



**COUNTY OF SAN MATEO**  
Inter-Departmental Correspondence  
Office of Sustainability



**Date:** April 25, 2016  
**Board Meeting Date:** May 10, 2016  
**Special Notice / Hearing:** None  
**Vote Required:** 4/5ths

**To:** Honorable Board of Supervisors

**From:** Jim Eggemeyer, Director, Office of Sustainability

**Subject:** Resolution authorizing an Appropriation Transfer Request for the purpose of completing Phases 3 and 4 of a four-phased project to form a Community Choice Aggregation program in San Mateo County.

**RECOMMENDATION:**

Adopt resolutions regarding funding of the Peninsula Clean Energy Program:

- A) Authorize the County Manager or his designee to enter negotiations regarding a deposit of up to \$6 million to serve as collateral to allow the Peninsula Clean Energy Authority to secure a bank loan to fund startup costs; and
- B) Authorize an Appropriation Transfer Request in the amount of \$400,000 from Excess ERAF reserves to the Office of Sustainability for the purpose of completing Phase 3 of a four-phased project to support Peninsula Clean Energy, a community choice aggregation program in San Mateo County; and
- C) Appropriate an additional \$1.48 million in the FY 2016-17 Recommended Budget for funding Phase 4 operational costs associated with the launch of Peninsula Clean Energy.

**BACKGROUND:**

On February 24, 2015, the Board authorized \$300,000 to the OOS for the purpose of completing Phase I of a three-phased project to form a CCA program, which included efforts to conduct outreach to cities and complete a technical feasibility study.

On October 20, 2015, the Board authorized \$800,000 to the OOS for the purpose of completing Phase II of the CCA formation, which included further program design and development, community outreach, and establishment of the Peninsula Clean Energy Authority (PCEA).

With the creation of the PCEA, a Board of Directors made up of representatives from each member jurisdiction has been formed. In addition, the PCEA Board of Directors (PCEA Board) has created an Executive Committee and Citizen's Advisory Committee to advise the Board on key decisions. On April 5, 2016 PCEA submitted an Implementation Plan to the California Public Utilities Commission. Once the Implementation Plan is approved (and bonding requirements met), PCEA will become the default electricity provider to customers throughout San Mateo County.

### **DISCUSSION:**

The PCEA Board and staff have made significant progress towards a successful launch and implementation of a CCA for San Mateo County. Approval of the requested loans before your board will allow PCEA to complete preparations, procure renewable energy, and rollout service to all PCEA customers beginning this October, with a complete rollout by October 2017.

PCEA's work plan and timeline are divided into four planning phases, as highlighted in the chart below. Originally, the program was divided into three phases, but a fourth Phase has been added to take into account the complete rollout to the entire county. Currently Phases 1 and 2 have been completed and Phase 3 has begun.

## Timeline

*Peninsula Clean Energy will begin serving customers in October 2016.*

Phase 1	Phase 2	Phase 3	Phase 4
Jan – Sept 2015	Oct 2015—Feb 2016	March-Oct 2016	Oct 2016 - Ongoing
Pre-Planning & Due Diligence	Community Outreach; Forming JPA; Planning and Development	Preparing for Launch	Serving customers
<ul style="list-style-type: none"> <li>• Internal planning team</li> <li>• Initial outreach to cities and stakeholders</li> <li>• Workshops and education</li> <li>• Form Advisory Committee</li> <li>• Technical study</li> </ul>	<ul style="list-style-type: none"> <li>• Program and JPA design</li> <li>• City outreach/passage of local ordinances</li> <li>• Plan for JPA staffing/working capital</li> <li>• Community outreach</li> </ul>	<ul style="list-style-type: none"> <li>• First JPA Board meeting</li> <li>• Submit implementation plan</li> <li>• Energy supply and other service contracts</li> <li>• Utility services Agmt.</li> <li>• Initial staffing</li> <li>• Regulatory registrations</li> <li>• Marketing campaign</li> <li>• Call center and customer notifications</li> <li>• Secure financing</li> </ul>	<ul style="list-style-type: none"> <li>• Phased customer enrollment process</li> <li>• Continual customer enrollment notices</li> <li>• Focused business outreach</li> </ul>

PCEA customer enrollment will be in three groups. The initial customer enrollments will begin October 1, 2016; a second group will begin April 1, 2017; and all remaining customers will be enrolled beginning October 1, 2017. The final Phases of PCEA implementation will continue through October 2017 when all accounts in San Mateo County will be enrolled into the program. At that point PCEA finances will be stabilized and the PCEA will be operating independently without the need for additional financial support from the County.

Due to billing and receivables cycles, PCEA will not actually receive revenue from its electricity customers until 60 days after program launch. Prior to program launch, however, PCEA must incur start-up operating costs and the cost of the initial purchase of electricity. The bulk of such costs are associated with the initial purchase of electricity. Therefore, a loan from the County and a bank loan are required to cover such start-up operating costs until PCEA begins receiving revenue from its customers.

The current request is for two categories of financing support from the County: (1) \$1,880,000 million (\$400,000 in the current fiscal year and \$1,480,000 in the FY 2016-17 recommended budget) in funding to continue to support the operational needs associated with the implementation of Phases 3 and 4, and (2) a loan of up to \$6 million to serve as collateral to secure a bank loan for PCEA that will be used primarily to fund the initial purchase of electricity.

If approved by your Board, the County loan of \$1,880,000 would be used to supplement revenue collected by PCE to cover the following costs associated with the implementation of PCE:

- **Energy supply and service:** In order to procure electricity for its customers, PCEA is currently in the evaluation process for a contract with an energy services supplier. While costs for the direct purchase of the electricity will be covered via bank loan, funds from the County would be used to pay for the contract with the energy services broker.
- **PCEA staff:** It is anticipated that PCEA will have five full-time staff members at implementation, including a Chief Executive Officer (CEO). A panel of County staff and members of the PCEA Board are currently interviewing potential CEO candidates. Funds from the County will cover staff salaries through October 2017.
- **Marketing and communications:** The OOS has been conducting outreach for PCEA since early 2015. With the assistance of PCEA's marketing and communications contractor, Circlepoint, a countywide marketing and communications campaign will be launched in June 2016. In addition, all electricity customers enrolled in the program will receive four enrollment notices via mail informing them about the program. Funds already allocated by your Board for Phase 2 are currently being used to pay for the contract with Circlepoint. If approved, the additional funding would be used for printing and mailing the enrollment notices as well as additional media buys and marketing.

- **Financial services:** Costs for financial services include bank account maintenance fees, fiscal audits and debt service on the banking loan.
- **Utility services deposit:** PCEA will maintain a close working relationship with Pacific Gas and Electric Company (PG&E) in order to accurately bill customers. During implementation, PCEA will be required to pay PG&E a utility services deposit ensuring the transfer of electricity customer data between the two entities for billing purposes. After one year of successful PCEA service, the deposit will be returned.
- **CCA bond:** The California Public Utilities Commission (CPUC) requires all CCAs to post a \$100,000 bond before offering electricity service in order to ensure a smooth transition of customers back to PG&E in the worst case scenario that PCEA dissolves or is no longer able to serve its customers. The CCA bond will be included in the total amount for the bank loan.
- **Legal services:** The Office of County Counsel has agreed to provide legal services to PCEA. In addition, funds from the County would be used for PCEA to hire an external legal counsel that specializes in electricity and CCAs. The external counsel would be used on an as-needed basis during Phases 3 and 4 of program implementation.
- **Administrative/Miscellaneous costs:** Administrative costs include, but are not limited to: an office space for PCEA staff; fixtures, furniture and equipment for the office space; and costs associated with conducting PCEA Board, Citizens Advisory Committee and Executive Committee meetings.

	Projected Costs Through 3/2017
Staffing	\$710,800
Consultants	\$100,000
County Services	\$35,000
Marketing	\$350,000
Office Space Lease	\$370,000
Financing Security / Bonding / Debt Service	\$315,000
<b>TOTALS</b>	<b>\$1,880,800</b>

In addition to the funding provided by the County, the PCEA is seeking \$12 million in financing from a local or regional bank to establish a reserve fund in support of the power purchase agreements entered into by the PCEA, to provide working capital for the pre-revenue collection phase as well as to account for seasonal differences in cash flow, and for deposits required by California ISO and the CPUC.

The County has solicited interest from and met with a number of local and regional banks with the capacity to provide the required financing. To date, the County has received two proposals and expects a third shortly. As part of the financing requirements since the PCEA is a newly formed entity, the banks are requiring some type of collateral to secure the loan. Staff estimates an amount not to exceed \$6 million should be sufficient to satisfy the collateral requirement. Subject to negotiation, this

collateral will be held with the selected bank in an interest earning account. Additionally, it is expected that the collateral deposit will be held for up to 18 months or until the PCEA has achieved specific agreed upon operating results. The deposit will be structured essentially as a loan, whereby so long as PCEA does not default on its loan repayment obligations, the full amount of the deposit (along with interest) will be returned at the end of the required collateral period. Based on the revenue estimates provided by Pacific Energy Associates, PCEA's technical consultants, and reviewed by County staff as well as a review of the three other operating Community Choice Aggregation programs in California, the County is confident that the PCEA will have sufficient revenue to cover its financing cost and thus the collateral deposit is low risk to the County.

**SHARED VISION 2025:**

Implementing a CCA program in San Mateo County contributes to the Shared Vision 2025 outcome of an Environmental Conscious Community by reducing countywide Greenhouse Gas (GHG) emissions through cleaner power options. It also contributes to the 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.

**FISCAL IMPACT:**

Approval of the Appropriation Transfer Request (ATR) in the amount of \$400,000 and the authorization to appropriate an additional \$1.48 million in the Office of Sustainability's FY 2016-17 Recommended Budget will provide a total of \$1.88 million in funding to continue to support the operational needs associated with the implementation of Phases 3 and 4 of the PCE program. The funding source of the \$400,000 is Excess ERAF Reserves and the recommended funding of the \$1.48 million will be through an Intrafund Transfer from the General Fund.

Funding for the not to exceed amount of \$6 million as collateral for the bank financing will be from the General Fund.

All funds appropriated by the County in support of the PCEA are considered a loan to be repaid to the County at a yet to be negotiated term and interest rate.