CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 23, 2019

TO: Mayor and Councilmembers

FROM: City Administrator's Office
Facilities and Energy Division, Public Works Department

SUBJECT: Work Session On The Strategic Energy Plan And Evaluation Of The Feasibility Of Establishing Community Choice Energy

RECOMMENDATION: That Council:

A. Receive a report from staff on the feasibility of establishing community choice energy in all or part of Santa Barbara County;

B. Receive a report from staff on the final draft of the Strategic Energy Plan to Achieve Council's 100 Percent Renewable Electricity Goal;

C. Direct staff to bring the Strategic Energy Plan to Council for consideration of adoption, including any changes suggested by Council during deliberations; and

D. Direct staff to bring to Council, for consideration of approval, a professional services agreement with the California Choice Energy Authority, for the development of an implementation plan to form a community choice energy entity comprised solely of the City of Santa Barbara and offering 100 percent renewable energy to its customers.

EXECUTIVE SUMMARY:

In June of 2017, Council adopted Resolution 17-043 establishing a goal of 100 percent renewable electricity for the City of Santa Barbara and the community at large by 2030. Council also directed staff to develop a Strategic Energy Plan to serve as a roadmap to achieve this goal.

When evaluating the strategies outlined in the Strategic Energy Plan, the most impactful is community choice energy (CCE), due to the ability to automatically provide customers with higher renewable energy content. Additionally, CCE provides the mechanisms and opportunities to support several of the other strategies and programs, such as financial incentives and enhanced renewable development opportunities.

The City has evaluated the feasibility of CCE formation for a number of years. Most recently, the City, in concert with the County of Santa Barbara and the cities of Goleta and Carpinteria, commissioned Pacific Energy Advisors to evaluate the feasibility of forming: 1) a CCE entity comprised of the jurisdictions described above; and 2) a CCE comprised solely of the City of Santa Barbara. Each study examined a number of scenarios with varying proportions of renewable energy, customer classes to be served, and phase-in approaches.

Staff discussed the results of these technical studies with the Community Choice Energy Council Ad Hoc Committee on three occasions between June and July 2019. A CCE comprised of the City only and offering 100 percent renewable electricity to its customers was the most financially sound option (Scenario 4 of the City of Santa Barbara technical study). Beyond financial viability, this scenario would allow the CCE to begin serving customers in 2021, would preserve maximum autonomy for the City Council in decisions related to rate setting, program development, and would allow the City to align with other sustainability goals, such as the Climate Action Plan. For these reasons, on July 17, the CCE Council Subcommittee voted unanimously to recommend this course of action to the City Council.

To help guide the City through the initial implementation process and with ongoing management of the newly-formed CCE, staff recommends, and the CCE Subcommittee unanimously concurred, that the City work with the California Choice Energy Authority, a joint powers authority (JPA) currently comprised of five (5) existing CCEs that provides each member access to its consortium of experienced contract service providers (e.g. energy schedulers, power providers, regulatory consultants, data managers, etc.). Through this arrangement, each member agency has access to seasoned CCE consultants who have been through the implementation process within the Southern California Edison (SCE) service territory and have operated existing CCEs.

Should Council concur with the CCE Council Subcommittee recommendation, staff will bring back to Council a professional services agreement with the California Choice Energy Authority to develop an implementation plan for forming a new CCE entity. The implementation plan would be presented to Council prior to its filing with the California Public Utilities Commission (CPUC) by December 31, 2019. Meeting this deadline would allow the new CCE entity to begin serving customers on or after January 1, 2021.

DISCUSSION:

The Strategic Energy Plan

On June 6, 2017, Council adopted Resolution 17-043 establishing a goal of 100 percent renewable electricity for the City of Santa Barbara and the community at large by 2030. Following a request for proposals, the City executed a contract with Optony, Inc. to develop a Strategic Energy Plan (SEP).

The SEP sets forth a number of innovative strategies to meet Council's ambitious goal. It also identifies the resources needed to develop renewable energy projects, programs and policies that will facilitate the deployment of distributed energy resources and increased

energy efficiency throughout the community. Staff presented an initial outline of the SEP to the Council Committee on Sustainability on December 10, 2018 and presented the Draft Plan to Council on January 15, 2019.

The SEP organizes key strategies under five program areas:

1. Energy Partnerships and Organizational Structures
2. Administrative Policies and Procedures
3. Funding Sources and Financial Incentives
4. Municipal Pilot Projects
5. Community Engagement Initiatives

Within these program areas, staff also assessed key target areas such as funding, regulatory obstacles, infrastructure, resilience planning, equity, public understanding, and staffing capacity. The resulting plan outlines concrete actions that the City can take to achieve its 100 percent renewable electricity goal.

The final phase of SEP drafting included development of the budget and staffing needs to implement the Plan. Council appropriated $100,000 from the General Fund as part of the Public Works Department Budget for Fiscal Year 2020. On July 15, 2019, the Council Committee on Sustainability voted unanimously to recommend that the City Council adopt the final draft of the Strategic Energy Plan.

Community Choice Energy Background

Community Choice Aggregation, also known as Community Choice Energy, enables local governments to directly purchase energy or to generate power and to set the rates charged to its customers. While a CCE would procure energy, the existing investor-owned utilities (IOU) in our region, SCE and Pacific Gas and Electric, would continue to deliver the electricity purchased by the CCE over the IOU's power lines. The IOUs would also provide metering, billing, and other related services.

Prior Study of CCE Feasibility

Beginning in 2016, the City of Santa Barbara began to evaluate the feasibility of establishing CCE on the South Coast[1]. In spring of 2018, the City of Santa Barbara, along with the County of Santa Barbara and the cities of Goleta and Carpinteria, commissioned Pacific Energy Advisors (PEA) to study the feasibility of establishing CCE in all or part of Santa Barbara County. The study found that a countywide CCE entity offered the greatest potential for greenhouse gas-free energy while yielding customer rates that were competitive with Southern California Edison and Pacific Gas and Electric (PG&E).

In July 2018, City Council directed staff to work with the County of Santa Barbara and other interested cities to pursue the formation of a new CCE Program throughout Santa

[1] October 31, 2017 City Council meeting (https://tinyurl.com/y5dawl8x - Agenda Item 13) (https://tinyurl.com/y6ms6db3 - Agenda Item 10)

Barbara County.[2] Shortly thereafter, uncertainty related to customer participation,

regulatory oversight, and energy pricing emerged, which had the potential to alter the findings and conclusions of the May 2018 study.

Therefore, the participating jurisdictions requested that PEA update the financial pro forma to account for: 1) lack of North County participation; 2) a new regulatory methodology for calculating and applying "departing load charges" that are assessed to CCEs when they withdraw from an existing IOU service area; 3) wholesale energy prices; and, 4) accelerated State renewable and greenhouse gas-free electricity mandates.

Current Feasibility Studies

PEA authored two separate technical studies (Technical Studies). The first, titled *Community Choice Aggregation Technical Study Update*, evaluates the feasibility of establishing CCE in the unincorporated county and among the cities of Santa Barbara, Goleta, and Carpinteria.[3]

The second study, titled *City of Santa Barbara Community Choice Aggregation Technical Study Update*, evaluates the feasibility of forming a CCE entity comprised solely of the City of Santa Barbara[4]. This study evaluates eight separate configurations, with varying renewable energy content, and customer configurations. A financial pro forma and customer bill impact is included with each scenario.

PEA Methodology

To evaluate the feasibility of CCE formation, PEA employed the following methodology in both Technical Studies:

1. Determine the amount of energy that customers would use, accounting for seasonal variations;
2. Determine the amount of revenue required to procure the requisite energy and to operate the CCE;
3. Build CCE customer rates by distributing the revenue requirement across customer classes; and,
4. Compare the resulting CCE rates to the projected SCE and PG&E rates.

Study Results

The financial pro formas of both Technical Studies yielded similar patterns and conclusions:

1. When customer rates are set to be at parity with the SCE, operating margins turn

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[2] July 17, 2018 City Council meeting (https://tinyurl.com/y6ms6db3 - Agenda Item 10)

[3] The Santa Barbara County Study is available for public review in the City Clerk's Office and electronically at: https://tinyurl.com/y45mvo8r

[4] The City of Santa Barbara Study is available for public review in the City Clerk's Office and electronically at: https://www.santabarbaraca.gov/civicax/filebank/blobdload.aspx?BlobID=220774

positive in year three (2023), but the scenarios fail to meet industry-standard reserve targets (40 percent of annual operating costs). These smaller reserves would provide less financial security against unexpected variability in costs and revenues and could impact the CCE's ability to offer programs and incentives to its customers.

2. Adding a premium to customer rates improves the financial outlook of the potential CCE and facilitates the procurement of greater renewable energy content. In scenarios that included a rate premium, PEA used a more conservative opt-out rate to account for customers who were sensitive to the resulting higher electricity bills.

3. Within the City-Only Study, a scenario in which all customers were opted-in to a default 100 percent renewable supply (Scenario 4) appears to be viable. Under this scenario, the CCE would realize positive operating margins in year 1 (2021), achieve target reserves in year 4 (2024), and would result in customer bill increases of 6-9 percent. It should be noted that other cities that have defaulted to a 100 percent renewable supply, including the cities of Ventura and Oxnard, and the County of Ventura, experienced similar customer bill increases, and customer opt-out rates that were below the Study assumptions.

Risk Profile

For both Technical Studies, PEA evaluated some (but not all) of the risks that confront any potential CCE. In the early years of operation, risks to the CCE are greatest. These risks include adverse regulatory decisions, customers that opt-out of the CCE after the CCE has procured energy on the customers' behalf, energy market volatility, and customer service issues related to billing and data interactions between the CCE and the IOU.

Some risks, such as changes in energy market pricing or volatility, can be managed and mitigated through the use of cash reserves. Both Technical Studies include an analysis of the sufficiency of projected cash reserves. PEA recommends CCE scenarios that meet or exceed industry-standard reserve policies. Such policies include contributing four percent of rate revenues to reserves and building up reserves equal to 40 percent of annual operating costs within the first several years.

Managing risk and accumulating sufficient reserves is an ongoing pursuit. Customer rates, which comprise the single source of revenue for the CCE, will need to be adjusted to accumulate and replenish reserves when they are used. However, the City must be cautious and manage customer rate tolerance with other financial considerations as rate shock could cause CCE customers to opt-back to the IOU, leaving the CCE with stranded energy costs without the associated customer revenue to cover these costs.

CCE Evaluation Framework

The most impactful strategy outlined in the SEP is CCE due to the ability to automatically default customers in at a higher renewable energy content. Additionally, CCE provides the mechanisms and opportunities to support several of the other strategies, such as financial incentives and enhanced renewable development opportunities.

Given the strong nexus between achieving Council's renewable energy goals and the

community choice energy strategy, staff developed a matrix of CCE options and configurations to demonstrate the intersection between the City's CCE options and SEP-related policy drivers (see Attachment 1).

CCE Council Ad Hoc Committee

The CCE Ad Hoc Council Committee (CCE Council Subcommittee), comprised of Councilmembers Sneddon and Friedman, and Mayor Murillo, met on June 24, July 3, and July 17, 2019, to review the following information related to CCE formation:

- June 24, 2019: Nexus between CCE and the City Strategic Energy Plan, CCE Policy Matrix, and City-Only CCE scenarios;

- July 3, 2019: Pro Forma results for both Technical Studies, additional information on existing CCE entities, including the Clean Power Alliance, and Monterey Bay Community Power; and,

- July 17, 2019: Statutory and regulatory risks facing CCEs, and options for the City of Carpinteria, in the absence of a Santa Barbara County CCE configuration.

The CCE Council Subcommittee voiced three priorities for its preferred CCE option: 1) the ability to opt customers to 100 percent renewable energy; 2) the ability to launch and provide service to customers in 2021; and, 3) retaining local control over rate setting and program development.

Any of the scenarios examined could provide a 100 percent renewable energy option. However, based upon information in the Technical Studies and interviews with staff from the Clean Power Alliance and Monterey Bay Community Power, staff determined that the City-Only scenarios were the only configurations that would accommodate a 2021 launch date and would ensure local control by the City (see Attachment 1).

Staff Recommendation

At the July 17, 2019 CCE Council Subcommittee meeting, staff recommended that Council consider forming a CCE similar to that described in Scenario 4 of the City-Only Technical Study:

- Geographic Composition: City of Santa Barbara

- Renewable Energy Content: default 100 percent renewable energy offered to residential and small business customers. Large commercial customers and industrial customers use substantial volumes of energy, yet pay comparatively less per unit of energy than do residential and commercial customers. To maintain strong financial footing, the CCE may need to initially opt these large customers in to something less than 100 percent renewable or bring them into the CCE at a later date (prior to Council's 2030 renewable energy deadline). The timing and strategy for migrating large customers would be further refined as part of the development of the CCE implementation plan as described below.

- Financial Pro Forma: The City-only scenario that assumes 100 percent renewable energy as the default option assumes a rate premium of $.015 per kilowatt hour of energy served. This premium generates positive cash flow in the first year of operation and achieves fully-funded reserves in the fourth full year of operation.

  To manage risks related to the rate premium, the study assumes a customer opt-out rate of 20 percent or twice that of the non-premium scenarios.

- Customer Bill Impact: this model results in customer rate increases of approximately six to nine percent, depending upon customer class. It should be noted that other cities that have defaulted to a 100 percent renewable supply, including the cities of Ventura and Oxnard, and the County of Ventura. These jurisdictions experienced similar customer bill increases, and customer opt-out rates that were below the Study assumptions. A table of sample customer bill impacts is included in Attachment 2.

- Policy Alignment: the 100 Percent Renewable, City-Only option achieves Council's renewable energy goal within the first full year of operation, while providing the City Council with maximum autonomy related to rate setting, program development, and the ability to align CCE with other sustainability and climate change goals.

- CCE Formation and Operation Assistance: Forming and operating a CCE is complex and can be risky without the help of experienced advisers and practitioners. For this reason, staff recommends that the City work with the California Choice Energy Authority (Cal Choice) to initially form and implement the new CCE entity, and to manage operations on an ongoing basis. Through Cal Choice, each member agency has access to experienced staff who have been through the implementation process and have operated existing CCEs.

  Cal Choice is a joint powers authority (JPA) currently comprised of five (5) existing CCEs, with five more planning to launch in 2020. Governed by the Lancaster City Council, Cal Choice is a narrowly focused JPA that provides each member access to its collection of experienced service providers (e.g. energy schedulers, power providers, regulatory consultants, data managers, etc.). The Cal Choice Board has limited authority over service provider contracts and the organization's annual budget. As a CCE entity in its own right, each associate city retains full autonomy related to rate setting, program development, and customer outreach and communications. As a JPA of autonomous CCEs, Cal Choice is the only hybrid-type JPA of its kind in California.

Due Diligence

During the evaluation process, staff conducted extensive due diligence, in the form of phone interviews and in-person meetings, on Cal Choice, Clean Power Alliance and Monterey Bay Community Power. Staff also interviewed representatives from the City of Rancho Mirage, an associate member of the Cal Choice JPA, and from the City of Solana Beach who works with several of the Cal Choice primary contractors. Both agencies were highly satisfied with

the services provided by Cal Choice, were satisfied with the value received in relation to costs, and encouraged the City to utilize the services of seasoned guides to form and

implement its CCE.

CCE Council Subcommittee Recommendation to Council

July 17, 2019, the CCE Council Subcommittee unanimously to recommend that Council: 1) pursue the formation of a new CCE comprised solely of the City of Santa Barbara; 2) offer 100% renewable energy to its customers; and, 3) work with the California Choice Energy Authority in both the implementation and ongoing management of the City CCE.

Next Steps

Should Council concur with the CCE Council Subcommittee recommendation, staff will bring back to Council a professional services agreement with Cal Choice to develop an implementation plan to form a new CCE entity. The implementation plan would be presented to Council prior to its filing with the California Public Utilities Commission (CPUC) by December 31, 2019. Meeting this deadline would allow the new CCE entity to begin serving customers on or after January 1, 2021.

ENVIRONMENTAL REVIEW:

The recommended Council actions do not constitute a project subject to California Environmental Quality Act review (CCR CEQA Guidelines §15378), and also qualify for a Statutory Exempt from CEQA as feasibility and planning studies (PRC CEQA §21102).

A CEQA determination would be made prior to a Council approval action to establish a specific CCE program. A “project” subject to CEQA environmental review means the whole of an action which has the potential for resulting in a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. A number of other jurisdictions have determined their actions to establish a CCE program to be CEQA exempt as not meeting the definition of a project due to no physical changes, or as categorically exempt actions to protect the environment.

BUDGET/FINANCIAL INFORMATION:

In the short-term, the City would execute a professional service agreement with Cal Choice to develop an implementation plan for the recommended CCE configuration. The cost of this work is approximately $60, 000. Staff will return to Council at a future date to request approval to execute this contract with Cal Choice.

Following filing of the implementation plan and prior to commencing service, the City would incur the following costs:

- *Implementation Agreement (est. $160,000):* in March of 2020, the City would execute an implementation agreement with Cal Choice to fulfill CPUC Resource Adequacy requirements. This is a one-time cost.

- *Service Agreements and JPA Shared Costs*: After the implementation plan is filed with the CPUC, but prior to commencing energy delivery, the City would execute an Administrative Services Agreement with Cal Choice. Through this agreement, Cal Choice provides the services at the estimated annual cost outlined below:

    - Technical Energy Services: $270,000 (est.)
    - Data Management and Customer Call Center: $550,000 (est.)
    - Cal Choice Admin, regulatory affairs, legal services: $265,000 (est.)

- *Working Capital*: The PEA study assumed that the City would need to borrow $4M for working capital and to cover the initial power purchase before customer rate revenue was received.

    It should be noted that internal staffing needs should be covered by the funding that Council appropriated to the Public Works Department in Fiscal Year 2020 for Strategic Energy Plan implementation.

SUSTAINABILITY IMPACT:

PEA concluded that a CCE program could offer substantially more renewable and cleaner (carbon free) electricity than that currently delivered by SCE. Surplus revenues generated by the CCE could be used to develop programs, local projects and incentives to further achieve the objectives set forth in the Strategic Energy Plan or other City goals outlined in other plans, such as the Climate Action Plan.

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APPROVED BY: City Administrator's Office

ATTACHMENTS:
1) CCE Options Matrix
2) Estimated Customer Bill Impact **–** City Only, 100% Renewable Option