California Community Choice Update

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Municipal and State Energy Forum

California CCE Legislation and Regulation

After the first California electricity crisis in 2001, California suspended "customer choice" and created "community choice aggregation" aka community choice energy (CCE)".

AB 117 (2002) empowered "cities and counties served by IOUs to facilitate the sale and purchase of electrical energy, transmission, and other services on behalf of electricity customers in their jurisdictions." **CCE customers could "opt out".**

AB 117 addressed a potential "cost shift" from customers "departing" IOU generation service to remaining IOU customers. **Departing customers were to pay "above market" costs of IOU supply contracts in effect at the time of their departure.**

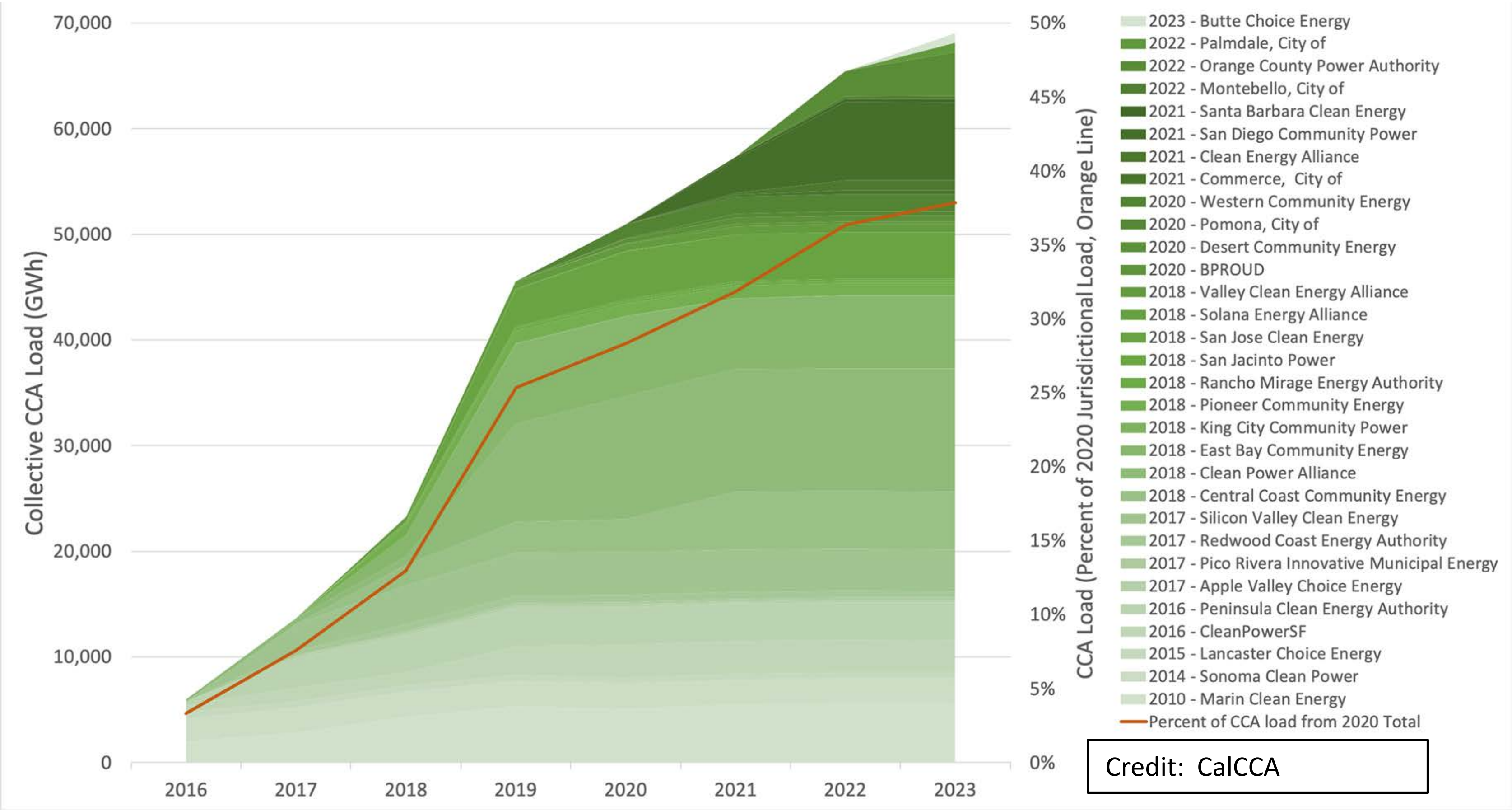
The California Public Utilities Commission (CPUC) initially mandated a "power charge indifference adjustment (PCIA)" to quantify these payments consistent with AB 117. In 2018, **the CPUC expanded departing customer obligations specified in AB 117**, to equal the difference between the "value" and "cost" of IOU generation portfolios. **CCEs operating at the time did not litigate to overturn this decision.**

California CCE Formation and Operations

- State funded feasibility assistance was available in 2007 and 2008. Marin and Sonoma County CCEs formed in 2007 and 2011 and launched in 2010 and 2012. Twenty more since then. **Trend toward larger JPAs* and expansion of existing JPAs*.**
- Primary CCE formation considerations were: "**local control", financial risks, and faster renewable deployment.** Public distrust and high electricity prices have made northern CA a CCE breeding ground.
- Typically, the formation process proceeds based on technical study results. **JPA formation can be slow but insulates member jurisdictions from risk.**
- Operational Focus:
  - CCE governance focus is on rates, reserves, net income risk, and opt out risk. (Only one CCA startup bankruptcy to date.) Rate sensitivity and opt-out risks vary depending on local politics and customer class. **Core operational focus is power procurement and customer outreach.**
  - **Power procurement focus is on cost to meet/exceed state renewable standards.**
  - **Customer outreach focus is on customer retention.** Smaller CCEs minimize permanent staffing and program offerings and outsource some core functions, e.g., billing and generation scheduling.

*joint powers authorities

Collective California CCA Electricity Supply



Credit: CalCCA

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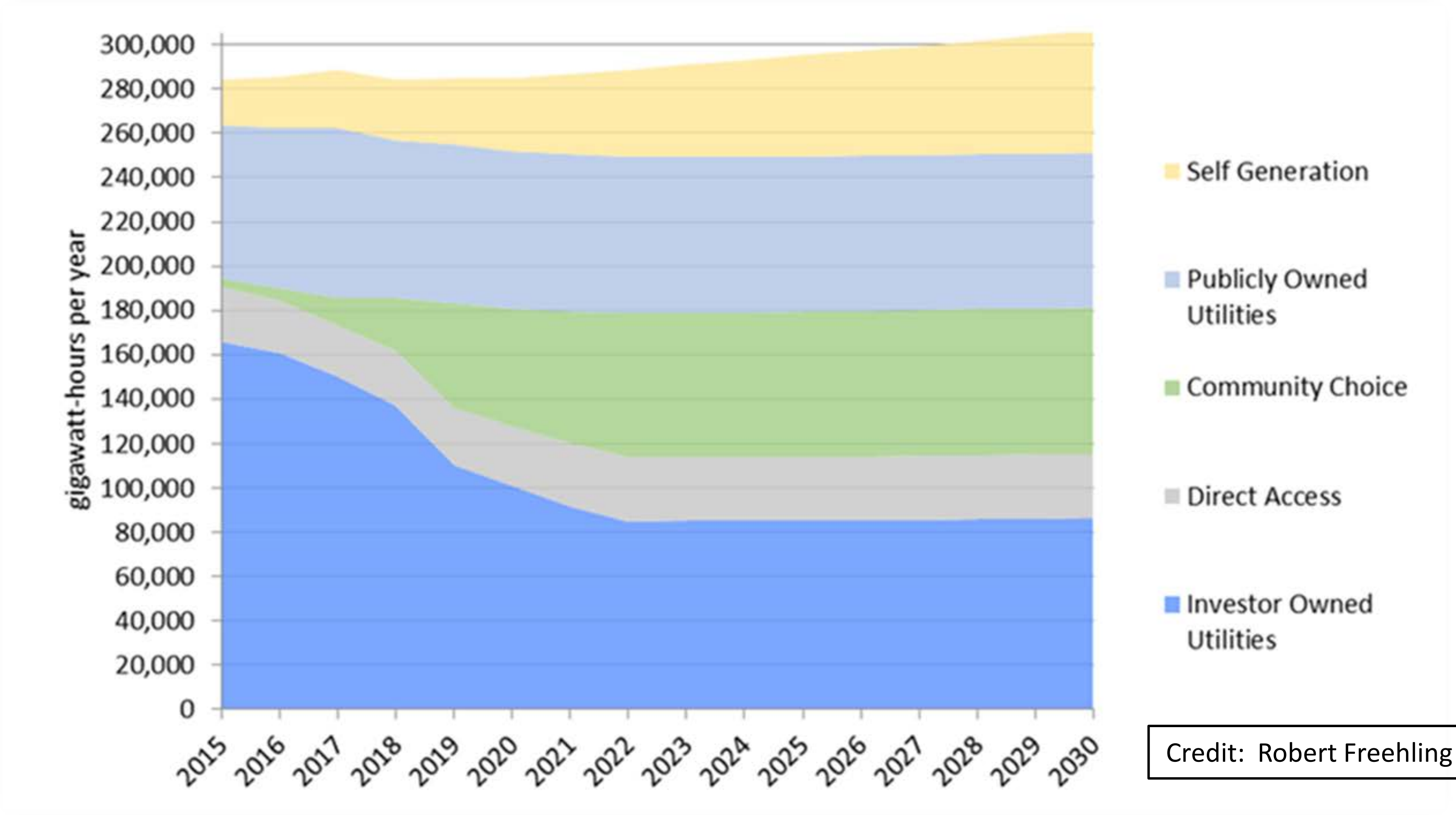
Suppliers of California Electricity



Credit: Robert Freehling

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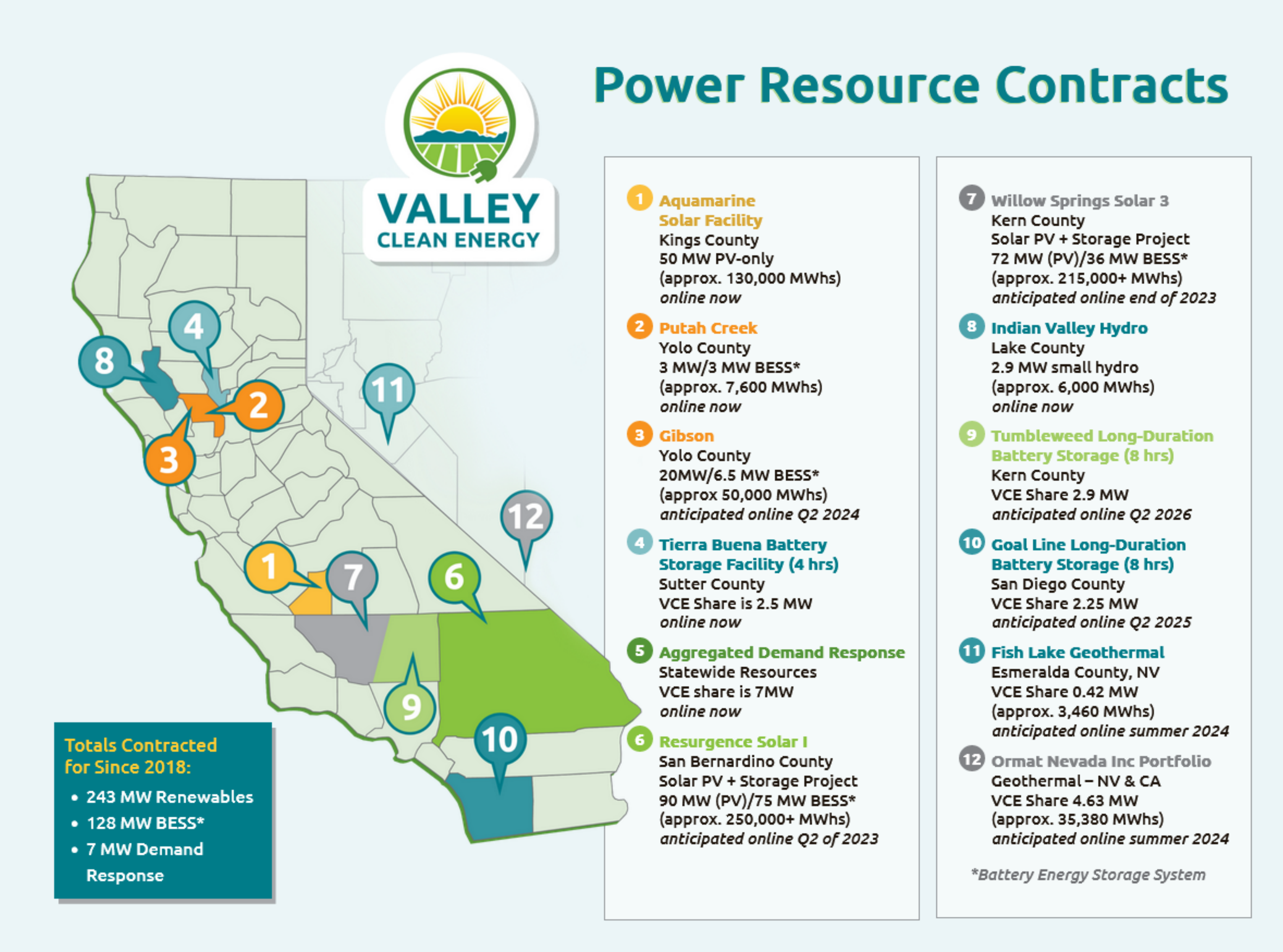
Power Procurement Example – Valley Clean Energy

VCE expects its generation portfolio to exceed eighty percent renewable (mostly solar PV) in 2024.

Contracting for battery energy storage systems fulfills “resource adequacy” (generation capacity and storage) obligations.

Mix of primarily 4-hour and some 8-hour battery storage capacities.

Projects in home county and adjacent counties are considered “local”.



California CCE Vision (2015)

Substantially increase the renewable electricity content of basic electricity service and cause the deployment of **new renewable** and low carbon energy sources

Develop, offer and manage **programs** for energy efficiency and on-site electricity production and storage that are **designed to meet local needs and capture local resource opportunities**;

Accelerate deployment of **community renewable energy projects, microgrids** and other vehicles for localized investment, employment, innovation and resilience; and

Assist member jurisdiction efforts to plan and implement local action to mitigate climate change risks and impacts.

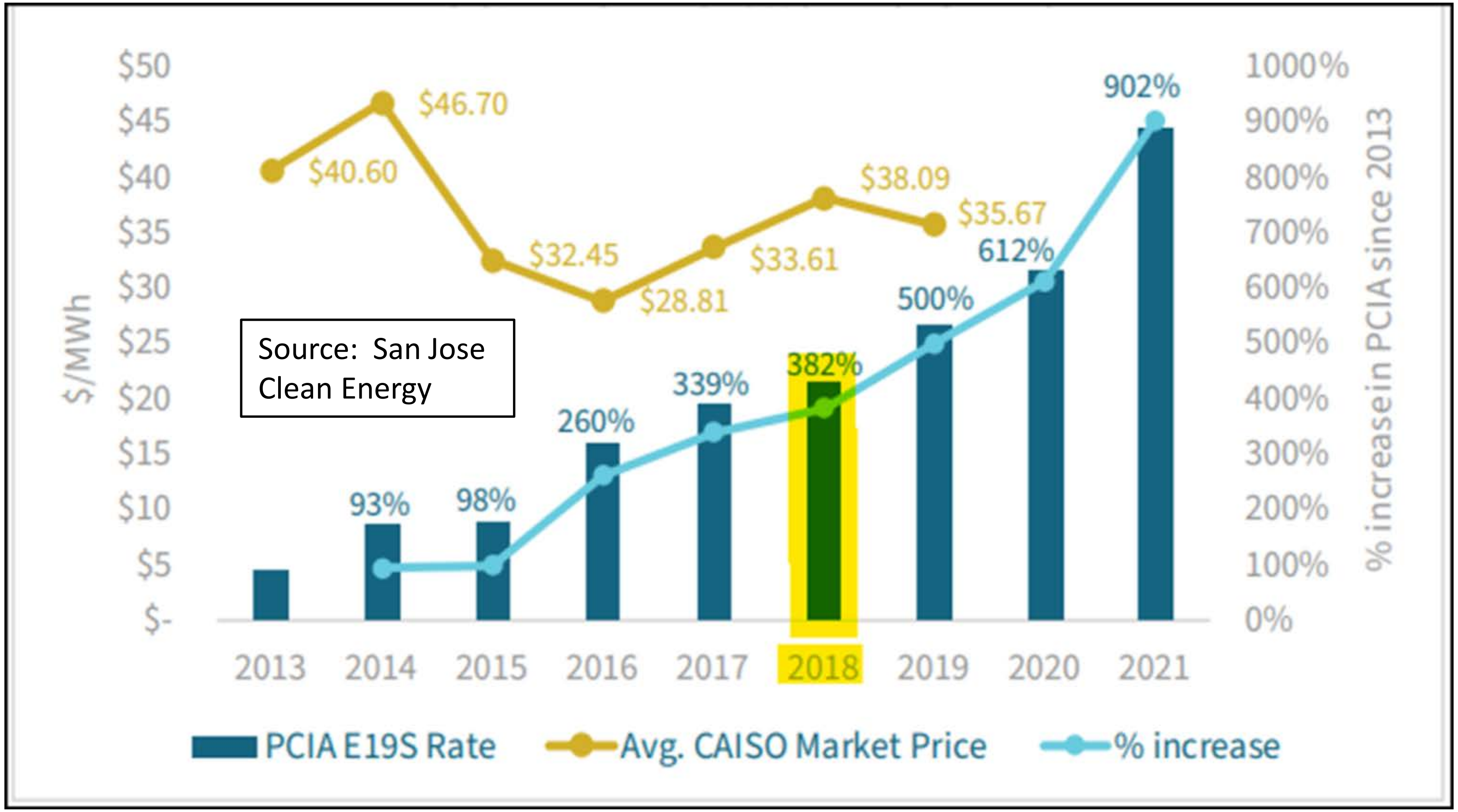
California CCE Realization (2023)

✓Renewable content* of CCE electricity has increased in recent years much faster than mandated by the state...to more than 80% in some cases. **California CCEs are now the primary agents of in-state renewable electricity investment.**

- **Because of "exit fees" local renewable and storage engagement by CCEs is still limited and progressing slowly.**
- **Financial risk minimization and sharing** is achieved by minimizing permanent CCE staff, joint sourcing with other CCAs, outsourcing of program offerings and selected business functions, e.g., billing and generation scheduling.
- The **JPA governance framework** insulates member jurisdictions from financial responsibility and from active engagement in local energy policy and planning.

*exclusive of large hydro

Exit Fee (PCIA) Trajectory



“Power Charge Indifference”

AB 117 authorized a CCE transition surcharge on “departing IOU generation customers. Unlike California municipal utilities, California CCAs cannot influence or avoid state mandated surcharges. The PCIA:

1. **Shifts IOU customer costs** to CCA customers, resulting in de facto state regulation of cost recovery for services delivered by cities and counties;
2. **Deters CCE engagement** regarding local renewable electricity resources; and
3. **Diverts revenues** that could incent or subsidize Community Solar and other Community Renewable projects that have local economic and resilience benefits.

The Colorado PUC has recommended state CCE legislation requiring that CCE transition surcharges be identified prior to CCE formation, so that they can be planned, financed and levelized.

Adverse PCIA impacts in California could be remediated by litigation, legislation, or ballot initiative authorizing CCEs to retain PCIA funds for power purchases from, or investment in, Community Solar projects, municipal microgrids and other local energy resources and infrastructure.

Concluding Observations

1. The California community choice energy industry overcame the obstacles of organizational inexperience and limited financial track records and credit. It now serves eleven million electricity customers in California by purchasing bulk renewable electricity and “utility” battery storage services essential to achieving California’s decarbonization goals.
2. Allowing CCE customers to “opt-out” was politically necessary twenty years ago but now dominates CCE rate-setting and minimizes potentially transformative local decarbonization and energy resilience. Utility services, whether for water, waste or energy, require long term financial commitments that must be secured by a stable customer base. So, California should work with the CCE industry to organize an “opt-out phase out”.
3. **The practical result of “power charge indifference” surcharges and hard-to-forecast “resource adequacy” pricing is under-investment in local resource development and local energy resilience, both of which are highly beneficial to local economies. Another practical result is cost shifting from IOUs to CCE generation customers. Further surcharges should be made consistent with CCE authorizing legislation, then capped, then eliminated, so that local climate action goals can be more effectively addressed.**
4. Joint powers authority boards comprised of local elected officials govern California CCEs. Advisory participation by city managers and public works directors (who oversee municipal non-energy utility operations) might lead to more effective engagement with local solar self-generators and community renewable project and microgrid developers.

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Links

- Integrated Implementation of Community Solar and Community Choice
- California Experience Implementing Community Choice Energy
- Investigative Report of the Public Utilities Commission of the State of Colorado
- Can Colorado Take Community Choice to the Next Level
- Community Choice is a Better Way to Meet 21st Century Challenges
- The Exit Fee Dilemma