes to the Shared Vision 2025 outcome of a Collaborative Community by fostering relationships with all cities in the County, facilitating a regional solution to local energy needs, and expanding the available power procurement options for County residents. It also contributes to the outcome of an Environmentally Conscious Community by exploring options to reduce County-wide carbon emissions.

FISCAL IMPACT:

There is no fiscal impact associated with approving these recommended actions. Future requirements and direction by your Board may have a net County cost associated with those actions.