



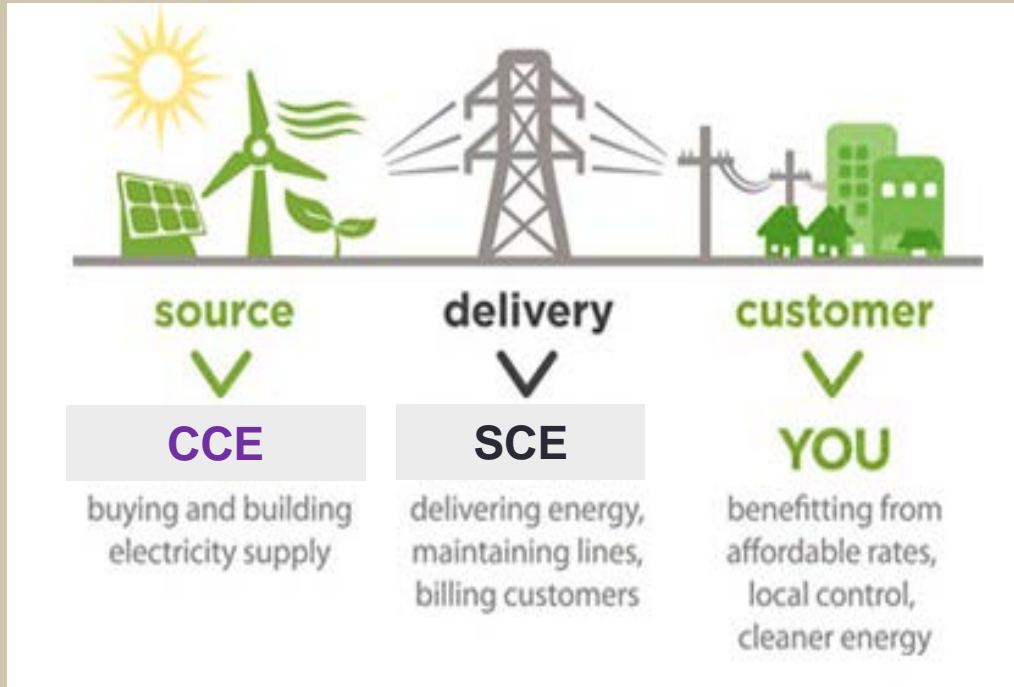
FINDINGS OF SANTA BARBARA COUNTY CCE STUDY

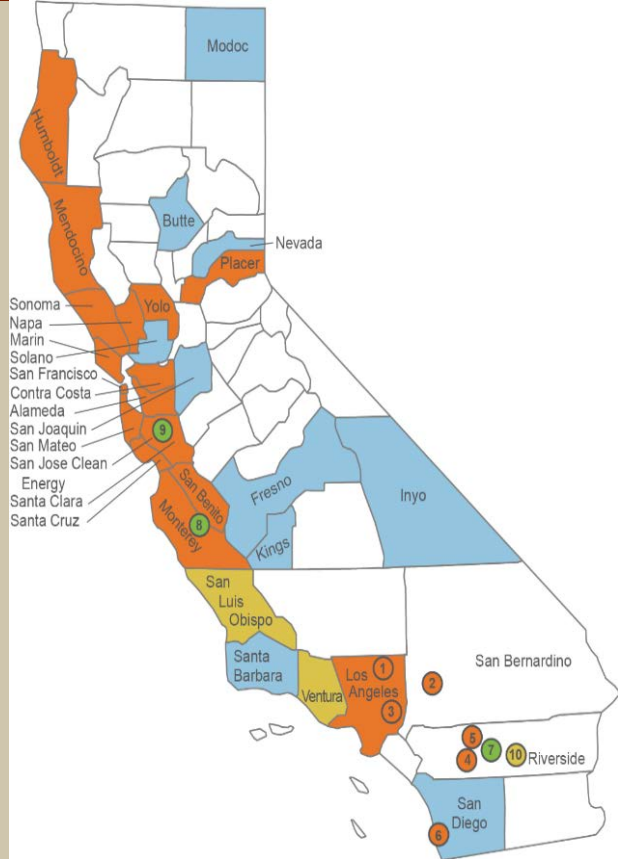
City Council
July 17, 2018

Presentation Outline

- Background
- Santa Barbara County CCE Study
- Risk Profile
- Analysis of Policy Goals
- Next Steps
- Staff Recommendations

How Community Choice Energy Works





Statewide CCE Developments

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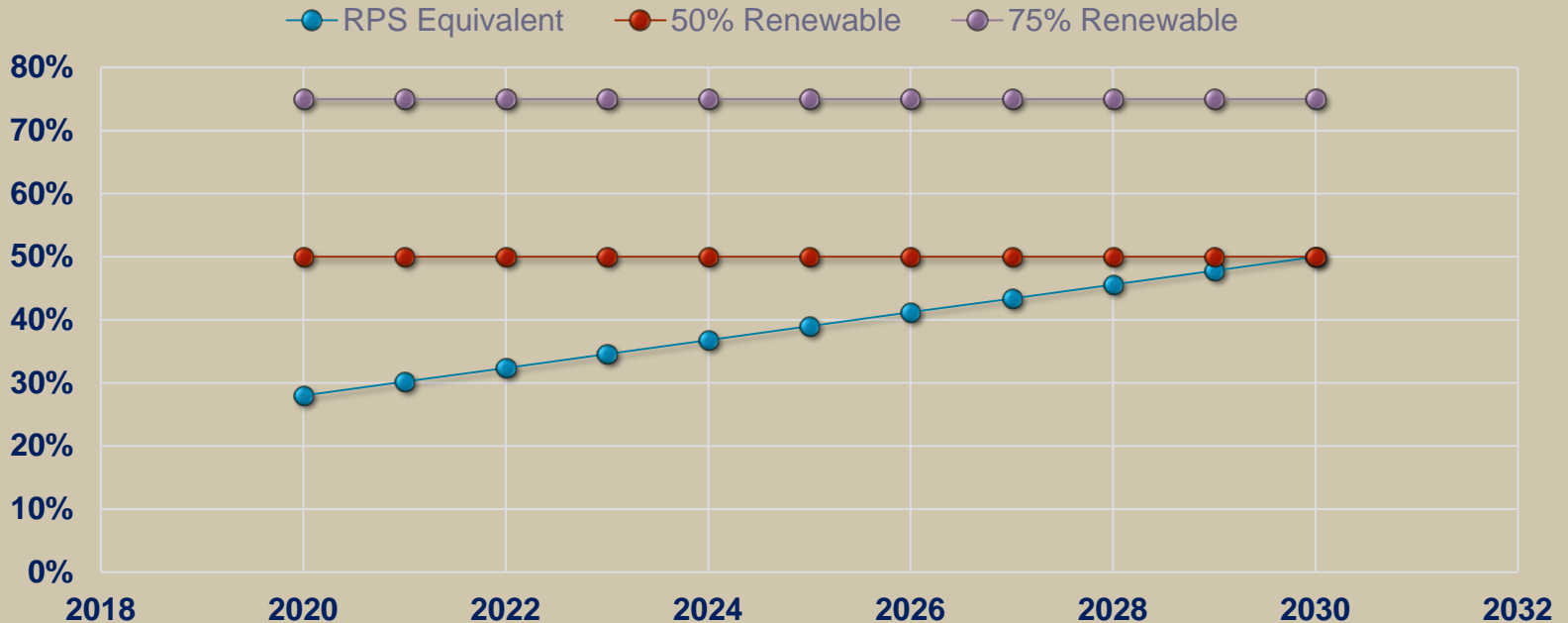
Santa Barbara County Study

- Pacific Energy Advisors (PEA) commissioned by County of Santa Barbara, Cities of Santa Barbara, Goleta, and Carpinteria
 - PEA routinely advises existing CCEs in power purchases and other financial and operational decisions
 - Has developed pro formas that have resulted in successful CCE financing

Study Scope

- 3 Geographic Configurations
 - All Santa Barbara County
 - Unincorporated County Only
 - City of Santa Barbara Only
- 3 Renewable Energy Portfolios

Renewable Energy Portfolios



Long Term Feasibility

1. Maintain Customer Rates that are Competitive with SCE and PG&E
2. Maintain Financial Solvency
 - Build and Maintain Reserves
 - Retire Debt
 - Manage Risk(s)

Study – Methodology

1. Determine Energy Load – including seasonal variations
2. Determine Revenue Requirement
3. Build CCE Customer Rates: distribute revenue requirement across customer classes
4. Compare CCE Rates to Projected SCE & PGE Rates from 2020-2030

Comparative Metrics

Cost Category	PEA	Willdan	MRW
Cost/MWH (Energy)	\$62	\$72	\$60
Cost/MWH (Pro Forma)	\$70	\$117	\$90

Study Results



Under PEA's specific assumptions:

- CCE Countywide (50% renewable) scenario appears feasible
 - Financially solvent by end of year 1
 - Economies of scale with larger customer base
 - PG&E rate structure offers additional benefit
- SB City Only scenario hampered early on – solvent by year 4
 - Smaller customer base
 - Harder to compete with SCE lower rates

All County Scenario 50%

Start Up Capital	Break Even Year	Net Surplus/Deficit		Residential Customer Bill (\$/Year)		
		Year 1	Year 11		Year 1	Year 11
\$9.3 M	Year 1	\$4.3M (2.8% of total costs)	\$24.6M (12.8% of total costs)	PG&E	\$11 ↓	\$51 ↓
				SCE	\$8 ↓	\$55 ↓

City of Santa Barbara Scenario 50%

Start Up Capital	Break Even Year	Net Surplus/Deficit		Residential Customer Bill (\$/Year)		
		Year 1	Year 11		Year 1	Year 11
\$4M 0% interest	Year 4	(\$890k)	\$6.3M (22% of operating costs)	SCE	\$11 	\$72 

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Risk Profile

1. Energy Costs
2. Regulatory Landscape
 - Departing load charges (PCIA Fees)
 - Statutory Changes
3. Customer Opt-Out
4. Maintaining Rate Competitiveness with SCE and PG&E

Risk Profile

0-2
Years

- PCIA Fees
- Customer Opt Out (transition)
- Debt Obligation
- Regulatory
- Energy Market

>3
Years

- Customer Opt Out (Rates)
- Regulatory
- Energy Market

Energy Market Risk

- Energy costs represent ~90% of CCE operating costs
- Annual Reserve Contribution 7M (avg.)
- Annual Energy Costs 152M (avg.)
- Reserves could cover an average increase of 5% to assumed energy costs
 - PEA study evaluated 50% increase in spot market costs

Regulatory Risk Typical Electric Bill

Generation

- ✓ Renewable Energy
- ✓ Non-Renewable Energy

Existing Utility and CCE
compete in market for
best energy pricing



Transmission & Distribution (SCE & PG&E)

Equal pass through
to CCE and
non-CCE Customers

Regulatory Risk - PCIA Fees

- Fees charged to CCEs to cover the cost of stranded energy assets procured by investor owned utilities (e.g. SCE) for customers before they transitioned to CCE
- PCIA fees are variable
 - Contract length and purchase cost are fixed
 - Market price of divestment is variable

Regulatory Risk PCIA Fees

Generation

- ✓ Renewable Energy
- ✓ Non-Renewable Energy

Existing Utility and CCE compete in market for best energy pricing



**PCIA
Fees-IOU
Stranded
Costs**

**Cost borne
solely by
CCE**



**Transmission
& Distribution
(SCE & PG&E)**

Equal pass through to CCE and non-CCE Customers

Maintaining Competitive Rates with SCE and PG&E

A Note About Rate Setting

- Process for Setting Water and Trash Rates:
 - Adjust existing rates by CPI and capital needs
 - Prop 218 Considerations
 - No competition or risk of migration of customers to alternate service provider

Maintaining Competitive Rates – cont'd

- With CCE, competitiveness with SCE/PG&E is paramount
 - Customers can opt out of CCE
 - CCE still obligated to pay for contracted power even with loss of customer revenue
 - e.g. \$118M in 2025

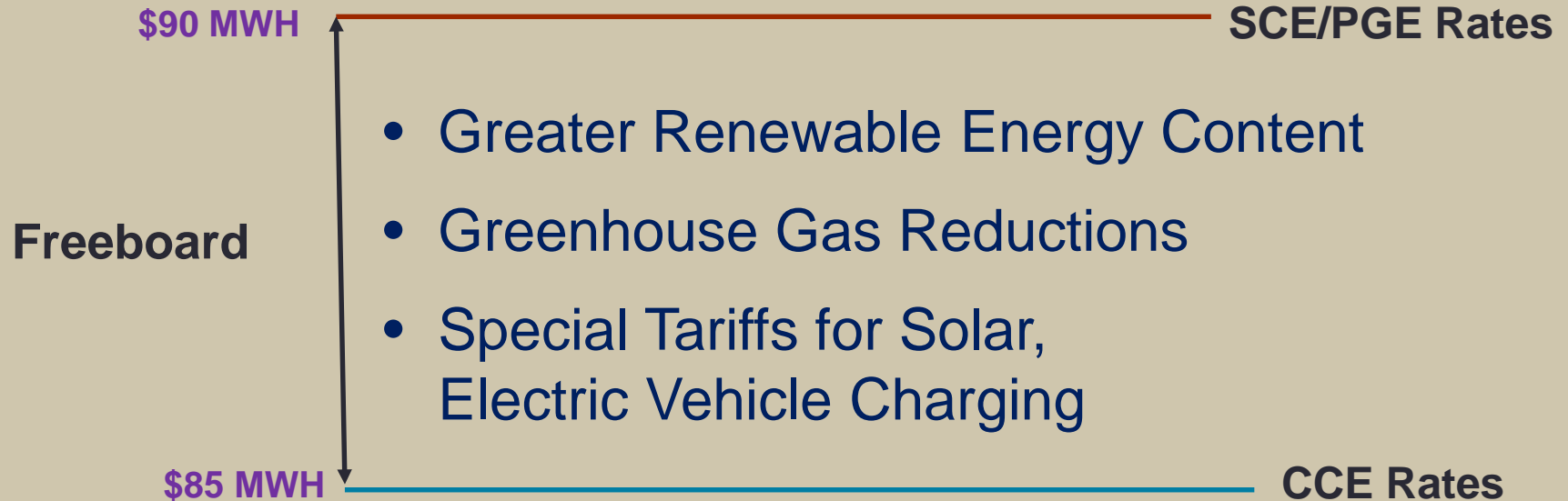
Reserves as Risk Mitigation

- CCE Reserve Policy Commonly 40% of Operating Costs
- PEA study achieves policy by:
 - 2029: Reserve Contributions
 - 2025: Cumulative Net Surplus
 - Also assumes that reserves are never drawn down

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Optimal Community Choice Program



Analysis of Policy Goals

Goal	CCE
Local Control	Yes, but subject to change with pending legislation
100% Renewable Energy (City Facilities)	CCE appears to open doors to favorable account configuration
Toward 100% Renewable (Communitywide)	<ul style="list-style-type: none"> • Higher Renewable Energy – not exactly – CCE may achieve 50% <u>sooner</u> than SCE* <ul style="list-style-type: none"> • Greenhouse Gas Reductions • Special Tariffs for Solar, Electric Vehicle Charging <p>*If financials prove favorable, could opt up to >50%</p>

Analysis of Policy Goals – cont'd

Goal	CCE
Lower Customer Rates	Not Probable – rates <i>equivalent</i> with IOUs more likely
Large Scale Resource Development <ul style="list-style-type: none"> • Solar • Hydroelectric • Microgrids • Battery Storage 	<ul style="list-style-type: none"> • Depends upon long term revenue surpluses <ul style="list-style-type: none"> ▪ BUT, could potentially use other capital sources (Water Fund, etc.) and sell power back to CCE

Analysis of Policy Goals – cont'd

Goal	CCE
Greenhouse Gas Reductions	<p>50% Renewable Energy portfolio does not substantially improve emissions over IOUs*</p> <p>*If financials prove favorable, could opt up to >50% further reducing GHG emissions</p>
Job Creation	<p>Maybe – specialized tariffs or CCE programs may spur solar installation, energy efficiency work</p>

Staff Summary

- PEA study demonstrates feasibility under a specific set of assumptions
 - Assumptions that could (most likely will) change
- All County scenario is most feasible
 - Economies of scale with larger customer base
 - PG&E rate structure offers additional benefit
- City-Only scenario not as feasible



Staff Summary

- CCE may help to achieve some City policy goals
- Study builds in some risk mitigations (e.g. building of reserves)
- CCE still poses many known and unknown risks

CCE Subcommittee Recommendation

- Staff presented the results and findings of the Santa Barbara County CCE Study to the CCE Subcommittee on June 11th
- Subcommittee voted unanimously to recommend pursuit of the countywide CCE scenario

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Next Steps – cont'd

1. Resolution of Intent to pursue formation of a Joint Powers Authority to govern the new CCE
 - Establish roles and responsibilities of lead and participating agencies, cost sharing, etc.
2. Develop CPUC Implementation Plan for CPUC
 - Implementation now based upon January-January window
 - Submit Implementation Plan January 2020 to serve load in January 2021

Next Steps – cont'd

3. Procure specialized consultant services to assist with these tasks
 - Costs not budgeted in FY 19 Budget but reimbursable from rate proceeds

LOS ANGELES COUNTY CLEAN POWER ALLIANCE

LA County Clean Power Alliance

- LA County CCE (Clean Power Alliance) feasibility study appears to align with PEA assumptions
 - However, actual 2018 energy costs have exceeded study assumptions
- CPA faces the same risks as SB County
- Joining CPA would probably not save time or up-front financing costs

LA County Clean Power Alliance – cont'd

- Remaining Unknowns
 - Siting of energy projects locally or reaping benefits of projects from afar
 - City influence (practical) under JPA governance
 - One vote out of 30 members

Recommendation

That Council:

Direct staff to work with the County of Santa Barbara and other interested cities to pursue the formation of a new Community Choice Energy Program throughout Santa Barbara County