

ATTACHMENT 1



CITY COUNCIL AGENDA REPORT
MEETING DATE: 10/6/2020
DEPARTMENT: City Manager

SUBJECT:

COMMUNITY CHOICE AGGREGATION

RECOMMENDED ACTION(S):

EXERCISE CITY COUNCIL DISCRETION

EXECUTIVE SUMMARY:

Community Choice Aggregation (“CCA”) programs serve as alternatives to the traditional Investor Owned Utility (“IOU”) power procurement process, allowing local governments to purchase electricity and sell it to consumers at competitive rates. CCA programs aim to lower electricity rates for its business, residential, and municipal customers, and generally repay the initial capital investment within the first few years of operation. While CCAs may lower energy costs for resident and commercial users, potential constraints may influence the possible benefits of forming a CCA. These include fluctuations in energy prices, upfront costs of establishing the agency, ongoing operating expenses, State mandates, and regulation by the California Public Utilities Commission (“CPUC”).

The City of Irvine (“Irvine”) has initiated the process of forming a Community Choice Energy (“CCE”) ¹ program and has invited Orange County cities that procure energy solely through Southern California Edison (“SCE”), to join. The process and conditions for joining a CCE with Irvine include entering into a Joint Powers Authority (“JPA”) agreement, adopting an ordinance, and initiating an analysis of energy usage in the city. To participate, the City must first make a commitment to join the JPA before proceeding with the energy analysis.

Any decision regarding CCA is at the discretion of the City Council. A potential next step may include the City Council providing guidance on the goals and objectives for participating in a CCA program (i.e., what are we trying to achieve through community choice aggregation?). Further guidance would allow staff to explore and present additional alternatives and options regarding the procurement of energy that align with the City Council’s goals.

¹ Community Choice Energy (“CCE”) is used interchangeably with Community Choice Aggregation (“CCA”) by the City of Irvine.

BACKGROUND:

Assembly Bill 117 authorized the creation of CCAs, allowing cities, counties, and other authorized entities to aggregate electricity demand within their jurisdictions. CCA's may purchase and/or generate alternative energy supplies for residents and businesses, while maintaining the existing electricity provider for the transmission and distribution services. Depending on the policy goals of a CCA, it could secure power at rates that are lower than an IOU, such as SCE, or allow customers to purchase renewable power at competitive prices. The local utility provider continues to deliver the energy to customers.

There are 21 CCA's in operation in California, from Marin Clean Energy ("MCE") in Marin County (first CCA launched in 2010) to the Clean Power Alliance ("CPA"), a Los Angeles and Ventura Counties-based CCA (launched in 2019). The CPA has a 31-member Board of Directors, with one representative from each city and county, that sets utility rates. Jurisdictions interested in joining CPA are required to complete a feasibility study, enter into a JPA agreement with CPA, and adopt an ordinance. Additionally, the CPA Board may impose additional requirements and require monetary contributions reimbursable through customer rate payments.

City Council Discussions:

Over the past three years, the City Council agenized discussions about CCA programs to discuss and receive further information. The following table summarizes key dates and direction provided by the City Council:

Table 1: Past City Council Discussion on CCA

| Date | Type | Direction / Action |
|-----------------|-------------------------------------|---|
| April 4, 2017 | City Council Meeting | Directed staff to provide an overview on CCAs, program activities, governance models, the opportunities and constraints, and possible next steps. |
| August 15, 2017 | City Council Meeting (Attachment 1) | Explore the potential formation of a CCA by retaining a consultant to conduct a Feasibility Study. (Attachment 2) |
| March 20, 2018 | City Council Meeting | Declined to issue an Award of Contract for a Feasibility Study. Requested a Special Study Session regarding CCA. |

| | | |
|-----------------|---|---|
| August 21, 2018 | City Council Meeting (Attachment 3 – Presentation from Best Best & Krieger) | Directed staff to assess interest from other cities in joining a joint RFP for a regional Feasibility Study. |
| March 5, 2019 | City Council Meeting (Attachment 4) | Requested additional data and real experience from other existing CCA's including administrative fees. (Attachment 5) |
| April 18, 2019 | Memo to the City Council (Attachment 6) | Staff provided an overview of CCA, a discussion of current available performance measures, an update on surrounding cities, and the process associated with establishing a CCA. City Council requested to continue monitoring neighboring Cities actions regarding CCA. |

In addition to these discussions and meetings, staff provided additional memos to the City Council regarding the City of Irvine's progress in forming a CCE. The following discussion includes updated information on competitive rates, the timeline for Irvine's process and additional options.

Rate Comparison Update

Staff provided the City Council a memo dated April 18, 2019 (Attachment 6). This memo included two comparison tables showing the average monthly bill for CCA rate customers next to average monthly costs for IOU rate customers. The two tables compare these monthly costs for a range of customers in the operating areas of two different CCA agencies. The purpose of this cost comparison is to reflect any potential cost differences between energy rates produced by IOUs and CCAs for residents, businesses, and industrial customers.

Table 2 reflects a cost comparison between Marin Clean Energy consumers' average monthly charges and Pacific Gas and Electric ("PG&E") consumers' average monthly charges, based on similar program profiles and user categories. Table 3 compares similar data for SCE customers' and Clean Power Alliance customers, updating the information staff previously provided in the April 18, 2019 memo.

Table 2: MCE vs. PG&E Average Monthly Bill Comparison

| Average Monthly Bill | PG&E | PG&E Solarchoice (100% Renewable) | MCE Light Green (61% Renewable) | MCE Deep Green (100% Renewable) |
|--|-------------|-----------------------------------|---------------------------------|---------------------------------|
| Residential (\$) ¹ | \$135.08 | \$134.12 | \$136.74 | \$141.57 |
| Small/Medium Commercial (\$) ² | \$329.42 | \$327.79 | \$332.07 | \$344.56 |
| Large Commercial (\$) ³ | \$45,840.92 | \$46,205.05 | \$46,382.73 | \$48,576.28 |

¹ Monthly Usage: 483 kWh: Rates are current as of May 1, 2020

² Monthly Usage: 1,250 kWh. Rates are current as of May 1, 2020

³ Monthly Usage: 219,356 kWh, monthly demand: 561 kWh. Rates are current as of May 1, 2020

Table 3: CPA vs. SCE Average Monthly Bill Comparison

| Average Monthly Bill | SCE | SCE Green Rate (50% Renewable) | SCE Green Rate (100% Renewable) | CPA Lean Power (36% Renewable) | CPA Clean Power (50% Renewable) | CPA Green Power (100% Renewable) |
|--|----------|--------------------------------|---------------------------------|--------------------------------|---------------------------------|----------------------------------|
| Residential (\$) ⁴ | \$118.70 | \$120.79 | \$122.88 | \$117.65 | \$118.67 | \$127.38 |
| Small Commercial & Industrial (\$) ⁵ | \$193.56 | \$192.34 | \$191.13 | \$191.67 | \$193.57 | \$210.67 |
| Large Commercial & Industrial (\$) ⁶ | \$38,513 | \$40,626.08 | \$42,739.13 | \$41,316.36 | \$42,018.42 | \$43,921.98 |

⁴ Monthly Usage: 560 kWh: Rates are current as of June 1, 2020

⁵ Monthly Usage: 979 kWh: Rates are current as of June 1, 2020

⁶ Monthly Usage: 282,872 kWh: Rates are current as of June 1, 2020

These new rate comparisons indicate that there may not be significant cost reductions for customers based on the uses represented in the tables. It is important to note that the monthly costs and rates of energy may fluctuate depending on a variety of factors including peak and off-peak time costs and seasonal changes in usage. However, these cost comparisons between CCA and IOU rates are comparable in that these represent the same energy usage profiles.

While CCAs may lower energy costs for resident and commercial users, several factors may influence the potential benefits of purchasing energy through a CCA. These include fluctuations in energy prices, upfront costs of establishing the agency, ongoing administrative and operating expenses, state mandates, and regulation by the CPUC. In addition to these external influences, the governing authority of a CCA may adjust policies to anticipate customer demand and

pursue certain priorities regarding energy procurement (i.e. source energy from more renewable sources, reduce cost of energy for residents and businesses, etc.).

DISCUSSION:

At the September 15, 2020 City Council Meeting, Council Member Robinson received majority consensus to revisit the discussion regarding CCA and the formation of the Irvine's JPA (Attachment 8). In June 2019, the City of Irvine released its Feasibility Study. Overall, the study found that while operating a CCE program in Irvine may be feasible, implementing the program may carry a level of financial risk that would need to be carefully mitigated. In December 2019, the Irvine City Council voted unanimously to consider formation of a CCE JPA in partnership with other Orange County cities. Shortly thereafter in January 2020, the City received a letter from Irvine inviting Lake Forest to join its JPA and launch a CCE program in Orange County.

Subsequently, staff received a second letter in August (Attachment 7) requesting interested cities contact Irvine. To proceed with the CCE formation, the City would need to commit to joining a JPA and would participate in a regional economic and energy use analysis ("energy analysis"). Should the energy analysis show the CCE business model is feasible, a JPA would be formed and an Implementation Plan filed with the CPUC by December 30, 2020. If mutually desirable, this schedule would allow a new CCE JPA to launch services as early as January 1, 2022.

City of Irvine CCE

Based on input from community members, businesses, and Irvine's Green Ribbon Environmental Committee, the Finance Commission discussed forming a CCE program and the City Council authorized the Feasibility Study. The study results were presented as part of a Sustainability Study Session. In the discussion of pursuing a CCE program, the Irvine City Council directed staff to pursue a JPA structure for the governance of the CCE and reach out to neighboring cities.

Currently, Irvine is in the process of establishing a local CCE program and garnering neighboring cities' commitment in being a part of an energy analysis and JPA. While the Irvine City Council discussed the possibility of funding an energy analysis, Irvine has not made a decision to fund the analysis. Irvine is in conversations with several Orange County cities, including Costa Mesa, Fullerton, Huntington Beach, and Tustin, regarding the possibility of sharing the cost of an energy analysis, forming a JPA, and financing CCE startup costs. The

City of Irvine is working with EES Consulting to pursue the formation of a JPA and to conduct the energy analysis.

Should the City Council elect to proceed in the energy analysis for the CCE, the Council may direct staff to work with the City of Irvine and EES Consulting, to request energy use data from SCE which is required for the energy analysis. This process can take several weeks and would need to be initiated as soon as possible. Concurrently, the City may review the JPA Agreement and draft an ordinance permitting the City's participation in a CCE and its respective JPA.

To be included in the regional analysis, the City must commit to join the CCE by reviewing and approving the JPA Agreement and adopt an Ordinance. The prospective timeline set out by Irvine for the energy analysis and JPA formation requires that a city commit to joining the CCE JPA since the analysis is a pro forma assessment for the CCE JPA. The information gathered through this analysis will be used for the CCE Implementation Plan to be submitted to the CPUC by December 30, 2020.

Start Up & Operating Cost Estimates:

The following list provides estimated costs for the energy analysis of a CCE JPA formation, the formation of a JPA, and the establishment of the CCE. Further estimates on operating costs would be assessed through the CCE analysis.

CCE JPA /Energy Analysis: The City of Irvine allocated \$150,000 for this effort and anticipates reimbursement by the JPA or through an alternative payment mechanism, including charging JPA member cities an allocation of the total cost, based on the City's proportion of energy use. The current proposed reimbursement method is outlined in the draft JPA agreement (Attachment 9). The JPA agreement refers to the costs covered by the City of Irvine as the "Capital Loan" and has included several provisions that must be met and affect the governance structure until the Capital Loan is repaid.

Operating Cost Estimates: These costs will depend on the findings of the energy analysis provided through the CCE study. This number depends on the number of member cities, total load data, and other factors contributing to the overall startup costs of a regional CCE. Based on a previous Feasibility Study conducted in June of 2019 for the City of Irvine, start-up and working capital costs of \$10.5 million are estimated to launch.

JPA Governance Structure and Founding Member Benefits:

Based on the Draft JPA agreement, the governing body - the Board of Directors - of the JPA will be composed of one appointed director from each of the agreeing parties except for Irvine which shall appoint two directors to the Board. Each

party to the agreement shall also select one alternate director to act and vote in the absence of the regular director and all director appointees or alternates shall serve in their respective roles for three years. Both Irvine directors must be present at meetings in order for the Board of Directors to take any action until the Capital Loan is fully repaid.

The founding members of the JPA are the parties who enter into the agreement and appoint their directors prior to the effective date of the agreement. This process would include approval of the JPA agreement, the ordinance, and participation in the CCE Assessment and subsequent Implementation Plan. Directors of the Founding Members may serve as members of a smaller executive committee within the Board of Directors. The composition of this committee shall not change until the Capital Loan is fully repaid. In addition to these restrictions on the structure of the Board of Directors, any special voting items will require an affirmative vote from both Irvine directors until the Capital Loan is repaid.

Joining the JPA as an Additional Party at a later date (i.e. not as a Founding Member) requires the adoption of a resolution by the governing body of the additional party to approve the JPA agreement, adoption of a resolution authorizing the additional party participation by an affirmative vote of two-thirds by the JPA Board of Directors, satisfaction of any additional conditions, and an execution of the JPA agreement by the additional party. There is the potential for the Board of Directors to adopt a membership fee to be paid by an additional party entering the JPA to cover estimated transactional and other costs incurred while processing the addition of an additional party.

Conclusion:

CCA programs enable local governments to control their energy procurement portfolio through the purchase of electricity, rate setting, and collection of revenue. While there are many benefits of a CCA, joining one does not come without risk. In general, a CCA program is feasible if it maintains customer rates competitive with SCE, and that primarily depends on how power supply costs compare to SCE's power supply costs and customer rates. Other factors impacting the financial viability of the CCA include: costs that SCE directly passes through to all customers, one-time initial exit fees, market supply of renewable power, availability and cost of financing CCA operations, and legislative and regulatory actions. Partnering with other cities generally reduces overall start-up costs and program risks of implementing a CCA program.

While a JPA with other cities would help mitigate some program risks in the implementation of a CCA, the goals of a JPA may differ from those of an individual city or party to the JPA. Designation or clarification of the City's policy goals for participating in a CCA program would guide staff in exploring and

presenting additional alternatives and options regarding the procurement of energy. The alignment of the City's priorities and those of a JPA could also enhance the City's ability to meet its community energy goals as decided by the City Council. Staff seeks further direction from the City Council regarding the objectives for the procurement of energy in the city.

Relative to the City of Irvine CCE, the City Council could consider any of the options discussed herein:

1. Delay decision until the Irvine CCE has launched and has data regarding revenues vs. expenditures and join as an additional party at a later date
2. Direct staff to bring back an ordinance and JPA Agreement and direct staff to authorize the City of Irvine and EES Consulting to request load energy use data from SCE to participate in the CCE as a founding member.
3. Receive and file this report.

At this time, staff is seeking City Council direction regarding joining the City of Irvine's CCE Program.

FISCAL IMPACT:

There is minimal fiscal impact associated with the recommended action.

ATTACHMENTS:

1. August 15, 2017, Agenda Report on Community Choice Aggregation
2. Minute Excerpt – August 15, 2017 City Council Meeting
3. Presentation from Best Best & Krieger
4. March 5, 2019, Agenda Report on Community Choice Aggregation Partnership Opportunity with Sustain Southern California
5. Minute Excerpt – March 5, 2019 City Council Meeting
6. April 18, 2019 Memo – Updated Information on Community Choice Aggregation
7. Letter from the City of Irvine
8. Minute Excerpt – September 15, 2020 City Council Meeting
9. Draft CCE Joint Powers Authority

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