TO: TRANSPORTATION AND ENVIRONMENT COMMITTEE
FROM: Kerrie Romanow

SUBJECT: SEE BELOW
DATE: January 15, 2016

SUBJECT: COMMUNITY CHOICE AGGREGATION UPDATE

RECOMMENDATION

(a) Accept the report regarding Community Choice Aggregation; and

(b) Direct staff to develop a Request for Proposals for an entity to develop, finance, launch, and operate a Community Choice Aggregation program in San José and return to Council in fall 2016 to present recommendations.

OUTCOME

This report will inform the Transportation and Environment (T&E) Committee on the recent developments of Community Choice Aggregation (CCA) programs in California. Staff will receive direction from T&E Committee members to proceed with a Request for Proposals (RFP) for an entity to develop, finance, launch, and operate a CCA program for San José. Staff will return to Council in fall 2016 with recommendations.

EXECUTIVE SUMMARY

San José is driven by State and local policy to meet significant renewable energy, energy efficiency, and greenhouse gas emissions reduction goals within the next decade and beyond. A CCA program is an option for helping to substantially progress towards these goals in a relatively short time. Operational CCA programs in California are demonstrating how the benefits associated with a CCA are coming to fruition with the development of local renewable energy projects and programs and with increased renewable power mix options - all while keeping customer rates comparable with existing utility rates. There are risks associated with implementing a CCA program, but these risks can be mitigated through careful planning and implementation.
Staff recommends that Council accept this update on CCA and direct staff to issue an RFP for an entity to provide comprehensive CCA development (including a technical study and community outreach), launch, and operational services for San José with no upfront costs. The RFP would include the following objectives:

1. Keep customer rates cost competitive with PG&E’s rates;
2. Increase the renewable energy in the power mix to exceed the baseline power mix offered by PG&E by a minimum of 10 percent;
3. Receive a share of CCA revenues for use on local, energy programs;
4. Deliver local renewable energy development and energy-efficiency programs at or above current budget levels;
5. Ensure low-income program offerings are, at minimum, on par with current PG&E offerings; and
6. Provide the City with option to assume operations of CCA.

BACKGROUND

Legislative and Policy Drivers
For over a decade, the City of San José has been guided by state legislation and local policy to reduce carbon emissions and increase energy efficiency and the use of renewable energy. In 2006, the State of California adopted Assembly Bill (AB) 32 which requires a reduction in greenhouse gas (GHG) emissions throughout the state to 1990 levels by the year 2020 and to 80 percent below 1990 levels by the year 2050. In April 2015, Governor Jerry Brown issued executive order B-30-15 which established an interim California GHG reduction target of 40 percent below 1990 levels by 2030.

In 2007, the City adopted its Green Vision which includes 10 goals to be implemented by 2022. Green Vision Goal 3 is for the City to receive 100 percent of its electricity from clean, renewable sources and Green Vision Goal 2 is to reduce per capita energy use by 50 percent. As an update to the City’s Green Vision goals, in April 2015, the Council directed staff to 1) prioritize the reduction of GHG emissions, along with ensuring a more sustainable water supply and transportation mode shift, in future Green Vision reporting and 2) “Broaden measures of usage of renewable sources of electricity to include the residential and business community.”

In November 2010, the City adopted the Envision San José 2040 General Plan which included Goal MS-2 to “…maximize the use of renewable energy sources” and adoption of a GHG Reduction Strategy. A review and an update of the GHG Reduction Strategy’s inventory, to assess progress and add policy mitigations as needed, is currently underway as part of the Plan’s Major Review (4-Year Review) occurring 2015 through 2016.

In 2015, Senate Bill (SB) 350 was signed into law in California. SB 350 increased the requirements of the State’s Renewable Portfolio Standard (RPS), the proportion of retail electricity sales that are required to come from renewable electricity sources, to require 40
percent renewable energy by 2024, 45 percent by 2027, and 50 percent by the end of 2030. As of 2014, Pacific Gas & Electric Company (PG&E), San José’s current energy service provider, provides a 27 percent renewable power mix.

CCA Overview
CCA is an energy procurement model that allows local governments to pool or aggregate the electric load of their residents, businesses and institutions to purchase electricity on their behalf. The CCA program will determine the source of the electricity and the customer rates while the transmission of the electricity and the electricity billing would continue to be provided by PG&E. The local government is able to: 1) offer consumers a choice of electricity source, including a more renewable power mix, 2) locally control how ratepayer revenue is spent and keep those revenues in the community rather than compensating the incumbent utility and its shareholders, and 3) potentially make significant reductions in community GHG emissions. The CCA is the default provider of electricity, but customers may “opt out” of the CCA at any time if they prefer to stay with PG&E, though minor fees and some time restrictions may apply. In communities where a CCA program currently exists, revenues fund local energy conservation programs and existing and new local renewable power generating capacity. For example, Marin Clean Energy dedicates 50 percent of the revenues from its “Deep Green” (100 percent renewable) option premium to its local renewable development fund and expects its first Marin Clean Energy-owned 10.5 MW solar project in Richmond, CA to be online by August 2016. Sonoma Clean Energy purchases 50 MW of local geothermal power and has signed on to a deal for a 12.5 MW solar project in Sonoma County.

CCA has been in existence in the United States since 1997. California, under AB 117 (2002) and SB 790 (2011), is one of seven states that currently allows the formation of a CCA program. Several key elements are required by the enabling State statutes to proceed with CCA implementation, including: an adopted ordinance, identification of an administering entity, implementation plan, a utility service agreement, and a customer enrollment management plan.

Status of CCAs in California
The first CCA program in California was Marin Clean Energy in 2010. This was followed by Sonoma Clean Power in 2014 and Lancaster Choice Energy in May 2015. While not statutorily required, all currently operational CCAs have conducted some form of a feasibility report and a technical study prior to CCA program implementation. A feasibility or assessment report may evaluate the history of CCAs and the current landscape, CCA formation requirements, risks, energy procurement and market analysis, and some amount of jurisdiction-specific load analysis. The technical study utilizes jurisdiction-specific data to analyze CCA program operations over a period of time under different power mixes and program sizes, rate impacts and environmental benefits, and anticipated start-up and other financing costs. For example, the technical study will assume that the community’s direct access customers, who are already directly purchasing their electricity from competitive electric service providers, will not be participating in a CCA program and evaluate the technical feasibility of a program in San José accordingly. San José’s direct access customers represent approximately 20 percent (over 1 billion kWh) of its energy usage, compared to 10 percent of usage in San Mateo County and 17 percent under the Silicon
Valley Community Choice Energy Partnership (SVCCEP). PG&E is currently not accepting any new direct access customers.

Currently, the neighboring jurisdictions of San Mateo County, Alameda County, and the City and County of San Francisco are also in varying phases of CCA implementation. The cities of Sunnyvale, Mountain View, Cupertino, and unincorporated area of Santa Clara County, under the SVCCEP, have completed an assessment report and draft technical study to inform CCA program implementation. The SVCCEP technical study was expanded to include eight additional communities in Santa Clara County: Campbell, Los Altos, Los Altos Hills, Los Gatos, Gilroy, Monte Sereno, Morgan Hill and Saratoga. SVCCEP communities, Sunnyvale, Mountain View, and Cupertino, are moving forward with adopting CCA ordinances and are hosting community outreach meetings.

Other California communities are in various phases of exploring CCA including, but not limited to, Lake, Humboldt, Mendocino, and Los Angeles (LA) Counties. The Redwood Coast Energy Agency (RCEA), representing the Counties of Humboldt and Mendocino, issued a Request for Proposals (RFP) in December 2015 that will procure comprehensive services with no upfront costs to support the development, financing, launch, and operations of a CCA program in Humboldt County. Services would include community engagement support and technical, financial, and risk analysis. Lake County, which completed a feasibility study in May 2015, is planning to issue a RFP similar to RCEA’s in February 2016. LA County hired a consultant to conduct a preliminary technical analysis on the feasibility of establishing CCA for the County’s unincorporated areas, with the potential to expand to other local entities. LA County will also be conducting a financial assessment on end-user monthly rates which is planned to be presented to the LA County Board of Supervisors in February 2016. Attachment A provides an overview of operational and emerging CCA programs in California.

Previous Direction from T&E Committee
At the September 4, 2011 T&E meeting, the T&E Committee recommended that staff not proceed with further CCA efforts at that time; directed staff to continue monitoring CCA developments; and return at a future date with recommendations for a work plan should circumstances change. At the May 4, 2015 T&E meeting, staff presented the San José Energy Plan Framework which noted that several Bay Area communities were exploring CCAs. The T&E Committee provided direction to staff to return to T&E in fall 2015 with an update on CCA. Due to emerging developments in CCA, this update was deferred to February 2016.

ANALYSIS

Since 2007, San José’s percentage of renewable energy has increase incrementally from approximately 13 percent to 24 percent in 2013. Given that PG&E’s power mix was 27 percent renewables in 2014, San José’s percentage of electricity from renewable resources is likely close to 30 percent for 2014. In comparison, Marin Clean Energy was approximately 63 percent across its customers in 2014.
While the total MegaWatts (MW) of solar installed in San Jose has increased substantially since 2007 (from 5 to 72 MW in 2013), if solar installations continue to increase at the current rate, the City will not move substantially towards its goal of 100 percent renewables. San José's total percentage of electricity from renewable resources continues to be primarily driven, approximately 90 percent, by the power mix that it receives. PG&E's mix of renewable energy in its portfolio is mandated to reach 33 percent in 2020 and 50 percent in 2030.

Based on 2013 data, which is the most recent data available, San José has seen a four percent increase in total energy use and an eight percent decrease in per capita energy use since 2007. If per capita energy use reductions continue at the current rate, the City would likely not meet its goal of a 50 percent reduction in per capita energy usage.

In order to reach its Green Vision and GHG reduction goals, the City would need to receive a much greater percentage of its electricity from renewable sources and increase energy-efficiency substantially in a relatively short time. As discussed in the Results from Operational CCAs section below, operational CCAs have provided jurisdictions considering these programs with evidence that a CCA program can help communities ramp up their use of renewable energy, potentially at a comparative price, and implement energy-efficiency programs. If San José continues with its current energy provider model, it would need to evaluate other energy programming to move towards its renewable energy, energy efficiency, and GHG reduction goals.

Benefits
The benefits to a community of implementing a CCA program may include:

- **Local control of the source of a community's electricity** – By having the option to include more renewable energy in the baseline electricity product and to offer optional higher levels of renewable energy to customers, a CCA program can provide a mechanism for reducing a community’s GHG emissions.

- **Local control of electricity revenues** – Local control over revenues paid by ratepayers for electricity generation allows for the use of revenues to implement energy efficiency programs tailored to a community as well as local renewable energy projects.

- **Enhanced potential for local economic growth** – CCA programs can create “green jobs” locally for the building trades industry to construct and maintain local renewable electricity generation.

- **Increased consumer choice** – With a CCA, consumers have a choice of electricity providers. By increasing competition in the energy marketplace, there is the potential for reduced electricity pricing.
Risks
There are a number of known risks of a CCA program including: the general volatility of the energy market and specifically changes in supply and demand (therefore pricing of renewable energy); legislative and regulatory changes (e.g. changes in PG&E surcharges, expiration of the Investment Tax Credit for renewable energy installations); and the customer opt-out rate. Most of the risks are applicable across all CCA programs in California and have been previously evaluated in existing CCA feasibility studies which have also identified measures to significantly mitigate the risks. Any proposed CCA program for San José should consider and mitigate any San José specific risks and mitigation measures associated with San José’s load profile, electricity customer base, and varying program size and power supply scenarios.

Results from Operational CCAs
The two CCAs that have been operational in California for over a year, Marin Clean Energy (2010) and Sonoma Clean Power (2014), were able to provide lower electricity rates to their communities. Depending on the customer sector, the average customer bills are between 0.2 percent and 19.7 percent lower than PG&E’s. This competitive pricing is maintained while still offering a higher percentage of renewables. Marin Clean Energy offers a 50 percent and 100 percent renewables option while Sonoma Clean Energy offers a 36 percent and 100 percent renewables option. See Attachment A for a summary of electricity rates and renewable power mixes for operational CCAs in California.

These two CCAs both created net positive revenues after one year of operation. In the case of Marin Clean Energy, annual net revenues have grown each year of operation. With these revenues, both CCAs have also been able to develop local energy efficiency programs and renewable energy projects. Given that San José still needs to make substantive progress towards Green Vision Goal 2 and 3, additional revenues for community energy programs would support this progress.

CCA Issues for Analysis and Consideration
The experience of the currently operational CCAs in California provides insight into the issues discussed below. The City should further evaluate these issues, using data specific to San José, to determine the best approach if San José wishes to proceed with a CCA program.

Governance Structure
There are currently three basic frameworks for how a local government can choose to form and govern a CCA program:

1. establish a multi-jurisdictional joint powers authority (JPA);
2. establish a single jurisdiction governance authority; or
3. contract with a private company to provide “turnkey” services for the start-up and administration of the CCA.

In this last instance, the private company would use its own financial resources to start-up and administer the CCA program and then would share in the CCA revenues as compensation. Attachment A includes the governance structure of operational CCAs.
Start-up Costs

Start-up costs for operational CCAs have been between $1,500,000 to $2,000,000 and other emerging CCAs have allocated budgets within a similar range. The SVCCEP’s draft technical study estimated start-up costs of approximately $2,900,000. CCA start-up costs can include, but are not limited to: internal staffing, consultant services for contract and financing negotiations and a technical study to inform program launch and operations, marketing and customer noticing, debt service, and a $100,000 bond requirement. Attachment A includes a summary of actual and estimated start-up costs of CCAs in California.

While all operational and emerging CCAs have conducted some form of a feasibility or initial assessment report and technical study prior to launch, there now exists a fairly standard format for the feasibility reports with several sections having analysis which is applicable across different communities. While there is now also a standard format for a CCA technical study, this study is highly jurisdiction-specific and should be conducted prior to the formation of a CCA program in San José. SVCCEP and LA County recently allocated $450,000 and $300,000 respectively for their technical study phases. SVCCEP’s technical study phase included a community outreach and input component.

A CCA would also need working capital beyond the aforementioned start-up costs to cover cash flow needs, primarily arising from the timing lag between power purchase payment deadlines and the receipt of customer revenues. For SVCCEP, this figure is estimated at $9,000,000.

Both the new JPA and single jurisdiction forms of CCA governance require upfront financing although start-up costs can be recovered by the participating jurisdiction(s) from revenues after service commences. If a local government is being served by a privately-administered CCA program, it would leverage the financial resources of the private company for the start-up costs. This service model holds appeal for those local governments choosing not to commit the substantial amount of public funds for such a venture. As mentioned above, the private company would share in the CCA revenues as compensation. The details of the revenue sharing agreement would be unique to each CCA program and determined through the procurement and negotiation process. This governance structure option has not yet been utilized by an operational CCA. However, it’s anticipated to be a consideration in the RCEA and upcoming Lake County RFPs.

Roll-out Process

Based on the experience of operational CCAs, extensive public outreach should be conducted prior to a CCA program launch. In addition, the Marin Clean Energy and Sonoma Clean Power chose to launch to customer sectors in phases to facilitate a smoother roll-out of the program. For example, a CCA program may choose to first roll-out to municipal accounts and those customers self-identifying themselves for early implementation. If it chooses to move forward with a CCA program, San José should consider an appropriate phased implementation approach.
**PG&E Exit Fees**

CCAs are subject to an exit fee also known as Power Charge Indifference Adjustment (PCIA). The exit fee is meant to ensure that costs do not shift to customers that remain with the utility when a CCA program is established by helping the existing utility to pay for energy it contracted for when it had more customers. Exit fees are set on an annual basis and are locked in for customers based on the date of their service change.

The PG&E PCIA has been approximately $0.01/kWh, but a California Public Utilities Commission (CPUC) decision in mid December 2015 increased the PCIA to approximately $0.02/kWh. Marin Clean Energy customers paid $19,300,000 in exit fees to PG&E in 2015 which is expected to increase to $36,000,000 in 2016. The cost for each Marin Clean Energy residential customer would nearly double from about $6.70 each month to $13. Despite the exit fee increase, there has been no indication that CCAs are no longer viable in their efforts to offer greener energy at competitive rates and increases in exit fees are typically built into the technical study. However, with the exit fee increase, CCA customers will likely see some diminished savings over remaining with PG&E and a reduction in CCA program revenues.

**Local Energy Efficiency Programs**

The City of San José has been a Local Government Partner with PG&E, implementing Santa Clara County’s commercial, hard-to-reach residential, schools, and municipal energy efficiency programs under the Silicon Valley Energy Watch (SVEW) since 2004. Funding for SVEW activities comes from the Public Goods Charge on every rate payer’s bill and is directed by the CPUC and administered by the state’s four investor-owned utilities (including PG&E). Since 2004, San José has had approximately $4,000,000 in PG&E contracts for SVEW programs. If San José chooses to implement a CCA program, revenues from the CCA can be used to provide energy programs which will supplement the SVEW program offerings. This form of dual-funded community energy efficiency/renewable energy program has been successfully modeled under Marin Clean Energy and Sonoma Clean Power.

Additionally, Marin Clean Energy recently submitted an application that if approved by the CPUC in 2016 would make CCAs the default provider of energy efficiency programs in their service territories. If approved this would be a change from the current paradigm of utility-managed programs and local Energy Watch partnerships.

**Other Renewable Electricity Options**

The Green Tariff Shared Renewables (GTSR) program is designed to allow PG&E, Southern California Edison, and San Diego Gas & Electric customers to receive 50 – 100 percent of their electricity demand from solar generation. GTSR was created by Senate Bill (SB) 43 (2013) and has a capped enrollment of 600 megawatts (MW) statewide. The program is due to close on January 1, 2019 for new subscribers, but existing subscribers as of January 2019 may continue to participate after that date.

PG&E has been a supportive and long-term partner in the City’s energy programming. Under the GTSR, they are also planning to offer its Solar Choice program, which provides residential
and business customers the chance to purchase up to 100 percent of their electricity from solar power or to purchase a share of a local solar project directly from a solar developer and receive a credit from PG&E for the customer’s avoided generation procurement, in early 2016. This would be a new option for PG&E customers. One potential limitation is because the cap on the number of customers who can participate, the GHG reduction potential in a community and renewable energy generated is capped as well. There is a cost premium for customers who choose to participate in the 100 percent solar option and GTSR does not provide for local control of energy programs.

**Recommendation**

CCAs are complex entities to establish and legal, financial, and operational risks exist. However, the existing CCAs are showing how these risks can be mitigated through careful planning and implementation, and can help communities achieve renewable energy, energy efficiency, and GHG reduction goals.

Staff recommends that Council direct staff to issue a RFP for an entity to provide comprehensive CCA development (including a technical study and community outreach), launch, and operational services for San José with the following CCA program objectives:

1. Keep customer rates cost competitive with PG&E’s rates;
2. Increase the renewable energy in the power mix to exceed the baseline power mix offered by PG&E by a minimum of 10 percent;
3. Receive a share of CCA revenues for use on local, energy programs;
4. Deliver local renewable energy development and energy-efficiency programs at or above current budget levels;
5. Ensure low-income program offerings are, at minimum, on par with current PG&E offerings; and
6. Provide the City with option to assume operations of CCA.

While this option would require revenue sharing and shared decision-making with another entity (e.g. a private company or existing JPA), it would eliminate the need for the City to provide funds upfront for the cost of developing, implementing, and operating a CCA.

**EVALUATION AND FOLLOW-UP**

When returning in fall 2016 with recommendations related to the RFP process, staff will present a CCA program work plan, including technical study development, and options for proceeding with CCA operations.

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POLICY ALTERNATIVES

Alternative #1: Direct Staff to Issue a Request for Qualifications for a Consultant to conduct a San Jose-specific technical study.

Pros: This alternative would allow for an analysis of the benefits and risks of a CCA program specific to San José’s customer load profile, potential program size, and various power supply scenarios prior to Council direction on whether to proceed with a CCA program implementation.

Cons: This alternative would require the City to fund a technical study upfront and would require a budget request estimated at approximately $500,000 as part of the FY 2016-2017 budget process. It would also require a subsequent procurement and contracting process if San Jose decided to proceed with CCA program launch and operation.

Reason for not recommending: This alternative is not recommended as it would require upfront funding expected to be approximately $500,000 and would not offer the benefit of a streamlined procurement and contracting process.

Alternative #2: Direct Staff to Take No Action on CCA and Return with an Enhanced PG&E Partnership Plan

Pros: Not moving forward with a CCA has no cost nor staff workload implications. An enhanced PG&E partnership would allow for the expansion of energy programs and funding to progress towards San José’s energy and GHG goals.

Cons: The outcomes of negotiations on an enhanced PG&E partnership are uncertain.

Reason for not recommending: This alternative is not recommended as there is no clear path to achieving San José’s energy and GHG reduction goals.

PUBLIC OUTREACH

This memorandum will be posted on the City’s website for the February 2, 2016 T&E agenda and will be heard at the February 23, 2016 City Council meeting.

COORDINATION

This report has been coordinated with the Attorney’s Office, Office of Economic Development, and the City Manager’s Budget Office.

COST SUMMARY/IMPLICATIONS

There are no cost implications associated with issuing a RFP for CCA program implementation. Costs associated with CCA program implementation would be identified in the proposal received through the RFP process and would be recovered, unless otherwise negotiated in the RFP process and brought forth for Council consideration, from CCA program revenues if a CCA program is implemented.
(a) Accept this report regarding Community Choice Aggregation
Not a project, File No. PP10-069 (a) City Organizational & Administrative Activities

(b) Direct staff to develop a Request for Proposals for an entity to develop, finance, launch, and operate a Community Choice Aggregation program in San José and return to Council in fall 2016 to present recommendations.
Not a project, File No. PP10-068 General Procedure & Policy Making

/s/
KERRIE ROMANOW
Director, Environmental Services

For questions, please contact Rene Eyerly, Sustainability and Compliance Manager, at (408) 975-2594.

Attachment A – Overview of CCAs in California