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For City Council Meeting and Rialto Utility Authority [June 12, 2018]

TO: Honorable Mayor and City Council

APPROVAL: Robb R. Steel, Interim City Administrator

FROM: Thomas J. Crowley, P.E., Utilities Manager

Request City Council to Approve the Budget **Resolution No. 7351**, Conduct a Public Hearing to Introduce for first reading: **Ordinance No. 1601** Entitled "AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF RIALTO, CALIFORNIA A RIALTO COMMUNITY CHOICE AGGREGATION PROGRAM FOR THE PROCUREMENT AND PROVISION OF ELECTRIC POWER TO RESIDENTIAL AND COMMERCIAL CUSTOMERS WITHIN THE CITY OF RIALTO CITY LIMITS". Reading by Title Only and Waiving Full Reading Thereof;
(ACTION) **POWERPOINT**

BACKGROUND:

In 2002, the California State Legislature passed Assembly Bill 117, enabling Community Choice Aggregation (CCA) programs. CCA's are governmental entities formed by cities and counties to aggregate the buying power of individual customers within their defined jurisdiction in order to secure alternative energy supply contracts on a community-wide basis, but allowing consumers not wishing to participate to opt out.

Under a CCA program, the City buys or generates electricity for customers within the Rialto city limits. The City then delivers electricity to customers using SCE's transmission lines and distribution system. SCE remains responsible for billing, meter-reading, maintenance and customer service.

In 2016, the City of Rialto solicited proposals from qualified consultants to complete a feasibility analysis on the economic benefits of forming a CCA in Rialto. On May 10, 2016, City Council approved a Professional Services Agreement with Good Energy, L.P. for the Rialto Community Choice Aggregation Feasibility Study.

The results of the Feasibility Study and initial economic analysis were encouraging for the establishment of a CCA in Rialto. The study indicated savings for residential and significant segments of the commercial customer bases within the City. The feasibility study estimated the community-wide savings at $2.5 million annually as shown in Table 1 below. The Feasibility Study is included as **Attachment 1**.

Entire Class**				
SCE Rate Schedule	Volume	Payment($)	Savings ($)	Savings (%)
Domestic	96,595,894	$6,662,219	$832,694	12.50%
Domestic-CARE	95,831,028	$6,609,466	$1,422,169	21.52%
TOU-GS-1	24,564,379	$1,713,322	$282,545	16.49%
TOU-GS-2	67,331,541	$4,261,337	$181,271	4.25%
TOU-GS-3	51,224,345	$3,204,916	$112,378	3.51%
TOU-8-SEC	43,498,831	$2,503,711	-$127,454	-5.09%
TOU-8-PRI	33,045,285	$1,758,055	-$172,327	-9.80%
TOTALS			**$2,531,276**	**9.48%**

Table 1

As highlighted in the Feasibility Study, the Domestic customer class represents the majority of electricity accounts in Rialto with 89% of total accounts representing 38% of total usage. These accounts demonstrate the greatest savings.

The Commercial classes evaluated (rate classes TOU GS-1, TOU GS-2, TOU GS-3 and TOU-8) utilize demand recording meters. The rate structures applied to the commercial classes have a rate structure where the amount of monthly peak demand sets one component of the bill and the volume of electricity consumed sets another portion. As a result, accounts with a higher load factor, defined as the proportion of electricity relative to the monthly peak demand, pay a lower effective rate per kilowatt-hour. Essentially, the utility rate structure rewards a higher load factor with a lower effective rate and for this reason, calculating a rate class average savings estimate is more complex. Staff believes, some customers will receive savings under a CCA program by virtue of their load profiles while others would be financially better off remaining with SCE.

On August 8, 2017 the City Council received the Feasibility Study and authorized development of the Implementation Plan.

The Implementation Plan was presented to the Economic Development Committee on March 28, 2018 and the Utility Commission on May 15, 2018 as a receive and file item. The Implementation Plan is included as **Attachment 2**.

ANALYSIS/DISCUSSION:
The Implementation Plan describes the development and operation of a CCA if established by the City for providing electricity choice to eligible households and businesses in the Community. The Implementation Plan provides the required information to satisfy requirements of the California Public Utilities Commission (CPUC) and state law.

Should the City decide to pursue the development of a CCA program, there are several factors to consider, including:

- *Start Up Costs of Program*
  Staff believes the costs to implement the CCA program during the start-up phase prior to delivery of electricity to CCA customers would include the following:

  - Initial Feasibility Study and development of the Implementation Plan - $185,000.
  - Deposits held by SCE -- according to Good Energy, SCE allows the utility to request security (cash deposit) based upon payment history and the financial information provided by the City in its financial application. SCE staff told Good Energy that they only require deposits from CCAs who exhibit poor payment response. To be conservative, Good Energy included two months of SCE receivables, or an anticipated $18,060 to cover these costs.
  - CPUC bonding obligation -- The CPUC bond is currently $100,000. It is based upon CPUC Resolution E-4133. The amount of the bond is the same for all CCAs in California. It is held by the CPUC for the duration of the Program's existence. Costs of maintaining the bond are included in the financial pro forma at an assumed 5% carrying cost.
  - Implementation Cost is $260,000 -- for the purpose of the pro forma, start-up cost recovery is defined as the consulting and miscellaneous fees expended prior to Program operation (includes $160,000 of Good Energy's consulting and service fees) and outside legal fees associated with CPUC and other legal filings (estimated at $100,000).

The costs listed above are to be recovered over the first three years of operation, or approximately $188,000 per year, in customer rates.

Once the Program starts providing electricity to customers, Working Capital in the amount of $379,000 will be accumulated from the revenues with additional Working Capital Facility Costs of $18,902 per year also needed.

Good Energy, as the Third-Party CCA Manager, included a fixed fee of $300,000 for the first year of CCA operation. The fee escalates at 2% per year. Good Energy's fees are included in the rate projections, and will be funded by Program revenues and paid in monthly installments consistent with other program suppliers and contractors.

Estimating administrative costs is difficult to ascertain since several undetermined factors can affect such costs. One way to mitigate costs is to partner with other CCA programs. In the meantime, the City has expended $185,000 for costs related to this project. If the requested action to complete the application process is approved, an additional $118,060 will be needed, bringing the project total to $303,060.

Below is a summary of expenditures from the beginning of the project to implementation.

Task	Amount
DEVELOPMENT PHASE	
Feasibility Study	$20,000.00
Implementation Plan Development	$165,000.00
Subtotal	**$185,000.00**
Submission to CPUC	
SCE Deposit	$18,060.00
CPUC Bond	$100,000.00
Subtotal	**$118,060.00**
Total Expended To Date	**$303,060.00**
IMPLEMENTATION PHASE	
Program Implementation	$90,000.00
Bidding/Procurement, Public Outreach	$70,000.00
Special Counsel	$100,000.00
Subtotal	**$260,000.00**
Possible Total Investment	**$563,060.00**

If the application is approved by the CPUC and the City elects to continue with efforts to implement a CCA, an additional $260,000 will be necessary, bringing the project total to $563,060. These costs would recoverable during the initial three years of the program operation from CCA revenues.

Once the CCA begins supplying energy to CCA customers, the CCA will incur additional start-up costs, including interest, applied to the CCA Program as an additional cost recovery. The CCA recovers start-up costs over the first three years of the program.

- *Cost of ongoing staffing and operations*
  Staffing costs are not clear. Page 12 of the Implementation Plan refers to the City as providing support in areas such as purchasing, legal counsel, finance, IT support, human resources and economic development. Also, according to the Implementation Plan, program vendor accounts receivable and accounts payable will be managed directly by the City. This does not include customer service and billing which will remain SCE's responsibility. Good Energy estimated a half-time position will be needed to perform certain internal administrative functions, handling incoming revenues and vendors; however, staff believes the amount of staff time needed is unknown.

- *Projected cost savings and risk factors*
  The projected cost saving on the purchase of power should be weighed against any financial

risks.

It is anticipated that the largest uncontrollable factor in determining future rates is the exit fee. This fee is charged by SCE to the CCA's to replace SCE as the power purchaser and is based on the cost difference between what SCE has paid for power to serve its bundled customers and the estimated market value of that power. The current exit fees were used to determine the project savings. It should be noted that the CPUC oversees the exit fee rate and they are currently being reviewed by the CPUC and may increase thereby negating any cost savings.

A second risk factor occurs if a significant number of customers leave the CCA. As customers leave, the cost increases for the remaining customers. Also, if the CCA completely folds, then the City may be responsible for the energy contracts. A standard practice is to factor exit volume when setting the rates as well as charging exit fees to customers who opt out of the CCA after the initial phase.

A problem for any electrical system, including a CCA, is the changing future of power purchasing and production as well as delivery charges imposed by the Investor Owned Utility, here SCE. In addition, the following factors will impact the CCA:

- Market prices
- Weather
- Customer usage patterns
- Utility CRS charges
- Opt-out rate
- Regulatory changes
- Administrative and start-up costs

The City should evaluate the participation in a CCA using a three-phased approach. The phases are:

- Phase 1 - Feasibility Study (completed)

- Phase 2 - Program Development, Regulatory Applications Structuring and Implementation of CCA Program (in process)

- Phase 3 - CCA Program Management (future)

Now that the Feasibility Study is complete and the Implementation Plan is drafted, the City is in a position to make a decision about whether to proceed with forming and implementing a CCA program for Rialto customers. If Council chooses to proceed and approves the Ordinance authorizing the CCA, the next steps towards program implementation include completion of the steps outlined on the Timeline, included as **Attachment 3.** As listed on the attached, the remaining tasks are:

- Submit the Implementation Plan to CPUC for review and comment
- Submit Registration Packet (Performance Bond and SCE Service Agreement)
- Receive notice of program registration from CPUC
- Draft supplier and contractor specifications

The City would then implement the program and:

- Issue RFPs and procure suppliers and contractors
- Prepare and submit Resource Adequacy load estimates
- Prepare rate structure
- Implement public information and marketing program
- Customer enrollment and first energy delivery

ENVIRONMENTAL IMPACT:
The requested action does not constitute a "Project" as defined by the California Environmental Quality Act (CEQA). Pursuant to Section 15378(a), a "Project" means the whole of an action, which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. According to Section 15378(b), a Project does not include: (5) Organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment.

GENERAL PLAN CONSISTENCY:
Approval of this action complies with the following City of Rialto Guiding Principles, General Plan Goals and Policies:

Our City government will lead by example, and will operate in an open, transparent, and responsive manner that meets the needs of the citizens and is a good place to do business.

LEGAL REVIEW:
The City Attorney has reviewed and approved the staff report, Feasibility Study, Implementation Plan, and Ordinance.

FINANCIAL IMPACT:
Operating Budget Impact
Once formed, the CCA is expected to be established as an Enterprise Fund and self-sufficient. The start-up and ongoing operating costs will be built into the rate structure. The possibility of the City receiving direct income from the CCA exists, but is dependent on decisions regarding customer rates that would be made after the CPUC has approved the CCA and prior to the first delivery of energy.

Staff proposes to utilize General Fund reserves up to $118,060 to complete the application phase of the project. Staff recommends transferring $118,060 from the General Fund Reserve (Fund 010) and increase the total project budget to $303,060 for the Development Phase in Account Number 010-500-0001-2011. The City will then advance the $118,060 from Account Number 010-500-0001-2011.

The City does not have any unencumbered General Fund reserves. To complete this appropriation, the City Council must approve either (1) the use of operational reserves (established at 50% of the operating budget by Resolution 5169 or (2) use other funds allocated for capital projects (the Baca/Turch Park Project is the likely candidate since the schedule for that project is a few years off). Resolution No. 5169 authorizes the City Council to use the reserve fund by Council action to address budget needs form time to time at the Council's sole discretion. For FY18, the operational reserve amount is $38,891,949. When the CCA begins collecting revenue, the City will return the proceeds

to the operating reserves, this could occur as early as calendar year 2020

Capital Improvement Budget Impact
There is no impact to the Capital Improvement Budget from the requested action.

RECOMMENDATION:
Staff recommends that the City Council conduct a public hearing and:

- Approve a Budget Resolution appropriating an additional $118,060 in reserve funds, bringing the total project budget amount to $303,060, to fund the completion of the application phase of the Community Choice Aggregation program.

- Adopt an Ordinance Entitled “AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF RIALTO, CALIFORNIA ESTABLISHING THE RIALTO COMMUNITY CHOICE AGGREGATION PROGRAM FOR THE PROCUREMENT AND PROVISION OF ELECTRIC POWER TO RESIDENTIAL AND COMMERCIAL CUSTOMERS WITHIN THE CITY OF RIALTO CITY LIMITS”. Reading by Title Only and Waiving the Full Reading Thereof, and

- Approve the Implementation Plan for the Rialto Community Choice Aggregation program, and

- Direct staff to submit the Implementation Plan to the California Public Utilities Commission for review and comment, and

- Direct staff to submit the Registration Packet, including the Performance Bond and SCE Service Agreement.