

Responses to questions and concerns about Community Choice Energy

Compiled by the Center for Climate Protection for the City of San Jose (updated April 2017)

Introduction

With the publication of the San Jose Clean Energy business plan, questions and concerns have emerged about Community Choice Energy. We have aimed with the information below to collect these concerns along with responses to them in one place. Asking and answering questions and concerns like these is part of the due diligence process, a worthwhile endeavor to inform the formation of an optimal Community Choice agency.

Most of these concerns arise and have been addressed many times during the formation and operation of California’s six operational CCAs, so the responses below draw on the data and experience from the other CCAs.

One of the best places to obtain clear and definitive answers is in the FAQs of the operational CCAs themselves. These FAQs are linked below and are also collected at the Clean Power Exchange CCA resource website:

- [MCE Clean Energy](#)
- [Sonoma Clean Power](#)
- [Lancaster Choice Energy](#)
- [CleanPowerSF](#)
- [Peninsula Clean Energy](#)
- [Silicon Valley Community Choice Energy Partnership](#)
- [Clean Power Exchange](#)

The following table groups the subjects according to type: Question or Other Concerns Expressed.

Questions	
Question	Response
1. Why is CCA an opt-out program? Why can't it be opt-in?	As local, not-for-profit public agencies, CCAs are the default service provider in their service territory as a matter of state law, ¹ similar to other municipal services. In the case of CCA, electric utility customers for the first time in 100 years have a choice about their electricity service. Customers have the power to choose by opting out of the CCA at any time.
2. Why is PG&E not participating in this discussion?	PG&E has been invited in the past in other CCA formation efforts and have declined. It is risky for them to do so because IOUs

¹ http://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=PUC§ionNum=366.2

	<p>operate under a “code of conduct” imposed upon them by the state legislature in 2011. SB790 prohibits IOUs from marketing against CCAs unless they file a marketing plan with the CPUC and create an independent marketing arm.² SB790 resulted from years of IOU obstruction of the formation of CCAs regardless of the fact that the original law, AB117, requires “full cooperation” with emerging CCAs.</p>
<p>3. Financial projections are based on PG&E rates staying at the current levels. What will happen if prices fall again and rate-setting policy changes to lower rates?</p>	<p>CCAs have demonstrated amply that they can respond quickly to market changes and lower their energy rates as needed. This is possible because, once underway, CCAs typically generate a surplus. Part of this surplus is set aside as a reserve to cover unanticipated costs or reduced revenues. The remainder is expended on green-house gas reducing programs – e.g. energy efficiency projects.</p>
<p>4. Can San Jose accomplish the same GHG reductions by encouraging every household to sign up for PG&E 100% solar power?</p>	<p>Opt-in programs like the one PG&E currently offers usually have fewer than 10 percent of customers opt-in. CCA programs are “opt out” and typically result in over 85% customer participation. Other measures would probably not come anywhere close to providing San Jose with the extraordinarily powerful tool of decision-making about energy sources over time, along with all the other statutory powers of a CCA.</p>
<p>5. What are the financial requirements of succeeding in the wholesale power market? Does San Jose have the credit available to finance long-term power contracts?</p>	<p>None of the currently operating CCAs have had difficulty raising capital to finance their operations. The City of Lancaster with a population of only 160,000 in the SCE service territory is probably the best example of a single jurisdiction having proven the concept.³</p>
<p>6. What will be the statewide GHG increase from shutting down Diablo Canyon?</p>	<p>Although Diablo Canyon is not within the purview of the City of San Jose, PG&E’s application before the CPUC is to replace Diablo with efficiency, renewables, and storage, with no net GHG increase.⁴ Update: In March 2017, PG&E retracted its request to replace Diablo with renewables and storage, removing a risk of the imposition of non-bypassable charges affecting all customers. The bottom line is that there is no anticipated GHG increase from Diablo closure. There is ample time to plan to replace that power with Energy Efficiency and Renewable Energy.</p>
<p>7. What does it mean to provide ‘superior customer service?’ How is PG&E failing in this regard?</p>	<p>There can be many aspects of superior public service such as increased consumer choice, lower rates, etc., but the chief difference is that a San Jose CCA would be a local, not-for-profit agency with greater public participation due to the fact that it will</p>

² http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201120120SB790

³ <http://www.lancasterchoiceenergy.com/>

⁴ <https://www.pge.com/includes/docs/pdfs/safety/dcpp/diablo-canyon-retirement-joint-proposal-application.pdf>

	be subject to the open meeting laws under the Ralph M. Brown Act. ⁵ Also, see answer to Question 8 below.
8. How will the SJCE provide 'better products' than PG&E?	Existing CCAs have demonstrated how this works. Examples include the higher power content default product, 100% renewable product, superior solar net-metering, feed-in tariffs, EV rebates and smart-charging programs. These are all products (or programs) tailored to the needs of the local community.
9. The business plan assumes we will install local solar arrays. How much more power will a solar array in the Mojave produce than a similar one in San Jose?	Utility scale deployment of the kind in the Mojave Desert is not likely within the city limits of San Jose. It is possible, however, to build "community-scale" local solar projects of 2 to 5 MW in San Jose. There are a number of pros & cons relative to remote utility scale versus local, smaller-scale solar. Chief benefits of local solar are the avoided costs and inefficiencies of long distance transmission, and the economic benefits by constructing solar locally. Deploying solar in the built-environment avoids destruction of sensitive desert and other ecosystems.
10. What will be the impact on power market prices when dozens of CCAs exist in California? Won't we all be competing for the same limited green power supplies?	A high demand for green power is a good problem and leads to market transformation, such as California and other parts of the world are experiencing. Cost of renewables is on a long-term downward cost-trend, and more demand is very likely to stimulate more supply. So far CCA Requests for Bids for renewable power continue to exceed the megawatts requested. Solar developers are very responsive to the power needs of new CCAs. For example, a new 200 MW solar photovoltaic power plant is being built in Merced County to supply electricity to Peninsula Clean Energy. This is enough solar energy to power over 75,000 average California households. In addition, CCAs and IOUs are not necessarily competing for the same power supplies - CCAs will displace some of the power procurement from PG&E (CCAs buy it, so PG&E doesn't have to).
11. The financial projections assume PG&E rates will not change in the customer's favor at all. Is this realistic?	If past trends are an indicator, in the past 30+ years, IOU electricity rates have gone up at about 4 to 6% per year, depending on several factors.
12. How can the General Fund be protected in a single-jurisdiction model?	We contacted an expert at Lancaster Choice Energy, a single jurisdiction CCA. Lancaster's CCE model is the closest to the one that San Jose is considering. The expert said the protections to the General Fund are primarily found in the terms of the contracts with the Energy Service Providers and other suppliers. Contracts are written with terms that explicitly allow recourse only to their Community Choice Energy Enterprise Fund and explicitly <i>not</i> the Lancaster General Fund. They also noted that CCA funds should never be deposited in the General Fund.

⁵ [https://www.cacities.org/Member-Engagement/Professional-Departments/City-Attorneys-Department/Publications/Open-Public-IV_-A-Guide-to-the-Ralph-M-Brown-Act-\(.aspx](https://www.cacities.org/Member-Engagement/Professional-Departments/City-Attorneys-Department/Publications/Open-Public-IV_-A-Guide-to-the-Ralph-M-Brown-Act-(.aspx)

<p>13. Does the volume of CCAs threaten PG&E’s long term viability? Aren’t CCAs dependent on PG&E as a partner to maintain and invest in Transmission and Distribution (T&D)?</p>	<p>The viability of PG&E is not threatened by CCAs. Per State law, PG&E has a guaranteed return of 11% on the transmission and distribution portion of the energy services bundle, not the energy procurement side. They have a vested interest in increasing the value of the T&D assets and won't let those crumble to spite CCAs. The easiest path to growth, profit and long term viability for them is to focus their time and resources investing in smart grid technology and the evolution of grid assets, and we can clearly see that they're doing just that. As the energy system in CA develops, PG&E’s business model will adapt accordingly. Note: Only about 30% of PG&E’s generation is owned by PG&E and that is diminishing further for reasons other than CCE.</p>
<p>14. Since it’s true that IOUs make their money on Transmission and Distribution (T&D), why has PG&E fought CCAs in the past?</p>	<p>The IOUs have enjoyed monopoly status for over 100 years. They are unfamiliar with competition and want to avoid it. Although IOUs aren’t supposed to make money on energy procurement, it complicates their job and customer relationships to have CCA in the mix. It’s possible that IOUs with both gas and electric businesses may fear that CCA opens the door to more fuel switching (from gas to electric in buildings) and that is the larger threat they may be hoping to minimize.</p>
<p>15. What if PG&E lowers their rates once their expensive long term contracts expire (5-10 yrs), undercutting CCA prices and enticing customers back to PG&E? Could they “break” the CCAs?</p>	<p>This kind of competitive dynamic is a benefit to customers. Without CCAs, PG&E would not use the expiration of the expensive contracts as an opportunity to reduce rates.</p> <p>Expiration of PG&E’s long term contracts is really not something for CCAs to be concerned about. These contracts are staggered - there will be lead time that will allow the CCAs to adjust their own portfolios and rates accordingly, if needed. Also, sunseting of above market contracts for renewables that the IOUs got into between ~2002 and ~2010, should feature a commensurate sunseting of the Power Charge Indifference Adjustment (PCIA) charged to CCA customers, thereby rendering the expiration of those contracts a non-advantage to PG&E. Power is purchased by CCAs and the IOUs in the same open, competitive market. As it stands now, the IOUs in CA have an oversupply and are not currently bidding in the market for more power, and it’s unlikely that PG&E could purchase energy for less than CCAs, who can band together for joint purchasing.</p> <p>While PG&E may still try to undercut CCA rates - CCAs have a number of inherent advantages that can enable them to navigate any rate reductions. These include: Public agencies have access to lower-cost capital for purchases or new power project development; CCAs are smaller, low-overhead, not-for-profit organizations, and operational costs will be lower than for PG&E; The process of adjusting rates in a CCA context is far less complex than in the CPUC/IOU context. A CCA can utilize reserves to quickly</p>

	<p>adjust rates downward to stay competitive if it appears customers are opting out, but CCAs have not seen a problem with customers departing even in times when rates were temporarily higher.</p>
<p>16. Should Cities even be involved in programs to buy and sell electricity?</p>	<p>A strong case can be made for *yes*. In the US, we have a mix of electricity systems in place: regulated monopoly utilities (like PG&E), public municipal utilities (like Silicon Valley Power, and LADWP), and a small number of fully deregulated states. Even prior to Community Choice, about 25% of Californians were served by public utilities – cities that decided to invest in fully managing their own energy systems, saving significant money on electricity, but generally not focusing on clean energy. Community Choice Aggregation programs are a hybrid model proving that even more cities see value in getting involved in the energy procurement side of the equation.</p> <p>Cities enter the energy space via CCAs because they are the best opportunity to:</p> <ul style="list-style-type: none"> • Reduce GHG emissions by transitioning the whole community to clean energy, with no behavior changes needed • And at the same time, keep surplus revenues local to fund local priorities. <p>Cities in California make commitments to reduce energy use, and reduce GHG emissions in line with state level commitments. They're uniquely situated to impact results because they have special knowledge of their community's needs, and local control over land use decisions, planning and permitting. Cities that have implemented Community Choice Aggregation (CCA/CCE) programs are convinced that it is the best tool available to make major strides toward their goals, which have proven very difficult and expensive to-date.</p>

Other Concerns Expressed	
Concern	Response
<p>17. If my neighbor is a CCA customer and I opt out, aren't we both still getting the same power through the wires that come to our houses?</p>	<p>Although both customers in this example receive the same electricity through the wires, what counts is the volume of renewable energy the CCA procures through contracts. Dollars paid to a CCA by its customers pay for a cleaner power mix, thereby stimulating the renewable energy market and reducing greenhouse gas emissions.</p>
<p>18. Do CCAs create an illusion of 100% renewable power?</p>	<p>CCAs are creating demand for more renewable power – geothermal, hydro, and storage can bring the mix up to 100% clean energy. Both IOUs and CCAs are required under law to publish power content labels⁶ that present their power mixes. If 100% of</p>

⁶ http://www.energy.ca.gov/sb1305/power_content_label.html

	the power mix is from eligible renewable sources, ⁷ then 100% of the customers' electricity dollar pays for those resources.
19. Can't we achieve lower rates and more renewables (with realistic expectations) by working through the CPUC and PG&E than we can with a CCA?	Historically CPUC/IOUs rates have gone up about 5% per year ⁸ regardless of technology innovations and other factors. For-profit IOUs have no intrinsic motivation to offer lower rates or cleaner power. In contrast, locally accountable not-for-profit agencies CCAs do. IOUs have had 100+ years to produce results. They have done well on some things, but CCAs have demonstrated over the past 7 years that they can do even better. Also, note that on average, publicly owned utility rates (e.g. municipal utilities) are about 15-20% lower than for-profit utilities in the U.S. ⁹
20. Is CCA creating another expensive layer of bureaucracy? Could lower cost options be implemented first?	No other option exists that presents opportunities comparable to those that CCA offers. CCAs do not create a new expensive layer of bureaucracy; they replace a distant and inefficient one. Once operational, CCAs are revenue generators, start-up costs to the City are reimbursed, and the costs of the relatively small staff are internal to the revenue-generating CCA.
21. San Jose's objective is to purchase cleaner power than PG&E. But can't every PG&E customer can purchase 100% renewable power today just by signing up on the PG&E website?	Opt-in programs like the one PG&E currently offers usually have fewer than 10 percent of customers opt-in, and are more expensive than CCA prices for comparable renewable percentages. Recent PG&E programs like the one they now offer are a result of competition from CCAs. One of the goals for CCAs is a higher percent of renewable energy in the power mix. Additionally, by exercising their statutory authority, CCAs bring many other opportunities and benefits to their communities.
22. Does enough utility scale electric power storage exist yet? The first 20MW battery storage facility has just been commissioned in a state that will need 74,100MW of capacity to assure reliability.	Utility-scale storage of a variety of forms has been in existence for many years (e.g., pumped hydro-storage, thermal, compressed air). ¹⁰ New technology options are emerging rapidly while the cost of these technologies is dropping rapidly. Here are 2 existing examples of storage to bridge intermittency: - The Helms pumped storage facility. - SCE just installed a utility-scale battery storage facility.
23. Should we worry that rate savings benefits of the CCA will evaporate when the rates are changed to meet new realities of the energy market or political expediency?	CCAs have demonstrated over the past seven years that they are able to keep rates competitive with IOU rates, as the joint rate comparison cards of existing CCAs show. As CCAs expand their political leverage will also expand (CalCCA). Political expediency will always exert pressure to keep CCA rates competitive.
24. Would the City Council need to be prepared to spend a significant part of each	In all cases, whether a single jurisdiction or joint powers governance model, the city councilmembers and county supervisors are not burdened in this way. Experienced staff and

⁷ <http://www.energy.ca.gov/2015publications/CEC-300-2015-001/CEC-300-2015-001-ED8-CMF.pdf>

⁸ <http://www.pge.com/tariffs/electric.shtml>

⁹ <http://www.publicpower.org/files/PDFs/StraightAnswersBenefits.pdf>

¹⁰ <https://energy.gov/sites/prod/files/2013/12/f5/Grid%20Energy%20Storage%20December%202013.pdf>

<p>workday and Council sessions dealing with power rate issues?</p>	<p>consultants manage the program and the local elected leaders who serve on the Board of Directors receive information, set policy and, once or more times per year, set rates. Council advisory committees could play a helpful role in managing Council workload in single jurisdiction CCAs. Overall, local elected leaders serving on CCA boards in California are very positive about their role.</p>
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