



# CITY OF POMONA COUNCIL REPORT

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December 4, 2017

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

Submitted by: Darron Poulsen, Water Resources Director

Subject: **Discussion and Direction on Whether to Bring Forth an Ordinance to Enter into a Joint Powers Agreement (JPA) with the Los Angeles Community Choice Energy (LACCE) Program to Procure and Provide Electric Power to Residents and Businesses of the City**

## OVERVIEW

**Recommendation** – That the City Council provide direction on whether to:

1. Reject the participation in the Los Angeles Community Choice Energy (LACCE) Program at this time, and request that staff seeks other local opportunities and report findings back to the City Council.

Or

2. Direct Staff to bring forth an Ordinance approving the City's participation in the Joint Powers Agreement (JPA) for the Los Angeles Community Choice Energy (LACCE) Program.

**Fiscal Impact** – There is no fiscal impact with Staff's recommendation.

**Previous Related Action** – None.

## EXECUTIVE SUMMARY

Community Choice Aggregation (CCA), authorized in California under AB 117 (2002) and SB 790 (2011) are programs in the State of California which allows local governments to purchase electricity in the wholesale power market for the purpose of selling it to their residents and businesses at competitive rates, as an alternative to electricity provided by an investor owned utility like Southern California Edison (SCE). The LACCE Program is the name for the CCA Program in Los Angeles County. Staff recommends that the City not participate in the JPA for the LACCE Program at this time. The recommended decision is based on the concerns listed in the following page:

- The City lacks necessary staffing levels to provide adequate oversight of this program.

- Currently there are no neighboring cities participating in the Energy LACCE Program.
- The current LACCE Program participants are predominantly located in the western and northern parts of Los Angeles County and their needs and desires may not match our City's resident's needs and desires.
- There may be better opportunities that are more aligned with our City's needs by considering forming a local JPA with surrounding communities and partners.
- Additional insight and expert perspectives locally would support a more robust and well-informed foundation for meeting the energy and environmental needs for the local residents, businesses, the City and our potential partners.
- The City will be able to join at a later date if the Council desires.

## **DISCUSSION**

Cities and counties in California are widely pursuing or exploring energy programs that allow elected officials to take the authority to buy and sell power away from investor owned utilities and offer ratepayers up to 100% renewable energy. On Tuesday, April 18, 2017, the Los Angeles County Board of Supervisors unanimously approved a motion to begin the implementation of the LACCE Program, which includes the formation of the JPA and \$10 million in funding (\$2 million for administrative costs and \$8 million for power procurement in Phase I) needed to begin pre-operation and startup activities. If the City were to join the JPA, the LACCE Program would seek to negotiate contracts for alternative (renewable) power supplies which they would look to offer at competitive rates. SCE would continue to deliver the electricity through its existing utility lines which they would continue to maintain and they would also to continue to perform the billing services to the customer.

The LACCE Program would be self-funded by revenues it receives from the sale of electricity to customers. None of its expenses would be paid by taxes and its revenues could not be diverted to pay for non-LACCE uses. Oversight would be made by elected officials from the participating cities and the county who will serve on a Board of Directors of the LACCE Authority, a non-profit JPA agency established to operate the LACCE Program. The LACCE Board would be advised by an Advisory Committee comprised of community members. The LACCE Board will be responsible for establishing the specific renewable tier program structure.

As of October 2017, the JPA is comprised of the County of Los Angeles and the cities of Calabasas, Rolling Hills Estates, Agoura Hills, Culver City, Paramount, Beverly Hills, Downey, South Pasadena, and West Hollywood. The LACCE is actively recruiting additional cities throughout Los Angeles County to join the JPA. Several cities have taken at least one vote indicating a desire to join the LACCE Program. Those cities are Alhambra, Carson, Sierra Madre, and Manhattan Beach.

In order to become a participating member in the LACCE Program, the City Council must

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adopt an Ordinance approving the Joint Power Agreement to join the LACCE Program and authorize the implementation of the program within the City. This step is a legal requirement to engage in discussions with SCE and the California Public Utilities Commission. If the City were to approve its participation in the LACCE Program, it could provide the residents and businesses community the opportunity to potentially lower their utility bills and assist in the decrease of global Greenhouse Gas Emissions.

At this time, there are no proven reductions in utility bills since the LACCE Program is not in operation and only limited tabletop studies have been performed. The deadline to enter into this program without any cost is December 31, 2017. There is not sufficient time to complete the necessary ordinance changes in time to meet the pending deadline. Cities that do not initially participate will have the option to become a member after the formation. If the City Council desires to participate at a later date, Staff will place this matter in a future agenda for further discussion.

Staff's recommendation is to not join the JPA at this time since the City currently lacks the staff level to oversee this program. Moreover, the LACCE Program will require an elected official to have a seat on the community advisory committee. Staff is seeking for the best possible local programs and partnerships with neighboring cities and agencies for the residents and businesses of Pomona.

Prepared by: Julie Carver, Environmental Programs Supervisor



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# CITY OF POMONA COUNCIL REPORT

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December 18, 2017

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

Submitted by: Darron Poulsen, Water Resources Director

Subject: **Introduce an Ordinance Approving Participation in the Joint Powers Agreement (JPA) for the Los Angeles Community Choice Energy (LACCE) Program, Authorizing Implementation of a Community Choice Aggregation (CCA) Program; and Designating an Elected Official and Two Alternates as LACCE Board Members Representing the City**

## OVERVIEW

**Recommendation** – That the City Council:

1. Introduce the Ordinance approving the City's participation in the Joint Powers Agreement (JPA) for the Los Angeles Community Choice Energy (LACCE) Program, and authorizing the implementation of a Community Choice Aggregation (CCA) Program;
2. Designate an elected official, and two alternates, all of whom must be either a member of the elected body, City staff, or an individual appointed from the community that has experience in energy related issues, as LACCE Board Members representing the City; and
3. Authorize the Mayor to sign the JPA on behalf of the City, and authorize the City Manager to execute the JPA, contingent upon City Attorney review.

**Fiscal Impact** – The LACCE Program has the potential to provide cost savings to residents, businesses and the City by providing lower utility rates. There are no upfront costs to join the CCA Program, outside of minimal staff time, as the County of Los Angeles is providing up to \$10 million for a startup loan that will be recovered in the CCA Program rates. The LACCE Program projects a 5.3 percent decrease in energy rate costs from the comparable Southern California Edison (SCE) rate.

Additional costs of the LACCE Program include existing SCE Energy Purchase Contract costs which will likely be distributed to LACCE Program participants. A Power Charge Indifference Adjustment (PCIA) ensures customers who remain with SCE do not end up paying for the long-term financial obligations SCE incurred on behalf of LACCE Program customers who will be discontinuing SCE service. This additional PCIA charge is imbedded into SCE bill and will eventually be removed once the payment obligation has been satisfied.

There are many unknowns with the actual savings and cost of the LACCE program since it has not started. Furthermore, because the LACCE program technical study was performed for the entire Los Angeles County, the benefits for individual participants are unknown. The City would need to perform an independent technical study to obtain a better understanding of a CCA Program's fiscal impact to the City.

If City Council opts to further evaluate the program past the December 27, 2017 deadline, the LACCE Board adopted a policy to allow additional cities to join two times a year, and will evaluate on a case by case basis. The implementation dates would be pushed to later start dates. According to LACCE representatives, the cost to join the LACCE at a later day could be up to \$10 million to cover the power purchase for 60 days, but this would be reimbursable through the rates.

**Previous Related Action** – On December 4, 2017, the City Council directed Staff to continue the LACCE Program discussion to a future City Council meeting and bring forth an ordinance.

## **EXECUTIVE SUMMARY**

In keeping with Council direction at the last regular Council meeting, actions required to secure membership in the Los Angeles Community Choice Energy (LACCE) Program have been prepared with this staff report; and if approved by the Council and followed up with an approved second reading in January, will further qualify Pomona electricity users for the advantages of participating in a CCA Program managed on a Countywide basis. Staff has obtained further information about other available options to be considered and has included this additional information in the discussion section of this report.

## **DISCUSSION**

The LACCE Program and other CCA Programs are authorized in California under AB 117 (2002) and SB 790 (2011) which allow local governments to purchase electricity directly, in the wholesale power market, for the purpose of selling it to their residents and businesses. Thus, providing an alternative to electricity provided by an investor owned utility (IOU), SCE. The CCA Program does not act as a municipal utility, as the current IOU (Edison) will continue to provide transmission and distribution, power line maintenance, and customer billing services. In order to ensure the City can join LACCE Program with no potential membership fee, the City must show intent to join by December 27, 2017 and adopt an Ordinance by January 11, 2018. At this time it is unknown whether there will be a fee to become a LACCE Program membership in the future. The LACCE Program members will make this determination once the program is active.

The JPA was prepared by the County and has been reviewed by the City Attorney and City staff. The JPA includes a complete set of rules, regulations, and principles for the formation and operation of the LACCE Program, including the roles and responsibilities of each member agency. A summary of the key provisions in the Joint Powers Agreement can be found as

Attachment 3 to this report.

If the City becomes a member of the LACCE Program, all customers within the City are automatically enrolled. However, each resident and business has the choice to opt-out and continue to receive energy from SCE. For a set period of time after program initiation, there will be no charge for customers to elect to remain with SCE, however, this may change. After the initial opt-out period, customers will have the ability to return to SCE for a fee, which will be determined by the Authority. The opt-out fee being charged by some of the existing CCA Programs is \$5 for residential customers and \$20 for commercial/industrial customers. This fee is assessed to ensure a sufficient number of LACCE Program customers are maintained within the program to allow for financial viability.

- The City may choose which of the three rates their customers will be opted into when the service begins. The tiers are as follows: Base Rate - 33% renewable (approximately 6% lower cost than SCE)
- Mid-Level – 50-6-% renewable (approximately 4% lower cost than SCE base rate)
- Top-Tier – 100% renewable (approximately 5% higher cost than SCE base rate)

Once customers are opted into the default rate set by the City, then the customer will have the option to change to a rate of their preference. This ensures flexibility for member cities and choice for the customers.

In California, Marin Clean Energy was the first CCA Program providing electricity to customers in 2010, followed by Sonoma Clean Power in 2014. The City of Lancaster adopted a CCA Program, Lancaster Choice Energy, which began in 2015. CCA Programs have been able to reduce participant energy bills, while providing greater usage of renewable energy. In addition to saving money for the residents in their communities these local CCAs are using their program savings to create a new revenue source for their cities. These revenues are being directed towards other sustainable and green goals as well as the general fund needs. Cities that are a similar size to Pomona which have formed a local CCA are saving customers 3% to 5% on their energy bills and are generating over 4 million dollars in additional revenues to help with sustainable goals. Other agencies, including San Francisco and San Mateo County are also in the process of forming CCA Programs.

### **LACCE Formation**

The LACCE Program has formed a Task Force made up of municipal, labor, and industry stakeholders to help guide development and governance of a regional CCA Program. None of the Task Force participants were from the city of Pomona nor the Pomona Valley area. LACCE's business plan was completed in June 2016 and updated in April 2017 (Attachment 2) with input from the Task Force and other stakeholders. The plan states the program will be able to save customers money on power that meets California's current renewable portfolio standard, while providing up to 100 percent renewable electricity from sources such as solar, wind, bio-energy, geothermal, and hydroelectric. The higher renewable electricity content levels will most likely cost the same, if not more than SCE rates.

The business plan includes a 20-year analysis of LACCE Program costs/rates, including the SCE delivery charges, and compared these to a SCE rate forecast. In addition to paying LACCE's power supply rate, LACCE customers will pay the SCE delivery (wires) rate and all other non-power supply related charges on the SCE bill to include Franchise Fees and Utility User Taxes. It is anticipated in the business plan that LACCE's rate designs initially will mirror the structure of SCE's rates so that rates similar to SCE's can be provided to LACCE's customers. In setting rates the financial analysis assumes a phased-in schedule and assumes that the implementation costs are largely financed via a start-up loan.

The LACCE's implementation program is anticipated to occur in three (3) phases. First phase includes providing electrical service to LA County municipal facilities (January 2018); the second phase adds City municipal facilities, and City and County commercial and industrial customers (no later than July 2018); and the final phase will add City and County residential customers (no later than January 2019). The primary purpose in phasing in the program is to provide time to address any issues that may arise, and to continuously refine program details prior to its launch countywide.

The Energy Division of the Public Utilities Commission of California (PUC) posted on December 12<sup>th</sup> a proposed Notice of Draft Resolution E-4907 for the January 11, 2018 Commission meeting. This draft resolution would publish and implement a registration process for Community Choice Aggregators. If the PUC adopts the Resolution, it has the potential to delay the cities who were not part of the original JPA (Rolling Hills and South Pasadena) from becoming a LACCE member in 2017 and could delay their start time in the program until the year 2020.

Joining a CCA Program would align with the City's Green Plan's goals and policies of incorporating renewable energy sources within the City. The renewable energy action reduces greenhouse gas emissions by using less fossil fuels, reduce the City's carbon footprint, and assists City to meet its reduction goals of 15 percent by 2020.

There are benefits and risks to joining other CCAs not associated with the LACCE program. The benefits would be more local control of rate setting by City Council, the revenues would stay local (in Pomona), and opportunities to provide local incentives to customers or build green infrastructure within the City. The risks would be the same as the LACCE program with regulatory issues such as legislative changes, market risk, customer participation risks, and power charge indifference adjustment (PCIA). PCIA covers generation costs acquired prior to a customer's change in service provider (exit fee). On the following page is a matrix of pros and cons for the various CCA program solutions available for consideration:

**Table 1**

<b>Program Details</b>	<b>LACCE</b>	<b>City Contracted Shared Admin Service</b>	<b>City Contracted Single Admin Service</b>
<b>Cost of Start Up</b>	0\$ now up to \$10M Later	Estimated under \$70K	Estimated under \$70K
<b>Administration Cost</b>	None	Shared Cost	Full Cost
<b>Rate Setting</b>	1 Vote (of 20?)	Full Control	Full Control
<b>Anticipated Customer Savings</b>	3% to 5%	3% to 5%	3% to 5%
<b>Setting Green Energy Level</b>	Full Control	Full Control	Full Control
<b>Reserve Control</b>	Flow to JPA	Full Control Flows to Pomona	Full Control Flows to Pomona
<b>Reserve Fund Usage Decision</b>	1 Vote (of 20?)	Full Control	Full Control
<b>Operating Risk</b>	Shared Risk	Shared Risk	Full Risk
<b>Program Control</b>	1 Vote (of 20?)	Full Control	Full Control

In order to join the LACCE Program, adoption of the enabling ordinance and execution of the attached LACCE JPA agreement (Attachment 1, with Exhibit A) are required. Additionally, designation of a member of City Council and two alternate to the LACCE JPA is requested. Currently, the LACCE JPA meets first Thursday of each month at 1:00pm and City representative(s) have the option to participate by conference call/webinar.

- Attachments:
1. Ordinance, Joint Powers Agreement (Exhibit A)
  2. Business Plan
  3. Summary of the key provisions in the Joint Powers Agreement

Prepared by: Julie Carver, Environmental Programs Supervisor