

August 9, 2021

TO: Charley Marchesano
FROM: Gary Saleba
SUBJECT: Summary County Load Data Update, Community Choice Aggregation Options and
Current Status of CCA Business Model in California
CC: Amber Gschwend

I. INTRODUCTION

The County of San Diego (County) has been evaluating the Community Choice Aggregation (CCA) business model for the past three years. The County Board of Supervisors (BOS) recently approved a set of Revised Guiding Principles and directed staff to examine the relative merits of joining either the San Diego Community Power (SDCP) or the Clean Energy Alliance (CEA) both of which are operating CCAs within the County. Additionally, County staff requested County load data be obtained from SDG&E and re-evaluated, since the prior County Feasibility Study relied on 2018 load data, and an analysis and discussion of the current status of the CCA business model in California be provided.

EES Consulting (EES), a GDS Associates Company, has assisted the County in evaluating the CCA business model since 2019. EES has again been asked by the County to assist in responding to the aforementioned BOS requests. To this end, please find below EES's initial work product to address the various BOS requests. This memo is organized in sections as follows:

- Updated Electric Usage Data for Unincorporated County Residences and Businesses
- Summary and Critique of Various CCA Business Models Available to the County
- Current Status of California CCAs
- Concluding Remarks

Each section is discussed in more detail below.

II. UPDATED ELECTRICAL USAGE DATA FOR UNINCORPORATED COUNTY RESIDENTS AND BUSINESSES

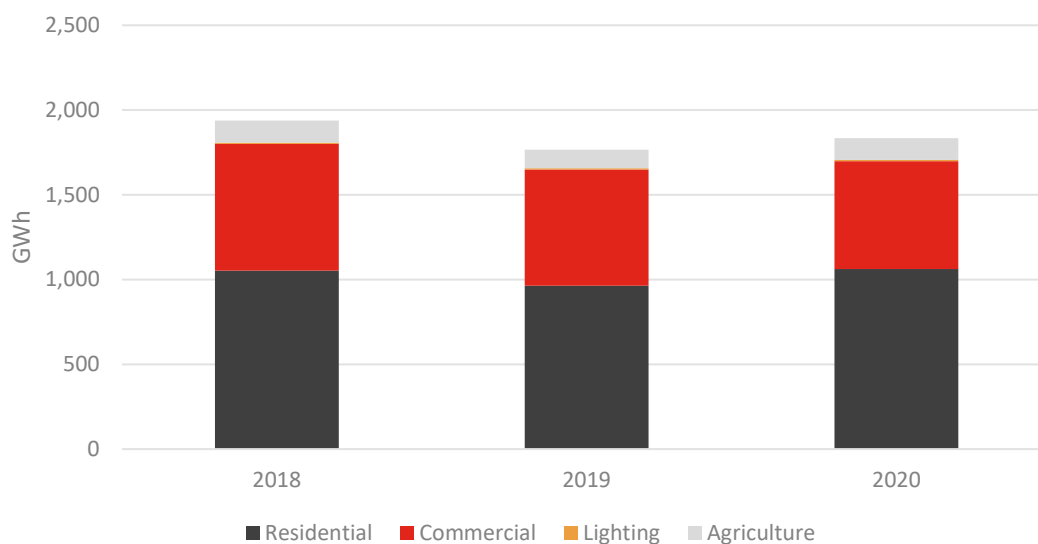
The initial CCA feasibility study performed for the County used 2018 electrical load data as the basis for a CCA load forecast and proforma financials. SDG&E has since provided updated unincorporated County load data. EES compared the updated load data with the previous data and found that overall consumption was lower in 2020 compared with 2019, which is consistent with what most utilities have found: 2020 loads are lower as a result of the COVID-19 pandemic. Table 1 highlights this change in electrical usage.

TABLE 1
SUMMARY OF UNINCORPORATED COUNTY OF SAN DIEGO HISTORIC LOADS

	GWh	Accounts/Meters
2016	2,004	181,779
2017	1,942	185,723
2018	1,851	187,574
2019	1,766	186,790
2020	1,834	188,059

While the number of accounts/meters in the unincorporated County has generally increased, total usage has decreased. The average loads in 2019 and 2020 are 7% lower than average loads from 2016-2018. This decrease is primarily due to decreased use in the commercial and lighting classes. Table 2 compares electricity consumption by rate class for three historic years of data.

TABLE 2
TOTAL HISTORIC LOAD COMPARISON FOR UNINCORPORATED COUNTY OF SAN DIEGO



For planning purposes, EES developed a forecast of unincorporated County electric loads. Customer growth has been escalated at 0.4% per year consistent with the California Energy Commission's (CEC) 2020 IEPR load forecast (mid-demand). Average usage per account/meter has been assumed to decrease through 2021 then return to historical levels. Table 3 summarizes the load and account/meter forecast with County CCA program participation rates assumed to be 95% for residential and 90% non-residential.

TABLE 3
UNINCORPORATED COUNTY OF SAN DIEGO LOAD FORECAST

	Load GWh/Year	Account/Meter
2023	1,685	181,447
2024	1,695	182,572
2025	1,706	183,703
2026	1,716	184,437
2027	1,727	185,580
2028	1,738	186,731
2029	1,749	187,888
2030	1,759	189,053
2031	1,770	190,225
2032	1,781	191,405

The load forecast developed in this memo is 7% lower compared with the load forecast used in the County's 2019 CCA Feasibility Study.

III. SUMMARY AND CRITIQUE OF VARIOUS CCA BUSINESS MODEL OPTIONS AVAILABLE TO THE COUNTY

Introduction

This section of the memo presents an evaluation of the County's CCA business model options available through joining either SDCP or CEA. The County's Revised Guiding Principles for joining a CCA are the basis for this evaluation. This section is organized as follows:

- Summary of County's Revised Guiding Principles for Joining a CCA
- SDCP and CEA Basic Metrics and Implications
- Economic Feasibility
- Financial Feasibility
- Operational Feasibility
- Governance Considerations
- Conformance with County's Revised Guiding Principles
- Summary Observations

County's Revised Guiding Principles

On April 6, 2021, the County BOS adopted the following Revised Guiding Principles to direct its possible participation in a CCA:

1. Prioritize social equity and environmental stewardship.
2. Provide cost competitiveness compared to the incumbent utility.

3. Achieve 100% renewable electricity by 2030; encourage within-County buildout of renewable energy, battery storage, and energy efficiency programs; and prioritize Category 1 renewable energy.
4. Support requirements for prevailing wages, as defined in California Labor Code section 1770 et seq., and skilled and trained workforce, as defined in California Public Contract Code section 2601, for CCE-owned generation, feed-in-tariff, and energy efficiency projects.
5. Encourage the development of an equitable jobs pipeline for individuals from communities of concern; the use of a bid evaluation policy prioritizing the selection of new local renewable energy and storage projects; and the workforce development criteria prioritizing the use of State-certified apprenticeship and proper assignment of work to crafts that traditionally perform the work, as permitted by applicable law.
6. Limit General Fund liability.

These Revised Guiding Principles will serve as the backdrop for the remaining content in this section of the memo.

Summary of SDCP and CEA Operational Metrics

The SDCP and CEA are both operating CCAs and have recently launched commercial operations. Their member cities and approximate number of accounts/meters are presented below in Table 4.

TABLE 4
SDCP AND CEA MEMBER CITIES AND NUMBER OF ACCOUNTS/METERS

SDCP		CEA	
Member Cities	Approximate Number of Accounts/Meters	Member Cities	Approximate Number of Accounts/Meters
Chula Vista	69,000	Del Mar	2,900
Encinitas	23,000	Solana Beach	7,300
La Mesa	23,000	Carlsbad	49,000
Imperial Beach	8,000		
San Diego	649,000		
TOTAL	772,000		59,200

For reference, the unincorporated County has approximately 190,000 accounts/meters.

Both SDCP and CEA provided a financial forecast for their respective CCA operations. A summary of these forecasts is provided on Table 5.

TABLE 5
SUMMARY OF SDCP AND CEA FINANCIAL FORECASTS

Forecast Average Annual 2023-2025		
	SDCP	CEA
Gross Operating Revenues	\$466M	\$51M
Operating Margins Less Financing Expense	\$59M	\$5M

A complete recap of SDCP's and CEA's history and operating statistics can be found at sdcommunitypower.org and thecleanenergyalliance.org.

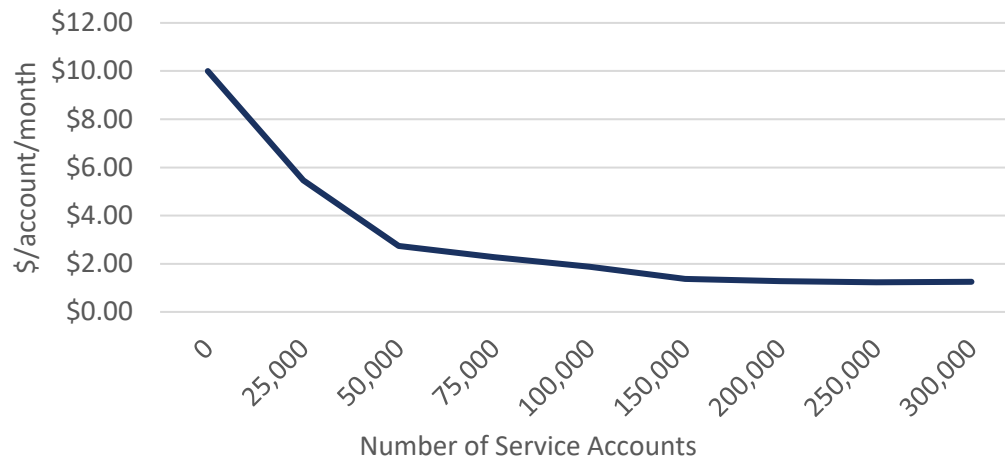
Economic Feasibility

For this memo, economic feasibility is viewed from the retail customers' perspectives. At the current time, SDCP offers a 1% discount from SDG&E and CEA offers a 2.2% discount off of the current SDG&E bill. These discounts may change over time as the SDG&E rates and power charge indifference adjustment (PCIA) costs change through regulatory filings with the California Public Utilities Commission (CPUC).

The CCA generation rate recovers costs associated with two major components of the CCA's revenue requirement: power supply and CCA overhead. From a power supply standpoint, both SDCP and CEA purchase from the same basic wholesale power supply providers and both are large enough (especially if the County joins CEA) to purchase wholesale power at roughly the same price. The County's load proportionally has more summer load than SDCP and CEA, but this uniqueness will likely not materially affect the economic feasibility of the County joining SDCP or CEA.

Overhead costs on a per account basis tend to decrease as the size of a CCA increases. SDCP presently has an advantage with respect to overhead costs per account because it is roughly ten times larger than CEA. However, if the County joined CEA with its 190,000 accounts, this advantage would likely be substantially reduced as illustrated in the Table 6 below. Table 6 compares cost per account for overhead expenses to number of customers for operating CCAs.

TABLE 6
OVERHEAD COSTS, \$/ACCOUNT/MONTH



The PCIA for unincorporated County loads will be a function of when these loads launch. If the County proceeds with joining SDCP or CEA, a most likely scenario is that County unincorporated loads launch in the spring of 2023. As such, the County loads will have a 2022 vintage PCIA whereas the existing SDCP and CEA customers have a 2020 vintage PCIA. Current forecasts indicate these two vintages of PCIA's will not be materially different but this difference in PCIA vintage will result in slightly different rates for County accounts vis-à-vis the balance of the original SDCP or CEA accounts

One final comment on economic feasibility should be highlighted. SDCP has already signed PPAs with 3rd parties for 350 MW of solar resources and 220 MW of battery storage in San Diego, Imperial, and Riverside Counties. These sizeable long-term renewable resources give a degree of price predictability and stability to SDCP's long-term rates that CEA currently does not have.

Financial Stability

Both SDCP and CEA are start-up CCAs with a short tenure of commercial operations. As such, neither CCA has a long history of operational statistics or accumulated targeted cash reserves that the more mature CCAs enjoy. But both CCAs have lines of credit in place to handle immediate cash flow requirements. SDCP has a \$35M line of credit (LOC) from River City Bank and CEA has a \$6M LOC from JP Morgan. This level of LOC is fairly standard in the CCA community given the sizes of SDCP and CEA. River City Bank and JP Morgan are also both highly regarded institutional lenders with solid balance sheet metrics. SDCP also has a \$5M agreement from a private third party to provide collateral support to the River City Bank LOC.

As noted, both SDCP and CEA have a LOC with a reputable lending institute. These LOCs carry standard language for loan covenants and have undrawn fee and interest rates on loans that are competitive. Both loan documents stipulate that the CCAs must comply with their reserve policies (90 days of operating expenses) and meet industry standard debt service coverage ratios (~1.4). SDCP states that they will not need to increase their LOC if the County joins. No similar statement was made by CEA. It should be noted

that both SDCP and CEA have stated policies that they will carry a reserve balance equal to 90 days of operating expenses. If the County joins either SDCP or CEA, this policy will require both CCAs to increase their reserves by roughly \$30 million. While this increase in reserves does not have to occur immediately upon the County joining, it may be a challenge for both CCAs and particularly so for CEA. Finally, both SDCP and CEA have provided proformas that show cash reserves over a 10-year period. At the time the County loads will likely launch, SDCP will have a cash reserve balance of \$70M whereas CEA will have a balance of \$8M.

If the County joined either CCA, the attendant increase in size will add to each entity's financial stability. The financial forecasts provided by SDCP and CEA indicate a stable financial future after both reach full scale operations. Both entities have internal operating expenses that are less than 10% of the total budget which is standard. They also have traditional risk management policies to control risk exposure associated with wholesale power purchases. The risk management policies for SDCP and CEA are virtually identical. Both entities' policies require 90% of power purchases to be hedged a month in advance of actual purchases. SDCP states they are 100% hedged through 2021. No similar statement was made by CEA. For both entities, operating margins are roughly 10% of gross revenues and targeted cash reserves are approximately 90 days of operating revenues. These financial indicators are all within industry standards. Finally, both CCAs will have over two years of operating history by the time the County potentially joins them which should provide additional financial feasibility to both SDCP and CEA; however, a long time series of actual operational data is not yet available and won't be for some time.

Operational Feasibility

From a staffing standpoint, SDCP currently has an interim CEO and 12 full-time employees and plans to add an additional 14 in FY 2022. CEA currently has four interim full-time employees. Each CCA also has a cadre of technical consultants and attorneys under contract. This level of staffing appears adequate given the relative sizes of SDCP and CEA. If the County joined either CCA, staff additions would likely be needed by both SDCP and CEA with CEA needing to hire a proportionally larger number of new staff.

Regarding the SDCP and CEA rate options, SDCP offers two options – PowerOn and PowerPlus. PowerOn offers 50% renewable plus 5% greenhouse gas (GHG) free power. PowerPlus is 100% renewable. CEA offers three options – Clean Impact, Clean Impact Plus and Green Impact. Clean Impact is 50% or more renewable, Clean Impact Plus is 50% renewable and 75% GHG free and Green Impact is 100% renewable. The base rates for both CCAs are slightly less than SDG&E base generation rates (~1%). The 100% renewable rates are slightly more than SDG&E base rates (~3%). Both entities plan to achieve 100% renewable for all customers by 2035; however, customers can opt-up to a higher renewable percentage at any time if the County wants to achieve its 100% renewable goal by 2030. Both CCAs would offer new County customers the same rates offered to their incumbent customers but with different PCIA charges. In summary, both entities offer similar rate options at about the same discount/premium to the SDG&E base rates. For reference, SDG&E currently offers 35% renewable resources in its base offering. All of the SDCP and CEA rate options offer more renewable/GHG-free power than SDG&E base offering.

Special Renewable Energy Programs

SDCP offers a net energy metering (NEM) program for existing and new customers that install solar systems. Existing NEM customers will be enrolled into SDCP service starting February 2022. The SDCP

NEM program functions similarly to the SDG&E's program except SDCP settles and bills monthly to avoid large bills at an annual true-up. As an incentive for generating clean electricity, customers that are producers of excess electricity as measured in annual net kilowatt-hours (kWh) at the end of their 12-month relevant period will be compensated at the Net Surplus Compensation rate. This rate is based on SDG&E's True Up Monthly rate plus a \$0.0075/kWh adder. Based on this formula, SDCP's current June Net Surplus Compensation rate is approximately \$0.032/kWh.

CEA offers a NEM program named "Personal Impact." The program billing is the same as SDG&E's where there is an annual true-up. The current net surplus credit rate is \$0.06/kWh.

SDCP plans to have a Feed-In Tariff program set up in 2021 that allows projects up to 1 megawatt (MW) to be placed within its service territory. CEA does not have a Feed-in Tariff program at this time but plans to offer one in the future.

Both entities stated that participation in their CCA would not require County staff time. The current CCA staff is capable of carrying out all necessary operational tasks. The County would need to place an elected official on the CCA's Joint Powers Authority (JPA) Board of Directors with the attendant time commitment. Both CCAs also require an alternate Board member be designated by each member.

Each CCA plans to offer customer programs in addition to those programs currently offered by SDG&E. These programs will be funded out of net proceeds from each CCA's operating income. Both entities are at the infancy stage of developing these customer programs, but one difference in program application is noteworthy. With SDCP, these program types and locations will be determined by the full JPA Board. Within Section 7.6 of the CEA JPA agreement, there is guidance for the allocation of available program funds. Section 7.6 encourages the Board to allocate these funds prorate based upon member load percentages and requires a biannual audit of these allocations to ensure they are aligned with member loads. This prorated allocation is novel and unique to CEA.

The processes to join both SDCP and CEA are largely similar. The County BOS would need to authorize joining either SDCP or CEA, the County would need to sign the relevant JPA agreement, approve other program documents and pay any membership fee required by the CCA Board. The CCA would then need to approve the addition of the County and file an amended Implementation Plan with the CPUC by December 31, 2021. Under this schedule, the County's residents and businesses could launch as early as January 1, 2023.

For SDCP, the cost to prepare the necessary CPUC documents is estimated at \$30,000 which will be paid for by SDCP unless the County decides not to join. If the County ultimately does not join SDCP, it must reimburse SDCP the \$30,000 preparation costs. For CEA, the same process and filings will be needed. CEA estimates these preparation costs will not exceed \$50,000. The County will be required to pay this final preparation cost amount initially but will be reimbursed within three years if the County joins CEA.

Governance Considerations

Both SDCP and CEA are JPAs and operate within their respective JPA agreements. Both JPA's agreements are largely similar in content and procedures. One unique feature of the SDCP JPA agreement is the

“Voting Shares Vote.” A decision by the JPA Board (where all members get equal voting weight) can be contested if three members of the Board disagree. If a disagreement occurs, a “voting shares vote” can be called where each member’s vote is weighted by its respective share of the CCA’s total electric load. With 2/3 concurrence under the weighted vote, the contested issue can be nullified. But under the weighted vote construct, no JPA member can have more than a 49% load share weighting, and any voting share in excess of 49% for a given member is distributed among the other members based on their relative annual electricity usage. The CEA JPA agreement has no weighted vote provisions.

The estimate of current voting weight for each CCA with the County included is presented below in Table 7.

TABLE 7
ESTIMATED WEIGHTING OF VOTES BY CCA BY MEMBER WITH COUNTY INCLUDED

SDCP			CEA	
Member	Regular Voting Weight	Voting Shares Weight	Member	Voting Weight
Chula Vista	1	12%	Del Mar	1
Encinitas	1	4%	Solana Beach	1
La Mesa	1	4%	Carlsbad	1
Imperial Beach	1	2%	County	1
San Diego	1	49%		
County	1	29%		
TOTAL	6	100%		4

It should be noted that the exact voting share weightings for SDCP should be revisited with updated load data when timely.

Finally, it is recommended that County Counsel review each JPA agreement and provide a more granular and comprehensive review of the numerous legal considerations contained in these JPA agreements.

Compliance with County’s Revised Guiding Principles for Possibly Joining SDCP or CEA

SDCP and CEA both responded to the County’s Revised Guiding Principles. A summary of their responses is noted below.

- Prioritize Social Equity and Environmental Stewardship**

Both SDCP and CEA have recitals and provisions in their respective JPA agreements and official policies that appear to adequately address the County’s social equity and environmental stewardship guidelines.

- Provide Cost Competitiveness Compared to the Incumbent Utility**

As noted above, SDCP and CEA both offer competitive rates vis-à-vis SDG&E and have resource portfolios that have higher renewable percentages and less GHG emissions than SDG&E.

3. Achieve 100% renewable electricity by 2030; encourage within-County buildout of renewable energy, battery storage and energy efficiency programs; and prioritize Category 1 renewable energy.

The recitals and express provisions in both CCAs' JPA agreements and subsequent policies largely address this guiding principle. Both entities do state that they will reach 100% renewable by 2035 whereas the County wishes to meet this goal by 2030. But SDCP and CEA both offer a 100% renewable portfolio option which the County could select as its default portfolio option if the 2030 100% renewable goal is ultimately desired. And as noted earlier, SDCP has already committed to 350 MW of new renewable projects in San Diego, Imperial and Riverside Counties. CEA has not made a similar commitment at this time.

4. Support requirements for prevailing wage, as defined in California Labor Code Section 1770 et seq, and skilled training workforce as defined in California Public Contract Code Section 2601, for CCE-owned generation, feed-in-tariffs and energy efficiency programs.

SDCP and CEA have Inclusive and Sustainable Work Force and Bid Criteria policies that support this principle.

5. Encourage the development of an equitable jobs pipeline for individuals from communities of concern; the use of a bid evaluation policy prioritizing the selection of new local renewable energy and storage projects; and the workforce development criteria prioritizing the use of State-certified apprenticeship and proper assignment of work to crafts that traditionally perform the work, as permitted by applicable law.

Both CCAs have policies in place that address this guiding principle.

6. Limit General Fund Liability

Both CCAs are governed by a JPA agreement. These JPA agreements state that all debts, liabilities, and obligations of the CCA shall not be debts, liabilities and obligations of its member agencies. The CCA vendor contracts also state that the only vendor recourse is against the CCA. County Counsel should be consulted on this issue as well.

In summary, both SDCP and CEA address the County's Revised Guiding Principles in equal fashion. The mutual exception is achieving 100% renewable by 2030 but as noted above, this principle can likely be achieved with either CCA.

CCA Risk Analysis

The following analysis is an overview of risks and their relative severity, followed by a discussion of each factor. For variables where uncertainty is quantified, key assumptions are discussed and a reasonable range of outcomes is provided.

TABLE 8
UNCERTAINTY AND MITIGATION STRATEGIES

								Mitigation Strategy	
	Risk	Description	Problem	Mitigation Strategy	Likelihood of Problem	Severity of Problem	Potential to “Suspend” CCA	SDCP	CEA
1	SDG&E Rates and Surcharges	SDG&E's generation rates decrease or its non-bypassable charges (PCIA/CTC) increase	- CCA rates exceed SDG&E - Increased customer opt-out rate	- Establish Rate Stabilization Fund - Invest in a balanced energy supply portfolio to remain agile in power market - Emphasize the value of programs, local control, and environmental impact in marketing	High – most operating CCAs in California have undergone short periods of rate competition from the incumbent IOU.	Medium - CCAs have been able to buffer rate impacts using financial reserves, then adjust power supply to regain rate advantage.	Medium – CCAs may need to rely on reserves to manage short-term fluctuations.	Reserve policy, hedging, regulatory vigilance, customer outreach	Reserve policies, hedging, customer outreach
2	Regulatory Risks	Energy policy is enacted that compromises CCA competitiveness or independence	- New costs incurred - Reduced authority	- Coordination with CCA community on regulatory involvement - Hire lobbyists and regulatory representatives to advocate for CCA	Low – existing regulatory precedent and a growing market share makes the likelihood of state policies that severely disadvantage CCAs low.	High – a worst-case scenario regulatory legislative decision limiting CCA autonomy or enforcing additional costs could hinder CCA viability.	Medium – energy policy severe enough to make CCA infeasible is not likely.	Regulatory vigilance	Regulatory vigilance
3	Power Supply Costs	Power prices increase at crucial time for CCA	- CCA rates exceed SDG&E - Increased customer opt-out rate	- Long-term contracts - Draw on CCA reserves to stabilize rates through price spike	Low – market prices are unlikely to spike enough to make CCA financially infeasible prior to CCA launch. From that point on, the CCA can limit its exposure through contract selection.	Medium – a poorly timed price spike combined with poor power supply contract management could require CCA to dig into reserves or delay launch.	Low – CCA and IOU face the same market for power.	Long-term contracts/resource PPA, hedging	Hedging
4	SDG&E RPS Share	SDG&E's RPS or GHG-free power portfolio grows to match or exceed CCA's	Increased customer opt-out rate	- Increase renewable power portfolio - Emphasize rates and local programs in marketing	Medium – SDG&E's power portfolio is dynamic and could change rapidly as a result of other CCA departures.	Low – CCA would have capability to increase renewable energy purchases to match or exceed SDG&E if the event occurs. In addition, CCA would promote other benefits of its service to customers.	Very Low – CCA is likely to respond effectively if this occurs.	Long-term RPS commitments, RPS PPAs	Hydro purchases plus RPS PPAs

								Mitigation Strategy	
	Risk	Description	Problem	Mitigation Strategy	Likelihood of Problem	Severity of Problem	Potential to “Suspend” CCA	SDCP	CEA
5	Availability of RPS/GHG- free power	Unexpectedly high market demand or loss of supply of renewable resources	CCA unable to provide target power products	- Shift emphasis to GHG-free or RPS resources depending on availability - Secure long-term contracts - Invest in local renewable resources	Low – power procurement providers are projecting a plethora of RPS and GHG-free bids available on the market.	Medium – if CCA were unexpectedly unable to procure enough RPS or GHG-free power, it could emphasize other program strengths to retain customers until new resources came online.	Low – negligible chance of occurring.	Long-term, local renewable purchases. RPS PPAs	RPS PPA
6	Financial Risks	CCA is unable to acquire desired financing or credit	- Slower or delayed program launch - Unable to build generation projects	- Adopt gradual program roll-out - Establish Rate Stabilization Fund - Minimize overhead costs	Low – CCAs have become sufficiently established in California, such that financing is almost certainly available.	Medium – in the event CCA is limited in financing options, it can adopt a more conservative program design and gradual roll-out.	Low	LOC already established plus cash reserve policy.	LOC already established. Cash reserve policy.
7	Loads and customer participation	Unprecedented opt-out rate reduces competitiveness Net Zero homes	- Excess power contracts - Poor margins	- Increase marketing - Reduce overhead - Expand to new customer markets - Consider merging with existing CCA - Consistent CCA rate review	Low – as CCAs have become more common in California, and CCA marketing firms have become more experienced, opt-out rates have declined. Current saturation of net zero or NEM customers is low	Low – CCA would have numerous viable options in the event they suffer unexpectedly low participation.	Low	Already launched with low opt-out rates.	Already launched with low opt-out rates.
8	Direct Access Changes	CPUC opens DA to a broader customer base and the CCA loses commercial load	- Excess power contracts - Lower margins	- County loads are >50% residential - Charge exit fee to departing loads after 60 day opt-out notice issued	Low – CPUC has discussed opening up DA to all non-residential, but have only slowly increased the cap.	Low – with the large customer base in unincorporated county, a VSME Partner CCA is feasible even without commercial accounts.	Low	DA capped.	DA capped.

Evaluation Matrix

The aforementioned narrative provides a full evaluation of the relative merits of the County joining either SDCP or CEA. Below is a summary matrix of this evaluation.

TABLE 9
SUMMARY EVALUATION MATRIX

Evaluation Category	SDCP	CEA
Economic Feasibility	■	■
Financial Feasibility	■	■
Operational Considerations		
Portfolio Options	■	■
Rate Levels	■	■
County Staff Time Requirements	■	■
Elected Time Requirements	■	■
Admission Process	■	■
Cost to Join	■	■
Governance	■	■
Compliance with Guiding Principles	■	■

■ = Good – Exceed Industry Practice

■ = Average – Meets Industry Practice

■ = Poor – Does Not Achieve Industry Practice

IV. CURRENT STATUS OF CALIFORNIA CCAs

There are currently 24 operating CCAs in California. As a general observation, the CCA community has rates very competitive with their incumbent investor-owned utility, renewable resource buildout of roughly 6,000 MW and serve over 11 million people in California. The CCA business model has been gaining significant traction and is forecast by the CPUC to serve over 75% of California by 2025.

Of the 24 operating CCAs, one has experienced financial difficulties and filed with the CPUC to de-certify. On June 10, 2021, Western Community Energy (WCE), that served about 110,000 accounts/meters in western Riverside County, declared a financial emergency and will cease operations in the near term. WCE's accounts/meters will revert back to Southern California Edison (SCE) who will become the bundled service provider for WCE's former accounts/meters. No interruption in electrical services is anticipated during this transition.

A detailed discussion of the WCE situation is beyond the scope of this memo but the root cause of WCE's financial problems can be separated into:

- Bad timing
- Adverse regulatory issues

Both of these two areas are discussed below.

WCE launched its customers in phases in the spring of 2020. This launch coincided with the full impact of the COVID-19 pandemic and the abnormally hot summer of 2020. The pandemic caused a unexpected increase in electrical usage and a large amount of non-payment of WCE customer bills. The non-payment amount incurred by WCE was over 10 times the historical non-payment accrual or roughly \$6 million. WCE also had unhedged or “open” power supply contract positions in 3Q 2020 which necessitated filling purchases from the CAISO spot market when CAISO spot market prices were 10-20 times higher than normal spot prices. These unanticipated CAISO spot market purchases caused a deviation from WCE’s budget of another \$10 - \$15 million. Being a start-up, WCE had no cash reserves to mitigate these adverse events.

Regulatory decisions also impacted WCE. Concurrent with these two adverse acts of nature, the CPUC issued regulatory decisions regarding SCE’s generation rate and PCIA that further eroded WCE’s financial stability. Taken in total, WCE found itself in need of \$40 - \$50 million of external financing. Numerous sources for this external financing were pursued to no avail. As such, WCE was insolvent and petitioned the CPUC for decertification.

There are several takeaways from the WCE experience that are informative. A few of the major takeaways are noted below.

- It is common for CCAs to launch in the spring as margins for commercial/industrial accounts/meters are highest in the summer and provide opportunities for significant net margins to jump start a new CCA. But summer CAISO spot prices are highly weather dependent and can be extremely high in the summer. As such, summer power purchases need to be very highly hedged via any number of financial and physical tools to mitigate unexpected price spikes and increases in customer load. This concept is particularly important for start-up CCAs with little or no cash reserves.
- Start-up CCAs all need external financing to cover the inherent lead/lag in a CCA’s payables/receivables and to provide collateral for power purchase agreements. In addition to incorporating these two components into the amount of external financing that is needed, a contingency amount should be added to cover unexpected spikes in CAISO spot market prices and run-ups in customer usage due to weather anomalies.
- Finally, it is important to have full-time CCA staff that are expert in utility operations, most importantly resource portfolio management of power supply. Technical consultants typically provide the least costly option to perform the operational aspects of portfolio management but key internal CCA staff need to be capable and willing to oversee the power supply operations and give direction when needed.

In summary, the WCE experience does not illustrate a systematic fatal flaw in the CCA business model but rather an unfortunate occurrence caused by several anomalies. As noted above, the root causes of the WCE insolvency can be avoided with more definitive policy and operational guidance and expertise. It should be noted that Desert Clean Energy (DCE) launched its operations at about the same time as WCE and has maintained its financial stability.

It is also noteworthy that the other 24 operating CCAs withstood these summer 2020 anomalies and maintained their solvency via proper hedging strategies, risk management practices and strong internal management.

V. CONCLUDING REMARKS

In summary, both CCAs are viable options for the County to join. Both SDCP and CEA have sound JPA agreements, proper policies on reserve levels, sustainability, work force/contracting requirements, rate levels and green energy development. SDCP has a potential for a “weighted voting” process and CEA will strive to allocate customer program funds based on each partner’s load share ratio. The County’s sheer size will likely provide it with considerable governance within CEA as the County will increase the size of CEA by 3-4 times. If the County joins SDCP, it will be the second largest partner and have a 29% load share. On balance, both SDCP and CEA are solid options for the County.