CITY OF BEVERLY HILLS
STAFF REPORT

Meeting Date: October 6, 2009

To: Honorable Mayor & City Council

From: Shana Epstein, Environmental Utilities Manager

Subject: Energy Options

Attachments:
1. Copy of Staff Report Dated October 2, 2006
2. A Conceptual Plan for the Formation of a Community Choice Aggregation Program dated July 6, 2007
3. Article entitled "Community Choice Aggregation in California" dated Summer 2009

INTRODUCTION

Community Choice Aggregation (CCA) is an opportunity for local jurisdictions to purchase generation for their communities in aggregate on the open market. CCA became available in 2003. The City of Beverly Hills as evidenced by the attached documents was one of the first communities to initiate feasibility studies to consider this as a viable energy option. With the last study completed in 2007, the Public Works Commission was not willing to recommend continuing this project until other communities had successfully implemented. Since the success of this program depended upon community support staff put this project on hold.

DISCUSSION

The energy industry is divided into three segments – generation, transmission and distribution. CCA allows local government to enter the energy business by controlling the generation portion and leaving the transmission and distribution to the incumbent energy provider, SCE. Established municipal energy utilities like Burbank, Glendale and Los Angeles are engaged in all three segments of the industry. The other component of CCA that is favorable is that, customers must "opt-out" if they do not want the City to purchase or build power for their demand. Therefore, the City does not have to market to customers to sign up for service, but rather accept that the City would take on a new role. If the City pursues becoming an aggregator, then the SCE bill would include the City's charges for generation.

The City first began investigating this option in 2005. With the initial study complete and presented to City Council, the program was not funded to continue the next assessment of feasibility. At that time, the program was most feasible if the City issued municipal bonds and built its own generation rather than just purchase it on the open market. So, the potential program came with tremendous up front investment.

Then in the fall of 2006, the City Council reconsidered that decision due to the SCE rate increases. With the increase in SCE rates, the City could become an aggregator by just purchasing power on the market. The second phase of the study commenced with West Hollywood as a partner. West Hollywood shared the expenses of the study. It is important to note that the energy consumption of Beverly Hills was feasible on its own to become an aggregator, but that was not the case for West Hollywood.

The second phase of the study was completed and presented to the Public Works Commission in October of 2007. At that time, the Public Works Commission was concerned with the risks of entering the energy markets and wanted to see how the program was implemented in other communities. To date, San Francisco and a collective body of some Marin County Cities are pursuing becoming a Community Choice Aggregators. Therefore, staff has maintained a holding pattern on this project.

Attached are three separate items to assist in presenting information on the benefits and risks of becoming a Community Choice Aggregator. The benefits are local control, possible lower rates to consumers, and ability to purchase more green power than what the investor owned utilities are required. The risks are the City has upfront starting costs and would be entering an industry that actively trades a commodity.

FISCAL IMPACT

Staff is not requesting any funds for this project. This report serves as a historical reference to past investigations about Community Choice Aggregation.

RECOMMENDATION

Informational Item Only

David Gustavson
Approved By

ATTACHMENT 1

CITY OF BEVERLY HILLS

STAFF REPORT

Meeting Date: October 3, 2006

To: Honorable Mayor & City Council

From: Shana Epstein, Environmental Utilities Manager

Subject: Community Choice Aggregation

Attachments: 1. Exhibit - Spreadsheets

INTRODUCTION

The City of Beverly Hills is currently dependent upon Southern California Edison (SCE) to supply electricity. The electricity business is divided into three parts: generation, transmission, and distribution. The Local Government Commission, a non-profit, has a grant from the State to explore the regional possibilities of aggregating the electric load either through purchasing power or owning power, which is the generation portion of the electricity industry. On November 5, 2003, the City Council approved the City's participation in assessing the value of community choice aggregation. The benefit of this study is to evaluate the City's options with respect to purchasing power. The City is now beginning Part A of the second phase of an Implementation Study to investigate further the costs, benefits, and risks of becoming a Community Choice Aggregator. The City is still considered part of the demonstration project, which has partial funding from the State.

DISCUSSION

In 2003, AB 117 was signed by Governor Davis and enacted into law. This legislation allows cities to aggregate power for their communities. The ability to aggregate was suspended during the energy crisis. In addition, now the City may aggregate the community's load and a customer would have to opt-out if the customer did not want to participate. Another benefit of this legislation allows communities to apply to be the administrator of the Public Goods Charges to fund and enhance energy efficiency programs. Now SCE or the State distributes the Public Goods Charges through grant programs and give-a-ways. SCE in the City's case would still distribute the electricity to customers.

Navigant Consulting received grant funding from California Energy Commission (CEC) through the Local Government Commission to do a pre-feasibility study in three regions

that are served by the three large investor-owned utilities. In the summer of 2005, staff and Navigant presented the pre-feasibility study to the City Council.

Overall, the City agreed to participate in this feasibility study to investigate the advantages of local control, reliability and renewable energy sources as being the provider of power generation to the members of the Beverly Hills community. The conclusion included the following:

- The City as a Community Choice Aggregator under identified assumptions will be able to provide lower rates to customers.

- If the City selects to double the renewable energy source requirements from the current legislation (20% of the energy load shall be renewable by 2017), then this investment will not be prohibitively expensive. In some cases this may stabilize rates for the Beverly Hills community because the City will be less dependent on fossil fuels.

- The City will accept risks in buying, selling and/or producing power. All these risks have mitigation measures and some may be borne by the program's suppliers rather than the City, but they are risks still the same.

- Additional benefits may be realized by venturing into Community Choice Aggregation with like-minded cities such as West Hollywood in a Joint Powers Authority or Southern California Public Power Association.

During the summer of 2005, the City Council did not direct staff to continue with the next phase. With SCE's recent rate increase, the City staff recommends additional investigation of this option. The City of West Hollywood is sharing the expenses with the City to complete the Implementation Study (Phase 2) Part A that is required if the City eventually chooses to become a Community Choice Aggregator.

The Phase 2A work includes several tasks that will expand upon the Phase 1 feasibility study to provide a sound basis for the City to decide whether to continue to the final step (Phase 2B) of developing a formal Implementation Plan for submission to the California Public Utilities Commission. The Phase 2A scope includes the following tasks:

- Pro forma update – This step uses the most current customer data from SCE to update the feasibility study.
- Organizational plan – The management structure is defined to enhance the evaluation of costs.
- Supply plan – Define the energy load and how it should be supplied.
- Proposal solicitation – Release request for proposals to energy suppliers and evaluate the different proposals.
- Final evaluation – A complete report with recommendations incorporating updated statistics from SCE and the price offerings.

With the new SCE rate increase, staff and Navigant estimate that in the first year as a Community Choice Aggregator, the City could save $350,000 and the overall community could save $1.2 million in electricity costs. The attached spreadsheets show the original study results and updated results with the new SCE rates with the assumptions of power supply, operational costs and market demand. Staff prepared a comparison if the City stays at status quo versus becoming an aggregator.

Meeting Date: October 3, 2006

FISCAL IMPACT

The pre-feasibility study only cost the City $14,800. The next phase will cost the City $40,300. The funds are available in Fiscal Year 06/07 Budget. The amount of this study is minimal compared to the possible savings to the City's operating budget and the community's overall electric cost savings. In addition, the cost of this study is subsidized by the State, since the City is part of the Local Government Commission demonstration project.

RECOMMENDATION

Informational only.

David Gustavson
Approved By

Copy

August 2006 Update	Southern California Edison	BH Community Choice Aggregation
Ownership		
Generation	SCE	Competitive Suppliers
Transmission	ISO/SCE	ISO/SCE
Distribution	SCE	SCE
Rate Discounts in Comparison to SCE		
2006 - Generation		17%
2006 - Total		13%
2024 - Generation		30%
2024 - Total		23%
Traditonal Power Costs		
2006 - Annual City Costs		
2006 - Annual Community Costs	$ 92,059,109	$ 80,380,492
2024 - Annual City Costs		
2024 - Annual Community Costs	$ 177,033,088	$ 135,746,233
O&M for 2006 with Startup		$ 55,794,873
Power Supply Costs		$ 50,942,343
Other Costs		$ 4,728,589
Utility Operations		$ 123,941
Interest Expense for 2024		$ 293,806
Revenue for 2006		
Retail Sales		$ 55,426,992
Market Sales (ie excess)		$ 661,688
Average Rate ($/kwh)		$ 0.09885
Net Revenue		$ 1
O&M for 2024		$ 96,458,789
Power Supply Costs		$ 92,488,571
Other Costs		$ 3,673,977
Utility Operations		$ 296,241
Interest Expense for 2024		$ 589,457
Revenue for 2024		
Retail Sales		$ 97,048,246
Market Sales (ie excess)		$ -
Average Rate ($/kwh)		$ 0.11294
Net Revenue		$ -
Values		
2006 - Renewable Energy	$ 106,533,275	$ 106,533,275
	19%	19%
2024 - Renewable Energy	$ 171,854,493	$ 343,708,986
	20%	40%
Capital		
Startup		$ 400,458
Generation - 2024 Cummulative		$ -

Sept 2007 Update	Southern California Edison	WS Community Choice Aggregation
Ownership		
Generation	SCE	Competitive Suppliers
Transmission	ISO/SCE	ISO/SCE
Distribution	SCE	SCE
Rate Discounts in Comparison to SCE		
2009 - Generation		5%
2009 - Total		4%
2015 - Generation		8%
2015 - Total		6%
Traditonal Power Costs		
2009 - Annual City Costs		
2009 - Annual Community Costs	$ 112,523,011	$ 108,081,725
2015 - Annual City Costs		
2015 - Annual Community Costs	$ 146,889,992	$ 137,925,430
O&M for 2009 with 2008 Startup		$ 84,766,585
Power Supply Costs		$ 65,541,951
Other Costs		$ 12,673,041
Utility Operations (A&G)		$ 6,551,592
Interest Expense for 2009		$ 293,806
Revenue for 2009		
Retail Sales		$ 84,886,558
Market Sales (ie excess)		
Average Rate ($/kwh)		$ 0.10818
Net Revenue		$ 119,973
O&M for 2015		$ 102,916,520
Power Supply Costs		$ 82,926,301
Other Costs		$ 14,783,637
Utility Operations		$ 5,206,582
Interest Expense for 2015		$ 589,457
Revenue for 2015		
Retail Sales		$ 107,641,160
Market Sales (ie excess)		
Average Rate ($/kwh)		$ 0.12546
Net Revenue		$ 4,724,639
Values		
2009 - Renewable Energy (kWh)	$ 149,089,066	$ 156,935,859
	19%	20%
2015 - Renewable Energy (kWh)	$ 171,600,458	$ 429,001,144
	20%	50%
Capital		
2008 Startup Costs		$ 2,019,355
Generation - 2015 Cummulative		$ -
Demand (kWh)		
2009		$ 784,679,294
2015		$ 858,002,288

ATTACHMENT 2

NAVIGANT CONSULTING

A Conceptual Plan for the Formation of a Community Choice Aggregation Program

Prepared for:

THE CITIES OF BEVERLY HILLS AND WEST HOLLYWOOD

July 6, 2007

Presented by

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OVERVIEW

Legislation from the 2002 session (AB 117) grants cities and counties authority to aggregate customers within their jurisdictions for purposes of procuring electricity on a wholesale basis as an alternative to those customers taking the generation supply services of the local investor owned utilities. The Cities of Beverly Hills and West Hollywood (Cities) engaged Navigant Consulting, Inc (NCI) to study the feasibility of offering such services and to assist in developing associated business and organizational plans. Under Community Choice Aggregation (CCA), customers currently served by Southern California Edison (SCE) would be given the opportunity to participate in the aggregation program offered by the Cities. SCE would continue to deliver the electricity, send bills to the customers, and collect customer payments on behalf of the CCA program. Once the city begins offering aggregation services, all electric customers would be automatically enrolled in the program unless the customer affirmatively elects to opt-out during a prescribed customer notification and enrollment process.

The original analysis (Phase 1) identified the potential for the Cities to provide a higher level of renewable energy and reduced prices compared to the service provided by SCE. This Phase 2A report refines and updates the earlier analysis and presents a framework for how such a program could be organized, funded and operated. It also details the process and steps needed to implement the program.

The updated analysis utilizes information recently obtained from potential suppliers regarding the costs of providing the electricity and related services needed to supply a CCA program, including the incremental costs of increasing the amount of renewable energy supplied under the program.[1] It also examines the customer usage within the Cities at a more detailed level than the Phase 1 study, using additional customer billing information provided by SCE. The results of the updated financial analysis are summarized below:

- It would be feasible for the Cities to gradually increase use of renewable energy resources until the program procures one half its electric supply from renewable resources such as wind, solar, geothermal and biomass by 2015.
- Accounting for expected electric supply costs, administrative and general expenses, the applicable fees charged by SCE, and financial reserves, the program's rates could be set to provide an initial discount of 5% relative to the

[1] NCI obtained indicative pricing offers from suppliers interested in serving CCA programs in December 2006 and February 2007. The supply costs used in this analysis are consistent with the most recent data.

rates charged by SCE for generation services, with increases capped at less than the general rate of inflation.

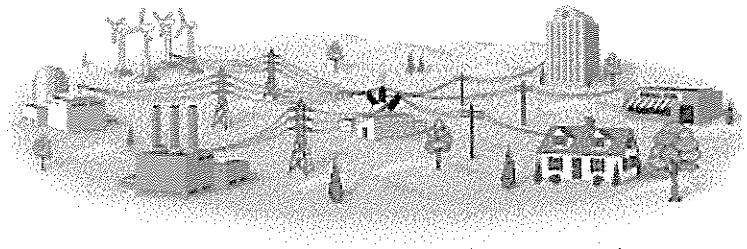
- A jointly operated program between Beverly Hills and West Hollywood would be facilitated by creation of a Joint Powers Agency (JPA) formed for the purpose of offering CCA service. The Cities would form a new JPA during 2008 for the purpose of offering CCA service to customers beginning in 2009 (subject to the refinement and approval by the Cities).
- The JPA would negotiate contracts with a third party electric supplier to provide electricity to customers and with other contractors to provide administrative, general and other technical services required for the program. Such contracts would place the primary program operational risks for supplying electricity on the selected supplier.
- The JPA would register with the California Public Utilities Commission (CPUC) and act as the local regulatory authority, responsible for establishing program policies, approving program rates, administering program terms and conditions, and otherwise governing the program.
- Costs involved in starting up the program are estimated at approximately $2 million to pay for staff, contractors and implementation fees charged by SCE. These costs would be incurred before the program begins earning revenue from sales of electricity and would be recovered through program rates within one to two years of operations.

INTRODUCTION

Beginning in 2004, the Cities initiated a process to investigate offering retail electric services to customers located within the Cities through a program known as Community Choice Aggregation. The primary benefits in offering CCA service are to promote greater use of renewable energy, to reduce electricity costs to consumers, and to offer stable electric rates to local residences and businesses.

The CCA program was established by the legislature in 2002 (AB 117) to give cities and counties the authority to procure electricity in bulk for resale to customers within their jurisdictional boundaries. Under a CCA program the incumbent utility, in this case Southern California Edison Company, would deliver the electricity to end use customers and SCE would continue to read the electric meters and issue monthly bills to customers enrolled in the CCA program. The difference would be in the source of the electric supply (generation) and potentially in the price paid by customers for the generation services procured by the CCA program. With CCA, resource and ratemaking decisions are made locally, for the benefit of the community. All customers would be given the choice of being automatically enrolled in the program, following a well publicized customer notification process, or remaining with the incumbent utility by following the opt-out process described in the customer notices.

The following figure illustrates the potential electricity delivery under a CCA Program.



Generation	Transmission	Distribution	Customers
• no longer utility only	• remains utility only	• remains utility responsibility	• choose generation suppliers
• no longer regulated	• lines open to all suppliers	• service remains the same	
• suppliers compete		• rates remain regulated	

Each of the Cities conducted feasibility studies during Phase 1 of the project in 2005 to identify the benefits and risks of forming CCA programs. The feasibility studies generally found that the Cities could increase use of renewable energy, stabilize electric rates, and offer rates that would be competitive with SCE. Following consideration of the feasibility study findings, the Cities decided to jointly develop a conceptual program plan, that would refine the initial analysis, address organizational and other issues not included within the feasibility study scope, and recommend the appropriate steps that would be taken to implement a CCA program. This phase of the study is known as Phase 2A. The Phase 2A work scope defines the following tasks:

Task 1: Pro Forma Update
Task 2: Organizational Plan
Task 3: Supply Plan
Task 4: Proposal Solicitation
Task 5: Final Evaluation

This report marks completion of Tasks 1 – Task 3. Phase 2A originally included issuance of a request for proposals to obtain supplier price offers for incorporation in a final program evaluation of the CCA program's rates. Phase 2B would then include development of the CCA Implementation Plan that per AB 117 must be certified by the California Public Utilities Commission before CCA service can begin. NCI has since conducted supplier solicitations for two other CCA programs, the San Joaquin Valley Power Authority, and the East Bay cities of Oakland, Berkeley and Emeryville which provide excellent insight into the prices that are likely to be offered to the Cities. As a result, NCI recommended that the Cities defer initiating a request for proposals until such time as the Cities would be prepared to proceed upon a successful response from suppliers. This would take place after a draft Implementation Plan has been developed as part of Phase 2B.

This interim report presents a conceptual proposal for the two cities to join together to form a CCA program to begin offering customers lower rates and to promote greater use of wind, solar, geothermal, biomass and other renewable resources, relative to the services offered by SCE. The plan sets forth proposals for how such a CCA program would be organized, funded and operated. The plan includes financial pro forma and estimated program rates that reflect market prices and other information provided by

potential third party electric suppliers in response to a request for information issued by NCI in January 2007. Several of the nation's largest energy and financial services firms provided information regarding the prices they would charge to provide service to a CCA program. The financial pro forma is based on the most recent pricing information provided in February 2007.

Due to the dynamic nature of the electricity markets, the program rates and pro forma should be considered illustrative pending solicitation of final, firm prices that would be provided by the suppliers once a decision is made to proceed with issuance of a request for bids for the program. While illustrative, the pro forma does provide a reasonable basis for the Cities to make the decision whether to proceed with additional program development activities described in the Implementation Schedule section. The pro forma can also provide a basis for the Cities to establish the criteria under which a CCA program would be authorized to proceed; for example the Cities could authorize additional program development activities, including development of an Implementation Plan, and specify that the plan would only be executed if the Cities make a later determination that the financial objectives established in the plan can be met.

After considering this conceptual program plan, the Cities will need to decide whether to continue with development of an Implementation Plan, formation of the JPA, and initiation of the supplier selection process. Developing the Implementation Plan would initiate Phase 2B of the project. The Public Utilities Code specifies that a CCA Implementation Plan must include the following components:

- Organizational structure of the program, its operations, and funding;
- Rate setting and other costs to participants;
- Disclosure and due process in setting rates and allocating costs among participants;
- Methods for entering and terminating agreements with other entities;
- The rights and responsibilities of program participants, including, but not limited to, consumer protection procedures, credit issues, and shutoff procedures;
- Termination of the program; and

- A description of the third parties that will be supplying electricity under the program, including, but not limited to, information about financial, technical, and operational capabilities.

Once filed, the CPUC would have ninety days to certify that the plan complies with the statutory requirements of AB 117 and other relevant CPUC requirements. The final step in the regulatory process for implementation would be to register with the CPUC as a Community Choice Aggregator.

California's CCA program is relatively new, and no CCA's are serving customers as of the date of this report. The first CCA Implementation Plan was submitted to the California Public Utilities Commission in January 2007 by the San Joaquin Valley Power Authority, a new public agency consisting of 12 cities and two counties in the central San Joaquin Valley (www.communitychoice.info). The CPUC certified the San Joaquin Valley Power Authority's Implementation Plan on May 1, 2007, and the program plans to begin serving customers in November 2007. There are several other CCA development efforts under way in San Francisco, Marin County, the East Bay area, and the City of Chula Vista, and many other cities and counties are in various stages of investigating the formation of CCA programs.

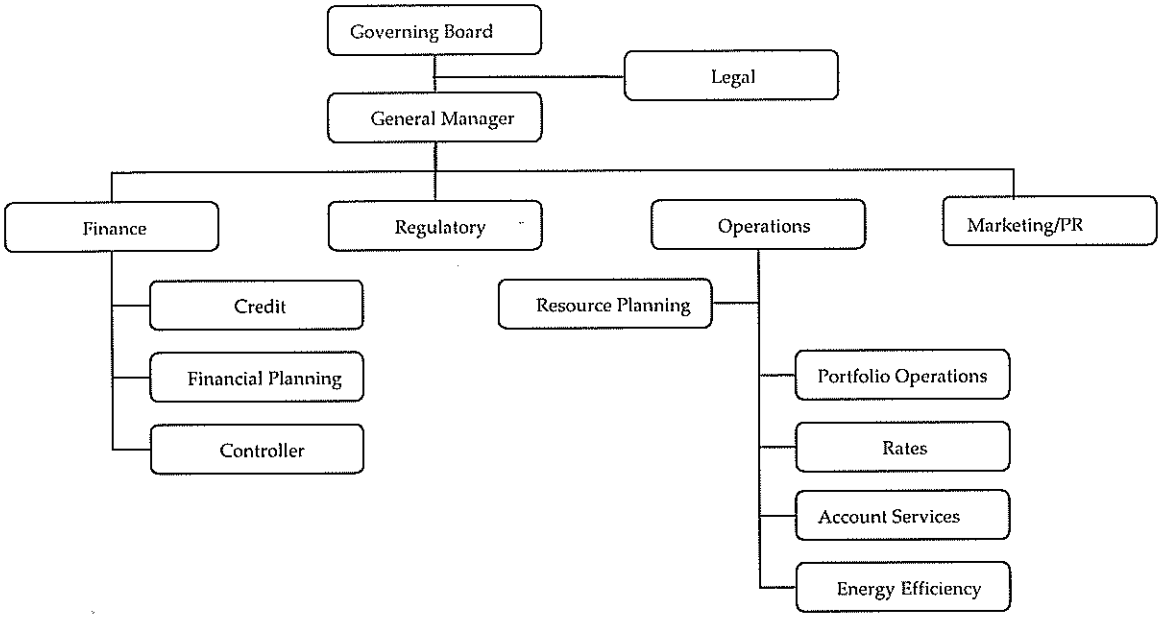
GOVERNANCE AND ORGANIZATION

The program would be implemented by a new JPA whose governing board would have primary responsibility for managing all aspects of the CCA program. The JPA would be governed by a board of directors comprised of one or more representatives from each of the member cities. Defining the governing board composition and voting provisions will require additional consideration by the Cities. The JPA would adopt the Implementation Plan required by the CCA legislation (AB 117) and register with the CPUC as a Community Choice Aggregator. The JPA would be established under the terms of a Joint Powers Agreement, which would establish the JPA's powers, including the powers to study, promote, develop and conduct electricity related projects and programs.

The CCA program would be established pursuant to a separate project agreement executed by and among the JPA and the members (Cities). This approach enables the JPA to be formed prior to the time when all CCA program details have been determined, giving structure to the decision-making process during program development. The CCA project agreement would transfer the Cities' authority under AB 117 to the JPA and authorize the initiation of CCA service to customers within the member's jurisdiction, subject to specified triggers and withdrawal rights.

Operations of the program would be the responsibility of a General Manager appointed by the JPA's Board of Directors. The General Manager would manage contractors and third party electric providers in accordance with the general policies established by the Board. The program organizational chart showing relationships among the Governing Board, the General Manager and the functional areas is shown in Figure 1.

Figure 1: Program Organization



Few, if any staff would be needed under a model where program operations are contracted out to specialized service providers. The JPA would have no actual employees, with the possible exception of the General Manager position. The General Manager position could be an employee, or more likely, a contract employee. Candidates for the General Manager position should have significant professional experience at an electric utility, wholesale power marketer, energy services provider, or similar firm.

Administrative program functions related to program and contract management, legal and regulatory affairs, finance and accounting, marketing and customer service would be contracted out to specialized firms with the necessary qualifications and experience to perform these functions on behalf of the JPA. This approach has the advantage of accelerating program startup by avoiding the need to recruit qualified personnel for these roles.

Technical functions associated with managing and scheduling electric supplies would be the responsibility of the energy supplier selected for the program on the basis of a

competitive solicitation. The data management functions related to interfacing with SCE for retail customer billings and accounts processing would be performed by the program's electric supplier or by an experienced third party, likely a retail energy services provider (ESP) with experience in California's direct access market. In the longer term, some of the administrative and technical functions may be performed by internal staff or continue to be provided by third parties, as determined by the Board and the General Manager.

The roles and responsibilities for managing the program are summarized below:

Table 1: CCA Organizational Roles and Responsibilities

Function	Mode	Provider
Management	Contract Employee	Ex-Utility or ESP
Finance and Accounting	Contract	Accountant/Consultant
Rates	Contract	Consultant
Marketing and Communications	Contract	Communications/PR
Resource Planning And Contracts	Contract	Consultant
Regulatory	Contract	Attorney/Consultant
Legal	Contract	Attorney
Data Management/Account Services	Contract	ESP
Power Supply/Operations	Contract	Whlsl. Marketer or ESP

Administrative and general costs related to program startup activities are estimated at approximately $2 million from about June of 2008 through commencement of service in January 2009. These costs are for coverage of the General Manager's salary, payment to contractors, and payment of implementation fees charges by SCE prior to revenues being received from sales of electricity to program customers. A monthly summary of program startup costs is shown in Table 2.

Table: 2 Summary of Program Startup Costs

COMMUNITY CHOICE AGGREGATION PROGRAM
Summary of Start-up and Organizational Cost Estimates

Start-up Costs		Pre-Startup				Customer Notice/Enrollment	
Staffing	Startup Period	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
FTEs		1	1	1	1	1	1
Cost	$ 97,500	$ 16,250	$ 16,250	$ 16,250	$ 16,250	$ 16,250	$ 16,250
Infrastructure							
Cost	$ 20,000	$ 3,000	$ -	$ 6,500	$ 3,500	$ 3,500	$ 3,500
Contractor Staff							
FTEs		$ 16	$ 16	$ 16	$ 18	$ 18	$ 20
Cost	$ 1,142,229	$ 189,646	$ 141,646	$ 221,229	$ 184,833	$ 193,635	$ 211,240
Other Contractor Costs							
Advertising/Comm.	$ 120,000	$ -	$ -	$ 50,000	$ 50,000	$ 10,000	$ 10,000
General Consulting	$ 212,500	$ 35,417	$ 35,417	$ 35,417	$ 35,417	$ 35,417	$ 35,417
Legal	$ 97,333	$ 16,000	$ 16,000	$ 16,000	$ 16,000	$ 16,667	$ 16,667
Data Management	$ 250,000	$ -	$ 125,000	$ 125,000	$ -	$ -	$ -
Subtotal Contractor Costs	$ 679,833	$ 51,417	$ 176,417	$ 226,417	$ 101,417	$ 62,083	$ 62,083
IOU Fees (Including Billing)							
Cost	$ 79,793	$ -	$ -	$ 22,390	$ 22,390	$ 18,351	$ 16,661
Grand Total	$ 2,019,355	$ 260,313	$ 334,313	$ 492,786	$ 328,390	$ 293,820	$ 309,734

Program startup costs would be recovered through program rates within one to two years of operations.

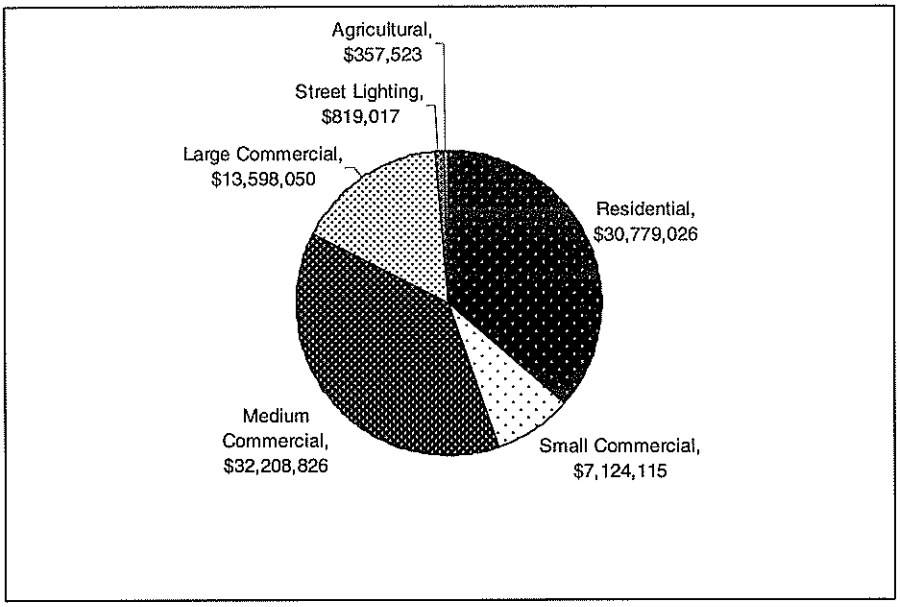
It is estimated that the program may need additional working capital of about $10 million at commencement of service to cover the lag between payments received from customers and the payments that must be made for electricity to the program's electric supplier. Short-term financing such as a letter of credit would cover program working capital requirements. Alternatively, this working capital requirement could be carried by the program's electric supplier, subject to negotiations during the supplier selection process.

CUSTOMER ENROLLMENTS AND SALES PROJECTIONS

Service would be offered to all customers through a customer notification process whereby all current SCE customers would be provided with multiple notices that they are scheduled to be automatically enrolled in the program, including a simple mechanism for customers to opt-out to remain with SCE. Two notices would be mailed to all customers within sixty-days of the date of automatic enrollment. The notices would describe the program's terms and conditions and describe how the customer can opt-out by calling a toll free telephone number or by using an internet web site administered by SCE. Two additional opt-out notices would be provided within sixty days following enrollment in the program. Customers that opt-out at any time prior to the sixtieth day following automatic enrollment would be returned to the utility with no penalty of any kind. The JPA Board may establish termination fees that would apply after this free opt-out period. The termination fees would cover the costs of processing customer request to terminate service in the program and recover any costs of supply commitments made on the departing customer's behalf that would otherwise be shifted to remaining program customers. The JPA Board would set the termination fees as part of its annual ratemaking process.

At full implementation in 2009, the program is projected to serve approximately 38,000 retail customers and have annual electricity sales of over 785,000 MWh. Annual revenues are projected to be approximately $85 million. The breakdown of projected sales by major customer class is shown in the following figure.

Figure 2: Projected Retail Electric Sales for 2009 of $85 Million[2]



Program customers and retail electricity sales by City are shown in Figures 3 and 4. While more customers are located in West Hollywood, the majority of annual electricity consumption would occur in Beverly Hills. This is due to a higher mix of larger commercial customers in Beverly Hills and relatively high per capita energy consumption for the residential customer segment.

[2] The sales projections exclude customers currently taking direct access service. A projected opt-out rate of 10% has been used in these figures, based on experience with similar opt-out style aggregation programs in Massachusetts and Ohio.

Figure 3: 2009 Customer Base is Approximately 38,000 Electric Service Accounts

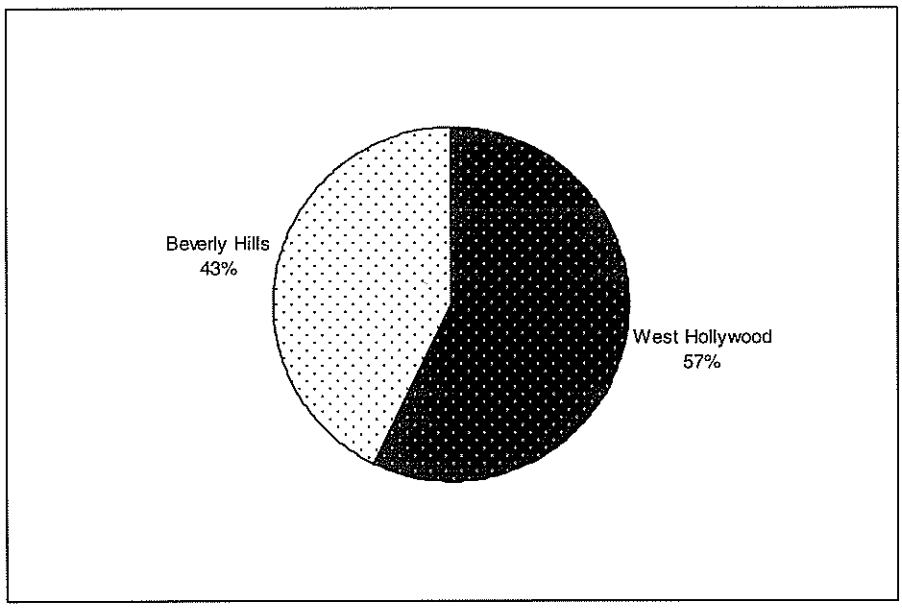
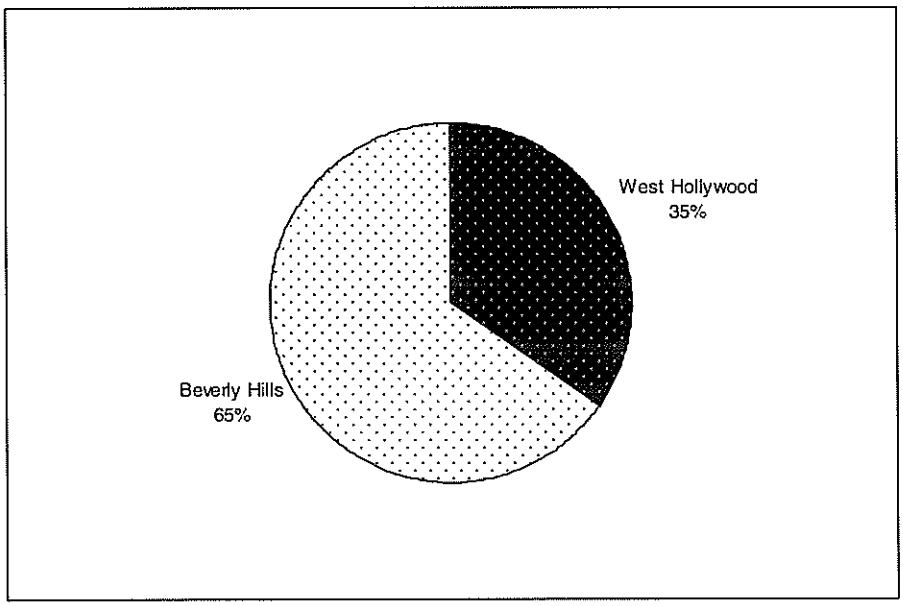


Figure 4: 2009 Retail Electricity Sales are Estimated at 785,000 MWh



The program's customer base is projected to increase at a modest growth rate of 1.5% annually, reflecting the relatively built-out nature of the Cities and opportunities for

future growth from direct access customers and other customers that originally decline to participate in the program.

Table 3: Ten-Year Customer Projections

CCA Program
Retail Service Accounts (End of Year)
2009 to 2018

Program Customers	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Residential	31,034	31,500	31,972	32,452	32,938	33,432	33,934	34,443	34,960	35,484
Small Commercial	4,944	5,019	5,094	5,170	5,248	5,327	5,406	5,488	5,570	5,653
Medium Commercial	1,817	1,845	1,872	1,901	1,929	1,958	1,987	2,017	2,047	2,078
Large Commercial	36	36	37	37	38	39	39	40	40	41
Street Lighting & Traffic	486	493	501	508	516	524	532	540	548	556
Ag & Pump.	19	20	20	20	21	21	21	21	22	22
Total	38,337	38,912	39,496	40,088	40,690	41,300	41,920	42,548	43,187	43,834

Annual electricity sales projections consistent with the program customer projections are shown in Table 4.

Table 4: Ten-Year Sales Projections (Thousands of MWh)

CCA Program
Energy Requirements
(GWH)
2009 to 2018

Program Demand (GWh)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Retail Demand	785	796	808	821	833	845	858	871	884	897
Losses and UFE	55	56	57	57	58	59	60	61	62	63
Total Load Requirement	840	852	865	878	891	904	918	932	946	960

SUPPLY PLAN

The program would provide for the electric needs of enrolled customers by contracting with a third party electric supplier under a "full requirements" electric supply contract. This type of supply contract commits the supplier to be fully responsible for arranging for power to be delivered to program customers. The risks of buying power for the program are transferred to the third party electric provider, and it is the supplier's responsibility to manage the electric supply for the program. The price of the electricity would be specified in the contract for the term of the agreement. A fixed priced contract would enable the program to provide a high level of rate certainty to participating customers. The program supplier should be selected via a competitive solicitation, issued on behalf of the Cities or by the JPA.

The recommended term for the initial contract is five to seven years, sufficient to provide rate predictability to customers without being locked into to a contract for an excessive period of time. The actual term would be determined during negotiations with the potential supplier in consideration of then current market conditions. Longer terms may be warranted if energy prices are expected to increase in the future, while shorter terms would be desirable if there is an expectation that prices will likely decline.

The selected program electric supplier would be required to maintain an investment grade credit rating (or parental guaranty) for the life of the agreement. This is an important requirement to manage credit risk associated with the potential for a supplier to default on the agreement, which could force the JPA to secure replacement power supplies at unfavorable prices. The supplier should have experience serving retail electric customers, preferably within California.

The program would establish specific renewable energy standards that the supplier must meet. The proposed renewable standard begins at 20% in 2009 and increases steadily to 50% by 2015.

Table 5: Program Renewable Energy Content

Year	Renewable Energy %	Renewable Energy (MWh)
2009	20%	156,936
2010	25%	199,112
2011	30%	242,519
2012	35%	287,183
2013	40%	333,132
2014	45%	380,395
2015	50%	429,001

Customers could also be offered the opportunity voluntarily purchase a higher mix of renewable energy under a "green pricing" option. Under current market pricing for renewable energy, a typical residential customer enrolled in the program could voluntarily purchase 100% renewable energy in 2009 at a cost premium of approximately $5 per month relative to SCE's otherwise applicable charges.[3] The program would use the additional funds from the green pricing premium to supplement the renewable energy portfolio content specified in the supply agreement with purchases of renewable energy certificates.[4] The program could also make additional renewable energy purchases to the extent that net revenues remain after paying all other program costs and maintenance of reserve funds.

The proposed supply plan for the first ten years of program operations is summarized in Table 6.

[3] The current premium for renewable energy is approximately 1.5 cents per kWh.
[4] Renewable energy certificates are a means of contracting for production of renewable energy without the need for the energy to be scheduled to serve the electric demands of the program.

Table 6: Energy Balance

CCA Program
Energy Balance
(GWH)
2009 to 2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Program Demand (GWh)										
Retail Demand	-785	-796	-808	-821	-833	-845	-858	-871	-884	-897
Losses and UFE	-55	-56	-57	-57	-58	-59	-60	-61	-62	-63
Total Demand	-840	-852	-865	-878	-891	-904	-918	-932	-946	-960
Program Supply (GWh)										
Renewable Resources										
Generation	0	0	0	0	0	0	0	0	0	0
Power Purchase Contracts	157	199	243	287	333	380	429	435	442	449
Total Renewable Resources	157	199	243	287	333	380	429	435	442	449
Conventional Resources										
Generation	0	0	0	0	0	0	0	0	0	0
Power Purchase Contracts	683	653	622	591	558	524	489	496	504	511
Total Conventional Resources	683	653	622	591	558	524	489	496	504	511
Total Supply	840	852	865	878	891	904	918	932	946	960

The full requirements supply contract would also require the supplier to procure generation capacity and capacity reserves to meet the program's peak demand plus the required local and system reserve standards established by the CPUC. Peak demand is estimated at approximately 170 MW in 2009 and is projected to grow consistent with the underlying growth in customers and energy sales.

Table 7: Annual Capacity Requirements

CCA Program
Capacity Requirements
(MW)
2009 to 2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Program Demand (MW)										
Retail Demand	160	162	165	167	170	172	175	178	180	183
Losses and UFE	11	11	12	12	12	12	12	12	13	13
Total Net Peak Demand	171	174	176	179	182	184	187	190	193	196
Reserve Requirement (%)	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Capacity Reserve Requirement	26	26	26	27	27	28	28	29	29	29
Capacity Requirement Including Reserve	197	200	203	206	209	212	215	219	222	225

The CCA energy supplier will also need to meet a monthly capacity goal based on the peak load for the month. The monthly peak loads and capacity requirements for the first three years of the program are given in Table 8.

Table 8: Monthly Peak Energy and Capacity Requirements, 2009-2011

CCA Program
Summer Peak Loads
(MW)
2009 to 2011

Month	2009	2010	2011
January	116	118	120
February	125	127	129
March	112	114	116
April	116	118	119
May	116	118	120
June	124	126	128
July	138	140	142
August	171	174	176
September	143	146	148
October	138	140	142
November	135	137	139
December	119	121	123

CCA Program
Forward Capacity and Reserve Requirements
(MW)
2009 to 2011

Month	2009	2010	2011
January	134	136	138
February	143	146	148
March	129	131	133
April	133	135	137
May	133	135	137
June	142	145	147
July	158	161	163
August	197	200	203
September	165	167	170
October	159	161	164
November	155	158	160
December	137	139	141

Renewable Energy Requirements and Resources

As a CCA, the program would be required by law and ensuing CPUC regulations to procure a minimum percentage of its retail electricity sales from qualified renewable energy resources. Under the California renewable portfolio standards (RPS) program and policies established in the state's Energy Action Plan, the program must generally increase its percentage utilization of renewable energy by no less than 1 percent per year and achieve a minimum of 20 percent by 2010. For purposes of determining the program's renewable energy requirements, the same standards for RPS compliance that are applicable to SCE are assumed to apply to the program.

To qualify as eligible for California's RPS, a generation facility must use one or more of the following renewable resources or fuels:

- Biomass
- Biodiesel
- Fuel cells using renewable fuels
- Digester gas
- Geothermal

- Landfill gas
- Municipal solid waste
- Ocean wave, ocean thermal, and tidal current
- Photovoltaic
- Small hydroelectric (30 MW or less)
- Solar thermal
- Wind

Renewable technologies that are predominant and generally commercially available are wind, geothermal, biomass, land fill gas, and solar (concentrating solar or photovoltaic). It is important to note that the burden of obtaining the program's renewable energy requirements will be on the supplier pursuant to the full requirements contract described above.

Because the program would have no baseline of renewable energy procurement (i.e., no existing contracts or resources) and no prior retail electrical sales, its first year RPS requirement would be zero. In 2010, the expected second year of the program, the program would be required to meet the full 20 percent renewable standard (based on 2009 retail sales). The annual RPS requirements are shown in the table below. Note that the program's renewable energy plans would exceed the annual RPS requirements in all years.

Table 9: Renewable Energy Supply Plan

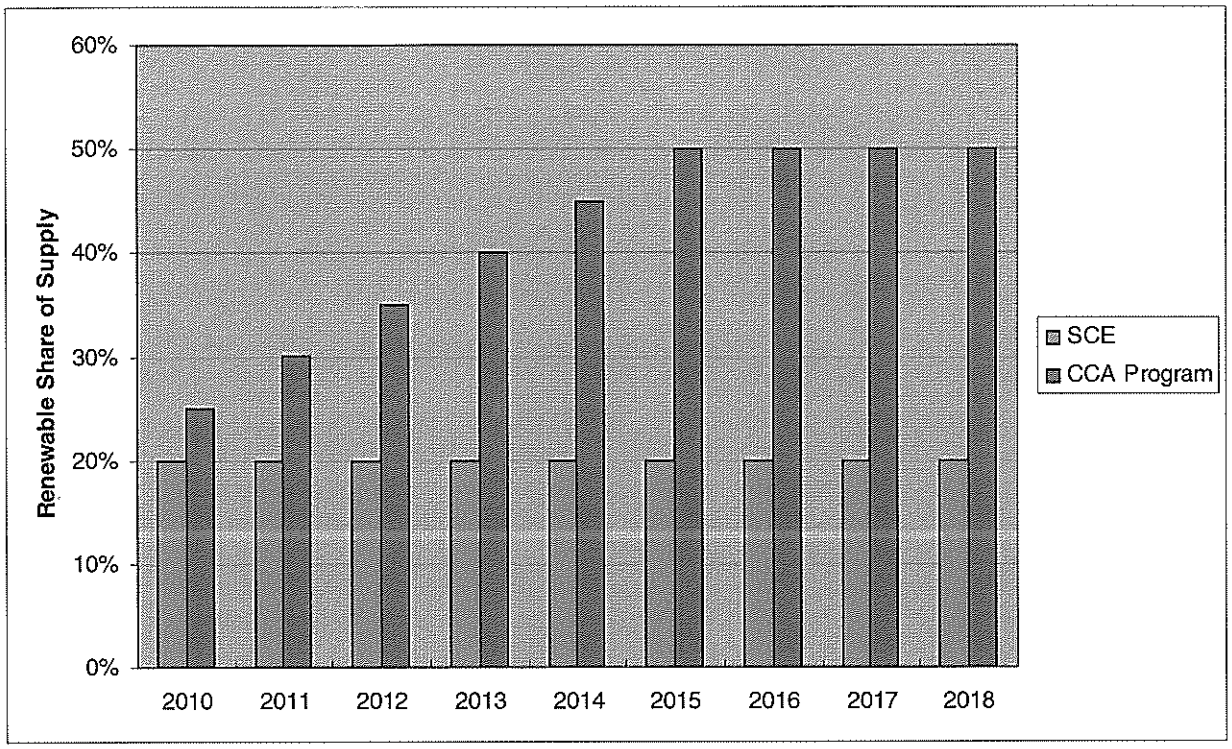
CCA Program
RPS Requirements and Program Renewable Energy Targets
(MWH)
2009 to 2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Retail Sales (MWh)	784,679	796,449	808,396	820,522	832,830	845,322	858,002	870,872	883,935	897,194
Annual RPS Target (Minimum MWh)	-	156,936	159,290	161,679	164,104	166,566	169,064	171,600	174,174	176,787
Program Target (% of Retail Sales)	20%	25%	30%	35%	40%	45%	50%	50%	50%	50%
Program Renewable Target (MWh)	**156,936**	**199,112**	**242,519**	**287,183**	**333,132**	**380,395**	**429,001**	**435,436**	**441,968**	**448,597**
Surplus In Excess of RPS (MWh)	**156,936**	**42,177**	**83,229**	**125,504**	**169,028**	**213,829**	**259,937**	**263,836**	**267,793**	**271,810**
Annual Increase (MWh)	156,936	42,177	43,406	44,664	45,949	47,263	48,606	6,435	6,532	6,630

The renewable energy content specified in Table 8 would cause a net substitution of renewable generation for fossil fueled generation of approximately 1.9 million MWh over the first ten years relative to the 20% renewable content that SCE plans to meet

during this time. Figure 5 shows how the program's renewable energy content would compare to SCE's plans over the first ten years of program operations.

Figure 5: Comparison of Renewable Energy Plans



By displacing equivalent energy production from resources fueled by natural gas, the program would reduce greenhouse gas emissions (CO_2) by approximately 670,000 metric tons over the first ten years. The annual impact on greenhouse gas emissions is shown in Table 9.

Table 9: Greenhouse Gas Emissions Impact

CCA Program
Greenhouse Gas Impact
2009 to 2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
CCA Program Renewables (MWh)	156,936	199,112	242,519	287,183	333,132	380,395	429,001	435,436	441,968	448,597
Status Quo (SCE) Renewables (MWh)	149,089	159,290	161,679	164,104	166,566	169,064	171,600	174,174	176,787	179,439
Program Renewable Impact (MWh)	7,847	39,822	80,840	123,078	166,566	211,331	257,401	261,262	265,181	269,158
CO2 Reduction - (tonnes per year)	3,139	15,929	32,336	49,231	66,626	84,532	102,960	104,505	106,072	107,663

PROGRAM RATES AND FINANCIAL PROJECTIONS

Based on best available information, including review of the indicative fixed price offers recently provided by several qualified electric suppliers, it is anticipated that the program would be able to provide rates that start out 5% lower than the rates charged by SCE, and rates could be held constant or slightly declining in real terms (2.5% nominal escalation). These rates include the costs of achieving the renewable energy objectives specified above. The electric supply costs obtained from the market represent a snapshot of market conditions at the time the prices were provided, and electricity prices will vary with overall conditions in the electricity and natural gas markets. The final prices at which the program could obtain its power supply will not be known until the program is ready to execute an agreement with its selected electric supplier. Dealing with price volatility that may change the underlying program economics and rates is best handled by establishing upfront economic objectives and being prepared to execute when market conditions allow for the program's economic objectives to be met. It is estimated the program could meet the rate and renewable energy objectives outlined above if it can procure full requirements power supply for the initial term at less than 8.9 cents per kWh.

The rates that would otherwise be charged by SCE were estimated based on the rates that are currently in effect, projected forward for expected annual rate increases, consistent with historical trends (3% nominal escalation). The updated analysis uses the data provided by SCE that reports residential electricity consumption within the Cities categorized by the usage tiers corresponding to SCE's residential rate structure. This level of billing detail was not available during the Phase 1 feasibility study and incorporation of it in the updated analysis provides more precise estimates of the generation related revenues collected by SCE from customers within the Cities.

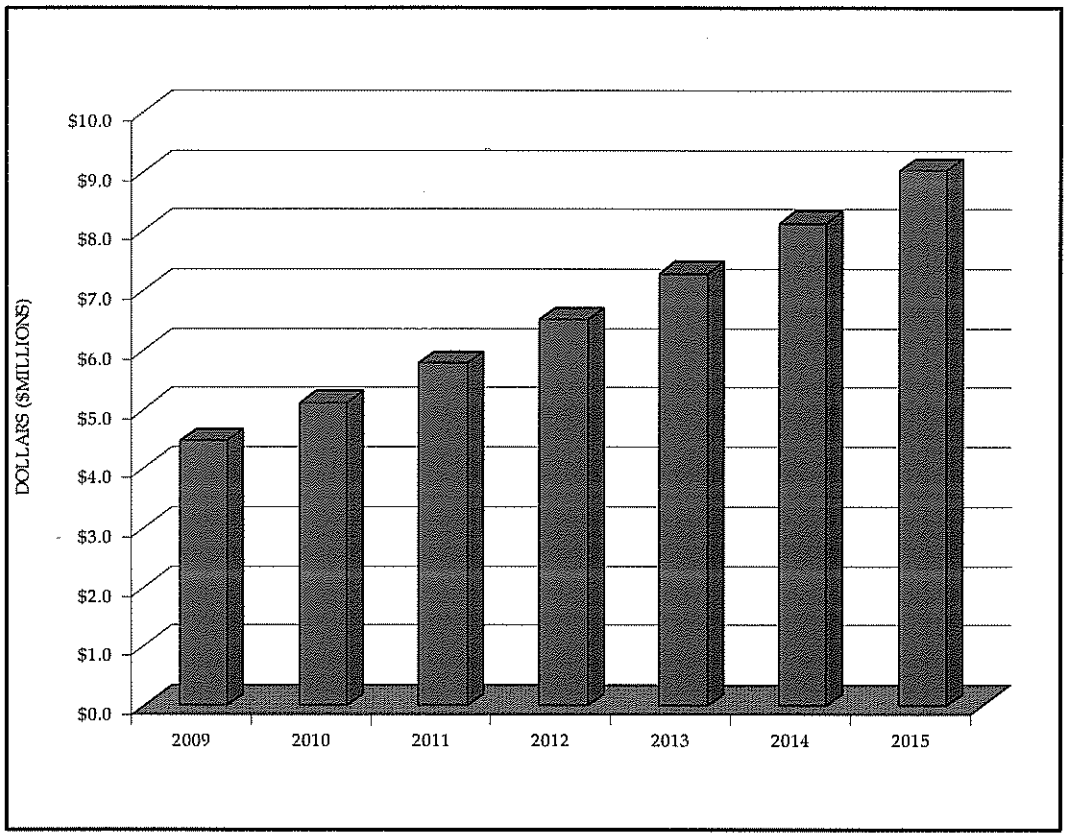
Table 10 shows how the program's rates for generation services would compare to SCE's in the first year of service.

Table 10: CCA Estimated 2009 Program Rates

Customer Class	Program Rates – (Cents Per kWh)	SCE Generation Rates (Cents Per KWh)
Residential	11.5	12.2
Small Commercial	10.1	10.7
Medium Commercial	8.6	9.1
Large Commercial	7.6	8.1
Street and Area Lighting	5.2	5.6
Agricultural & Pumping	5.0	5.4

Total customer savings from the program are projected to be approximately $45 million through 2015, based on an anticipated 3% annual increase in SCE's rates.

Figure 6: Projected Annual Customer Savings During Initial Contract Term ($ Millions)



The JPA Board would establish its rates on an annual basis, as it adopts its budget for the coming year. Customers would be provided with notices of rate changes and be given the opportunity to comment on proposed rate changes at public workshops and hearings before they are made effective.

A pro forma for the Implementation Period, based on the proposed supply plan and including rates set at the specified discount to SCE, is shown in the following table. For purposes of this financial plan, the term of the initial electric supply contract is assumed to be 2009 – 2015 and include an annual cost escalation factor of 2.5%. The figures below are based on indicative price offers and are subject to change following selection of the program's electric supplier and final negotiations of a power supply contract.

Table 11: Summary of CCA Program Implementation

CATEGORY	2008	2009	2010	2011	2012	2013	2014	2015	TOTAL
I. REVENUES FROM OPERATIONS ($):									
(A) ELECTRICITY SALES:									
RESIDENTIAL	$0	$30,779,026	$32,021,729	$33,314,606	$34,659,684	$36,059,068	$37,514,953	$39,029,619	$243,378,686
SMALL COMMERCIAL (GS-1)	$0	$7,124,115	$7,411,751	$7,711,001	$8,022,333	$8,346,234	$8,683,213	$9,033,798	$56,332,446
MEDIUM COMMERCIAL (GS-2)	$0	$23,336,535	$24,278,747	$25,259,002	$26,278,834	$27,339,842	$28,443,688	$29,592,102	$184,528,749
COMMERCIAL TIME-OF-USE (TOU-GS)	$0	$8,872,292	$9,230,511	$9,603,192	$9,990,921	$10,394,305	$10,813,975	$11,250,589	$70,155,784
LARGE COMMERCIAL/INDUSTRIAL (TOU)	$0	$13,598,050	$14,147,071	$14,718,259	$15,312,509	$15,930,752	$16,573,956	$17,243,129	$107,523,727
STREET LIGHTING & TRAFFIC CONTROL	$0	$819,017	$852,085	$886,488	$922,280	$959,517	$998,258	$1,038,562	$6,476,207
AGRICULTURAL PUMPING	$0	$357,523	$371,958	$386,976	$402,600	$418,855	$435,766	$453,360	$2,827,036
TOTAL REVENUES	$0	$84,886,558	$88,313,852	$91,879,524	$95,589,160	$99,448,572	$103,463,808	$107,641,160	$671,222,635
II. COST OF OPERATIONS ($):									
(A) ADMINISTRATIVE & GENERAL (A&G):									
STAFFING	$97,500	$195,000	$197,661	$202,659	$207,784	$213,039	$218,426	$223,950	$1,556,020
INFRASTRUCTURE	$20,000	$42,000	$42,573	$43,650	$44,754	$45,885	$47,046	$48,235	$334,143
CONTRACTOR COSTS	$679,833	$1,460,000	$1,545,810	$1,584,901	$1,624,980	$1,666,074	$1,708,206	$1,751,404	$12,021,208
IOU FEES (INLCUDING BILLING)	$79,793	$372,362	$312,864	$320,776	$328,888	$337,205	$345,732	$354,475	$2,452,094
CONTRACT STAFF	$1,142,229	$2,462,875	$2,496,483	$2,559,615	$2,624,343	$2,690,709	$2,758,753	$2,828,518	$19,563,524
SUBTOTAL - A&G	$2,019,355	$4,532,237	$4,595,390	$4,711,600	$4,830,749	$4,952,912	$5,078,163	$5,206,582	$35,926,989
(B) CCA PROGRAM OPERATIONS:									
ELECTRICITY PROCUREMENT	$0	$65,541,951	$68,036,624	$70,783,603	$73,641,491	$76,614,766	$79,708,087	$82,926,301	$517,252,824
ANCILLARY SERVICES PROCUREMENT	$0	$0	$0	$0	$0	$0	$0	$0	$0
GRID MANAGEMENT CHARGES	$0	$0	$0	$0	$0	$0	$0	$0	$0
EXIT FEES	$0	$11,770,189	$11,946,742	$12,125,943	$12,307,833	$12,492,450	$12,679,837	$12,870,034	$86,193,029
SCHEDULING COORDINATION	$0	$0	$0	$0	$0	$0	$0	$0	$0
FRANCHISE FEES	$0	$549,746	$581,647	$590,372	$599,227	$608,216	$617,339	$626,599	$4,173,146
BILLING	$0	$0	$0	$0	$0	$0	$0	$0	$0
RENEWABLE PORTFOLIO ADJUSTMENT	$0	$353,106	$597,337	$1,212,594	$1,230,783	$1,249,245	$1,267,984	$1,287,003	$7,198,052
OTHER	$0	$0	$0	$0	$0	$0	$0	$0	$0
SUBTOTAL - CCA PROGRAM OPERATONS	$0	$78,214,992	$81,162,351	$84,712,512	$87,779,334	$90,964,677	$94,273,247	$97,709,938	$614,817,051
TOTAL COST OF OPERATION	$2,019,355	$82,747,230	$85,757,741	$89,424,113	$92,610,084	$95,917,589	$99,351,410	$102,916,520	$650,744,041
CCA PROGRAM SURPLUS /(DEFICIT)	($2,019,355)	$2,139,328	$2,556,112	$2,455,411	$2,979,076	$3,530,984	$4,112,399	$4,724,639	$20,478,594
CUSTOMER SAVINGS	$0	$4,467,714	$5,101,570	$5,781,630	$6,510,693	$7,291,719	$8,127,829	$9,022,318	$46,303,474
TOTAL PROGRAM BENEFIT	($2,019,355)	$6,607,041	$7,657,682	$8,237,041	$9,489,770	$10,822,703	$12,240,228	$13,746,958	$66,782,068

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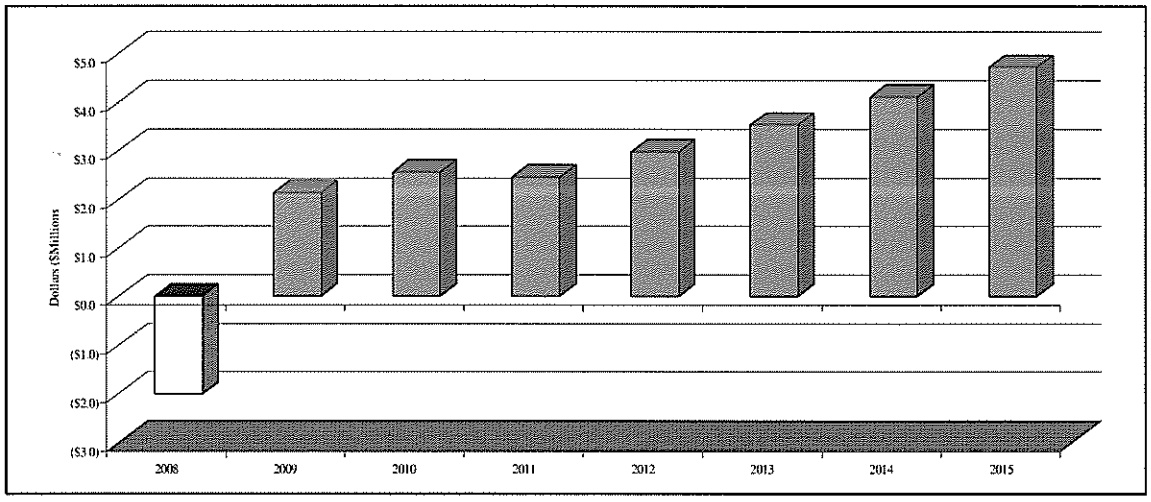
The program is projected to achieve a reserve level of approximately $20 million by 2015, equivalent to about 20% of annualized revenue. Aside from the financing requirements for startup and working capital, the program would not require any significant capital expenditures, and a targeted reserve level of about 10% ($8 to $10 million) would be sufficient to create a conservative rate stabilization fund. Any additional reserve funds could be used to further reduce rates, purchase additional renewable energy, invest in energy related projects such as energy efficiency projects for program customers, or for other purposes as determined by the program's governing board. The annual net revenues available for additions to the program's reserves are shown in Figure 7.

Figure 7: Annual Program Surpluses / (Deficits)



RISKS AND IMPEDIMENTS

The primary risks to successful implementation of the plan outlined in this report are as follows:

- Potential SCE Opposition
- Potential SCE Rate Reductions
- Performance of Selected Suppliers and Contractors

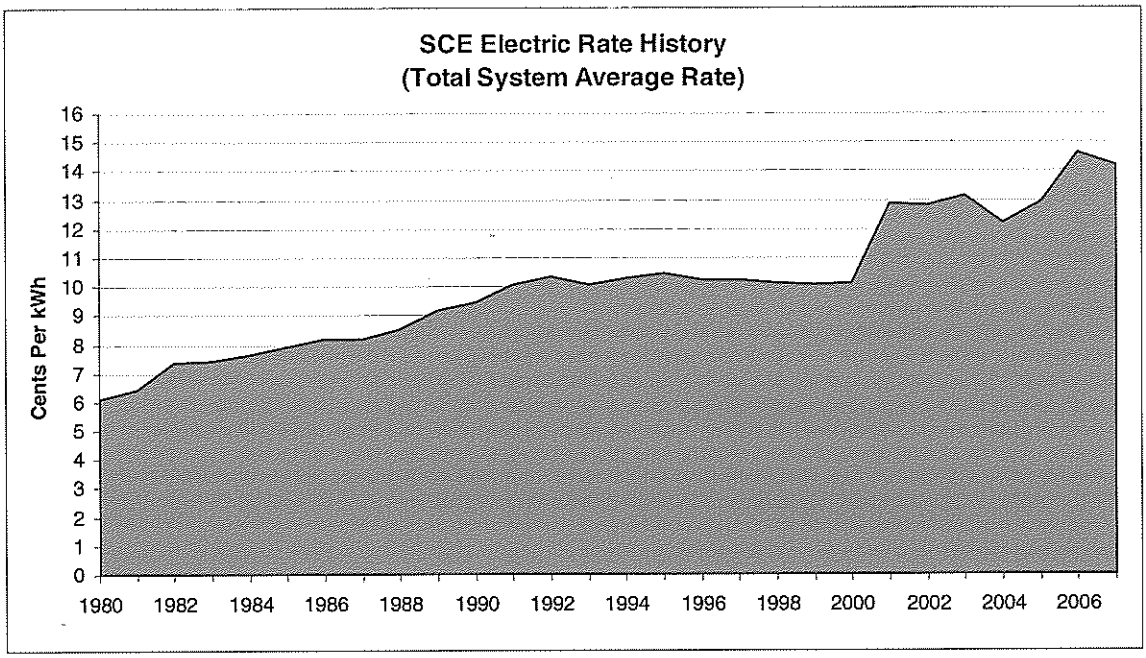
SCE Opposition

SCE has taken a neutral position regarding the efforts by the San Joaquin Valley Power Authority, which is the first CCA to file an Implementation Plan in California, to form its CCA program. However, SCE may decide to oppose the Cities' program and could attempt to apply political pressure to convince the Cities to abandon their CCA efforts. SCE may also seek regulatory or legislative changes, including the possibility of modifying its rates at the CPUC to shift costs from the generation component to the delivery component, which would hinder the ability of the program to provide renewable energy at competitive rates. Such competitive responses are more likely in the near-term when there is little or no organized opposition; after the program is up and running, utility efforts to shift costs would be more difficult because of the demonstrable cost impacts on customers.

SCE Rates

Since 1980, SCE total system wide average rates have increased by an average of approximately 3.2% per year. Figure 8 reproduces data from the California Energy Commission showing SCE's historical system average rate.

Figure 8: SCE System Average Rate Since 1980



Examination of the historical data shows a long-term upward trend, but there have been times where SCE's rates have been relatively constant and occasionally SCE's rates have actually declined. Assuming the program goes forward with an initial 5% discount and limits annual rate increases to 2.5% through 2015, customers would save money under the program as long as SCE's rates increase by an annual average of at least 0.8%. NCI believes there is a very low probability that SCE's generation rate increases would average below 0.8% during the next several years. The more likely scenario would be the potential for short-lived rate decreases as a result of reductions in the market price of electricity that may cause SCE rates to temporarily dip below the program's rates. However, the decline would need to be fairly significant to eliminate the initial program rate reductions. Ultimately, customers would make the determination whether the program's stable pricing and highly renewable energy content is attractive and would be at risk for potential termination fees in case SCE's rates subsequently decline following the initial opt-out period.

Supplier Performance

Performance of the program's supplier and other contractors will be a critical factor for success, and selection of these entities must be conducted carefully. The best means to mitigate performance risk is to contract with an experienced and creditworthy counterparty, particularly for the key electric supply contract. The terms and conditions of the supply contract will need to ensure that risks are appropriately recognized and that the supplier is both operationally capable and financially able to back up its obligations.

IMPLEMENTATION SCHEDULE

There are several major steps that would need to be accomplished prior to the initiation of the CCA program outlined in this conceptual program plan. The first major step would be for the Cities to authorize the development of a draft CCA Implementation Plan, which would be provided under Phase 2B of the project scope. Completion of the draft Implementation Plan would be followed by workshops to solicit feedback from the public. The next major step would be formation of the JPA and issuance of a city ordinance to implement CCA through participation in the JPA. The approval to implement the CCA program would be contingent upon completion of an acceptable CCA program agreement specifying details of the CCA program and approval of a final Implementation Plan. Once the JPA is formed, it would commence the supplier selection process by issuing a request for proposals for full requirements electric service as generally described in Supply Plan section. Following review of bids and a final economic evaluation, the JPA would adopt a final Implementation Plan and CCA program agreement. The Cities would then make their final go/no go decision by executing the CCA program agreement.

The next major step would be submittal of the Implementation Plan and registration materials to the CPUC and finally, commencement of the customer notification process following the CPUC's certification of the Implementation Plan.

The sequence of major steps and estimated time for completion are shown in Table 12.

Table 12: Timeline for Program Implementation

ACTIVITY	DURATION
Develop Draft Implementation Plan (Phase 2B)	90 Days
Public Workshops	30 Days
Form JPA and adopt Ordinance	90 Days
Issue Supplier Request for Bids and Select Supplier	90 Days
Adopt Implementation Plan and Approve CCA Program Agreement	30 Days
CPUC Registration/Certification of Implementation Plan	90 Days
Customer Notices	90 Days

CONCLUSION

Community Choice Aggregation provides an opportunity for the Cities to benefit from competition in the provision of electric generation services that is currently the monopoly of SCE. The Cities would gain greater control over energy costs and could make resource decisions that reflect the specific interests of the community. Access to the competitive market for electricity would enable the Cities to provide lower rates than charged by SCE, stabilize electricity costs, and reduce use of fossil-fueled generation by substituting greater use of renewable energy resources.

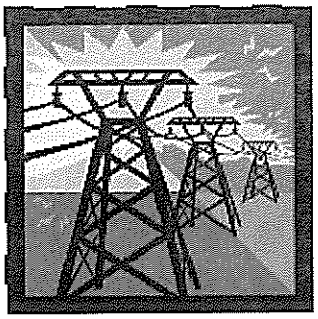
This interim report outlines how a CCA program for the Cities could be formed over the next eighteen months that would provide immediate rate reductions for customers and begin movement toward a goal of purchasing half of the Cities' electricity from renewable resources within seven years. The financial analysis underlying this report is based on real quotes from well qualified and financially sound electric suppliers that have expressed interest in providing services to CCA programs. As proposed, the primary risks involved in providing electricity to program customers would be borne by the electric supplier selected for the program.

This report represents another off-ramp in the Cities' multi-year investigation of CCA. If the Cities' elect to continue with program development, there will be additional off-ramps along the way. The essential decision is whether to continue with the status quo for electric service that offers no customer choice and uncertain rates or to embark on a different path that provides competition, customer choice, and local control in the provision of electric generation services.

ATTACHMENT 3

Solar Online News by David L. Wilner -- http://www.solaronlinenews.com/

COMMUNITY CHOICE AGGREGATION IN CALIFORNIA



Community Choice Aggregation (CCA) provides local government with authority to facilitate the provision of renewable electric energy to its constituents in order to reduce greenhouse gasses, and possibly save money. From a regulatory point of view, CCA organizations (CCAs) are not considered public utilities Their rates are not subject to regulation, and CCAs are not allowed to own or operate electric transmission and distribution facilities. If they wish to resell electric energy to prospective customers, CCAs must rely on the incumbent electric utility to deliver that power to their members.

The success of a CCA project depends largely on the level of cooperation the CCA receives from the established electric utility in a particular service area. This creates a problem in California, because the regulated utilities do not like competition and consider CCAs a threat to their very existence. This presents a real challenge for the CCAs, because, in addition to the hard work involved establishing a large customer base for their service, they must also worry about the established utility taking those customers back through questionable marketing tactics and political influence.

If it becomes necessary for a CCA provider to ask the California Public Utilities Commission (CPUC) to intervene, the CCA will no doubt incur substantial legal fees and costs. For example, the San Joaquin Valley Power Authority (SJVPA) incurred approximately $400,000 in legal fees and costs pursuing a complaint it filed with the CPUC alleging, among other things, that Pacific Gas and Electric (PG&E) interfered with its efforts to establish a CCA customer base in the San Joaquin Central Valley area. The parties settled the matter by

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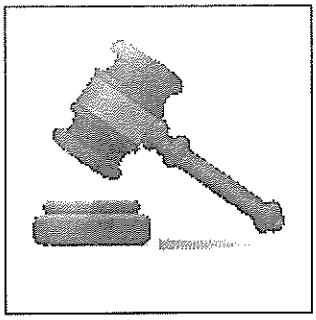
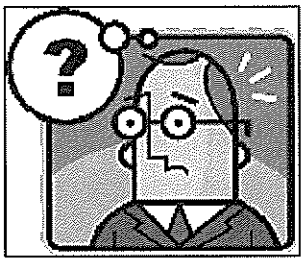


establishing mutually agreeable standards that would apply to future PG&E and SJVPA marketing practices. PG&E also agreed to reimburse the authority for its legal fees and costs, among other things.

On June 25, 2009, thirteen months later, the SJVPA announced that it will temporarily suspend efforts to implement the CCA program in its community because it was unable to secure acceptable contracts with wholesale energy providers. General Manager, David Orth, stated in a press release: "We are not immune to the market conditions that are affecting the state and national economy." This, ". . . along with the tightness in the credit market and the volatility in energy prices," contributed to SJVPA's decision. The press release goes on:

In addition, the SJVPA has experienced strong opposition from PG&E, which is marketing against the program in order to retain customers. "For the last few years, PG&E has continually placed roadblocks in front of our program in an attempt to stop us from implementing Community Choice and ultimately not providing residents and businesses the opportunity to have a choice about who will provide them electric energy," said Ron Manfredi, City Manager of Kerman and Chair of the San Joaquin Power Valley Power Authority. *"Considering the hurdles that we are currently facing, it is not possible for the San Joaquin Valley Power Authority to move forward with Community Choice at this time."* So far, CCA has failed in California. In fact, seven years have passed since CCA became law in this state, but to date, no one is using the service!



There is one major reason for this situation: most people do not understand how CCAs function. In very simple terms, a CCA is an aggregator, purchasing large amounts of electricity at reduced rates, and then reselling that energy to its own customers at a discount. Some portion of that energy will be from renewable sources, and is added to the

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incumbent electric utility's grid by wholesale energy suppliers. As a practical matter, the green energy is not actually distributed directly to the individual CCA customer's home or business. Under this arrangement, everyone benefits – including those that do not subscribe to CCA because they will have a cleaner environment.

Other reasons for the failure of CCA in California are explained by Carlos Velasquez, of the CPUC Energy Department:

There have definitely been obstacles that communities have encountered in their respective attempts to implement the CCA program . . . .one can categorize them into three categories:

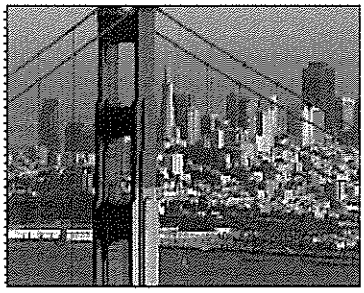
1. The slow moving parts in the CPUC's regulatory process.

2. Marketing against the Program by PG&E.

3. Community concerns of added risks.

A further explanation is offered by Jamie Tuckey, County of Marin:

Another reason that the program may be slower to implement is because of the funding necessary to start these types of programs up. Local governments would need to come up with funds for staffing, technical, and legal consultants. She also observed *that investor-owned utilities can slow the program down because of their potential opposition to CCA projects.*



Despite these obstacles, and others, Marin Clean Energy (MCE) and San Francisco are continuing their efforts to implement CCA programs in their communities. Their goals include local control over electric rates, and renewable energy standards that must be met in the future. These are some of the same reasons that Ohio, Massachusetts, and Rhode Island have implemented their own CCA programs. Currently, there are almost 1 million CCA customers receiving service in the US.

Ohio has the Northeast Public Energy Council with 118 cities serving more than 600,000 customers. "Their energy supply contract guarantees a discount ranging from 4% to 6% when compared with investor-owned utility rates," according to the council. Massachusetts has the

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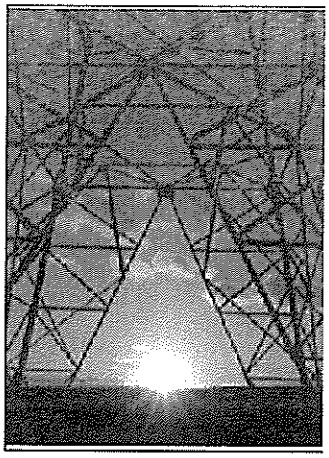
Cape Light Compact with 21 towns serving approximately 200,000 customers. The Rhode Island Energy Aggregation Program has 36 cities and towns utilizing municipal facilities.

In California, there were approximately 40 different local governmental agencies considering CCA programs for their communities at one point in time. Now, that number has dwindled to two: MCE and San Francisco. When asked about PG&E's possible interference, MCE's representative, Jamie Tuckey, did express concern. Mike Campbell, San Francisco Public Utilities Commission representative for the City of San Francisco, stated that he does not believe that the utility has the political influence in the city that it has in other jurisdictions, such as the SJVPA community.

One of the latest developments in this matter involves a proposed initiative that was filed on behalf of PG&E on June 1, 2009, with the California Attorney General's Office entitled "The Taxpayers' Right to Vote Act." According to the filing, "The purpose of this initiative is to guarantee ratepayers and taxpayers the right to vote any time a local government seeks to use public funds, public debt, bonds or liability, or taxes, or other financing to start or expand electric utility service to a new territory, or new customers, or to implement a plan to become electrical provider." The proposed legislation would require



a two-thirds' majority vote on a ballot measure by the voters before local government could undertake such projects. The only exception would be CCAs that can provide 100% renewable energy to their customers. Mr. Campbell said that it is ". . . a negative development for the people of California attempting to get a cleaner energy future."