



# REQUEST FOR FINANCE COMMISSION ACTION

**MEETING DATE:** AUGUST 19, 2019

**TITLE:** CONSIDER COMMUNITY CHOICE ENERGY FEASIBILITY  
STUDY FINDINGS



Director of Public Works

## RECOMMENDED ACTION

Recommend the Finance Commission consider the findings of the Community Choice Energy feasibility study, provide input, and refer the item to the City Council for direction.

## EXECUTIVE SUMMARY

Community Choice Energy (CCE) programs serve as an alternative to the traditional Investor Owned Utility power procurement process, allowing local governments to purchase electricity and sell it to consumers at competitive rates. CCE programs have successfully lowered electricity rates to their business, residential, and municipal customers, and generally repay the initial capital investment within the first few years of operation. CCE programs are not considered municipal utilities and will operate in partnership with the utility. Southern California Edison (SCE) will continue to provide transmission and distribution, power line maintenance, and customer billing services.

A feasibility study (Study) of CCE program implementation was completed to better understand the issues surrounding development and risks of operating a CCE program in Irvine. The Study results show the following:

1. With mitigated risks, a CCE program in Irvine is financially feasible.
2. The following governance options are available for City consideration:
  - a. City of Irvine individual CCE.
  - b. Formation of a Joint Power authority (JPA) with other Orange County jurisdictions led by the City of Irvine.
  - c. City joins an existing CCE program.
  - d. City forms an individual CCE, and joins or creates a JPA of other individual CCEs.
3. Working capital expenses to launch and operate an individual CCE program are \$10.05 million, which can be financed.

4. Prior to launch of an individual CCE program, the City will be required to fund \$600,000 to cover staffing and bond fees (in addition to the expenses in item three listed above).
5. Net program revenues are estimated at \$10.6 million annually. Once the capital loan is reimbursed and program reserves are established, the annual revenue potential to fund local energy programs is \$3.4 million.
6. A CCE program in Irvine can provide a potential two percent discount on electricity rates when compared to SCE rates, while matching SCE's projected renewable energy portfolio.
7. The discounted rate translates to an estimated \$7.7 million in annual electricity savings to the community.

An outline of the key findings, including an overview of revenue and expenses and a comparison of revenue from other CCE programs, is provided in Attachment 1. The Study further notes that a CCE program can provide other local benefits to the City and its constituents, such as rebates to incentivize energy efficiency and economic development opportunities. Benefits of CCE programs also include local control over the power procurement process, and the potential to increase the amount of renewable energy in the community.

An overview of the expected funding required to launch and operate a CCE program in Irvine, and the estimated revenue, is provided in the balance of this staff report. The Finance Commission is being asked to consider the findings of the Study and recommend that the City Council review the Study results to provide direction on implementation and funding of a CCE program.

### **COMMISSION/BOARD/COMMITTEE RECOMMENDATION**

Following the Request for Proposal process to identify qualified consultants to assess the risks and benefits of operating a CCE program in Irvine, the Finance Commission approved a budget adjustment and recommended EES Consulting, Inc. (EES Consulting) conduct the feasibility study on September 4, 2018. The City Council awarded a professional services contract to EES Consulting on September 25, 2018 in the amount of \$77,470. EES Consulting began work on the project in December 2018. The results of the Study were presented to the Green Ribbon Environmental Committee for consideration on June 24, 2019, and the Committee recommended that the City Council pursue CCE program implementation in Irvine.

### **BACKGROUND**

CCE programs have provided service in California since 2002 following passage of Assembly Bill 117. There are 19 operational Community Choice agencies in California, from MCE in Marin County (launched in 2010) to Solana Beach and nine others (launched

in 2018). These Community Choice agencies serve about 11 million consumers, representing about 154 cities and 20 counties in California. They generally offer a higher percentage of renewable energy in their power mix at rates lower than the operating utility, and offer a wide variety of locally-tailored programs that respond to community needs.

## **ANALYSIS**

CCE programs enable local governments to control their energy procurement portfolio through the purchase of electricity, rate setting, and collection of revenue. CCE programs offer options to the consumer regarding the amount of renewable energy in the electricity portfolio, and can administer energy efficiency programs and other greenhouse gas emission reducing activities. A feasibility study and technical assessment was completed to review the viability of reducing electricity rates for businesses and residents in Irvine, while possibly increasing the use of renewable energy through the formation of a CCE program in Irvine. Increasing the use of renewable energy is a goal that is contained in the Energy Element of the City's General Plan, and will be a component of strategic energy and climate planning in Irvine.

There are expenses associated with the development of a CCE program, and varying operational costs and electricity rates depending on the renewable energy portfolio selected. This report illustrates the estimated operational costs, revenues, and associated electricity rates and cost savings, in an effort to assist the Finance Commission in understanding the viability of a CCE program in Irvine.

If it is the City Council's intention to launch a CCE program, direction will be needed on which governance option to pursue and how to allocate funds to develop the program. The Study reviews the governance options available to the City of Irvine to join an existing CCE program, partner with other entities to form a CCE program through a Joint Power Authority (JPA), or initiate an individual/single jurisdiction CCE program. The Study bases its assumptions on the City initiating an individual CCE program because that provides the most controlled cost estimate at this stage. The Study states that the other governance models are viable for Irvine, but further information from other cities or existing CCE programs is needed.

Partnering with other cities or joining an existing JPA will likely reduce the overall start-up costs and program risks of implementing a CCE program. As with any large endeavor, there are risks associated with CCE programs. This report will briefly summarize these risks and mitigation strategies. This report also outlines the potential funding sources should the City Council provide direction to implement a CCE program in Irvine.

### Operational Costs of a CCE Program

Overall CCE start-up and working capital costs are estimated at \$10.05 million, and the Study assumes that financing will be obtained. These expenses could be fully recovered within the first three years of CCE operations while still achieving a two percent rate discount compared to SCE's current rates.

The City will need to fund \$600,000 to develop the individual CCE program, prior to obtaining financing to launch and operate the CCE. These cost include:

- Staffing expenses to manage the Implementation Plan development,
- Bond payments to the California Public Utilities Commission (CPUC) and SCE estimated at \$100,000 each, and
- Consultant costs to support pre-launch activities, including stakeholder meetings and developing a JPA (if applicable).

These expenses are typically considered part of the start-up process and could be less if the City Council provides direction to pursue an alternate governance option.

Ninety percent of the costs associated with a CCE's operating budget are related to power supply procurement. The estimated first-year operating budget for an Irvine CCE program is \$82.9 million (based on a partial operating year). The average operating budget is \$130.5 million for the operating years 2021-30. These funds are generated through the operation of the CCE program, and are not obtained from the City. The initial working capital of \$10.05 million is assumed to be financed, and will be repaid through the program revenues as noted below.

#### Estimated Program Revenue

The first-year revenue is projected at \$86.9 million, with an estimated \$4 million in net income for the first-year of operations. The average revenue is \$141.1 million for the operating years 2021-2030, with net revenue estimated at \$10.6 million per year. EES Consulting estimates that \$3.4 million annually can be utilized to fund energy efficiency and other customer-related programs once the start-up and working capital costs are repaid.

#### Proposed Electricity Rates and Cost Savings

CCE programs and utilities are required to meet the State's minimum Renewable Portfolio Standard (RPS), and the "base-case" scenario of the Study aligns with SCE's renewable power procurement to meet this standard. The Study considers two additional scenarios, outlined below, that provide increased amounts of renewable energy and forecast associated electricity rates.

- A rate discount of two percent is targeted for the SCE-equivalent Renewable Portfolio (60 percent renewable by 2030).
- The 100 percent Renewable by 2035 Portfolio is at parity with SCE rates.
- The 100 percent Renewable Portfolio achieves 100 percent renewable energy at program launch, aiming to keep rates as close to SCE rates as possible and collect the reserves needed for CCE operation. Because of the additional cost to obtain a

100 percent renewable portfolio, these rates are projected at a two percent increase compared to SCE's rates.

The Study calculates the rate savings associated with the SCE-equivalent scenario which will reach 60 percent renewable by 2030, with rates two percent lower than SCE's current rates. This two percent rate savings translates to \$7.7 million annually for Irvine residents and businesses. The City's municipal accounts are projected to save \$112,000 annually.

### Risks and Mitigation Strategies

While the Study shows that forming a CCE is financially feasible under a wide range of scenarios, doing so is not without risk. A CCE program is feasible if it maintains customer rates competitive with SCE, and that primarily depends on how power supply costs compare to SCE's power supply costs and customer rates. Other factors impacting the financial viability of the CCE include: costs that SCE directly passes through to all customers (including the Power Charge Indifference Adjustment or PCIA), one-time initial exit fees, market supply of renewable power, availability and cost of financing CCE operations, and legislative and regulatory actions.

To assess the magnitude of the risks imposed on the CCE by these factors, the Study includes a Sensitivity and Risk Analysis section which established a range of high and low scenarios for prices for CCE-procured market power, SCE's customer rates, CCE financing costs, and the level of SCE's PCIA. As a result of the impact on CCE rates of these risk scenarios, the Sensitivity and Risk Analysis section of the Study also assumed a worst case CCE customer retention level and its impact on CCE rates, and suggests actions the CCE may take to manage these risks.

The Study recommends that a CCE program build up a reserve fund that is available to address contingencies, cost uncertainties, rate stabilization, or other risk factors faced by the CCE. The Study assumes that the CCE program would begin building its reserve immediately upon launch. After four full operating years, it is estimated that the CCE will have accumulated enough reserves to cover four months of expenses, including power supply costs, which is the minimum industry standard for electric utilities. Building this reserve provides financial stability to assist the CCE in obtaining favorable interest rates, if additional financing is needed.

Factoring in the associated risks and mitigation strategies, the Study results suggest that CCE implementation is financially feasible, should the City wish to further pursue it. An Irvine CCE program is expected to offer customers lower rates than both SCE's base rate and SCE's 100 percent renewable rate. To mitigate the risks associated with CCE programs, the CCE entity can follow conservative power procurement strategies, employ market risk management policies, develop a cash reserve fund from annual net revenues, and engage in regulatory and legislative issues related to CCE development.

### Next Steps and Funding Sources

To launch a CCE program in Irvine, the City Council will need to review the findings of the Study and provide direction on which governance option should be selected, and approve a funding allocation. If it is the City Council's direction to proceed with the implementation of a stand-alone CCE program, then staff will work to develop the Implementation Plan for an Irvine CCE program. The Implementation Plan needs to be filed by December 2019, if the City intends to launch a CCE in 2021. If the City Council provides direction to select another governance option (i.e., join an existing CCE program, or partner with other interested cities to form a JPA), then staff will begin the process of collecting the necessary information. For these options, the filing of the Implementation Plan would likely take place in 2020, and the launch of a joint-CCE program would take place in 2022.

Staff has budgeted approximately \$50,000 to work with a consultant to develop and file the Implementation Plan with the CPUC. An estimated \$600,000 is anticipated to develop a CCE program in Irvine. Funding for these expenses is not allocated in the existing budget and has not been identified. The results of the CCE feasibility study will be presented to the City Council on September 24, 2019.

### **ALTERNATIVES CONSIDERED**

The Finance Commission could recommend that the City Council not consider implementation of a CCE program based on the results of the feasibility study, or the associated program risks.

### **FINANCIAL IMPACT**

Implementation of a Community Choice Energy program requires \$10.05 million in working capital, which can be financed. The expenses associated with a program launch are estimated at \$600,000 of which funding has not been identified. \$50,000 was included in the current Fiscal Year to conduct the implementation plan, but the working capital and pre-launch expenses detailed in the report are not included.

**REPORT PREPARED BY**                      Sona Coffee, Environmental Programs Administrator

### **ATTACHMENTS**

1. Community Choice Energy Summary of Key Findings
2. Community Choice Energy Feasibility Study