

Community Choice Energy Third Party Peer Review

Presented by
Mark Steuer, Director of Public Works and Transportation

City Council Meeting
July 14, 2020

CITY OF IRVINE



Background

- Community Choice Energy (CCE) Feasibility Study and Technical Assessment (Feasibility Study) prepared by EES Consulting dated January 16, 2020
- In March 2020, City selected MRW & Associates (MRW) through an RFP process to review the findings of the initial Feasibility Study

Scope of Work

- MRW reviewed, evaluated and/or provided the following:
 - Feasibility Study's general findings and financial results
 - Risks pertaining to changing regulatory environment, electricity markets, and rate increases
 - CCE program disruption from emerging technologies
 - CCE governance options
 - Summary of lessons learned from operating CA CCE programs

General Findings

- Analytical approach was sound
- Many analytical variables and assumptions used were reasonable; however
- MRW noted important areas of concern

Financial Areas of Concern

- Resource Adequacy (RA)
 - Prices used in Feasibility Study reflects only ½ the actual cost being incurred for RA compliance
 - Results in a reduction of CCE projected net revenue (revenues minus expenditures) from \$16 Million (from Feasibility Study) to \$8 Million (MRW)

MRW Adjustment to Study's RA Costs

	January 2020 Feasibility Study	MRW Adjustment
10-yr. Average Annual RA Cost	\$15 million*	\$23 million
10-yr. Average Annual Cost Difference		\$8 million
10-yr. Average Annual Revenue	\$16 million	\$8 million

* This value does not explicitly appear in the Study; it was provided to MRW by EES.

Financial Areas of Concern

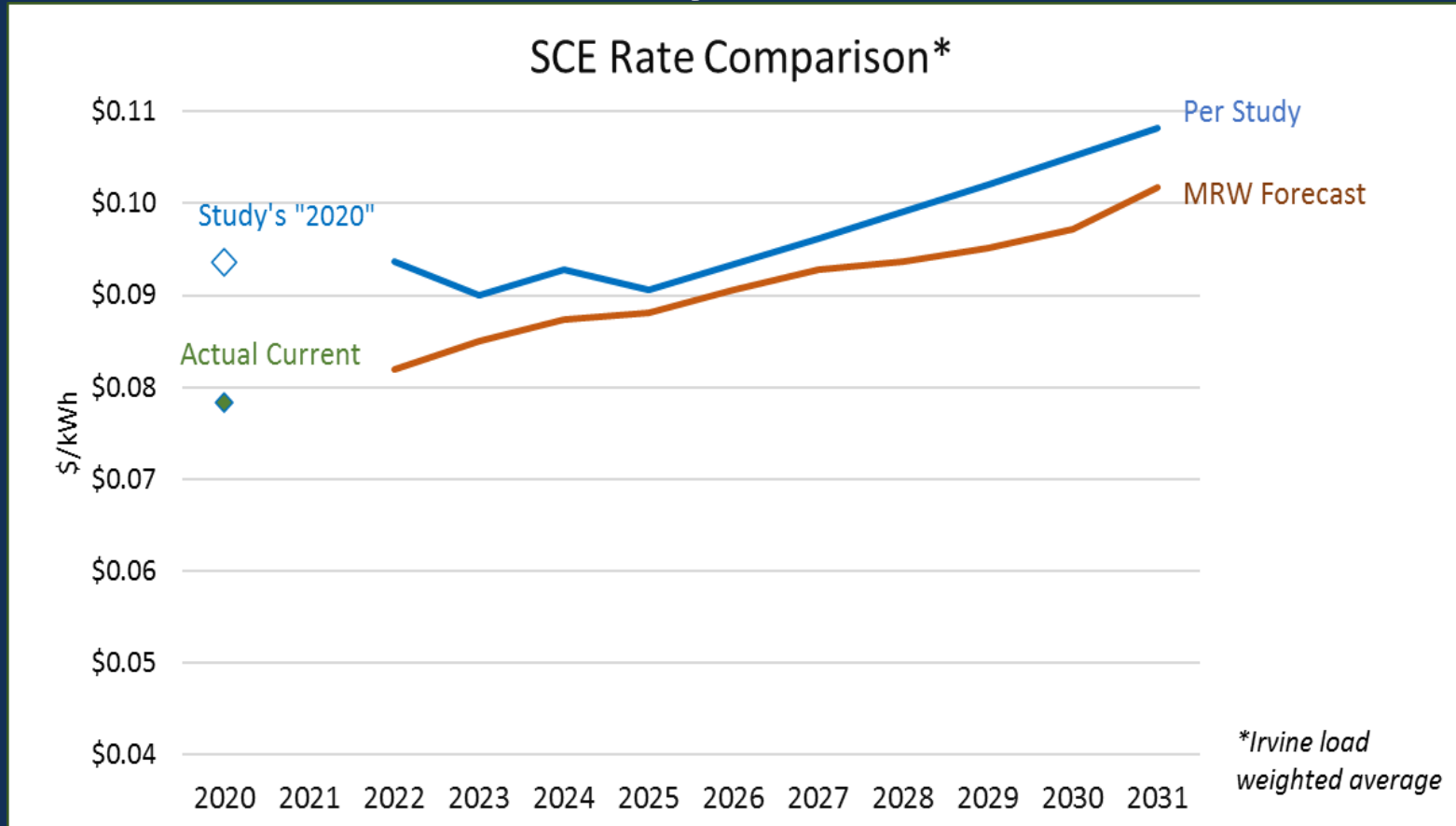
- Forecasted Southern California Edison (SCE) Generation Rates
 - Benchmark used to compare CCE Program costs; SCE rates vs. CCE rates
 - Feasibility Study forecast of SCE generation rates found to be too high by 1 cent/kWh
 - Results in a forecasted CCE customer rate savings from 2% (Feasibility Study) to 0.5% (MRW)
 - Range of CCE customer rate savings (0.5% to 2.0%) is consistent with majority of operating CA CCEs

Impact of Adjustment to SCE Rates

	Per January 2020 Final Study	SCE Rate Adjustment (per MRW)	Adjusted Value
Average Annual Rate Cost Savings	\$7.7 million	(\$5.8 million)	\$1.9 million
Average Annual Savings to City Utility Accounts	\$112,000	(\$84,000)	\$28,000

Financial Areas of Concern

SCE Generation Rate Forecast (2022-2031) Study vs. MRW



Financial Areas of Concern

- Power Cost Indifference Rate (aka PCIA or Exit Fees)
 - Largest uncertainty
 - Can vary significantly from year to year; highly dependent on the wholesale power markets
 - Feasibility Study assumed PCIA values found to be reasonable albeit on limited data
 - Final CPUC ruling expected in November

Risk Assessment

- Feasibility Study thoroughly addressed financial and other risks
- Feasibility Study adequately addressed risk mitigation (e.g. rate stabilization fund)
- Two sensitivity variables which MRW opines require further analysis:
 - Wholesale power costs
 - RA cost
- Regulatory risks *qualitatively* assessed in Study: working with SCE, grid reliability, renewable resources, and competition with SCE's green options
- MRW emphasizes the importance of these risks which must be also *quantitatively* assessed

Disruptive Technologies

- Solar Power
 - Power grid volatility and load shape
 - Increased solar may lead to CCE sales losses
 - Net Energy Metering and customer compensation
- Energy Storage
 - Can allow customer to generate/store all their power needs
 - Reduce reliance on CCE
- Electric Vehicles
 - Orange County estimated to have 145,500 EVs by 2025
 - Opportunity for a CCE to incentivize EV charging stations
 - Bidirectional charging technology

Governance Options

- Irvine-only CCE as a City Enterprise
 - Allows for the greatest control and flexibility
 - Less complicated
 - City Council serves as the Board of Directors
 - Requires City resources to form and operate
 - Need to protect General Fund
- Full Service Joint Powers Authority (JPA)
 - Less local control and flexibility
 - Board represented by each jurisdiction
 - Greater financial protection to the General Fund
 - More complex; need to coordinate foundational elements with all JPA members
 - Takes time to develop

CA CCE Programs Lessons Learned

- 21 operating CCEs in the state serving 10 million customers in over 170 cities
- Feedback obtained by MRW from seven CCE programs and key members of the CCE community

CA CCE Programs

Lessons Learned

- Lesson No. 1: *Keep foremost in mind why the City is forming a CCE Program*
 - Greener-Cleaner-Cheaper
 - Goals must be established early
 - Focus on set goals throughout start-up process
 - JPA members must have similar priorities and goals
 - Communicate with public
- Lesson No. 2: *Transparency and local control*
 - CCE programs must reflect community needs and tailor services accordingly
 - Local engagement

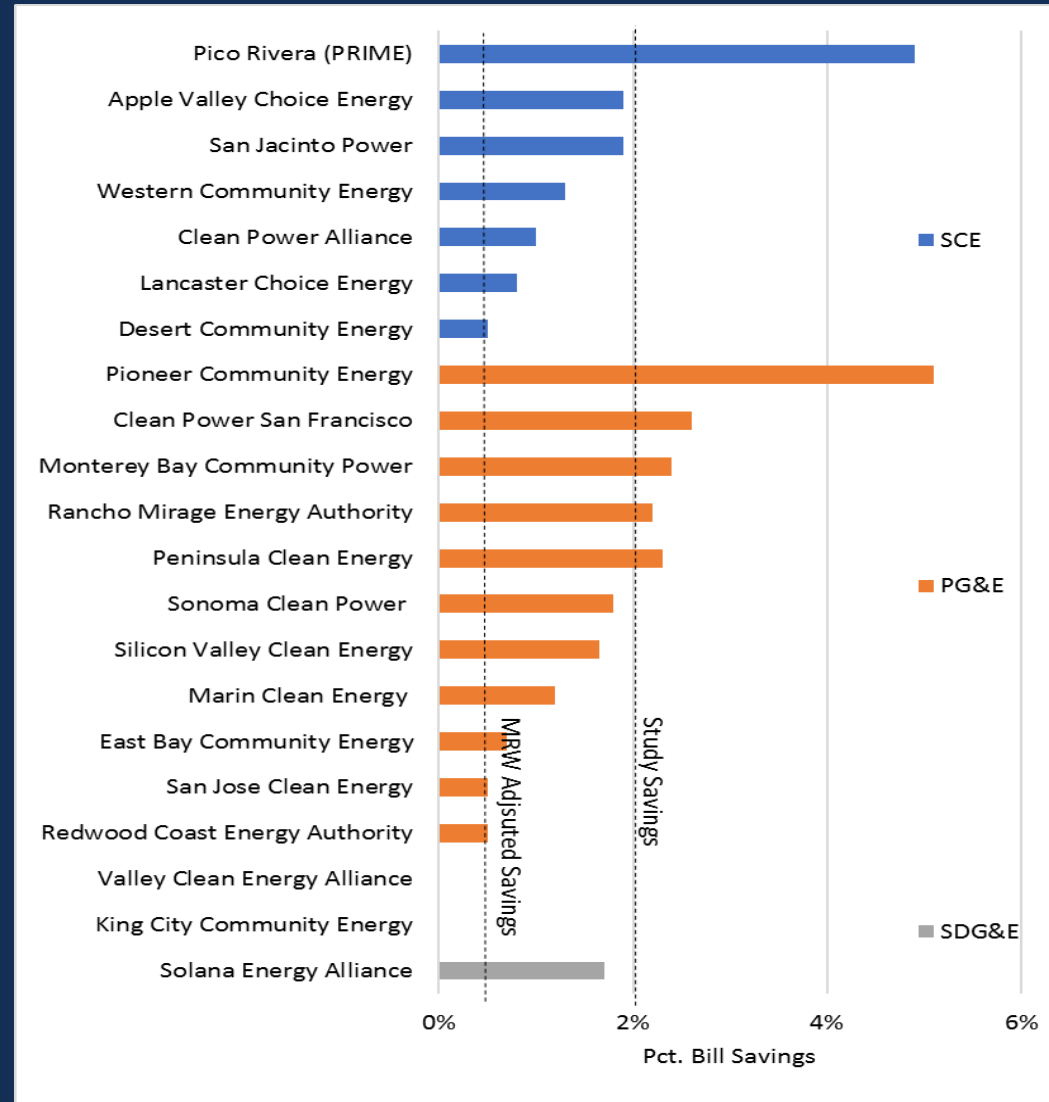
CA CCE Programs

Lessons Learned

- Lesson No. 3: *Biggest threat to CCE is regulatory risk*
 - California Public Utilities Commission (CPUC)
 - Notably PCIA and RA
- Lesson No. 4: *Do not underestimate the effort needed to launch*
 - Allow ample time for planning and outreach
 - Form start-up team early
 - JPA development also takes time (e.g. agency input, document drafting, public hearings, and multiple readings)

CA CCE Programs

Impact of Adjustment to SCE Rates



Summary

- MRW adjusted the cost of RA compliance lowering forecasted CCE net revenues
- MRW adjusted forecasted SCE retail generation rates which reduced project rate savings from 2% (Feasibility Study) to 0.5%.
- Considering the above adjustments, MRW still concurs with EES that a CCE program is financially feasible, albeit with tighter financial margins and lower rate savings.
- Based on current conditions, Irvine and any JPA members, would be called upon to provide collateral for CCE financing
- If Irvine chooses to move forward with CCE formation, it should be prepared to delay service if variables line up adversely

Summary

- MRW notes that financial and regulatory risk can be at least partially mitigated through a rate stabilization fund, effective supply portfolio management, and CPUC monitoring and/or participation.
- MRW agrees with forming a CCE under a JPA with other like-minded Orange County cities; however, this takes time.
- Lessons Learned: Keep foremost in mind why the City is forming a CCE; transparency and control; most concerned with regulatory risk; do not underestimate the effort needed to launch; and members must have similar priorities and goals.

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