



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Community Services
Department
Department No.: 057
For Agenda Of: July 16, 2019
Placement: Departmental
Estimated Time: 1 hour
Continued Item: No
If Yes, date from: N/A
Vote Required: Majority

TO: Board of Supervisors

FROM: Department George Chapjian, Community Services Director
Director(s) (805) 568-2467

Contact Info: Ashley Watkins Division Chief, Sustainability
(805) 568-3514

SUBJECT: Community Choice Energy Updated Feasibility Study Results

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: N/A

Other Concurrence: Risk Management

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- a) Receive and file a Community Choice Aggregation Technical Study Update (Attachment A);
- b) Provide staff with direction regarding community choice energy (CCE) options as follows:
 - i) Option 1. Continue engagement with interested cities to form a new joint powers authority (JPA) to create and administer a new CCE program as directed by the Board on July 17, 2018 (Attachment B);
 - ii) Option 2. Discontinue formation of a new JPA and instead join an existing JPA, Monterey Bay Community Power Authority, to provide a CCE program for the unincorporated parts of Santa Barbara County only; or
 - iii) Option 3. Discontinue JPA formation and not implement a CCE program at this time.
- c) If Option 2 is selected:

- i) Approve the introduction (First Reading) of an ordinance (Attachment C) to authorize the implementation of a CCE program within the County's jurisdiction through participation in Monterey Bay Community Power's Community Choice Aggregation Program and waive a full reading of the ordinance; and
- ii) Set a hearing on August 13, 2019 to consider recommendations as follows:
 - 1) Consider and approve the adoption (Second Reading) of the ordinance (Attachment C) to authorize the implementation of a CCE program within the County's jurisdiction through participation in Monterey Bay Community Power's Community Choice Aggregation Program;
 - 2) Consider and approve adoption of a resolution (Attachment D) requesting membership in the Monterey Bay Community Power joint powers authority; and
 - 3) Consider and approve rescission of Resolution 18-192 (Attachment B), which directed County staff to pursue formation of a new JPA and CCE program.
- d) Determine that the above recommended actions do not constitute a project subject to environmental review under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15262, as the actions involve only feasibility or planning studies for possible future actions which the Board has not approved, adopted, or funded and does not have a legally binding effect on later activities; CEQA Guidelines Section 15378(b)(4), finding that the actions are the creation of a governmental funding mechanism or other government fiscal activity, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment; and CEQA Guidelines Section 15378(b)(5), finding that the actions are the organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment; or
- e) Provide other direction to staff.

Summary Text:

On July 17, 2018, the Board received a CCE feasibility study conducted by Pacific Energy Advisors, Inc. (PEA) that found that a CCE program serving Santa Barbara County could be viable under certain scenarios.¹ In response, the Board directed staff to proceed with formation of a CCE JPA with interested cities and adopted a resolution stating its intent. The Cities of Carpinteria, Goleta, and Santa Barbara adopted similar resolutions, and staff from the three cities and the County have been meeting regularly to evaluate the best path forward on CCE and related clean energy initiatives.

North County cities have not expressed interest to staff in joining a Santa Barbara County CCE JPA. The Santa Maria City Council considered joining Monterey Bay Community Power (MBCP) at its May 21, 2019 Council meeting, but deferred a decision.

Shortly after the County and South County cities committed to work together to form a CCE JPA, several State policy changes raised concerns about the applicability of the previous PEA study results. The previous lack of North County interest in CCE also raised the potential to alter the program

¹ PEA's 2018 study is available at: <http://www.centralcoastpower.org/resources.nrg#fasibility>.

financials as presented last summer. Therefore, staff re-engaged PEA to conduct an updated feasibility assessment, the results of which are presented in Attachment A.

The updated analysis finds that a CCE program serving the unincorporated parts of the county and the Cities of Carpinteria, Goleta, and Santa Barbara remains viable under the revised conditions. The CCE program could offer cleaner electricity than what is provided by Pacific Gas and Electric (PG&E) and Southern California Edison (SCE) at competitive rates. If the CCE program sets the rates equal to PG&E's and SCE's rates, the CCE program would accumulate financial reserves below industry standards for all but the last study year (2031). These comparatively smaller reserves would provide less financial security against unexpected cost shocks and could delay local program development. Because of early year operating losses, the initial financing for program operations may require some form of credit support provided by the County and other JPA members in an amount larger than previously estimated. These financial challenges could be mitigated by (1) charging rates higher than PG&E and SCE and/or (2) phasing in electricity service to residential customers first before serving lower-margin non-residential customers.

Staff is requesting that the Board consider the following options and provide direction on how to proceed with CCE:

- Option 1. Continue engagement with interested cities to form a new JPA to create and administer a local CCE program;
- Option 2. Discontinue JPA formation and instead join Monterey Bay Community Power Authority for the unincorporated parts of Santa Barbara County only;² or
- Option 3. Discontinue JPA formation and not implement a CCE program at this time.

Background:

About Community Choice Energy

Community choice energy enables local governments to leverage the purchasing power of their residents, businesses, and governments to purchase or generate power for their communities and set some customer rates. Community choice energy programs are typically created to provide a higher percentage of renewable or carbon-free electricity, such as wind and solar, and provide a new funding source for local energy initiatives, such as energy efficiency programs and electric vehicle incentives. The existing investor-owned utility (IOU)—in Santa Barbara County, PG&E and SCE—continues to deliver the electricity purchased by the CCE provider and bill customers. The process is relatively seamless to customers and those who do not want to participate in a CCE program may opt-out and stay with the incumbent IOU. Currently, there are 19 CCE programs in operation throughout California.³

² This option does not preclude cities located in Santa Barbara County from joining MBCP, which is actively seeking to expand into San Luis Obispo and Santa Barbara Counties.

³ For a list of operational and in-development CCE programs, visit <https://cleanpowerexchange.org/california-community-choice/>.

Board and Regional Action Related to CCE

Board action on CCE dates back to May 2015 when the Board directed staff to explore regional interest in CCE. Staff presented the results of a tri-county CCE feasibility study and peer review to the Board in October 2017. The study found no financially viable options for CCE at the regional level.

A follow-up study for Santa Barbara County was conducted in 2018, with positive results presented to the Board on July 17, 2018. In response, the Board directed staff to proceed with formation of a CCE JPA with interested cities and adopted a resolution stating its intent. The Cities of Carpinteria, Goleta, and Santa Barbara have adopted similar resolutions, and staff from the three cities and the County have been meeting regularly to evaluate the best path forward on CCE and related clean energy initiatives.

Staff shared with all cities located in Santa Barbara County the results of the 2018 PEA study showing that a Santa Barbara County CCE program was viable. Staff presented to the Buellton and Solvang City Councils, who did not take further action on CCE. Staff also met with the Santa Maria city manager who at the time stated that city council did not have an interest in CCE. However, the Santa Maria City Council recently considered joining MBCP at its May 21, 2019 Council meeting, but deferred a decision in part pending your Board's action on this latest study. Staff is not aware of any North County cities that are interested in joining a local CCE program.

Shortly after the County and South County cities committed to work together to form a CCE JPA, several State policy changes raised concerns about the applicability of the previous PEA study results. The lack of North County interest in CCE also raised the potential to alter the program financials as presented last summer. Therefore, staff re-engaged PEA to conduct an updated feasibility assessment, the results of which are presented in Attachment A and summarized below. The four jurisdictions proportionally shared the costs of the updated study, as has been done for previous studies.

Santa Barbara County Updated Feasibility Study Summary

In the most recent study, PEA finds that a CCE program serving the unincorporated parts of the county and the Cities of Carpinteria, Goleta, and Santa Barbara remains viable under the revised State policy, market, and participation conditions that have occurred over the last year.⁴

Pacific Energy Advisors modeled the local CCE program to provide cleaner electricity than PG&E and SCE at competitive rates. Because PG&E offers a cleaner electricity mix than SCE, PEA assumed a local CCE program would provide 100% GHG-free electricity in PG&E territory and 75% GHG-free electricity in SCE territory. All customers would receive 50% renewable electricity to start, increasing to 60% renewable electricity by 2030, as required by the State Renewable Portfolio Standard.

If the CCE program sets the rates equal to PG&E's and SCE's rates, operating margins are expected to turn positive in the third year of operation (versus the first year in the 2018 PEA study), and the initial

⁴ The updated study accounted for changes in the following:

- PCIA and other exit fees: increased for some customer types, decreased for others
- Wholesale power prices: increased 4% (SCE) and 6% (PG&E) averaged across all resource types and study years
- IOU generation rates: increased 15% (SCE) and 27% (PG&E) for residential customers averaged across all study years
- Participating jurisdictions: no North County cities. Although not modeled, North County cities could participate in the local CCE program

start-up financing would be paid in full after 11 years (versus two years in the 2018 PEA study). Because of early year operating losses, the initial financing for program operations may require some form of credit support provided by the County and other JPA members in an amount larger than previously estimated.

At rate parity, the CCE program also would accumulate financial reserves below industry standards (cumulatively, 40% of annual operating expenses) for all but the last study year (2031). These comparatively smaller reserves would provide less financial security against unexpected cost shocks and could delay offering local programs, such as electric vehicle incentives and feed-in tariffs. Even so, PEA's sensitivity testing found that the accumulated reserves could weather adverse changes in power prices and Power Cost Indifference Adjustment (PCIA) costs after a few years of operation.

The financial reserve and financing challenges could be mitigated by (1) charging rates higher than PG&E and SCE and/or (2) providing electricity service to residential customers first before phasing in lower-margin non-residential customers. If the CCE program were to design rates to fully recover costs and fund the financial reserve using industry best practice,⁵ PEA estimates CCE rates would be 3% higher on average than the IOUs' generation rates for the first four years of CCA program operations and then drop to levels at or below the IOUs' for the remainder of the study period. Actual CCE rates may differ from PEA's projections and would depend on prevailing market prices at the time electricity contracts are executed.

If the CCE program were to offer service to residential customers only, positive operating margins would begin in the first year of serving customers, and the accumulated reserve balance would achieve the industry standard goal of 40% of annual operating costs in year 7 (2027). While the majority of customer accounts are classified as residential (84%), these comprise only 26% of the total electricity historically delivered by the IOUs.

Options for Board Consideration

Staff presents the following options for your Board's consideration:

Option 1. Continue engagement with interested cities to form a new JPA to create and administer a local CCE program.

Administering a local CCE program provides the greatest level of local control over decisions about (1) electricity supply composition (e.g., how renewable, how local), (2) customer rates (e.g., designed top-down to match or beat the IOUs or based on bottoms-up costs to serve customers), and (3) how revenues are used (e.g., build financial reserves, offer new programming, reduce customer rates).

However, the extent of that control may be limited by the less favorable financial position predicted in the updated study. Early year operating losses result in reserve contributions that are below industry standard with relatively few financial reserves available to absorb unexpected cost shocks in the first few years of operation. This less favorable financial position may also result in the need for the County and other JPA members to provide some form of credit support for initial financing of program operations in an amount larger than previously estimated. Going forward, PEA expects reduced

⁵ Common practice among statewide CCE programs is to target a minimum annual reserve contribution of 4% of revenues, building toward a reserve balance of at least 40% of annual operating expenses.

operating margins across the industry and ultimately the ability to offer competitive rates would depend on prevailing market prices at the time electricity contracts are executed.

There has also been increased regulatory and legislative efforts to exert more oversight and procurement authority over CCE programs. If unchecked, these trends threaten to limit CCE resource planning and procurement autonomy.

While there is some risk associated with forming a local CCE program, the updated study also estimates cumulative reserves of approximately \$77 million by 2031. Reserves are retained by the JPA and the JPA board would determine how these funds are used.

Option 2. Discontinue JPA formation and instead join MBCP for the unincorporated parts of Santa Barbara County only.

The County has been contacted by MBCP who has requested that the County and unincorporated cities consider joining its existing CCE program. Service in MBCP's territory began in early 2018 for the counties of Santa Cruz, San Benito, and Monterey, as well as 16 incorporated cities therein. The cities of Morro Bay and San Luis Obispo also recently joined MBCP. The remaining cities in San Luis Obispo and the County of San Luis Obispo are also being recruited by MBCP. Staff at MBCP has expressed a desire to unify the Central Coast under one CCE program and is willing to rebrand. There is no cost to join MBCP; however the County would need to cover incremental costs associated with updating MBCP's Implementation Plan and amending its JPA agreement. Staff at MBCP has estimated that will require a \$5,000 to \$7,500 contribution from the County.

Joining an existing CCE program may result in less financial risk and increased economies of scale in operating costs. However, local control may be diluted by a larger number of JPA board members.

Option 3. Discontinue JPA formation and not implement a CCE program at this time.

Under this option the County cannot recoup its \$577,000 CCE investment to date. Additionally, this option could affect the County's progress towards meeting the greenhouse gas reduction goals of the Energy and Climate Action Plan.

The three options are compared in Table 1.

Table 1. CCE Options Analysis

| | Option 1. Local CCE | Option 2. MBCP | Option 3. No CCE |
|---|--|---|---|
| Cost | \$2.5M (residential only) \$9M (all customers) + can recoup investment to date ¹ | \$5,000-\$7,500 + lose investment to date ¹ | \$0 + lose investment to date ¹ |
| Launch Timing | 2021 (County only) 2022 (JPA with cities) | 2021 | N/A |
| Local Control | Yes, but State is lessening local control through resource planning oversight and central procurement | Limited regional control; one of potentially 13 to 20 seats on JPA board ² | No |
| Customer Rate Impact | 0% (rate parity) +3% (cost recovery) | SCE: - 2% PG&E: - 8% | 0% |
| Job Creation | 10 FTEs (residential only) 17 FTEs (all customers) | Likely minimal; may open SLO or North County office if all cities join | 0 |
| Cleaner Electricity (by IOU territory) | PG&E: 50% renewable, 100% GHG-free SCE: 50% renewable, 75% GHG-free | PG&E/SCE: 34% renewable, 100% GHG-free | PG&E: 43% renewable, 99% GHG-free SCE: 41% renewable, >50% GHG-free |
| Local Generation | Utility-scale: likely no Distributed: maybe long-term once financial reserve targets reached | Utility-scale: likely no Distributed: maybe near-term through microgrid program | Utility-scale: likely no Distributed: maybe pending Strategic Energy Plan (SEP) |
| Local Programs | Maybe, long-term once financial reserve targets reached | Yes, immediately upon joining | Continue existing programs (e.g., 3C-REN, potential SEP programs) |
| Fiscal Risk Exposure | High (County only) Medium (JPA with cities) | Medium-Low | None |

¹ Total County CCE expenditures through FY18/19 are \$577,000.

² Current JPA membership consists of 21 jurisdictions and 12 board seats. Each county has a seat and each city with a population over 50,000 has a board seat. Cities with populations under 50,000 share seats. The total number of seats will increase if San Luis Obispo County and additional cities join MBCP. MBCP plans to re-examine the board structure in the coming year.

Performance Measure:

N/A

Contract Renewals and Performance Outcomes:

N/A

Fiscal and Facilities Impacts:

The fiscal impact varies by option as follows:

Option 1. Continue engagement with interested cities to form a new JPA to create and administer a local CCE program. If a JPA is formed, the County and interested cities will need to negotiate a cost-share arrangement, options for collectively securing up to \$9 million in financing, and repayment terms. This may require the County and other JPA member entities to appropriate funds as collateral, or provide some other form of financial assurance, to secure the financing. The Sustainability Division has \$1.04 million authorized by the Board for CCE. Staff will need to request additional funding to proceed with this option; the exact amount will be determined during JPA and cost-sharing negotiations. Request for additional funding will require a 4/5 vote if a budget revision request is required. The County will most likely have to report a new JPA as a component unit of the County in annual audited financial statements (CAFR). If a new CCE program launches, all funds expended to date are reimbursable through future CCE revenues.

Option 2. Discontinue JPA formation and instead join MBCP for the unincorporated parts of Santa Barbara County only. Staff at MBCP has estimated \$5,000 to \$7,500 for the County to join. This cost covers the incremental cost to update MBCP's Implementation Plan. No additional funding authorization is required to pursue this option, and unused CCE funds can be reallocated for other clean energy and GHG reduction priorities. In this option, the County cannot recoup its \$577,000 CCE investment to date.

Option 3. Discontinue JPA formation and not implement a CCE program at this time. No additional funding authorization is required for this option, and unused CCE funds can be reallocated for other clean energy and GHG reduction priorities. In this option, the County cannot recoup its \$577,000 CCE investment to date.

Fiscal Analysis:

The County has spent \$577,000 for CCE exploration and development to date. The Sustainability Division has \$650,000 remaining in fund balance, plus the additional \$391,000 your Board appropriated for FY19-20, for a total of \$1.04 million earmarked for future CCE expenditures.

Legal Considerations:

State law allows a joint powers agreement to provide that contractual debts of the JPA are not debts of the individual member entities. (Gov't Code sec. 6508.1). MBCP's joint powers agreement includes a provision specifying that the contractual obligations of MBCP are not the obligations of an individual member entity unless the governing board of that entity agrees in writing to assume such obligation.

However, individual member entities of a JPA cannot avoid joint and several liability for the torts of the joint powers agency itself. (Gov't Code § 895.2.). The County of Santa Barbara's potential tort liability

can be addressed in part by the joint powers agency's insurance policy and the County's own insurance policy.

Key Contract Risks:

N/A

Staffing Impacts:

No additional staffing requests are being made at this time.

Special Instructions:

Please send one copy of the minute order to Ashley Watkins.

Attachments:

Attachment A: Community Choice Aggregation Technical Study Update (2019)

Attachment B: Minute Order and Resolution of Intent to Form a CCE JPA

Attachment C: Ordinance Authorizing Participation in Monterey Bay Community Power CCE program

Attachment D: Resolution Requesting Membership in Monterey Bay Community Power JPA

Attachment E: Monterey Bay Community Power Authority Joint Powers Agreement

Attachment F: CCE PowerPoint Presentation

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