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Community Choice Aggregation

When California deregulated electricity in 1997, many Californians switched to buy "green"energy. After the energy crisis of 2000-01, consumer choice of electricity providers was suspended. Most Californians now get their electricity from the same utilities that provided it before deregulation. Community Choice Aggregation offers an opportunity for Californians to once again choose their electric provider and the source of their electricity.

What is Community Choice Aggregation?

Community Choice Aggregation (CCA) enables California cities and counties – or groups of cities and counties – to supply electricity to the customers within their borders.

Unlike a municipal utility, such as the Los Angeles Department of Water and Power or the Sacramento Municipal Utility District, a CCA does not own the transmission and delivery systems (i.e., the poles and wires).

Instead, a CCA is responsible for providing the energy commodity (i.e., the electrons themselves) to its constituents—which may or may not entail ownership of electricgenerating resources.

The value of forming a CCA

Many communities want to increase the amount of non-polluting, renewable energy they use, and are looking at Community Choice Aggregation as a mechanism for doing so.

Local control over retail electric rates is another important motivation for initiating CCA. Investor-owned utilities currently propose service rates for electric generation, transmission and distribution, and the California Public Utilities Commission either approves or rejects these proposals.

Because decisions are for classes of customers across the utility's territory, customers in Arcata, for example, pay the same rates as those in Fresno.

Historically, public utilities across the nation have been able to offer rates that are 15-20% lower than investor owned utilities. And as an example of dependability, Roseville Electric has been selected as the nation's most reliable utility serving less than 100,000 customers for five years in a row. Under CCA, decisions about rates, generating resources and public benefit programs will be made locally and be accountable to local customers.

"The California Energy Commission is excited about the potential for Community Choice Aggregators to increase the amount of renewable energy that is produced and consumed in the state."

Commissioner John Geesman, California Energy Commission

Local Government Commission

Assembly Bill 117 removed a significant organizational hurdle for local governments interested in providing electricity to their communities.

Community Choice in California

After deregulation of California's electricity markets in 1997 (through AB 1890),many new power suppliers entered the state. For the most part, these suppliers marketed to high-volume electricity users to achieve higher returns on their marketing investments. However, some offered consumers the option of clean, renewable energy. In every case, the choice to switch from investor-owned utility (IOU) service was made by individual consumers or businesses.

With the electricity crisis in 2000-01, the law was changed and the ability of consumers to enter into electric service contracts directly with suppliers was suspended.

In 2002, Community Choice Aggregation (AB 117) was signed into law. This legislation removed a significant organizational hurdle for local governments interested in providing electricity to their communities.

Unlike AB 1890, which required each customer to specifically choose non-IOU service ("opt-in" to the new service), formation of a CCA assumes that all utility customers within the CCA's boundaries will become CCA customers. However, customers within the CCA's boundaries may choose to continue their utility service, to "opt-out" of the CCA program.

Implementation rules

The California Public Utilities Commission (CPUC) is in charge of creating guidelines for a CCA program. It is now preparing materials to help assist potential CCAs develop implementation plans and complete the registration process.

The CPUC also sets the Cost Responsibility Surcharge for customers who leave IOU service. This surcharge ensures that all remaining IOU customers will not pay higher rates when customers leave IOU service. It includes paying back the costs of expensive, long-term power contracts entered into during the 2000-01 energy crisis, and other uneconomic IOU costs.

The Cost Responsibility Surcharge is determined by comparing these uneconomic costs to the current market rates for electricity. As market rates increase, the surcharge will decrease. Most of the contracts entered into during the crisis expire by 2012.

CCAs in other States

Ohio

Following energy deregulation in Ohio, about 90% of the residential and commercial customers who switched from their utility companies joined a community choice program.

The Northeast Ohio Public Energy Council (nopecinfo.org) is the state's largest public aggregation program, with 118 cities serving more than 600,000 customers. Their energy supply contract guarantees a discount ranging from 4% to 6% when compared with investor-owned utility rates.

Massachusetts

In Massachusetts, the Cape Light Compact (capelightcompact.org) is a regional services organization made up of the 21 towns located on Cape Cod and Martha's Vineyard, as well as Barnstable and Dukes counties. The compact protects the interests of nearly 200,000 customers and negotiates lower-cost electricity service.

Rhode Island

The Rhode Island Energy Aggregation Program is a consortium of 36 cities and towns, organized under the Rhode Island League of Cities and Towns (rileague.org) to purchase the lowest-cost electricity from power suppliers. While currently available only for municipal facilities, the program saved its member cities and towns $2.69 million in the first four months of 2006.

Historically, public utilities across the nation have been able to offer rates that are 15-20% lower than investor-owned utilities.

Is CCA feasible for your Community

CCA is a substantial undertaking for any community, but the rewards may be worth the effort and risk. One of the first things to consider is whether there is the political commitment to form and, ultimately, implement a CCA. Local elected officials will make the decision about establishing a CCA and are accountable for its successes or shortcomings. Many officials may not be willing to accept this political risk.

Implementing a CCA program will take several years. As a result, the elected officials who initiate the process of forming a CCA may not be the ones who vote to establish it, or make resource selection and rate-setting decisions. And there will likely be opposition to CCA formation within the community.

The most common reasons for forming a CCA include:

- Increased use of renewable generation.
- Local control of rate setting.
- Economic growth.
- Lower rates.

The benefits of CCA

A community will need to present strong incentives for choosing CCA to its potential customers. Many California cities and counties have agreed to reduce greenhouse gas emissions or have other, similar environmental goals. CCAs can help by increasing local consumption of renewable energy.

Local control of electric rates can also allow a community to attract new businesses and retain existing ones by offering targeted incentives to these customers.

Other communities may want to develop generation projects that increase local employment. Some may focus on creating income to offset municipal expenditures.

And perhaps most importantly, preliminary feasibility studies indicate that CCAs, through the use of local government financing, should be able to reduce electric rates compared with IOUs. This reduction is because private financing costs are more than twice those of a CCA. Based on a pilot project funded by the California Energy Commission, CCA capital costs were about 5.5%, compared to 12.9% for IOUs.

This capital financing advantage is especially important for highcapital, low-operating-cost facilities like renewable energy generation.

Steps

you'll need to take

Communities considering CCA formation should analyze:

- Forecasted IOU rates.
- The Cost Responsibility Surcharge.
- CCA commodity costs (including generation ownership, power purchase contracts, renewable energy contracts and spotmarket purchases).
- Community energy use profiles (daily and seasonal throughout the year.
- California Independent System Operator charges.
- Operations and scheduling costs.
- Financing costs.
- Revenue offsets and available financial incentives.

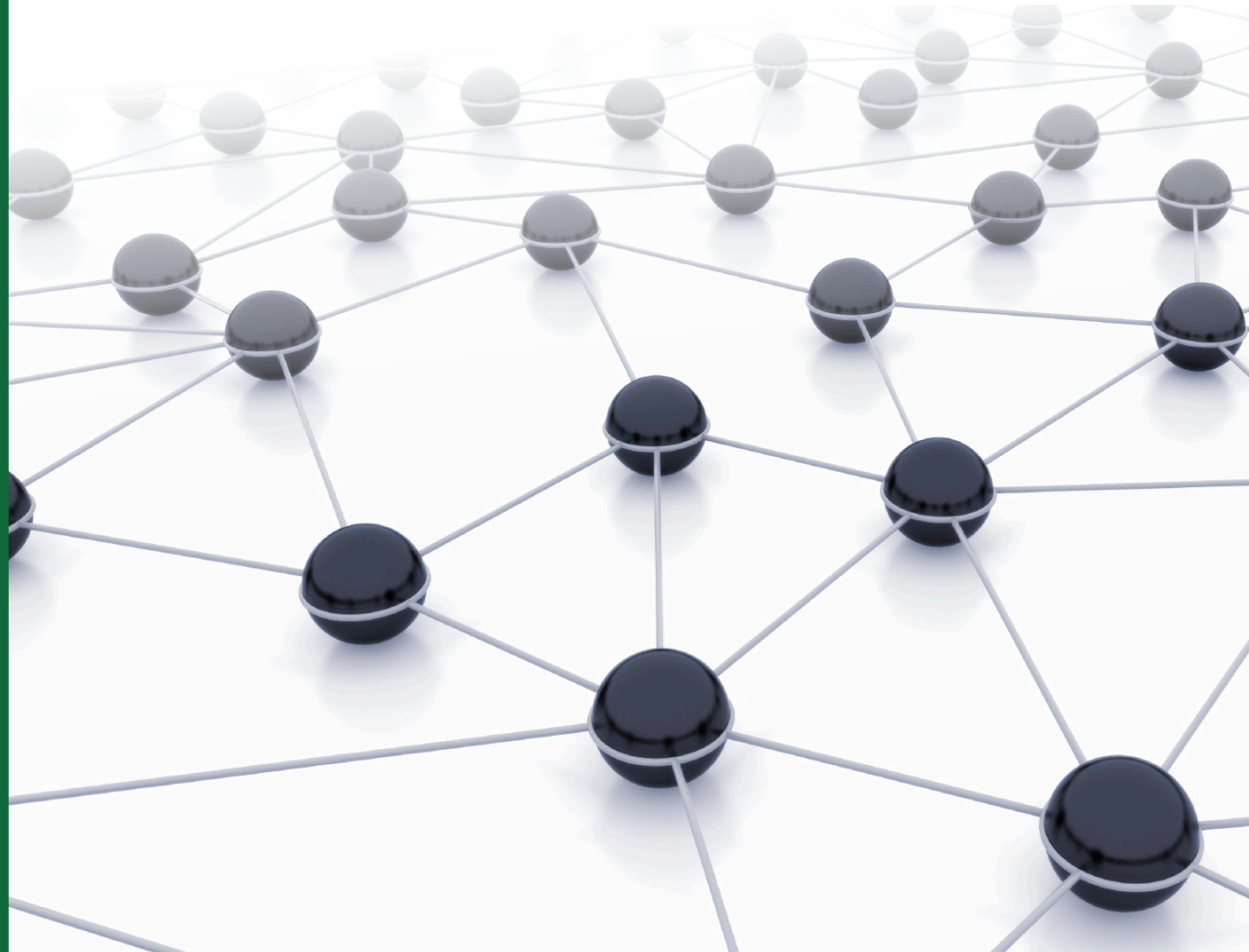
Communities will also need to communicate with constitents throughout this process. Some communities have already established stakeholder groups to contribute to the planning process. Others have scheduled public meetings to keep their residents and businesses informed.

The risks of CCA

The biggest risk is that CCA rates may be higher than utility rates. Well-managed power purchasing and development should mitigate this risk. A well-balanced portfolio of resources that includes shortand long-term contracts and CCAfinanced new generation projects should result in competitive rates.

One way to hedge against volatile energy prices is to create a rate stabilization fund,which many municipal utilities do. This will allow a CCA to hold prices steady, even when fuel prices rise. And there is no fuel cost to generate electricity from wind and solar sources.

Future regulatory decisions could result in cost increases for CCA programs. Most of the decisions about CCA programs have already been made by the CPUC, ho ever. Local governments participated in that process, and their concerns were favorably reflected in those decisions. Continued participation in CPUC proceedings will be necessary to protect CCA interests.



Should you find partners?

Another big question for communities considering CCA is whether or not to partner with other like-minded communities. AB 117 allows groups of cities and counties to join together to establish a CCA program. This provides economies of scale for energy contracts, administration costs and when interfacing with investor-owned utilities.

A study of seven Bay Area communities investigating CCA found that if they formed one joint CCA program instead of seven individual ones, they could save an additional 34%. A joint CCA may also reduce variability in electric loads (fewer usage peaks and valleys), allowing for larger baseload contracts (with generally lower prices than peaking or spotmarket contracts).

Joint CCA programs will likely require a joint powers agreement. That pact could result in the creation of a single governing body making decisions (about supply and rates) on behalf of all CCA customers, or it could be more limited,where cities or counties act together on some issues and independently on others (for example, group power purchases and/or resource investments, but setting rates separately).

An individual CCA could also act with another CCA to provide some services, such as project financing, billing and regulatory review. Getting good legal advice from your city or county attorney is essential.

Initially, most CCAs will likely contract for administrative operations, which can be accomplished by using a single energy service provider or multiple contractors (for example, one for scheduling power deliveries, another for customer service, and a third for legal or regulatory services). Eventually, the CCA may hire its own staff to perform some or all of these functions. The CCA should make these decisions to ensure the program's success and should be based on community preferences.

California cities and counties that are exploring formation of a CCA

- Berkeley
- Beverly Hills
- Chula Vista
- Emeryville
- Marin County
- Oakland
- Pleasanton
- Richmond
- San Diego County
- San Francisco
- San Marcos
- Vallejo
- Kings River Conservation District (12 cities in the Fresno area and Kings County)
- West Hollywood
- Los Angeles County

For more information

Local Government Commission

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CEC – 500-2006-082