



Berkeley Energy Commission

Public Workshop on Community Choice Aggregation (Community Energy)

**Wednesday, April 26; 7:00 PM
North Berkeley Senior Center (Classroom A)
1901 Hearst Avenue at Martin Luther King, Jr. Way**

Find Out:

What is Community Choice Aggregation (CCA)?

Tell Us:

Should the City of Berkeley provide electricity for residents and businesses?

The Cities of **Berkeley, Oakland** and **Emeryville** are exploring the creation of a public agency that would purchase power and build power plants to serve customers in Berkeley. The Berkeley Energy Commission wants to start a discussion on this important topic.

Find out about the City's study and how it might affect you.

- **Who would decide what power sources we use?**
- **How would this affect your bill?**
- **What are the risks and benefits?**
- **When might this happen?**
- **What is your say in the matter?**
- **Would you join or stay with PG&E?**

Tell the Berkeley Energy Commission what you think about this issue.

Community Choice Aggregation in the East Bay Frequently Asked Questions

Introduction

This Frequently Asked Questions (FAQ) document is designed to assist the general public in understanding some of the major issues and concerns regarding Community Choice Aggregation (CCA). The questions are divided into six major sections: (I) CCA Overview (II) Impact on relationship with PG&E (III) Potential benefits of a CCA (IV) Potential risks of a CCA (V) Sources of Electricity (VI) Financing a CCA Program.

I. Community Choice Aggregation (CCA) Overview

Q: What is Community Choice Aggregation?

A: "Community Choice Aggregation" (CCA) is a legal term that refers to a new way for cities and counties to purchase electricity for the people and businesses in those jurisdictions. Created by the passage of AB117 in 2002, local governments can now choose the fuels and facilities that provide electricity to their constituents.

Q. Are there reports available on CCA?

A. A variety of reports are available at <http://www.cityofberkeley.info/sustainable/government/CommunityChoice/CCA.html>.

Q: Is CCA the same as forming a municipal utility?

A: No. Under CCA, the local community would merely contract for power supply or own power generation plants outright. The electricity will still be delivered over the existing wires owned, operated, and maintained by PG&E. The customer will see no difference in service and will continue to receive a single bill for electricity issued by and paid to PG&E.

By contrast, forming a municipal utility would include replacing the existing utility (either via new construction of wires or condemnation of existing wires) with a locally owned utility. This is an expensive and time-consuming process. The new CCA law provides an easier way for local governments to change the content of the power supply without taking on the burden of managing the power lines.

Q: What is the Current Status of East Bay CCA Planning?

A: In 2005, CCA Feasibility Studies were completed by Navigant Consulting, Inc. for the Cities of Oakland, Berkeley and Emeryville. The feasibility study only answers the question of whether or not moving forward with CCA is an economically viable choice. These preliminary studies found that moving forward could be economically beneficial to local consumers, and environmentally preferable.

While the feasibility analyses were being developed, representatives from the cities of Oakland, Berkeley, and Emeryville began working together to investigate the feasibility of forming a Joint Powers Authority (JPA), comprised of representatives of their

respective cities, to bring CCA to the East Bay. Joining together as aggregators could mean that we could access the competitive electricity market with more purchasing authority.

During 2005, the cities also examined bond, financing and other legal issues, and sponsored an independent review of the Navigant Feasibility Study. The independent review validated Navigant's findings and highlighted critical issues for the next level of analysis.

The three cities are now proceeding with Phase II which involves the development of an Implementation Plan which will look at items like demand for electricity by customer types, governance plans, power supply options, financing options and regulatory issues.

The Implementation Plan is scheduled for completion around the end of 2006, at which time the respective City Councils will have to decide if they wish to become Aggregators. If so, the Implementation Plan must be submitted to the California Public Utilities Commission (CPUC). If the CPUC approves the implementation plan(s), each City must then decide whether to implement the CPUC approved plan under Phase III.

Q: How does a CCA Program work? Do I have to participate if my community creates one?

A: CCA is only for the purchase and sale of electricity. The transmission, delivery, metering, billing, operation and maintenance of wires will remain the responsibility of the local utility.

All customers would automatically be in the program, but they would have an explicit right to "opt-out" and thereby remain with PG&E.

Q: Is there a financial cost to opting out?

A: Once the CCA program begins subscribing customers, you will have 60 days to opt out at no cost. You can opt out later, but after the initial 60 days, "exit fees" may be imposed to cover any financial commitment the local aggregator has made to power suppliers on your behalf. For the majority of residential customers, such "exit fees" will be small, since most residents, and many small businesses, are relatively small consumers of electricity.

Q: Who gets called if the power goes out?

A: The delivery of electricity remains the incumbent utility's primary responsibility. PG&E would continue to be responsible for all operation and maintenance of the infrastructure that delivers electricity to residences and businesses.

Q: Which other Bay Area jurisdictions are budgeting for Phase II involvement?

A: In addition to Oakland, Berkeley and Emeryville, jurisdictions within PG&E's service territory that are budgeting for or seriously examining CCA are San Francisco, Marin County, Pleasanton, Vallejo and Richmond. In Southern California, Chula Vista, Beverly Hills, Los Angeles County and Santa Monica are also investigating CCA.

Q: How is this different from the earlier problematic deregulation scheme?

A: The new approach to buying electricity contemplated under the CCA law is only similar to deregulation in one way: the host Independently Owned Utility (IOU) – in this case, PG&E – still handles the services that they've been handling for decades. They control the distribution of electricity to individual homes and businesses, meter your usage, and send your power bill.

Local governments and other California consumers were first granted the right to purchase their own electricity when the state deregulated its power market in 1997. At that time, a local government could choose its power supply, but only for its own operations, not for its constituents. While a few local governments chose green power supplies, less than 3 percent of California customers switched suppliers under this new deregulated market because each customer had to figure out for themselves what new service provider was best for them.

The energy crisis of 2000-2001 changed the rules again. The state government stepped in to purchase power because California's two largest private utilities were teetering on the edge of bankruptcy. California consumers were no longer allowed to choose green power or any other grade of electricity. The only way to exercise any choice was to install on-site sources, such as solar systems.

Now, with the new CCA law, local governments can have far greater authority over the source of the electricity that serves not only their own operations, but that serves the residents and businesses that live in their jurisdiction as well.

Q: Has CCA been done anywhere else?

A: Yes. Three states have passed CCA laws: California, Ohio and Massachusetts. Ohio has made the most progress in CCA. So far, over 200 Ohio communities, mainly in the northern part of the state, have decided to aggregate.

Q: Can a local CCA program do a better job procuring electricity than PG&E?

A: Local CCA programs will have the same industry expertise available to them as the IOUs. It's not really a question of doing a better job, but rather, it's about taking advantage of an opportunity to better align electricity purchases with the specific needs and priorities of East Bay communities. These priorities include: choosing cost-effective renewable resources over fossil fuel resources, creating longer-term price stability through less dependence on volatile fossil fuels, and promoting locally owned clean distributed generation facilities. The proposed CCA business strategy calls for a diverse mix of generation owners and long term power purchase contracts that will help protect our communities from future power market uncertainties linked to global climate change, the terrorist threat, and other unforeseen factors.

Q: Will creating a CCA program require setting up a new bureaucracy?

A: While setting up a CCA program will require a new Joint Powers Authority, it does not require hiring a large staff to manage the tasks of running the proposed CCA. All of the required tasks and functions can be handled through contracts with existing private and public sector organizations that already have significant expertise and experience.

Q: Can't the private sector do a better job than the public sector at procuring electricity?

A: It's not really a matter of public versus private sector because the private sector will indeed be employed to carry out many of the functions associated with a CCA program. It is more a matter of public control over critical resources required to sustain our communities. CCA also offers an opportunity to take advantage of unique and cost-effective financial opportunities available only to the public sector. If the private sector could provide critical resources better and less expensively than municipalities, you would see a greater move to privatize public enterprises for electricity, water and sewage in the cities that provide them. In fact, public utilities have a long track record of providing these services at less cost than their private-sector counterparts.

Q: How can we make this CCA program work more cheaply or better than the IOU, which has over a hundred of years of experience?

A: The City is not attempting to do CCA by itself. Rather it is pursuing a program with the assistance of energy professionals and it will be competitively bidding different components of the CCA Program. The City will be able to tap the best that a competitive market has to offer with multiple suppliers for each service.

II. Impact on relationship with PG&E

Q: Will implementing a CCA program impact our relationship with PG&E?

A: Implementation of a CCA program should not impact a city's relationship with the incumbent utility. The relationship between the customer and PG&E is maintained; PG&E would still provide customer service and billing and the charge for electricity generation, which currently accounts for about half of your electric bill (and which is a current line item on your PG&E bill), would still be there. If a community establishes a CCA program, customers in the community will automatically become a part of that local program unless they choose to opt-out and stay with the PG&E electricity supply. Under the CCA law, PG&E will pay the CCA for the electricity supplied under the CCA program.

A CCA program may result in increased coordination between the Aggregator and the utility on matters regarding power delivery, billing, public purpose programs, and other utility matters.

Q: What is PG&E's position on the CCA program?

A: CCA is a California law that PG&E & Southern Cal Edison (SCE) supported and which directs host Investor Owned Utilities (IOU) to cooperate with and assist implementing cities/counties.

PG&E has publicly supported the creation of CCAs by local governments. In today's world, IOUs such as PG&E no longer receive a return on investment for building new power plants. Their current sources of revenue come largely from building transmission and distribution systems, with which they will continue to serve local CCA programs. At present, PG&E only owns the Diablo Canyon Nuclear Generation Facility and a fleet of hydroelectric facilities that it built decades ago. PG&E procures all other electricity on

behalf of its customers from third party electricity generators. The CCA program is therefore not a threat to PG&E because it does not reduce its profits.

Q: What impact will forming a CCA have on a City's franchise fees?

A: CCA will not impact the amount of franchise fee a city receives from PG&E.

Q: Will implementing a CCA program cause delays in PG&E's distribution system expansion and the hook-up of new customers?

A: California CCA law directs California IOUs to support and cooperate with all cities and counties that implement CCA. Whether or not a city elects to implement a CCA program should have no impact on PG&E's distribution expansion efforts within that city.

III. Potential Benefits of CCA

Q: What benefits could a community gain by becoming an Aggregator?

A: A CCA would be a community-based nonprofit public agency offering new public benefits and competitive advantages that are not being maximized today, including, potentially, the following:

Affordable Renewable Energy – Under a CCA program, East Bay homes and businesses could enjoy the benefits of non-polluting renewable energy resources at the most affordable price. We can determine how our electricity is generated – from clean and renewable resources rather than polluting and finite fossil fuels. The initial feasibility studies suggest the East Bay could meet up to half of its electricity demand with renewable energy resources (such as wind, solar and geothermal steam) by 2017, while still maintaining a modest savings over current PG&E rates. That's more than double the renewable energy content PG&E plans to include in their portfolio.

Save Money: The initial feasibility studies indicated that with the implementation of local CCA programs, nominal electricity cost savings could approximate 4-5% of total electricity bills over a twenty year period.

Greater Price stability – California's growing demand for electricity is expected to be met by an increasing dependence on natural gas-fired power plants. California already imports about 84% of its natural gas from other regions, and our growing appetite for more electricity will require even more imported fossil fuels, including Liquefied Natural Gas (LNG) from other countries. Renewable energy has no fuel cost and is not subject to the shortages and price volatility we have seen in natural gas prices. A combination of new renewable energy supply and long term power purchase contracts will help achieve a higher level of price stability for homes and businesses, and will protect the local economy from radical fossil fuel price swings.

Promote Local Clean Distributed Generation – A CCA program could promote greater reliance on local distributed generation facilities such as solar panels, on-site wind turbines, and co-generation facilities or fuel cells. Incorporating local distributed electricity generation sources and remote renewable energy power plants helps diversify risks and increase service reliability.

Local Accountability – Unlike PG&E, local governments are accountable to their citizens through locally elected officials whose tenure is predicated on serving the public good. The decisions of a local power authority would be more transparent and responsive to the desires of the community than the current electricity supply regulated by the California Public Utilities Commission (CPUC).

Public Financing of Generation – Local governments have substantial financial advantages over IOUs when it comes to investing in new power supply. First, a local public CCA program has no need for a profit margin on power supply, whereas IOUs are allowed by the CPUC to include a profit margin in the rates charged to their customers. The nonprofit status of the City or the JPA could result in cost savings for CCA partners and customers.

A second competitive advantage over an IOU is the fact that the Cities, as public agencies, can qualify for tax-exempt bonds for financing power generation facilities at an effective cost of capital that is about half of PG&E's. These lower borrowing costs can also translate into cost savings for CCA partners and ratepayers. Finally, a local public CCA will not be required to pay federal income taxes. In the short term, these cost advantages are somewhat offset by the costs for paying off the state's long term bonds and power purchase contracts inherited from the energy crises of 2000-2001. Once these costs are paid off, however, around 2012, local CCAs may well secure savings, particularly if we invest or own outright new clean power plants.

Additional advantages include:

- ✓ Greater rate stability to attract and retain employers;
- ✓ Improved air quality locally and regionally;
- ✓ Less water consumption required to produce electricity;
- ✓ Less reliance upon unsustainable power sources such as nuclear power;
- ✓ Increased economic development and jobs
- ✓ Insulate the community from fossil fuel price volatility;
- ✓ Help build markets for new cleaner and cheaper power technologies.

III. Potential Risks of Forming a CCA

Q: Will a CCA Program impact the reliable delivery of electricity?

A: No. Before a CCA Program can begin, an implementation plan must be approved by the CPUC. That implementation plan will describe where the electricity is going to be purchased from and who will schedule the electricity. In essence, the CCA will procure and schedule electricity via a scheduling coordinator (a professional energy company) just like PG&E does. Once the electricity is scheduled, the state's transmission operator and PG&E will not see any difference between the CCA electricity and that of the IOUs.

Q: Are there risks associated with forming a CCA?

A: Along with the potential benefits associated with a CCA program highlighted above, communities participating in this new power purchase scenario also assume certain risks. But staying with the status quo PG&E power supply mix also has risks. The key questions are: do the benefits outweigh the risks and are the risks manageable and acceptable from a business perspective?

Q: What are risks to the City government and taxpayers?

A CCA would not be formed unless there was a financial firewall that would insulate the cities' General Funds and taxpayers from financial liabilities of the CCA. However, a city's General Funds could be affected if the Council voluntarily exposes the General Fund by, for example, providing rate relief in response to political pressure. A city's bond rating could also be indirectly (guilt by association) affected if the CCA defaults on its bonds.

Unless outside financing is available for start up expenses, the cities would need to front funds for this purpose. If the CCA failed to get off the ground and generate revenues, these funds would not be reimbursed.

Q. What are the risks to ratepayers?

A. Many of the risks to CCA ratepayers are similar to risks they now faces as PG&E ratepayers, including: debt service of CCA investments, rate increases caused by customer attrition and uncollectables, cost overruns for power plant development, the cost of power purchase contracts.

Other ratepayer risks will be new, including possible increases in PG&E fees for CCA services and changes in PG&E subsidies.

Q. What are the risks of buying power on the open market?

A: The development of a power supply, diversity, and risk management of the power supply will be addressed and developed as part of a CCA Implementation Plan. A portfolio with a mix of owned generation or long-term contracts, combined with short-term or seasonal contracts that have either supplier or fuel diversity, can minimize portfolio risk. Alternatively, a CCA aggregator can contract with a third party to

purchase energy at a fixed price. This approach removes the portfolio risk, but also removes a portion of the CCA upside.

Q: What risk does the CCA have if customers defect back to PG&E or another provider?

A: If the power contracted for or built to serve these customers couldn't be sold on the market, the remaining customers would be responsible for absorbing these costs through rate increases. In order to reduce this exposure, Once 60 days after initial period has passed, the CCA Program will have "exit fees" (similar to those that we will be paying to PG&E) for customers that opt-out of the CCA Program. This feature will ensure that the costs for the power supply and agreements entered into on behalf of the initial customer base will be paid for by the customer base. This risk can be further minimized by buying a 60-day power purchase contract for the initial CCA opt-out period. Note that even though all customers have the opportunity to "opt-out" of the CCA Program prior to its initiation, less than 8% of all loads in Ohio's CCA have opted-out.

Q: How do we guarantee that the CCA rates will be lower than PG&E's?

A: There are no guarantees that the CCA rates for electricity will always be lower than PG&E's. However, the following facts suggest that the CCA Program rates could be lower than PG&E's: (1) the locally administered CCA program has no profit margin on power supply (if PG&E owns the generation it will have a return on investment of approximately 11 percent); (2) the goal of the CCA Program is to provide value (savings) to the local community not value (profits) to shareholders; (3) if the CCA Program owns power generation plants, it can finance 100 percent of that generation, likely with tax-exempt bonds; (4) the CCA will not be required to pay federal income taxes; and (5) on average PG&E's rates have increased by 4.8 percent annually over the past 25 years.

However, PG&E has very low cost assets in its portfolio, including its large hydro-electric plants and the Diablo Canyon nuclear facility. These assets will help keep PG&E's costs down. The Phase II study will assess how CCA advantages balance against PG&E's advantages.

Q: Have all of the CCA Rules been established at the CPUC?

A: The CPUC established its final rules for CCAs in two decisions issued in December 2004 and December 2005. These decisions establish the rules by which PG&E is to provide services to CCAs and their customers, such as the metering and billing activities that PG&E will continue to perform, to enable CCA programs to form and operate. The CPUC also established the exit fees that PG&E will be able to charge to customers after they begin receiving service from a CCA and determined the degree of oversight that will be exerted by the CPUC over CCA operations. The CPUC will be conducting additional workshops in the near future to establish instructions for CCAs and utilities regarding a timeline and process for filing of implementation plans, providing customer notices and registration of CCAs. Other regulatory proceedings are ongoing that address how utilities, CCAs and non-utility energy service providers are to comply with renewable portfolio standards and resource adequacy requirements.

Q: Is there state regulatory oversight for CCA?

A: A CCA is required to file an implementation plan with the California Public Utilities Commission (CPUC). The CPUC is charged with reviewing and approving the implementation plan prior to the start of the CCA program.

IV. Sources of Electricity

Q: Where will the CCA get its electricity?

A: There are essentially two strategies for the CCA to obtain the necessary electricity to serve its customer base: (1) contractual strategy; and (2) outright ownership of power generating plants (asset ownership). Under the contracting strategy the CCA provider would access the competitive wholesale electricity market and have numerous suppliers provide competitive bids to meet the energy requirements of the CCA. Under the asset ownership strategy, the CCA provider would meet all or a portion of its electricity requirement through the ownership of generation assets.

Q: Must a CCA meet California's renewable portfolio standard (RPS)?

A: Yes. The enabling legislation for CCA requires that CCA providers meet the same Renewable Portfolio Standard (RPS) as the IOUs which is that at least 20% of all electricity used is from qualifying renewable resources by 2017.

Q: Can the CCA exceed the RPS?

A: Yes. In fact several cities and counties across California are currently developing CCA programs designed to more than double the RPS requirement by meeting 50% of electricity needs from renewable energy sources.

Q: Could CCA significantly foster the development of a renewable energy market?

A: Yes. Because potential Aggregators in the Bay area are examining the feasibility of dramatically exceeding the RPS requirement, CCA provides an excellent opportunity for fostering a robust renewable energy market in California.

V. Financing a CCA Program

Q: What are the start-up costs for CCA?

A: Initial costs include the development of an implementation plan, filing that plan before the CPUC, and beginning the implementation process once the plan is approved. The total costs for these activities are expected to be about one million dollars. The CCA provider will also need working capital to begin operation of the CCA program (exact amounts to be developed in the implementation plan).

Q: How will the CCA be financed, including ownership of a power generating plant?

It is anticipated that a CCA provider pursuing ownership of power generation resources will finance the project with tax-exempt bonds. The bonds will be backed by the ability of the CCA provider to collect revenues for electricity delivered to participating customers and via other power sales agreements entered into by the CCA provider.

Compiled March 2006 by:

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