

# Community Choice Aggregation

## Summary Excerpted From: Draft Base Case Feasibility Evaluation

### **INTRODUCTION**

The County is a participant in the Local Government Commission Community Choice Aggregation (CCA) Demonstration Project, which was commissioned by the California Energy Commission (CEC) and the United States Department of Energy to assist local governments in evaluating and implementing Community Choice Aggregation. Under Community Choice Aggregation, the County and the cities within the County would aggregate the electric loads of customers within their jurisdictions for purposes of procuring electrical services.

### **EXECUTIVE SUMMARY**

This summary is obtained from Navigant Consulting, Inc.'s (NCI) evaluation of the feasibility of forming a Community Choice Aggregation program, pursuant to provisions of Assembly Bill 117, whereby the County and the cities within the County would aggregate the electric loads of customers within their jurisdictions for purposes of procuring electrical services. Community Choice Aggregation relates to electric generation services only. Delivery of the electric power would continue to be provided over PG&E transmission and distribution facilities at rates regulated by the California Public Utilities Commission (CPUC) and under the same terms and conditions that apply today. Community Choice Aggregation allows the County to provide retail generation services to customers without the need to acquire transmission and distribution infrastructure. All PG&E customers within Marin County would have the option of buying electricity from the County and cities or, alternatively, remaining as generation customers of PG&E by exercising their rights to opt-out of the program.

AB 117 grants the County and cities authority to competitively procure electric services rather than continuing to rely on PG&E as the single supplier for electric services provided to customers within the County. Implementation of Community Choice Aggregation provides the community the power to choose what resources will serve their loads. Expanded access to competitive suppliers and local control of resource planning decisions provides opportunities to enhance rate stability for customers, significantly increase utilization of renewable energy resources, and generate electricity cost savings.

The detailed analysis performed for the County suggests that by forming a Community Choice Aggregation program, backed by investments in generation resources, the CCA entity could:

- Achieve nominal electricity cost savings averaging \$6.8 million per year, equivalent to approximately 3% of total electricity bills;
- Increase renewable energy utilization to 51% by 2017 or sooner, more than doubling the renewable energy content that PG&E would provide over the same time period;
- Obtain control over electric generation costs to provide a higher level of rate stability for local residents and businesses;

NCI performed sensitivity analyses on the major variables expected to impact the financial results, which shows that cost savings are not dependent upon the specific financial assumptions underlying the base case feasibility assessment, but is primarily dependent upon the supply portfolio developed for the program. The average program savings range from a low of 1% to a high of 14% across the eight scenarios evaluated to test the sensitivity of these results to changes in wholesale energy market conditions, PG&E rate projections, and cost responsibility surcharges<sup>1</sup>. Although the County could implement a CCA program without investing in generation resources, such a strategy is unlikely to yield sustainable electricity cost savings. NCI recommends a staged approach to implementation that includes initially purchasing all of the program's electric supply requirements on the open market and transitioning to a strategy of generating the bulk of the program's resource needs through community-owned generation.

The conclusions and recommendations of the feasibility study took into consideration the County's known interests and objectives. The study reflects substantial involvement of County staff, both individually and through a series of discussions with other local governments participating in the project. Various portfolio options were evaluated in terms of their effectiveness in meeting the objectives and interests of the community. Following a detailed review of the options, a preferred portfolio option was jointly developed with staff that would best satisfy the stated objectives and interests of the County.

The report and supporting analysis show that it would be feasible and economically viable for the County and cities to implement a Community Choice Aggregation program as early as 2006.

Energy procurement and resource planning are subject to certain risks or uncertainties that must be managed by the energy supplier, whether it is PG&E or the operator of a Community Choice Aggregation program. Forming a Community Choice Aggregation program would not increase operational risks, but responsibility for their management would transfer to the Community Choice

---

<sup>1</sup> Cost Responsibility Surcharges (CRS), also referred to as "exit fees," are the costs to the remaining PG&E customers of the departing CCA load. Such costs include the long-term power purchase contracts and bond obligations entered into by the State of California during the energy crises, and other obligations paid for by all PG&E customers. Any CCA will have to assume its share of these obligations, which will diminish over time. The CRS is determined by the CPUC.

Aggregator and/or its suppliers. The County and cities will be able to obtain services from a variety of large, experienced suppliers to help manage the Community Choice Aggregation program and would therefore be able to manage energy procurement risks at least as effectively as does PG&E. Professional program management and application of standard industry risk management practices will be keys to this effort.

The County and cities can phase-in implementation of Community Choice Aggregation to help ensure a smooth transition for customers that join the program. A phase-in would reduce implementation risk, contribute to the program's financial benefits during the initial startup stage, and reduce the need for initial capital.

## **Phase 2 - Implementation Plan**

After considering the expected benefits and costs of forming a CCA program, communities that wish to proceed with forming a CCA program will need to develop an Implementation Plan. AB 117 requires submission of an Implementation Plan to the CPUC prior to the CCA commencing operations. The law requires the Implementation Plan to "detail the process and consequences of aggregation." The Implementation Plan and subsequent changes to it must be adopted at a duly noticed public hearing. The Implementation Plan will answer questions regarding program management and organizational structure, suppliers and resources, rates and customer protections, terms and condition of service, financing and staffing.

## **1 BENEFITS OF CCA**

The primary benefits offered by CCA are local control over the energy resources utilized by the community, the ability to provide electricity to customers at a lower overall cost, and a greater use of renewable energy.

Cost savings can accrue to customers through lower electric bills or can be used by the CCA entity (Aggregator) to provide enhanced services to its constituents. Cost savings can be primarily attributed to:

- Lower financing costs for generation (e.g., tax-free revenue bonds)
- No investors to pay, unlike the investor-owned utilities
- No income taxes, unlike the utilities

Through CCA, the Aggregator can choose to structure a supply portfolio that achieves cost efficiencies, fuel and technological diversity, environmental improvement, and/or cost stability. The Aggregator can choose to develop its own energy resources and decide which type of resources will be developed and where such resources should be located, consistent with its general planning responsibilities.

CCA would facilitate the implementation of an aggressive program to increase utilization of renewable energy resources and promote improved energy efficiency. The Aggregator's local perspective and its primary mission to serve its customers rather than maximize profits for shareholders places it in a unique position to integrate effective demand-side energy efficiency programs with procurement of electricity supplies to lower overall energy costs for the community.

## **2 RISK ASSESSMENT**

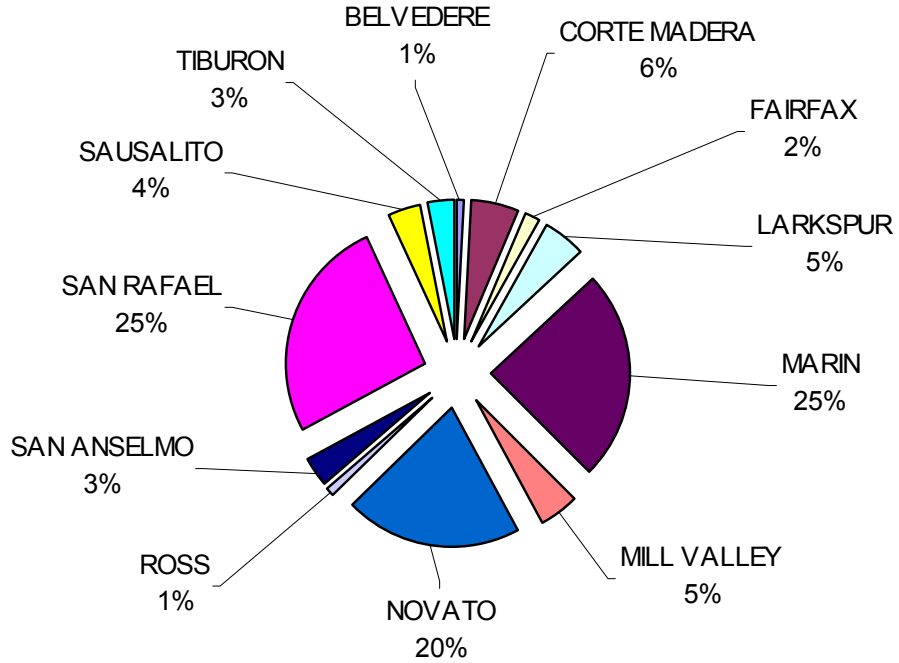
The major risk associated with forming a CCA program is the possibility that the rates of the program exceed the comparable rates charged by PG&E. Such risk is mitigated by the implementation approach taken and the choice of generation resources. For example, generation from renewable resources is cost competitive with generation from natural gas-fired steam plants and is not subject to the price volatility of natural gas. The feasibility study suggests that under a wide range of possible future scenarios the CCA's rates will remain lower than PG&E's rates. However, the CCA's ratemaking authority and ability to raise rates if necessary would protect the CCA from the financial impacts of unanticipated program costs.

The following table presents possible risks and mitigating measures.

<b>Risk</b>	<b>Mitigation</b>
Cost Responsibility Surcharge (CRS) Volatility	Utilizing shorter duration supply contracts to a greater extent than would otherwise be indicated would offset the CRS risk. If market prices decrease, the Aggregator's supply portfolio costs will also decrease, offsetting the increase in the customer's CRS payments to PG&E.
Commodity Price Volatility	Diversify supply portfolio with contracts of various terms and with multiple suppliers, renewable energy, and conventional generation. Layoff commodity price risks to energy suppliers through fixed priced contracts or guaranteed discount pricing structures
Customer Attrition	Establish exit fees following free opt-out period. Negotiate term contracts with large customers.
Credit Risk	Periodic credit and exposure monitoring; supplier diversity; collateral and surety instruments. Require deposits from customers and return to utility for failure to pay bills.
Utility Rate Changes and Other Regulatory Risks	Participate in CPUC process to prevent shifting of costs to program customers

### 3 CUSTOMER BASE

The potential customer base for the CCA program is all of the electric customers in the County, assuming the County forms a CCA program in conjunction with the eleven Marin County cities. The current distribution of electricity sales within the County are shown in the chart below:



The following table lists the percent of generation that could come from renewable resources under a Marin CCA compared to PG&E's projected resource mix. Also shown is the projected cost savings and cash reserves that could accrue from a Marin CCA, averaging at \$6.8 million per year.

### County of Marin Preferred Supply Scenario

Year	PG&E Renewable Energy	Marin CCA Renewable Energy	Accumulated Cash/Reserves
2006	14%	14%	\$ 4,573,308
2007	15%	15%	\$ 4,834,248
2008	16%	21%	\$ 15,898,346
2009	17%	21%	\$ 20,131,858
2010	18%	21%	\$ 27,494,301
2011	19%	24%	\$ 30,589,783
2012	20%	29%	\$ 34,368,545
2013	20%	42%	\$ 58,729,798
2014	20%	42%	\$ 67,866,755
2015	20%	43%	\$ 73,277,978
2016	20%	46%	\$ 80,077,450
2017	20%	50%	\$ 88,783,232
2018	20%	50%	\$ 100,517,386
2019	20%	50%	\$ 114,729,949
2020	20%	50%	\$ 124,506,649
2021	20%	50%	\$ 133,543,203
2022	20%	50%	\$ 143,127,490
2023	20%	50%	\$ 154,847,623
2024	20%	50%	\$ 168,903,697