ACSC

Date: July 12, 2017
To: Council members considering joining or launching Community Choice Aggregation (CCA)
From: Paul Daniels, ACSC - FutureEarthUS@gmail.com
RE*: ACSC Bulletin: CCA Fatal Flaw Developments*

Dear Honorable Council Members:

Recent regulatory developments now render the economics contained in Community Choice Aggregation (CCA (CCE)) Business Plans and Feasibility Studies obsolete and potentially fatal, and may put your municipality in financial jeopardy. The two developments occurred mid-June 2017:

1) Exit fees levied by investor-owned utilities (IOUs) on all departing loads are now being litigated at the California Public Utilities Commission (CPUC). IOUs propose that these fees, known as PCIA (Power Charge Indifference Adjustment), be changed or that a new rate structure known as "PAM" (Portfolio Allocation Method) be implemented. LA CCE and ICP Business Plans' Sensitivity Analysis state: *The level of the PCIA (and the amount of franchise surcharges) will impact the cost competiveness of (CCA). In order to be cost-effective, (CCA) power supply costs plus PCIA and other surcharges must be lower than (IOU's) generation rates.* The outcome of PCIA and PAM will likely not be known until mid-2018.

2) AB 1110 anti-REC legislation. CCAs use renewable energy certificates (RECs) as a low-cost method for keeping prices low and advertising low greenhouse gas (GHG) emissions. The recently released draft implementation for AB 1110, prepared by California Energy Commission, identifies that RECs can no longer be used for (misrepresented) GHG reductions and GHG emission rates. This puts CCAs on a level field with IOUs and means CCAs must procure more expensive "bundled" (true) renewable energy for their standard default product. Additionally, RECs will not be allowed in CCA's 50% and 100% green energy products; the inherent cost issue of bundled energy is compounded by a lack of cost-effective renewable energy as CCAs enter the market en masse, as well as transmission constraints for that energy. The net is that renewable energy prices will increase significantly, changing the associated economics of CAA from what Business Plan authors could not know.

In the event that municipalities elect to join CCA in the interim, it should be noted that the JPA "financial firewall" does not protect individual municipalities from action against it by the JPA, nor insulate it from power contract resale liability, should the municipality attempt to subsequently opt out of CCA.

With respect to the above, the prudent course of action would be to delay further action on CCA until regulatory unknowns may be better quantified.

Sincerely,
Paul Daniels