CITY OF LONG BEACH

Memorandum

Date: April 28, 2023

To: Thomas B. Modica, City Manager

From: Robert Dowell, Director, Energy Resources
Christopher J. Garner, General Manager, Long Beach Utilities Department

For: Mayor and Members of the City Council

Subject: **Long Beach Community Choice Aggregation Feasibility Study Status**

History

In 2002, the California State Legislature passed Assembly Bill (AB) 117, creating Community Choice Aggregation (CCA), which allows cities, counties, and some special districts the option to aggregate the electrical buying power of individual customers into a single entity. A CCA supplants the traditional role of the existing private electric utility as the buyer of the electricity for the customers. The goal is for a CCA to secure electricity supply contracts that offer customers a higher percentage of renewable energy than currently offered by traditional electric utilities while remaining cost comparable to the private utilities.

In 2017, the City Council first requested City staff to evaluate the potential benefits of forming a CCA, as well as potential risks, for the Long Beach community. Over the past several years, staff has provided the City Council with periodic updates on the viability of forming a CCA, each time recommending against the formation of a CCA due to various reasons including substantial financial risks and regulatory uncertainties. Rather than forming a CCA, the City has pursued new opportunities that have become available, as well as opportunities the City sees forthcoming, relative to increasing Long Beach's green energy use in replacement of electricity produced with traditional fossil fuels.

This memorandum is in response to the City Council's request on December 7, 2021, to provide a follow-up report on the feasibility of the City forming a CCA.

Background

As noted in previous communications with the City Council, the opportunity to form a CCA also carries significant risk, to both the customers and the City of Long Beach (City). Therefore, as the City has evaluated different avenues for achieving green energy benefits, the need to mitigate risk must be, and has been, a strong consideration.

A City CCA would supplant Southern California Edison's (SCE) existing responsibility of being the default buyer of the electricity commodity for all 500,000 Long Beach residents and businesses. The dollar value of this responsibility that the City CCA would assume from SCE is well above $100 million annually. All SCE customers in Long Beach would be defaulted "in"

to become customers of the City CCA. Those residential and business customers with a desire to continue with SCE as the buyer of their electricity needs would be required to formally notify the CCA of this intention. In the absence of taking this action, the customer would rely upon the CCA for their electricity purchases.

If Long Beach were to form a CCA, SCE would retain the responsibilities of providing the "poles and wires" services to deliver the CCA-purchased energy to Long Beach residents, as well as continue to provide monthly electricity billing to customers.

The subject of CCAs has been discussed by the City Council over the last several years. Over the course of this time, staff has continued to monitor CCAs across the state as well as changing electricity market conditions and regulatory requirements, keeping foremost in mind, the City's primary goal of increasing the City's clean energy use, in place of fossil fuel-generated electricity.

Summary of 2022 Clean Energy Developments

CCAs remain an available option for delivering green energy. However, it has become clear the CCA structure is not the only available option anymore. While most CCAs generally demonstrate moderate growth, and a few CCAs continue to expand into new communities, 2021 and 2022 were challenging years for most CCAs. For example, bankruptcy was filed in June of 2021 by Western Community Energy (WCE), a CCA serving about 113,000 customers in Riverside County.

Additionally, the two largest CCAs locally, Clean Power Alliance (CPA) and the Orange County Power Authority (OCPA), have both faced major issues recently. The largest CCA in California, CPA, serves 32 cities across Los Angeles and Ventura Counties and just celebrated its fifth year of providing service. However, according to its most recent quarterly financial statement, CPA recorded an operating loss of $24.1 million in the month of December 2022 alone, $37 million less than the projected budgeted income. Recently, OCPA faced negative state and county audits, the Orange County Board of Supervisors pulled the unincorporated county from OCPA at a potential cost to the County of $65 million, and the two largest of the four cities in OCPA (Irvine, Huntington Beach) are also seriously considering leaving the CCA.

Despite the challenges some CCAs are experiencing, City staff have continued to monitor the development of these groups. At the same time, given the City Council's direction to engage heavily in new clean energy opportunities, Long Beach has joined numerous efforts and developed extensive new external partnerships to support this work. Using these networks, the City has explored an opportunity, through a Green Rate Program offered by SCE, to purchase green power in place of fossil fuel-generated electricity, without the significant cost risks associated with the formation of a CCA.

On May 26, 2022, the Long Beach Board of Water Commissioners authorized our City's water utility (Utility) to enter into agreement with SCE to participate in their Green Rate Program. This program enables Long Beach to retain a measure of local control and helps our City support local solar power production, reduce greenhouse gas emissions and facilitate pathways

towards a cleaner, healthier environment. Under the Green Rate Program, SCE will purchase, on the Utilities' behalf, solar energy from independently owned solar farms in California. This program gives our City the option to request SCE purchase green power for either 50 percent or 100 percent of Utilities' energy usage. If the Utilities' opts for the 50 percent green rate option, the other 50 percent of the Utilities' needs would be met with energy from SCE's standard energy supply portfolio. The City is also assisting SCE in promoting this green power option to Long Beach residents and businesses.

In addition to the electrical Green Rate Program, the City is an active partner in several statewide and regional clean energy initiatives:

- SCE CPCP Work Group – This is a joint work group with co-leadership from City and SCE staff. Collectively, our organizations are actively working on upgrading electrical infrastructure in Long Beach to support increased EV fleet vehicle charging. This work will enable the City to safely and reliably transition a larger percentage of our City fleet to electric vehicles in the near future.

- California Energy Commission – The California Energy Commission (CEC) has been holding meetings to identify opportunities to decommission some natural gas infrastructure in the State, and also look at ways to increase the availability of and safety for new electrical infrastructure, as well as battery storage, which would be needed for a clean energy future.

- Alliance for Renewable, Clean Hydrogen Systems (ARCHES) – Long Beach, with direction from the City Council, has taken a leadership role in the statewide ARCHES coalition, building a framework for advancing clean energy in Long Beach and statewide.

Through this work, we have also found that ongoing activities at the California Public Utilities Commission (CPUC) will continue to impact CCAs and the future of clean energy development.

CCA Rates

In 2022, a comparison* of the lowest priced option for CCAs against the base option charged by SCE, indicated that the CCA rates ranged from being 1.1 percent lower to 2.0 percent higher than SCE. For 2022, SCE had a green rate anomaly in which its 100 percent green rate was much lower than its base rate, as well as much lower than the 100 percent green rates charged by CCAs, with SCE's 100 percent green rate ranging from 3.8 percent to 19.3 percent lower than those charged by CCAs. As SCE's green rate was priced unusually low, this option was oversubscribed and not available to all SCE customers interested in taking advantage of this option.

In 2023, SCE has had a significant rate increase and some CCAs have quickly similarly followed while others are expected to do the same very soon. For example, CPA which serves certain areas in the Counties of Los Angeles and Ventura, this month approved an interim rate

increase, increasing CPA's bills by $82 million, to place its 100 percent green rate at a 1 percent discount from the base SCE rate.

In summary, the past expectations of CCAs providing significant cost savings to their residential customers no longer exist; instead, replaced by forward expectations of simply being comparable to SCE's rates, with, at best, offering minimal savings while in many cases where the CCA's rates will be higher than those charged by SCE.

* according to the latest "joint rate comparisons" between SCE and the CCAs

Key CCA proceedings at the CPUC

Power Charge Indifference Adjustment (PCIA)

The PCIA is a fee that CCA customers must pay SCE for their share of any excess or "stranded" costs that SCE incurs because of the CCA now serving the customers' loads rather than SCE. The PCIA can be volatile, changing by more than 1¢/kWh from year to year. To address this volatility, the PCIA has been undergoing refinement in 2022. Some of the potential changes will be beneficial to CCA, and others not. One of the major changes is that CCAs can claim a fraction of the Investor Owned Utilities (IOUs) Renewables Portfolio Standard (RPS) credits proportional to their load. This allows them to meet the state's requirements and their renewable goals more easily. There are also proposed reforms on how the PCIA is to be calculated, some of which would likely raise the PCIA while others would offset those raises. Overall, the changes should marginally increase PCIA volatility.

Resource Adequacy

Since 2006 all retail sellers of electricity in California under the authority of the CPUC, known as Load Serving Entities (LSEs), are responsible for complying with Resource Adequacy (RA) obligations required under AB 380. To meet these obligations, LSEs must have under contract enough capacity (MW) to always serve their load, plus an extra 15 percent buffer. With the increase in wind and solar power, whose output depends on the weather and as such cannot be guaranteed, RA compliance is becoming more challenging. While most CCAs can comply with the RA obligation, others have not been able to and have incurred fines. The table below shows the fines in 2022 (to date). About 75 percent of the citations and 80 percent of the fines were to CCAs.

2022 Resource Adequacy Fines Imposed by CPUC

LSE Type	Date Fine was Issued	Company	Citation Amount
CCA	04/08/2022	Central Coast Community Energy	$ 2,075,878
CCA	04/08/2022	San Diego Community Power	$ 62,979
CCA	04/20/2022	Orange County Power Authority	$ 1,962,845
CCA	04/12/2022	CleanPowerSF	$ 1,292,361

LSE Type	Date Fine was Issued	Company	Citation Amount
CCA	05/17/2022	CleanPowerSF	$ 2,500
IOU	06/03/2022	San Diego Gas & Electric	$ 11,000
CCA	09/15/2022	Silicon Valley Clean Energy Authority	$ 5,000
ESP	08/30/2022	EDF Industrial Power Services, LLC	$ 1,500
CCA	09/14/2022	CleanPowerSF	$ 20,000
ESP	09/15/2022	Direct Energy Business, LLC	$ 499,145
ESP	09/15/2022	Direct Energy Business, LLC	$ 1,733,021
CCA	09/16/2022	Orange County Power Authority	$ 415,406
CCA	09/16/2022	Central Coast Community Energy	$ 25,000
CCA	09/21/2022	Central Coast Community Energy	$ 506,098
CCA	09/22/2022	CleanPowerSF	$ 1,456,320
CCA	09/30/2022	East Bay Community Energy	$ 878,587

CCA Financial Security Requirements

Currently, CCAs must provide a Financial Security Requirement (FSR), i.e., deposit, which is designed to cover any incremental costs that their incumbent IOU might face in the result of their sudden failure and the return of all their customers to full IOU service. This amount equals a fixed $147,000, to the address administrative costs to absorb the CCAs customers, plus an amount to cover any incremental procurement costs that the incumbent IOU would face serving the returned customers. The incremental procurement cost is updated every 6 months and is based on a formula set in 2013. Up until early 2022, the FSR has been simply the fixed administrative cost of $147,000.

The WCE failure in 2021 demonstrated that the current FSR amount was insufficient to cover the administrative costs of absorbing the returned customers, let alone the incremental procurement costs. In May 2022, because of high forward power prices, the incremental procurement formula resulted in very high FSRs. For example, the FSR for the CPA CCA would have increased from $147,000 to $88 million. The CPUC suspended the updated FSR calculation, subject to an overall reconsideration.

Because of WCEs failure and the extreme increase in the FSR per the formula change, the CPUC integrated the issue of how to ensure that failed CCAs do not impose costs on their incumbent IOU or their ratepayers into Rulemaking 21-03-011. Parties to that proceeding have put forth various proposals to revise the FSR calculation, all of which would significantly increase it from the current $147,000 amount. A proposed decision on this issue should be released in the next few months. We anticipate that the CPUC will increase the administrated portion of the FSR beyond $147,000 and include some safety valves that will prevent the FSR from increasing too much from year to year.

Summary

The CCA environment has evolved over the course of the last 15 years, away from offering potential significantly lower electric bills to now struggling to remain rate comparable to the IOUs. While CCAs continue to help accelerate the move to greener electricity power, the same can be said for the IOUs as both the IOUs and the CCAs are subject to the same State mandates for long term greener power. This mutual drive towards increasing renewable power have created new opportunities for clean energy progress.

Learning from other counties/cities that have formed CCAs has been critical to evaluating the options for our own City. It has become clear the contractual networks allowed through the CCA structure is the strength of the CCA option but also carries with it immense risk for the City and community. Forming a CCA, the City would assume the very real risks of procuring hundreds of millions of dollars in the extremely volatile and evolving electric commodity market while Long Beach customers would realize, at best, minimal cost savings, or, at worst, potentially higher costs than what would exist by remaining with the current provider. This alone warrants seeking better alternatives for achieving our green energy goals.

It is clear CCA's are only one component of various mechanisms that now exist to support clean energy development, and the City is actively engaged in these various options. We keep climate change, safe and reliable energy and community benefits top of mind when engaging in these statewide and regional clean energy development initiatives.

If you have any questions, please contact Bob Dowell, Energy Resources Director at (562) 570-2001, or Chris Garner, Utilities Department General Manager at (562) 570-2318.

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