

## EAST BAY MUNICIPAL UTILITY DISTRICT

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DATE: June 26, 2012

MEMO TO: Board of Directors

THROUGH: Alexander R. Coate, General Manager *ARC*

FROM: Michael J. Wallis, Director of Operations and Maintenance *MJW*

SUBJECT: Community Choice Aggregation Update

### INTRODUCTION

In 2002, the California Legislature passed Assembly Bill 117, which allowed cities and counties to develop Community Choice Aggregation (CCA) programs. A CCA allows cities and counties to procure electricity on behalf of electric customers within their jurisdictional area. In 2011, Senate Bill 790 was passed by the California Legislature and expanded the authorization of a CCA to include agencies, such as the District, which have a statutory authority to generate and deliver electricity. This memo summarizes the District's investigation into forming a CCA and related activities around the state since the briefing on February 14, 2011. Staff will provide an update on its CCA efforts at the June 26<sup>th</sup> Sustainability/Energy Committee.

### SUMMARY

To determine the level of interest in a CCA, staff met with representatives from the cities of Berkeley and Richmond and will be meeting with other cities who have expressed interest including Oakland, Emeryville, Albany, and San Leandro. In May, the City of Richmond authorized implementation of a CCA program and requested membership in the Marin Energy Authority (MEA). Richmond's comparison of energy prices shows their CCA's energy cost will be higher than Pacific Gas and Electric (PG&E).

Based on District staff's research, CCA energy service will cost more than PG&E and will increase a customer's electric bills between 3 and 15 percent. In addition, all CCAs are using Shell Energy North America as their energy supplier because they are the only company, at this time, that has the financial collateral to purchase electrical power. Despite the higher costs, cities and electric customers have demonstrated an interest in CCAs. Cities and customers recognize the public benefits of a CCA, including reducing greenhouse gas (GHG) emissions, development of local renewable energy projects (e.g., solar and wind), job creation from local projects, local control over electric rates setting, and local and targeted energy efficiency programs for CCA customers. Formation of a CCA is a policy decision that balances the increase in costs and potential risks with the public benefits.

## **DISCUSSION**

Since the February 2012 Sustainability/Energy Committee meeting, staff have reviewed numerous feasibility studies from other cities and counties, and researched the concept of CCAs. Based on this research, CCAs are generally feasible and the decision to form a CCA rests on balancing the public benefits with the increased cost and potential risks.

### **Meetings with Cities in Service Area**

District staff met with representatives from the cities of Berkeley and Richmond to discuss their interest in a CCA. During the initial meeting with Berkeley, staff provided an overview of the District's electric power history and its current exploration in a CCA. District staff outlined its plan to evaluate the formation of a CCA by the end of 2012, and explained that the evaluation will address public benefit, costs, risks, interest level, and institutional issues. Following the meeting, Berkeley requested its electric load data from PG&E. They will share it with the District when available.

The meeting with Richmond staff was a follow-up to an initial meeting with them in March 2012. Richmond staff shared their recent activities, including preparing feasibility and cost impact studies, conducting public outreach, and their plan to join the MEA. Richmond staff expressed a desire to work with the District to better understand how a CCA would work in the East Bay and learn more about the District's policies and goals. As described below, Richmond has decided to join the MEA.

During both meetings, there was agreement that subsequent meetings would be beneficial to review progress and exchange materials. Staff informed Berkeley and Richmond that the Board will consider further actions following the evaluation and that these actions could include a more detailed feasibility study and agreements with participating cities.

The District has been contacted by the cities of Oakland, Emeryville, San Leandro and Albany who have expressed interest. To date, the cities of Emeryville, Oakland, and Albany have formally sent letters of interest to the District and meetings with these three cities are being scheduled.

### **CCA Activity around the State**

A number of other cities and counties in California are considering forming CCA programs. Below is a summary of the CCA status for these cities and counties.

- **San Francisco:** San Francisco plans to launch their Phase I implementation of CleanPowerSF in January 2013. The CCA will begin by offering a limited number of residents a single option to purchase 100 percent renewable energy.
- **Sonoma County:** In October 2011, Sonoma County completed a feasibility study and found that electric rates would increase under a CCA but GHG emissions would decrease. The study recommended investigating ways to reduce electric rates and develop specific recommendations for their CCA program.
- **Other cities and counties:** Arcata, Hayward, Monterey, Palmdale, San Luis Obispo, and Davis/Yolo County, Monterey/Santa Cruz, and San Diego County are exploring the feasibility of forming a CCA. Oakland, Emeryville and the San Joaquin Valley Power Authority/Kings River Conservation District suspended their individual efforts to pursue a CCA.

### **Marin Energy Authority**

MEA was launched in May 2010, and is the first and currently only CCA operating in California. MEA is a Joint Powers Authority comprised of all cities and towns within Marin County including of the cities of Belvedere, Larkspur, Mill Valley, Novato, San Rafael, and Sausalito; and the towns of Corte Madera, Fairfax, Ross, San Anselmo, and Tiburon and the county of Marin. MEA currently has approximately 70,000 customers. An additional 34,000 customers would be added to MEA from the City of Richmond for a total customer base of approximately 104,000.

The primary goals of the MEA are to decrease GHG emissions and increase the amount of renewable energy power sources. The long-term goal of MEA is to provide 100 percent renewable energy to all its customers. Currently, MEA is offering two products to its customers: a *light green* product that is 50 percent California-certified renewable energy and a *deep green* product that is 100 percent California-certified renewable energy.

### **City of Richmond CCA Update**

On May 15, 2012, the Richmond City Council adopted a resolution requesting membership in the MEA and authorized the implementation of a CCA program. Based on a 20 percent opt-out rate, the City estimates that it would add 35,000 customers to MEA. Enrollment in the CCA is expected to begin in early 2013. Richmond estimates that if all their municipal accounts were enrolled in the MEA, their costs would increase by \$74,000 (3 percent) for their 613 electrical accounts based on their 2011 energy usage, and would reduce GHG emissions by up to 3,218 metric tons. Richmond's April 2012 electrical cost comparison indicates that the current electricity prices offered by MEA are higher than PG&E by 3 to 15 percent. This price difference could increase as PG&E continues shifting costs from generation to transmission and distribution.

Because electric rates change several times per year, the City will complete a thorough rate comparison prior to their enrollment in the CCA program. The comparison between PG&E and MEA electric rates is summarized below. The electric rates include the generation, transmission and distribution, fees, and taxes approved by the California Public Utilities Commission (CPUC).

<b>PG&amp;E and MEA Rate Comparison (April 2012)</b>			
	<b>PG&amp;E</b>	<b>MEA <i>Light Green</i></b>	<b>MEA <i>Deep Green</i></b>
Residential Monthly Bill (400 kWh)	\$70.95	\$77.05 - \$77.45	\$81.05 - \$81.45
Commercial Monthly Bill (5,000 kWh)	\$1,026.10	\$1,059.45	\$1,109.45

The District has 29 electric service accounts in Richmond; the largest accounts are the North Richmond Water Reclamation Facility, the Point Isabel Wet Weather Facility, and six small- to medium-sized water distribution pumping plants. The District will need to decide whether or not to opt-out of the City's CCA. In 2011, the cost for PG&E service to these 29 facilities totalled \$680,000. If the District participates in the CCA, it estimates that the energy cost for these accounts would increase by approximately \$20,000 for the *light green* product and \$55,000 for the *deep green* product.

Although MEA's electric rates are higher than PG&E's, the City identified a number of benefits to participating in a CCA including:

- **Local Energy Program Development:** CCAs have a greater capacity than local government to implement energy efficiency, renewable energy, and financing programs. The City believes joining MEA enables it to have greater input in designing and implementing regional energy programs.
- **Feed-in Tariffs:** The City believes MEA's Feed-in Tariff would facilitate renewable energy business ventures between City businesses and property owners better than PG&E's feed-in tariff.
- **Residential Renewable Energy and Energy Efficiency Rebates:** MEA currently offers \$500 rebates to households that complete home energy upgrades or solar installations. This rebate is in addition to those available to PG&E customers and offered through the Energy Upgrade California program, the California Solar Initiative, and Richmond's residential rebate program.
- **Energy Efficiency Program Plan:** MEA is a third-party administrator of funds collected by the CPUC's statewide energy efficiency program. The energy efficiency program is intended to spur local job creation, create partnerships with workforce development programs and workforce investment boards, and provide benefits to economically disadvantaged areas. The City plans to use the program to develop energy efficiency projects for convenience stores, small grocery stores, restaurants, and residences.
- **Reduction in GHG Emissions:** Participation in MEA will help the City achieve its ambitious goal of reducing GHG emissions by 80 percent below 1990 levels by 2050.

Prior to Richmond joining MEA, the City hired a consultant to evaluate the benefits and risks of becoming a CCA. Some of those risks are also applicable to a District CCA, such as:

- **Procurement Risks**
  - Uncertainty in estimating load can cause over or under procurement of energy
  - Inability to accommodate new customers as the CCA expands
  - Inability to procure power at competitive prices after existing energy contracts expire
- **Regulatory and Policy Risks**
  - Adverse CPUC decisions on exit and bonding fees may increase costs
- **Customer Cost Risks**
  - Increased risk of changes to PG&E exit fees may increase customer costs
  - Uncertainty in departing load fees may result in customers paying more to exit a CCA
  - Inability to remain competitive with PG&E may result in increased costs to customers, higher opt-out rates, and customers returning to PG&E service
- **Operational Risks**
  - Uncertainty with forecasting, procuring and scheduling the electric load for customers
  - Challenge with scheduling electric load on the grid in accordance with the California Independent System Operator rules

Failure to maintain a balance between hourly resources and actual loads can result in procurement of real-time energy at higher prices or disposal of excess generation at less than the original purchase price.

### **PG&E Green Option**

PG&E is now looking to provide a competing green energy product to its customers. In April 2012, PG&E requested permission from the CPUC to offer a new, clean energy program to give its customers the option to purchase 100 percent renewable energy. PG&E estimates this option would increase electric rates for the average residential customer by \$6 each month. Under this program, PG&E would purchase renewable energy certificates to match customer's energy use that is not delivered from an eligible renewable source. PG&E is asking the CPUC to approve this new *Green Option* by early 2013.

Recently, CCA proponents have argued that PG&E's *Green Option* is a marketing program and will not promote local and regional business opportunities nor redirect electricity revenues back into the community, and will cost more than the renewable energy offered by a CCA. Supporters of CCAs have also noted that PG&E's program is elective and these types of voluntary programs historically have had very low enrollment.

### **Public Benefits**

A District CCA may have a number of public benefits. Some are similar to the benefits identified by the MEA and the City of Richmond including environmental benefits (such as reducing GHG emissions) and local renewable energy development and participation. Other benefits include District hydropower use, potential revenue generation for the District, job creation from local projects, local control over electric rates setting, and local and targeted energy efficiency programs for CCA customers.

### **NEXT STEPS**

With the concurrence of the Committee, staff will continue to meet with cities interested in forming a CCA, evaluate benefits and challenges of forming and operating a District CCA, and complete a preliminary cost analysis to determine the potential financial benefits to the District. Consistent with direction received from the Committee, a staff report on a District CCA will be prepared and presented to the full Board in December 2012.

ARC:MJW:ss