Alexander, Jacquelyne

From: Don Dame <donald.b.dame@gmail.com>
Sent: Sunday, October 01, 2017 8:24 AM
To: sbcob
Subject: Comments on CCE Feasibility Study, 10/3/17 BOS Meeting
Attachments: CCP Study Issues 10-1-17.pdf

RE: **October 3, 2017 Santa Barbara County Supervisors Meeting**
Agenda item #2 "Consider recommendations regarding Community Choice Energy (CCE) Feasibility Study Results"

I have reviewed the Willdan Report undertaken to assess the potential viability of a Central Coast Power Community Choice Aggregation program. I believe there are multiple study assumptions and conclusions which yield a significant economic bias against CCP viability and which require additional examination. A short supporting document is attached which includes a brief bio of my energy industry experience on the last page.

Thank you for your consideration of these comments,
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D. Dame Comments
10-1-2017

Willdan Central Coast Power Modeling Effort

Technical Review Considerations

Modeling the increasingly complex California power marketplace and renewables regulatory environment is an arduous task involving extrapolation from the "known" past to the "unknown" future predicated in part on the expectation that history repeats itself. Willdan recently modeled the potential economic viability associated with a Central Coast Power (CCP) Community Choice Aggregation program and concluded CCP would have to charge rates about 25% higher than incumbent IOUs to pay all CCP power supply and program costs. This result contradicts existing CCA experience and logical expectations, and the report will likely continue to receive widespread skepticism if not outright disbelief unless further examination is conducted. CCP participants can and should, however, take several steps to further explore the Willdan study results to either reinforce such results or more likely identify where modeling flaws engendered inaccuracies.

No model is "perfect" and all have various shortcomings. The modeler's hope is that any errors are either not material or offset one another. Models inherently have multiple channels for error and this is especially true given the complex power planning, procurement, scheduling, dispatch and settlement activities within the California regulatory regime and CAISO controlled grid. Modeling shortfalls can include:

- Inadequacy of the modelers' background, experience and capability;
- Inclusion of irrelevant variables and inaccurate historic data;
- Misspecifications and computation errors coupled with insufficient testing and validation of results;
- Complexity of task --- relatively short CCA history, volatility of energy markets, complexity of CAISO scheduling and settlement processes for loads and resources; and ever evolving regulatory and compliance "rules" --- all of which require extra caution and explanation prior to acceptance of counter intuitive results.

Again, Willdan's results indicate CCP would not be viable. Does this outcome pass the "reasonableness" test? No. Why not? There are at least two countering hurdles: 1) All existing California CCAs have established rates essentially at parity with incumbent IOUs --- even though most have improved environmental resource qualities. This includes Lancaster Clean Energy and Apple Valley Choice Energy, both within SCE's territory; and 2) The PCIA is designed to neutralize power cost differences between the incumbent IOU and the new CCA. Currently the PCIA for CCAs in SCE territory is about 1.3 cents/kWh. If there is any relevance to the PCIA, it indicates the CCA's power supply cost to serve its customers in the same manner as SCE should cost 1.3 cents/kWh less, and then after paying the PCIA, both portfolio costs are "equal." Why is this relevant? Because it indicates the worst case cost "overage" for the CCA should be the added CCA related A&G and technical services costs which comprise a very small portion of total CCA costs (less than 5% of total cost, as power supply is the predominant cost component). Thus the intuitive worst case result would be a CCP with costs exceeding the incumbent IOU by no more than 5% ---- not 25%.

Looking specifically at Willdan's model, there are multiple input and assumption areas that need further review, explanation and verification. Several significant aspects include:

1. Reserve Fund. Any new CCA will need to establish a reserve fund, the target amount of which will likely be a function of risk management policy and Board direction. Once a

sufficient account balance is attained, further annual funding will be unnecessary until and unless market conditions change or amounts are withdrawn from the fund. Willdan's model appears to annually add to CCP's reserve fund in perpetuity. This biases the result against CCA. This needs to be explained and verified, and corrected if in error.

2. Franchise Fees. Willdan's study appears to estimate franchise fees at approximately $35 million/ year (Table 55, II-84). This amount appears off by a factor of 10. And franchise fees are virtually identical given either SCE or CCP electric service. This biases the result against CCA. This needs to be explained and verified, and corrected if in error.
3. Non-Bypassable Charges. Willdan's study seems to include the CTC and DWR-BC as a charge to CCA customers (page II-94). Potential CCA customers pay these charges currently under existing SCE tariffs and these amounts would not change under a CCA, and indeed would still be billed by SCE. The only "new" CCA component of the Customer Responsibility Surcharge (CRS) is the PCIA, and this is the only CRS related charge that should be included in the analysis. This biases the result against CCA. This needs to be explained and verified, and corrected if in error.
4. Wrong Pricing for Load. Under CAISO controlled markets load is priced at the Default Load Aggregation Point (DLAP) --- essentially the average across the particular IOU's service territory. The Willdan study appears to price load at "pNodes" in affected counties (page II-50) and these are prices paid to generators, not prices paid by load. The incorrect conclusion is that each county pays a different price within a given IOU territory. This may bias the result against CCA. This needs to be explained and verified, and corrected if in error.
5. Renewables Priced Too High. Willdan's study assumes renewables prices average about $80 / MWh (study Figure 33). Current prices for wind and solar PV are closer to $40 / MWh or less. The $40 / MWh difference adds about $40 million / year to CCP costs. This biases the result against CCA. This needs to be explained and verified, and corrected if in error.
6. 45 Person Organization. Willdan's study assumes a 45 person CCP staff. While this is potentially possible, it would likely be 5-10 years before staffing reaches these levels and then, only subject to CCA need and Board direction. The more likely case is about a 10 person staff initially, augmented by service providers and specialized consultants. The "extra" 35 staff positions conservatively adds about $3-$4 million, or more, in annual CCP cost. This biases the result against CCA. This needs to be explained and verified, and corrected if in error.

In sum, all above points sway against CCP economic viability. If all are deemed to need revision, CCP operating costs decline by about 25% and the economic result for a new CCP approaches parity with SCE and PG&E ---- which is where pragmatic intuition leads.

If skepticism of the Willdan study is to be resolved, it is necessary for MRW or other qualified consultant(s) to address the above points and other potential shortcomings of Willdan's model. Such consultants should devise or use their own models and not be constrained to use Willdan's model. This review approach will provide a more credible reality check and show either that: 1) Willdan's results are defensible, or 2) that skepticism was warranted, and correcting adjustment required. In either case, decision makers, participants, staff and other interested parties can then proceed with CCP (or not) with added confidence that all prudent steps were taken to validate CCP viability.

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40 years power industry experience; retired from public power JPA in 2012.
Currently consulting with existing and developing California CCAs

Experience includes overseeing Power Management real-time dispatch, scheduling, planning, forecasting and contracting functions for 10 member power pool integrated within the CAISO controlled grid.

RECENT CONSULTING EXPERIENCE

- Power Industry clients since 2012
- University of California Direct Access Program (establishment and solar contracts)
- Power and Water Resources Pooling Authority (wholesale power services)
- Kirkwood Meadows RI District (grid interconnection and power services)
- Monterey County Water Resources Agency (sale of 5 MW hydro output)
- The Energy Authority (CCA evaluation and business options)
- City of Ukiah Electric Utility (CCA evaluation for Mendocino County)
- Imperial Irrigation District (assist with CVAG CCA evaluation)
- Redwood Coast Energy Authority (assist with implementation and risk management)
- Valley Clean Energy Authority (Davis, Woodland and Yolo County)
- Assist with SMUD / VCEA services contract implementation
- Coachella Valley Association of Governments (CCA implementation and governance)

ENERGY INDUSTRY EXPERIENCE

- Assistant General Manager, Power Management, Northern California Power Agency (1992 – 2012)
- Chief, Generation and Transmission Planning (1986 - 1992).
  California Department of Water Resources, Sacramento, California.
- Pacific Power and Light Company, Portland, Oregon.
- Bonneville Power Administration, Portland, Oregon.
- Colorado Interstate Gas Company, Colorado Springs, Colorado.