

**CITY OF SAN RAFAEL**  
**CITY COUNCILMEMBER QUESTIONS RAISED AT**  
**JUNE 24, 2008 SPECIAL CITY COUNCIL MEETING**

*Questions after County presentation about Marin Clean Energy by planner Dawn Weisz:*

**Councilmember Connolly:**

**1. Has Marin Clean Energy (MCE) done research to test the availability of renewable supplies?**

Information regarding the availability of renewable resources has been ascertained from many public sources, including California Public Utilities Commission (CPUC) reports of each Investor Owned Utility (IOU) recent renewable request for offer (RFO) results (including PG&E). Based on information compiled by the CPUC, 2007 renewable RFO responses totaled 75,000 GWh from a range of eligible renewable fuel sources, including solar, wind, biomass and geothermal as well as others. By comparison, Marin's renewable energy requirement is approximately 860 GWh, or 1.1% of the total volume received through the IOU's RFO processes.

Similarly, the San Joaquin Valley Power Authority (SJVPA) issued a renewable RFP in April 2007, requesting up to 400 MW of eligible renewable capacity; in response, the SJVPA received more than 1,300 MW, or approximately 350% of the desired capacity total.

A northern California municipal utility also conducted a solicitation for renewable power in the spring 2008, requesting up to 150 MW of eligible renewable capacity. In response, this municipal utility received more than 400 MW of qualified responses, or 270% of the requested total.

The County of Marin completed an independent assessment of local renewable resource potential within the geographic boundaries of the County and identified approximately 850 MW of potential capacity from eligible renewable fuel sources conforming to the California Energy Commission eligibility criteria.

The California Independent System Operator's Generator Interconnection Queue, which includes electric generation projects requesting future interconnection to the CAISO's transmission system, currently includes approximately 40,000 MW of planned renewable generating capacity.

There are several other examples, specific to the State of California, all of which support assumptions regarding the availability of renewable power supply.

**2. What is the level of available renewable resources in the marketplace?**

Please see the previous response. General observations indicate that renewable solicitations have been well received by a rapidly growing renewable supply market with responses significantly exceeding requested capacity levels.

**3. To what extent does the City of San Rafael need to devote City resources or City personnel to support the MCE Joint Powers Authority (JPA)?**

As described in the Marin Clean Energy Business Plan (April 2008, Final Report), a single elected official from San Rafael's City Council would be obligated to serve on the Marin Clean Energy Board of Directors, should San Rafael choose to move forward as a member of Marin Clean Energy (by adopting a participatory ordinance and executing the necessary joint powers agreement).

No other City resources or personnel would be required. Marin Clean Energy will be a self-sustaining organization because customer rates will cover all costs associated with administration and operation of the CCA program.

4. **Noting programs such as the Berkeley idea of helping neighbors finance solar, how would MCE affect the City's ability to pursue local initiatives?**

The effects of any energy-focused initiatives pursued by Marin Clean Energy would be additive to energy initiatives pursued by San Rafael. Furthermore, San Rafael's participation in the CCA program would not preclude the development of complimentary, City-sponsored programs. In fact, by providing representation on Marin Clean Energy's Board, San Rafael would likely benefit from increased coordination with respect to the development of energy-focused initiatives and programs.

5. **What is San Rafael's liability exposure under the JPA? What kinds of protections are built in?**

Article 2, Section 2.3, of the Marin Clean Energy Joint Powers Agreements reads:

**"2.3 Formation.** *There is formed as of the Effective Date a public agency named the Marin Clean Energy Authority. Pursuant to Sections 6506 and 6507 of the Act, the Authority is a public agency separate from the Parties. Unless otherwise agreed, the debts, liabilities, and obligations of the Authority shall not be debts, liabilities or obligations of the Parties."*

This provision specifically limits the liability of JPA members, noting that "the debts, liabilities, and obligations of the Authority shall not be debts, liabilities or obligations of the Parties." By inclusion of this provision, the City of San Rafael's liability, as well as the liability of any other prospective JPA member, is limited to: 1) the specific provisions enumerated in Article 7 ("Withdrawal and Termination"), Section 7.3 (Continuing Liability; Refund), of the JPA Agreement, which apply only in the event of program termination or member withdrawal; and 2) any obligations of the City related to its participation in MCE as a customer. These liabilities would be specified in future contracts or agreements between the JPA and the energy service provider and would be defined by JPA members before contracts are executed.

MCE's Business Plan has been developed to mitigate many of the risks that exist in San Rafael's current energy supply scenario (PG&E bundled service). In particular, the highly renewable supply portfolio (over 80% renewable energy supply by 2014) proposed by MCE will significantly reduce exposure to fuel price volatility and variability in large hydroelectric production, which can result in increased reliance on natural gas-fired generation during poor water years.

Also see the response to question # 32 below.

**Councilmember Heller:****6. Isn't the San Joaquin Valley's CCA mission different from the MCE?**

The San Joaquin Valley Power Authority (SJVPA) formed a CCA program to achieve local control with respect to energy supply, increase reliability of the regional electric system and lower electric rates for all customers. While they are interested in complying with the State Renewable Portfolio Standards (and potentially exceeding the RPS, subject to economic and operational constraints), they are sensitive to increased costs that may result from a highly renewable supply portfolio. As planned, the SJVPA intends to meet California's 20% renewable supply mandate and will actively pursue opportunities to exceed this target when economically feasible opportunities arise.

SJVPA is not exclusively focused on reducing greenhouse gas emissions but recognizes that the achievement of a 20% RPS by 2010 will likely outpace PG&E's efforts in this regard (PG&E currently serves 12-13% of its customer load with eligible renewable energy supplies). To improve regional reliability and provide access to highly efficient, cost-based generation, SJVPA plans to develop local generating capacity that will serve CCA electric load.

MCE shares SJVPA's goal of owning generating assets to achieve rate savings. An additional benefit and primary focus of Marin's CCA initiative is the "unhooking" from the fluctuating costs of fuel inputs by using renewable energy assets. This benefit also results in the achievement of significant greenhouse gas reductions (likely reducing the need for local governments to fund programs that emanate from AB 32 implementation).

Also see the response to question #33 below.

**7. Ms. Weisz identified that the JPA might build its own generating facilities - this requires further definition, including where the wind facility will be?**

MCE plans to develop a portion of its renewable generating capacity within the jurisdictional boundaries of the participating communities. Discussions have already begun with a local landfill that has approximately 6-8 MW of renewable generating capacity. Other renewable generating resources may be developed outside of member jurisdictions based on economic and operational considerations related to chosen generating technologies (such as wind, solar and geothermal), which will significantly influence generator performance and production. At this time, identifying specific generating sites for the MCE program is premature, as the Marin Communities are still engaged in program evaluation and necessary community outreach. MCE will begin to identify alternative development sites following formation of the JPA.

**8. Can you respond to the safety for the San Rafael residents and the City as a whole, particularly if a customer decides to 'opt out' of the JPA?**

Customers may opt-out of CCA service during the initial mandatory 120-day opt-out period without consequence or cost. Following this opt-out period, the JPA has the authority to impose an "exit fee" when a customer departs from MCE's load. Exit fees currently charged by California utilities range from \$2 to \$7 per month for about a 12 month period. Exit fees are imposed to insure that other ratepayers are not absorbing the costs of departing customers.

If the cost of power is increasing when the customer departs there would be no need for an exit fee because the access power could be sold on the market at a profit. Exit fees are only needed when the cost of power is declining and customers 'opt out' to get the lower cost power.

It is likely that the JPA will choose to wait until the first year of operation before imposing an exit fee. Also, an exit fee would not be charged to customers due to change of residence, death, or if they install solar power generation on their property.

The exit fee or "Termination Fee," is described in further detail on page 84 of the April 2008 Business Plan.

**9. What is the status and focus of proposed CCA programs in other communities?**

As implemented under California's law, CCA is new and the SJVPA is the first CCA to be established under the law. Currently, the SJVPA is awaiting decisions regarding joint and several liability as well as the determination of an appropriately sized reentry bond before commencing operations. Their Implementation Plan has already been submitted to the CPUC.

The focus and status of other CCA initiatives throughout the State differ significantly. In general, other CCA initiatives are still engaged in Business Plan Development and evaluative efforts focused on program economics. The goals and objectives of these aspiring CCA programs are also extremely diverse, ranging from targeted cost savings to increased renewable energy delivery and greenhouse gas reduction.

CCA laws exist in Massachusetts and Ohio and there are CCAs established in those regions. Each of these efforts was established with the primary goal of cost savings. The Massachusetts CCA, Cape Light Compact, was enacted after their state law passed in 1997. Today this CCA is serving over 200,000 customers and customers are saving between \$3.50 and \$7 per month.

In Ohio the city of Parma's CCA was enacted in 2000. This CCA saves households \$60 to \$75 per year on average. Also in Ohio, the Northeast Ohio Public Energy Council, launched in 1999 and is now the largest CCA in the country, serving 500,000 customers. The Northeast Ohio Public Energy Council, generated savings to customers ranging from 1% to 15%, for a total of \$10 million over the life of its 2001 to 2006 contract.

In addition to functions of a CCA, there is a long history of public power. Communities as small as Healdsburg and Truckee own and operate municipal power utilities. The City of Pittsburg, CA purchased the Mare Island utility and operates it as a profit center for the city.

The Northern California Power Authority (NCPA) is a JPA comprised of cities with municipal utilities. NCPA finances, builds and operates generation such as geothermal plants at the Geysers on behalf of the participating communities. It also provides scheduling and other services for participating communities. ABAG established and operates a JPA -- ABAG Power -- that procures natural gas for local governments and special districts in PG&E service territory. Over thirty local governments including San Rafael and Mill Valley are customers of ABAG power for their natural gas.

**10. The JPA start up costs seems high – borrowing \$16 million and a staff of 30 and an executive director. Please provide further explanation.**

As detailed in the April 2008 Business Plan, the number of staff would be 20.5. These staff would include an executive director, regulatory professionals, energy procurement specialists, legal experts with contract and energy background, finance professionals and energy efficiency specialists. Details related to MCE's Organizational Plan are discussed in Chapter 2 of the April 2008 Business Plan (starting on page 18).

The start-up costs will range from between \$500,000 and \$750,000. This will include the cost of technical consultants, legal expenses, and some initial staffing. Details related to MCE's Financial Plan are discussed in Chapter 4 of the April 2008 Business Plan (starting on page 60).

The exact amount that would be borrowed to purchase power initially would be specified in developing a contract with an Energy Service Provider. The cost of power would be set based on the projected number of customers and the economic environment at that time. In the case of SJVPA the energy service provider is covering the cost of purchasing power over the eight year period of the contract.

**11. A JPA of 13 is a huge Board for managing a government agency. This size could make it difficult in dealing with rules and regulations. Please explain in more detail how this board would function, and give examples of similar boards.**

The Governance Committee has discussed this issue as well and has determined that an "Energy Commission" would be a key element, acting much like a Planning Commission, to make recommendations to the JPA Board. The Energy Commission would include local experts who have experience in energy procurement, business oversight, PUC interface, ect. The JPA would also build in some staff support (within the 20.5 staff positions) with expertise in the field to provide continual oversight and assistance to the Board.

The Board of the SJVPA is similarly-sized (at 13 members). Details related to Board composition and responsibilities are discussed in Chapter 2 of the April 2008 Business Plan (starting on page 18).

**12. The City would like to know the number of San Rafael paying customers, and how many are projected in the business plan to stay with or go from PG&E.**

At full implementation, MCE is expected to serve approximately 111,000 customers. San Rafael includes approximately 22.93% of this customer base (this percentage is included in the table on page 22 of the April 2008 Business Plan), or approximately 25,500 customers. Overall participation in each of the communities is expected to approximate 84% (6% Direct Access retention/opt out; 10% additional customer opt out).

**13. Please describe whether PG&E will be paid to maintain the transmission lines for all customers.**

Under CCA, PG&E will continue to operate and maintain the electric transmission and distribution (T&D) system serving MCE customers. Currently, about 50% of each PG&E customer's bill goes to the T&D costs. Under CCA, all customers would still get their bill from PG&E and would still pay about 50% of their bill directly to PG&E for that service.

MCE customers will pay the same T&D rate as non-MCE customers. Due to CPUC regulations PG&E cannot impose different rates on customers based on location or participation in a CCA.

**14. In emergency situations, who gets transmission lines fixed – PG&E or MCE customers?**

Repair of transmission lines would continue to be the responsibility of PG&E. MCE customers will also be PG&E customers for their T&D service, including repair of transmission lines.

**Councilmember Brockbank:****15. What is the real generation rate increase proposed by PG&E to the CPUC?**

In June, 2008 PG&E made a request to the CPUC for a 10% increase in their generation rate which is now scheduled to take effect in January, 2009.

**16. Does pre-purchasing energy for a 5% discount include future rate increases?**

CCA rates are projected to increase at an annual rate of 3.5%. Pre-purchasing energy should not change this assumption.

**17. What are the risks (e.g. energy company bankruptcy) in long term pre-purchasing?**

The primary risk in pre-purchasing energy (or fuel) is that the cost of the commodity decreases significantly over time. In such an instance, the buyer would have locked-in above-market prices, resulting in comparatively higher costs (relative to PG&E, in the case of MCE) for its customers. Such a scenario could potentially result in voluntary customer withdrawal. In this example, above market energy costs would be recovered through a Cost Recovery Charge, which is described in additional detail on page 84 of the April 2008 Business Plan.

If MCE contracts for power and the contracting party goes bankrupt it is possible that there could be an interruption in agreed upon services. MCE would address this risk by carefully choosing who it does business with, in particular, by considering the creditworthiness of the party with whom MCE is entering into the service contract with.

For example, contracting with a large Energy Service Provider (ESP) is quite different than contracting with an individual operator somewhere in the western U.S. who may be less creditworthy. Note that in a bid solicitation (RFP) it would be typical for many different entities or potential suppliers to respond. One of many evaluation criteria in sorting through the responses would be creditworthiness of the energy provider.

It is useful to note that a large investor-owned utility went bankrupt after the power crisis and required state assistance via energy recovery bonds for ratepayers. The risk of default is a constant whether customers are dealing with IOUs, energy service providers, or a small operator. It is MCE's responsibility to mitigate this risk by entering into an appropriate contractual arrangement with a creditworthy counterparty.

Irrespective of the question of creditworthiness any energy service provider would be expected to demonstrate that they had adequate backup arrangements (emergency and non emergency alternative supply contracts) in place to cover both anticipated and unanticipated outages. The standard for secondary back up would be set by MCE, and given the added cost of providing this type of redundancy, would likely default to a level of electric reliability that is similar to what PG&E provides today.

It is possible to provide higher levels of reliability through more costly back up arrangements. Take, for example, the kind of back up facilities utilized by data centers or hospitals. That level of reliability is not affordable for the typical home owner, and thus highly unlikely to be pursued by any utility.

Once MCE moves to a procurement model where it owns the underlying generation assets, the issue of a default on the part of the energy service provider is eliminated and the risk drops substantially. There may be some residual risk if MCE chooses to work with an independent operator who is contracted to manage MCE owned assets on behalf of MCE. MCE would implement similar risk mitigation logic to that outlined above in structuring its contractual arrangements. First it would focus on picking operators who had adequate experience and were creditworthy. Second it would provide for a 'second way home' whereby MCE could call on a back-up or step in operator if the primary operator were to fail for any reason.

**18. How can the risks in pre-purchasing be mitigated?**

Pre-purchasing energy is a mitigation strategy for energy price risk (particularly, price volatility). MCE's Business Plan proposes to develop renewable generating capacity, which will be owned/controlled by the CCA program and will provide CCA customers with access to cost-based generation. This long-term resource supply strategy effectively "locks in" power costs at known levels (based on construction and borrowing/debt costs), resulting in predictable, stable electric rates for MCE customers.

Moreover, because sustainable, renewable generating supplies do not require fuel inputs (or utilize readily-available, sustainable waste streams, such as various biomass sources: waste wood, landfill/methane gas and agricultural waste), there is no fuel price risk to MCE customers for this portion of the program's supply portfolio. By 2014, MCE projects that it will procure approximately 19% of its energy supplies from conventional generating sources (though the program's expressed goal is to achieve 100% renewable power supply as soon as economically and operationally practical); by comparison PG&E will likely procure nearly 50% (similar to its current levels) of its energy supply from natural gas-fired generating sources, resulting in considerable price risk to PG&E customers. Ultimately, MCE's commitment to substantially decrease reliance on fossil fuel sources will create stable, predictable generation rates for CCA customers. Over the long term, MCE customers will likely enjoy significant cost savings relative to PG&E, as natural gas costs continue to increase.

**19. The projected staff of 20 seems like a lot. How does this cost get built into the overhead?**

The staff would include an executive director, regulatory professionals, energy procurement specialists, legal experts with contract and energy background, finance professionals and 3-4 energy efficiency specialists. Details related to MCE's organizational plan are discussed in Chapter 2 of the April 2008 Business Plan (starting on page 18). The staff costs are actually a relatively small portion of overall expenses and revenue. Details related to MCE's financial plan are discussed in Chapter 4 of the April 2008 Business Plan (starting on page 60).

**20. Regarding the San Joaquin Valley Joint Powers Authority (SJVJPA) bid process that resulted in proposals for services for a total of 1400 megawatt (MW), does this amount represent unduplicated resources?**

Yes. Each of the proposed projects that were evaluated as part of this process are unique. No duplicate proposals/projects were received.

**21. Given that there is a 1.5% premium for renewable energy, is the 8-10% premium proposed for the Dark Green Option needed to pay for the 20 staff for MCE?**

No. There appears to be some confusion in this case. The April 2008 Business Plan (on page 79) indicates a projected premium of 1.5 to 2.0 cents (or \$15/MWh - \$20/MWh) for renewable energy purchases, not 1.5%. The 1.5% premium is used only to pay for the added cost of renewable power.

**22. If a customer does not opt out of MCE service, would they default to the Light Green or the Dark Green service?**

Customers would default to the Light Green option to keep costs at or below PG&E.

**23. In her presentation, Ms. Weisz predicted 50% of customers would opt to dark green. How does this compare to the 34% who might do nothing, and therefore default to light green?**

Based on the results of the Marin Community Survey conducted in October 2007, 50% of MCE's prospective customer base would choose the 100% Green option, while 34% of MCE's prospective customer base would choose the lower-priced, Light Green option.

**24. Would an Energy Service Provider (ESP) be requested to indemnify the JPA and assume all risk?**

Details included in any agreement between MCE and its Energy Service Provider(s) would need to be decided by MCE's Board and negotiated with the selected ESP(s), following a competitive solicitation process. At this point, it is premature to assume the specific details that will be included in such an agreement.

**25. What discussion has occurred regarding a JPA option involving a larger region? What are the odds of joining other agencies having similar discussions, such as San Francisco, the East Bay, or Sonoma County? Why just Marin?**

Although other regions are currently in different phases of study, there is no geographic or regulatory barrier preventing other cities from joining MCE. Marin representative have discussed this idea with representatives from other communities and there has been some interest expressed by jurisdictions in the North Bay, East Bay and elsewhere. The draft JPA agreement includes language permitting other local governments or special districts to join pending approval of existing JPA members. There may be costs for cities to join later, however, as new contracts for power would be needed.

**26. What is the likelihood of paying exit fees? What would be the costs? What are the odds this would happen to customers of the JPA?**

Customers may opt-out of CCA service during the initial mandatory 120-day opt-out period without a cost or exit fee. Following this opt-out period, the JPA has the authority to impose an "exit fee" when a customer departs from MCE's load. Exit fees currently charged by California utilities range from \$2 to \$7 per month for approximately 12 months. Exit fees are imposed to insure that other ratepayers are not absorbing the costs of departing customers.

If the cost of power is increasing when the customer departs there would be no need for an exit fee because the excess power could be sold on the market at a profit. Exit fees are only needed when the cost of power is declining and customers 'opt out' to get the lower cost power. Currently, there is no exit fee to depart from PG&E's load because the cost of power is going up.

It is likely that the JPA will choose to wait until the first year of operation before imposing an exit fee. Also, an exit fee would not be charged to customers due to change of residence, death, or if they install solar power generation on their property. The exit fee or "Termination Fee," is described in further detail on page 84 of the April 2008 Business Plan.

**Vice-Mayor Miller:****27. Please give a clear, concise description of the problem of Marin Greenhouse Gas Emissions and specifically as this problem relates to the City of San Rafael.**

The Marin County Community emits approximately 3,000,000 tons of greenhouse gas emissions per year. Approximately (1/4) of these emissions come from residents and businesses in San Rafael. It is estimated that 797,131 tons of greenhouse gas emissions were generated in San Rafael in 2005, up from 751,418 tons in 1990.

The bulk of emissions come from transportation (62%) and energy use in buildings (23%). The remainder of emissions come from waste and agriculture.

As the State law, AB 32, is implemented is it likely that local governments will be required to cap and reduce greenhouse gas emissions. If solutions for reducing greenhouse gas emission cannot be identified or implemented, local governments may be required to pay for greenhouse gas offsets via a "cap and trade" program. This would require some source of revenue.

While the incremental greenhouse gas reductions of San Rafael are not likely to reverse the impacts of greenhouse gasses in the atmosphere, the cumulative impact of emissions globally is likely to impact San Rafael residents. The mostly likely impacts will be increased storm events, including rain storms and heat storms, increased flooding, erosion and saltwater intrusion into low-lying areas, a longer dry season with increased risk of drought, wildfires and heat-related health impacts, as well as an increase in vectors, (i.e.: insects) that can impact food and human health.

**28. Please give the four major solutions to the greenhouse gas problem including that in the MCE JPA Business Plan, and why each was ranked in the four best.****Ranked #1: Implement Marin Clean Energy**

This solution is ranked number one because it would result in the most significant reduction in greenhouse gas emissions, would achieve these reductions in a very short timeframe, and provides a revenue stream to cover the cost of reduction. Marin Clean Energy would result in a greenhouse gas reduction of 70,000 tons in 2010 and grow each year. By 2019 the annual **greenhouse gas reduction will be 350,000 tons.**

**Ranked #2: Implement comprehensive free or very low cost public transit throughout the city.**

This solution was used in Portland to achieve a 15% reduction in greenhouse gas emissions. A downtown trolley was built with feeder transit from the smaller neighborhoods. Incentives were established to ride transit (making it free and frequent) and disincentives were put in place for car use (such as increasing the cost of parking). In Chapel Hill N.C. all public transit in the city was paid for by the city to allow for residents to use public transit for free. This resulted in a dramatic increase in ridership and significant greenhouse gas reductions. A revenue stream would need to be identified for this type of program.

This solution is ranked #2 because it could increase use of public transit by as much as 50% by 2019 resulting in a **greenhouse gas reduction of 238,400 tons.**

**Ranked #3: Increase Energy Efficiency activities for public facilities, businesses and residences.**

Energy efficiency is the most cost-effective way to reduce greenhouse gas emissions and costs as the same time. Expanding use of the Marin Energy Management Team in San Rafael could result in

additional energy audits and retrofits of municipal buildings, local businesses and residential units. Some funding is available for this project through the State Public Goods Fund, but added revenue would be needed to enhance existing efforts.

This solution is ranked #3 because a 10% increase in energy efficiency in key locations around the city could result in a **greenhouse gas reduction of 7,600 tons.**

Ranked #4: Improve bike lanes in the City to encourage multi-modal travel.

San Rafael has key transit hub for public transit in Marin. In addition, its compact development and mixed use design has made it easy for residents to move around the city without a car. To completing the final link in the chain, safe and accessible bike lanes and paths would have a significant impact on the number of local residents and pass-through commuters using cars as a primary mode of travel. Revenue for the program would have to be identified.

This solution has been ranked #4 because increasing bicycle travel to 15% of trips could result in a **greenhouse gas reduction of 4,780 tons.**

**29. Please explain why for San Rafael the solution described in the CCA Business Plan is the most efficient, effective, economical and feasible among the four solutions in encountering the problem of Greenhouse Gas Emissions in San Rafael.**

The solution described in the CCA Business Plan is the most efficient and effective because it is able to have an impact on so many community members as soon as it launches. It does not require that energy efficiency retrofits or renewable energy installations need to be incrementally installed in each building, but makes an efficient and effective change just by beginning to serve customers. It is expected that 84% of community members would participate in the program, resulting in an immediate greenhouse gas reduction of between 12-18%.

The solution is the most **economical** because it provides a revenue stream for ongoing activities. The other solutions would require a new source of funding to be identified. This solution, instead, pays for itself in the early years and then stabilizes rates for customers through ownership of the underlying assets, thus furthering the positive impact on the local economy.

**30. Please also give the chief accountable measures that would demonstrate that the MCE JPA proposal would be successfully implemented.**

Before implementation the draft contract with an Energy Service Provider would be the tool to measure accountability before the launch. This document would require independent review and careful vetting from multiple third parties including attorneys in the energy/contract field.

After implementation the number of customers enrolled in light green and the number of customers enrolled in deep green would be tallied to calculate greenhouse gas reductions. The cost of each energy product (light and deep) would also be compared to the existing utility costs to ensure successful implementation.

**31. Please provide a snapshot of what it cost the MCE JPA in the preparation and implementation of the governance, operations, energy source development, financing, who pays, and when.**

The start-up costs are projected to fall between \$500,000 and \$750,000. This will include the cost of technical consultants, legal expenses, and some initial staffing. This will cover the costs of issuing the

Request for Proposal, reviewing proposals, and developing a contract with an Energy Service Provider. These costs are built into the business plan and would be paid back after operations are launched.

The costs required to purchase power initially would be specified in the contract with an Energy Service Provider (ESP). In the case of SJVPA, the Energy Service Provider is covering the cost of purchasing power over the eight year period of the contract. During the contract period with an ESP the JPA in Marin would be likely to issue bonds to build power-generating assets in Marin and/or outside Marin. The power from these assets would then be substituted in for the ESP's source of power. The costs for these specific projects cannot be planned until a JPA is in place and bids have been issued.

Details related to MCE's organizational plan are discussed in Chapter 2 of the April 2008 Business Plan (starting on page 18). Details related to MCE's financial plan are discussed in Chapter 4 of the April 2008 Business Plan (starting on page 60).

**32. What are the major risks to the MCE JPA, and to the City of San Rafael and ratepayers, in having MCE JPA buy for them stable, reliable green renewable energy?**

Risks to the JPA:

With respect to program risk, the highly renewable supply portfolio (over 80% renewable energy supply by 2014) proposed by MCE will significantly reduce exposure to fuel price volatility and general upward trends in the cost of this commodity. MCE's Business Plan also proposes to develop significant levels of renewable generating capacity, which will be owned/controlled by the CCA program and will provide CCA customers with access to cost-based generation. This long-term resource supply strategy effectively "locks in" power costs at known levels (based on construction and borrowing/debt costs), resulting in predictable, stable electric rates for MCE customers.

MCE's CCA Business Plan has been specifically developed to mitigate many of the risks that exist in Marin's current energy supply scenario (PG&E bundled service) as well as other, broader-based concerns affecting the Marin Communities (including GHG emission reductions, achievement of related ICLEI targets, etc.). Evaluation of CCA as an energy service alternative has been (and will continue to be) a deliberate, inclusive process with carefully placed off-ramps, or decision points, that will allow prospective participants to make well-informed decisions based on current information before proceeding with successive steps of program implementation.

With these considerations in mind, one potential, but unlikely, risk facing the JPA would be a future significant reduction in natural gas prices. Such a price reduction would likely result in comparatively lower electric rates charged by PG&E. Any resultant discrepancy between CCA and PG&E rates may lead certain customers and JPA members to "second guess" their participation in the program or, potentially, withdraw from the program completely. When considering an unlikely risk, such as the aforementioned scenario, it is important to note that many CCA customers and JPA members would remain unaffected by comparatively high electric rates, as overarching program objectives are focused on broader-based concerns: 1) increased renewable power deliveries; 2) GHG emissions reductions; and 3) long-term rate stability as well as potential cost savings. Short-term rate reductions that may be offered to PG&E customers should not have meaningful impacts on the retention of CCA customers or the program itself; CCA implementation is a long-term energy service solution with long-term, large scale benefits to program customers, the Marin Communities and the environment. Short-term, sort-lived "ebbs and flows" related to energy pricing are not likely to dissuade program participants. The long-term benefits of this proposed program, which include mitigation of natural gas price volatility, rate stability and significant environmental benefits, among others, are expected to provide comparative advantages over investor-owned utility service over the long-term.

Risk to City of San Rafael:

Article 2, Section 2.3, of the Marin Clean Energy Joint Powers Agreements reads:

**“2.3 Formation.** There is formed as of the Effective Date a public agency named the Marin Clean Energy Authority. Pursuant to Sections 6506 and 6507 of the Act, the Authority is a public agency separate from the Parties. Unless otherwise agreed, the debts, liabilities, and obligations of the Authority shall not be debts, liabilities or obligations of the Parties.”

This provision specifically limits the liability of JPA members, noting that “the debts, liabilities, and obligations of the Authority shall not be debts, liabilities or obligations of the Parties.” By inclusion of this provision, the City of San Rafael’s liability, as well as the liability of any other prospective JPA member, is limited to: 1) the specific provisions enumerated in Article 7 (“Withdrawal and Termination”), Section 7.3 (Continuing Liability; Refund), of the JPA Agreement, which apply only in the event of program termination or member withdrawal; and 2) any obligations of the City related to its participation in MCE as a customer. Customer/ratepayer risks and obligations are addressed below.

Risk to rate payers:

As previously noted, MCE’s Business Plan has been specifically developed to mitigate many of the risks that exist with Marin’s current energy provider (PG&E bundled service). In particular, the highly renewable supply portfolio (over 80% renewable energy supply by 2014) proposed by MCE will significantly reduce exposure to fuel price volatility and variability in large hydroelectric production, which can result in increased reliance on natural gas-fired generation during poor water years. In fact, PG&E’s current supply portfolio relies heavily on both natural gas (47% of total supply) and large hydroelectric (13% of total supply) generation, which exposes ratepayers to substantial volatility in electric rates, as these costs are passed through directly to customers. The effects of this volatility are already experienced by PG&E customers. PG&E has recently proposed generation rate increases that will amount to more than 10% by January 2009 (largely the result of rising natural gas prices). These proposed increases are addressed in PG&E’s June 10, 2008 press release: “Pacific Gas and Electric Company today alerted the California Public Utilities Commission (CPUC) that the skyrocketing price of natural gas across the nation and lower than expected hydroelectric power are resulting in higher costs for the electricity PG&E purchases on behalf of its customers.” This press release can be viewed on PG&E’s website: [http://www.pge.com/about/news/mediarelations/newsreleases/g2\\_2008/080610.shtml](http://www.pge.com/about/news/mediarelations/newsreleases/g2_2008/080610.shtml). In consideration of PG&E’s planned investment in natural gas-fired generation within California’s Central Valley (the 560 MW Tesla Generating Station), these rates would further increase, as the projected \$850 million development and construction costs will become a component of PG&E’s rate base.

MCE’s Business Plan also proposes to develop renewable generating capacity, which will be owned/controlled by the CCA program and will provide CCA customers with access to cost-based generation. This long-term resource supply strategy effectively “locks in” power costs at known levels (based on construction and borrowing/debt costs), resulting in predictable, stable electric rates for MCE customers. Moreover, because sustainable, renewable generating supplies do not require fuel inputs (or utilize readily-available, sustainable waste streams, such as various biomass sources: waste wood, landfill/methane gas and agricultural waste), there is no fuel price risk to MCE customers for this portion of the program’s supply portfolio. By 2014, MCE projects that it will procure approximately 19% of its energy supplies from conventional generating sources (though the program’s expressed goal is to achieve 100% renewable power supply as soon as economically and operationally practical); by comparison PG&E will likely procure nearly 50% (similar to its current levels) of its energy supply from natural gas-fired generating sources, resulting in considerable price risk to PG&E customers. Ultimately, MCE’s commitment to substantially decrease reliance on fossil fuel sources will create

stable, predictable generation rates for CCA customers. Over the long term, MCE customers will likely enjoy significant cost savings relative to PG&E, as natural gas costs continue to increase.

There are other potential risks to CCA customers that should be addressed, including impacts of the Cost Responsibility Surcharge (CRS) and reentry fees to PG&E service in the unlikely event that MCE terminates operations. Financial projections of CCA operations include impacts of the CRS, which is the primary component of an exit fee, which is charged to departing load (customers of Marin Clean Energy would be considered departing load as they will no longer receive bundled electric service from PG&E – the CRS is briefly discussed within the Business Plan on page 74). Based on current PG&E rates and wholesale electricity prices (and according to PG&E's most recent regulatory filings), the CRS is determined to be zero and does not impact the analysis except in sensitivity cases. If market prices were to decline below expected levels, the CRS could become positive because the CRS is inversely related to the market value of electricity. Such an increase in the CRS could adversely impact CCA ratepayers by imposing higher costs (through a higher CRS). This seems unlikely however, as electricity prices do not seem headed for a decline in the foreseeable future.

In the event of an involuntary return to bundled service (in the unlikely event that the CCA decided to terminate the program), the law requires that a CCA carry a bond or insurance to cover any reentry fees that would be charged to customers. The CPUC has established an interim bond amount of \$100,000, consistent with the bonding requirements applicable to direct access providers. PG&E and SCE have argued that the bond amount should be much higher to cover an extreme event such as mass return of customers during an energy crisis where the utility would need to buy power for the returning customers at very high prices. In the case of the San Joaquin Valley Power Authority (SJVPA), PG&E proposed a bond amount of between \$70 million and \$140 million, while SDG&E proposed a bond amount of \$700,000. SJVPA suggested various factors that would mitigate reentry costs including the facts that: 1) SJVPA would have contractual rights to electric resources sufficient to serve the returning customers; 2) under PG&E's scenario of an energy crisis the SJVPA program would be more attractive to customers due to its fixed price supply arrangement with its selected energy supplier, so mass return is highly unlikely; 3) PG&E collects money from customers on behalf of the SJVPA and could withhold payment in case of default on SJVPA's obligations; and 4) SJVPA will have generation and other assets to back its obligations. The CPUC has recently initiated a proceeding to revisit the sizing of the bond during 2008 and define what, if any, additional reentry fees need to be covered in the bond.

33. **Compare and contrast the larger, regional San Joaquin Valley Power Authority with the proposed Marin Clean Energy JPA as to goals, government, operational capacity and experience, customer base, geographic area, and location of resource development and give benefit statements for both.**

#### Goals

The San Joaquin Valley Power Authority (SJVPA) formed a CCA to achieve local control with respect to energy issues/supply, increase reliability of the regional electric system and lower electric rates for all customers. While they are interested in complying with the State Renewable Portfolio Standards (and potentially exceeding the RPS, subject to economic and operational constraints), they are sensitive to increased costs that may result from a highly renewable supply portfolio. SJVPA is not exclusively focused on reducing greenhouse gas emissions but recognizes that the achievement of a 20% RPS by 2010 will likely outpace PG&E's efforts in this regard (PG&E currently serves 12-13% of its customer load with eligible renewable energy supplies). To improve regional reliability and provide access to highly efficient, cost-based generation, SJVPA plans to develop local generating capacity that will serve CCA electric load.

MCE shares SJVPA's goal of owning generating assets to achieve rate savings. An additional benefit (and primary focus) of Marin's CCA initiative is the "unhooking" from the fluctuating costs of fuel inputs by using renewable energy assets. This benefit also results in the achievement of significant greenhouse gas reductions (likely reducing the need for local governments to fund programs that emanate from AB 32 implementation).

### Government

The governance structure of the SJVPA and MCE are very similar. Each JPA would include a number of cities and a County. SJVPA membership includes 11 Cities and 1 County; Marin's proposed program also includes 11 prospective member cities and one prospective member County. The SJVPA sets policy, sets rates, and makes key decisions affecting the Community Choice program. MCE's JPA would operate similarly and would be charged with equivalent decision making responsibilities. In both communities there would be an administrative body, led by an Executive Director or General Manager, overseeing the day-to-day operations and implementing the policy set by the JPA Board. In both programs, an energy service provider has been/will be selected to carry out many of the technical functions associated with program operations.

### Experience and Operational Capacity

The Kings River Conservation District (KRCD), a resource management agency serving portions of Fresno, Kings and Tulare counties in California's Central Valley, has agreed to act as the SJVPA's exclusive administrative agent and will provide all power services to the CCA program. This business relationship was a natural fit based on KRCD's resource management experience. At present, select KRCD management/staff, as well as third-party consultants and legal counsel, are fulfilling responsibilities associated with implementation of the CCA program.

Background regarding KRCD: KRCD was formed through legislation enacted by California in 1951. As noted on KRCD's website ([http://www.krcd.org/about\\_krcd/](http://www.krcd.org/about_krcd/)), "KRCD is a leading resource management agency for the Kings River region serving agriculture, business and residential communities within 1.2 million acres spanning portions of Fresno, Kings and Tulare counties. The mission of KRCD is to provide flood protection, cooperate with other agencies to achieve a balanced and high quality water supply, and develop power resources for the public good."

In the Marin Communities, a similar business relationship could be developed between a local water district and MCE. Participation by NMWD and MMWD during this evaluative process of CCA has not yet resulted in a proposed business relationship (similar to the SJVPA/KRCD business relationship). Such a relationship may evolve as this process moves forward, but MCE has developed its Business Plan and anticipates commencing program operations without this relationship. MCE will be a new organization. As noted in its Business Plan, MCE anticipates hiring an experienced Executive Director who will be responsible for day-to-day operation of the program. Additional management and staff will be hired by the program to fulfill certain responsibilities, such as administration of energy efficiency programs, program marketing and regulatory analysis, while other responsibilities, including portfolio operations and data management, will be administered under contract with experienced third-parties (hired through a competitive solicitation process). Specific duties of the Executive Director, program management/staff and third-party contractors are discussed in the CCA Business Plan (April 2008 – Final Report).

### Customer base

According to the California Partnership for the San Joaquin Valley, the San Joaquin Valley region has one of the highest unemployment rates in the nation and more than 20% of the region's population is below the poverty line (in contrast, the national poverty rate is 12.4%; California's poverty rate is

14.2%). Furthermore, the San Joaquin Valley has one of the lowest per capita income levels in the state and nation. With these considerations in mind, the SJVPA has determined to pursue a program focused on achieving cost savings for program customers.

In contrast, Marin is one of the most affluent geographic regions in our nation, reporting the highest per capita income in the country. Because Marin has expressed an interest in offsetting certain environmental impacts related to energy production and seems willing and able to incur additional costs for the aggressive renewable choice, it has designed a program focused on aggressively pursuing/integrating renewable energy supply. In the event that certain residents or businesses do not want to choose the aggressive Deep Green option, they may opt-out of the Light Green program and/or continue receiving bundled electric service from PG&E. Residents and businesses within the San Joaquin Valley will be given the same opt-out opportunity, according to state law.

#### Geographic areas

SJVPA's program is being implemented in California's Central Valley within the greater Fresno area. California's Central Valley experiences peak electric demand during the summer season.

MCE's program will be implemented within the Marin Communities: Marin County and the 11 Cities within the jurisdictional boundaries of Marin County. The Marin Communities experience peak electric demand during the winter season. Due to Marin's temperate climate, it has a relatively flat load shape, which makes serving customer load much easier (fewer spikes, or peaks, resulting from increased demand during extreme temperatures) than in California's Central Valley. This is a distinct advantage of the Marin CCA program as it plans for and manages electric resources.

#### Location of resource development

The Kings River Conservation District, a resource management agency serving portions of Fresno, Kings and Tulare counties in California's Central Valley, has agreed to act as the SJVPA's exclusive agent and will provide all power services to the CCA program. As an experienced generation operator and developer, KRCD plans to construct a highly efficient, combined-cycle power plant (fueled by natural gas) that will potentially serve the majority of the SJVPA's electric requirements. The proposed plant is currently undergoing licensing review by the California Energy Commission (in September 2007, the CEC determined that the Application for Certification for the KRCD Community Power Plant was "data adequate"). This generating facility will be located just south of the Parlier Wastewater Treatment Plant on Bethel Avenue between Manning and Dinuba Avenues. Construction is expected to start in 2009; facility completion is expected in 2011.

MCE plans to develop a portion of its renewable generating capacity within the jurisdictional boundaries of the participating communities; discussions have already begun with a local landfill that has approximately 6-8 MW of renewable generating capacity. Other renewable generating resources may be developed outside of member jurisdictions based on economic and operational considerations related to chosen generating technologies (such as wind, solar and geothermal), which will significantly influence generator performance/production. At this time, identifying specific generating sites for the MCE program is premature, as the Marin Communities are still engaged in program evaluation and necessary community outreach. MCE will begin to identify alternative development sites following formation of the JPA.

34. **Finally, with regard to budgets, what are the start up cost estimates and the City of San Rafael's share of the MCE JPA before the JPA receives sufficient revenue to carry the full burden of its prepatory activities and implementations, together with backup data?**

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The start-up costs will range from between \$500,000 and \$750,000. This will include the cost of technical consultants, legal expenses, and some initial staffing. This will cover the costs of issuing the Request for Proposal, reviewing proposals, and developing a contract with an Energy Service Provider. These costs are built into the business plan and would be paid back after operations are launched. This cost estimate is based on data from start-up costs for the SVJPA.

It has yet to be determined how the start-up costs will be fully funded. The Marin Municipal Water District recently contributed \$130,000 to help cover some of these costs. In addition, the Board of Supervisors will consider to what extent they may fund the effort once the State budget impact on the County is known. The JPA agreement does not require funding from member jurisdictions to join the JPA.

Details related to MCE's organizational plan are discussed in Chapter 2 of the April 2008 Business Plan (starting on page 18). Details related to MCE's financial plan are discussed in Chapter 4 of the April 2008 Business Plan (starting on page 60).