

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 6

To: Valley Clean Energy Alliance Board of Directors

From: Mitch Sears, Sustainability Manager, City of Davis
Regina Espinoza, Sustainability Manager, Yolo County
Shawn Marshall, LEAN Energy US

Subject: City of Woodland Membership in VCEA

Date: May 9, 2017

RECOMMENDATIONS:

1. Accept the City of Woodland's request to join VCEA and forward notice of the request to the Yolo County Board of Supervisors and the Davis City Council.
2. Request that the Board of Supervisors and Davis City Council waive their 45 day review period to allow Woodland the join VCEA prior to the development of the VCEA Implementation Plan.
3. Approve new membership requirements for the City of Woodland as outlined in this report.
4. Schedule action on the City of Woodland request for the June 9, 2017 VCEA Board meeting.

BACKGROUND & DISCUSSION:

The City of Woodland has tracked VCEA's progress for the past nine months and worked in partnership with VCEA staff during its due diligence assessment. This long-term and consistent engagement aligns with the VCEA Board's stated openness to Woodland joining VCEA as an equal partner. Woodland has taken the following steps related to its current request to join VCEA:

- Formed a Council subcommittee and citizen's advisory committee in Fall 2016 to assist in the evaluation of the risks and benefits of community choice energy and the potential to join VCEA's emergent program.
- Held a public forum to solicit public input on the possibility of joining VCEA.
- Requested its community energy load data from PG&E and contracted with The Energy Authority (TEA) to update the VCEA Technical Study financial model with Woodland data.
- Invited VCEA staff and an Advisory Committee member to make presentations to its citizens CCE advisory committee.
- Received several progress updates at regularly scheduled City Council meetings.

On April 18, 2017, following its due diligence research, the Woodland City Council voted unanimously to accept the recommendation of its CCE Technical Advisory Committee that the City request membership in VCEA. The City Council is scheduled to take action on that recommendation at its May 4, 2017 Council meeting. The Woodland City Council resolution recommended for adoption is attached – a final signed version will be provided by the City following Council action.

Financial model update

In September 2016 TEA updated the financial model with then current PG&E rates, exit fees (PCIA), and the addition of Woodland's electricity load. The analysis found that adding Woodland would increase the program size by roughly 1/3 (adding approximately 23,000 accounts and 280,000 MWh/yr). The financial model showed that the addition of Woodland resulted in positive financial outcomes, allowing VCEA to improve its rate competitiveness while building a larger financial reserve. Woodland contracted with TEA to again update the financial model numbers in early 2017 and found similar results.

Based on its continuing involvement in the VCEA formation process and the results of the financial analysis, VCEA staff are recommending the VCEA Board accept the City's request to join VCEA. Staff is further recommending the following terms for Woodland's membership in VCEA:

- 1) City of Woodland adopt a resolution to execute the Joint Exercise of Powers Agreement of VCEA;
- 2) City of Woodland adopt a CCE Ordinance authorizing participation and enrollment of municipal, commercial, agricultural and residential electrical accounts within the city limits;
- 3) City of Woodland make a financial contribution equal to that of Yolo County and the City of Davis in the amount of \$500,000 to cover its share of Agency and program implementation costs. Consistent with the treatment of the contributions of Yolo County and the City of Davis under the JPA agreement, this contribution will be fully reimburseable once the program is operational and generating revenues;
- 4) City of Woodland is requested to designate a staff lead on CCE and continue its public outreach efforts and work in coordination with Yolo County and the City of Davis to assist VCEA with public outreach in their respective communities. Outreach activities may include community events and workshops, informational weblinks and articles about CCE and VCEA on its city website or newsletter;
- 5) Appoint two City Council members to serve on the VCEA Board of Directors;
- 6) Appoint three community members to serve on the VCEA Advisory Committee.

Note: To align with fiscal year budget schedules, Woodland staff have requested that the VCEA Board consider a short delay in receiving its financial contribution until after the beginning of the fiscal year on July 1. VCEA staff support this request since existing VCEA reserves can accommodate anticipated expenditures prior to the receipt of the Woodland contribution.

Next Steps

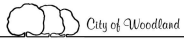
If the recommended actions are approved by the VCEA Board, the City of Woodland would conduct its first reading of its CCE ordinance on May 16th, followed by the second reading on June 6th. The County Board of Supervisors and Davis City Council would consider the Woodland membership request in mid-May, including the VCEA request that they each waive their 45 day review period. If all anticipated actions are taken by Woodland, the County, and Davis, VCEA would be in a position to take action on the membership request at its June 9th meeting.

Attachment

1. City of Woodland Staff Report and Resolution Requesting Membership in VCEA

City of Woodland

City Hall
300 First Street
Woodland, CA 95695



Legislation Details (With Text)

File #: 17-0417 **Version:** 1 **Name:**

Type: Report of the City Manager **Status:** Agenda Ready

File created: 4/21/2017 **In control:** City Council

On agenda: 5/4/2017 **Final action:**

Title: SUBJECT: Request for Membership in Valley Clean Energy Alliance to Implement a Community Choice Energy Program

Recommendation for Action: Staff recommends that the City Council:
 (1) adopt Resolution No. _____, requesting membership in the Valley Clean Energy Alliance; and
 (2) provide direction to staff regarding the additional steps needed for Woodland to join VCEA.

Sponsors:

Indexes:

Code sections:

Attachments: 1. 2017 05-04 Reso - VCEA Membership Request

Date	Ver.	Action By	Action	Result
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TO: THE HONORABLE MAYOR AND CITY COUNCIL

DATE: May 4, 2017

SUBJECT: Request for Membership in Valley Clean Energy Alliance to Implement a Community Choice Energy Program

Recommendation for Action: Staff recommends that the City Council:
 (1) adopt Resolution No. _____, requesting membership in the Valley Clean Energy Alliance; and
 (2) provide direction to staff regarding the additional steps needed for Woodland to join VCEA.

Staff Contact

Roberta Childers, Environmental Sustainability Manager
(530) 661-2060, roberta.childers@cityofwoodland.org

Fiscal Impact

There is no fiscal impact associated with requesting that the VCEA Board consider Woodland’s membership request. However, if the VCEA Board approves of Woodland’s request for membership and Woodland proceeds with the additional steps required to join VCEA and participate in the VCEA Community Choice Energy (CCE) program, the City would need to invest approximately \$500,000 toward program start-up funds, with the expectation of recovering those funds over time through the CCE customers’ payments for electricity. The VCEA working assumption is that reimbursement of the start-up funds will occur within 1-3 years of the

CCE operation date. General Fund reserves represent the most likely funding source. Woodland's potential financial commitments and repayment expectations are discussed further below.

Background

Community Choice Energy (CCE)-also called Community Choice Aggregation-enables local governments to procure and/or develop power on behalf of their public facilities, residents, and businesses. The aims are to increase local choice in energy supply and provide electricity with high renewable energy content (50% or more) at electric rates that are competitive with those of the incumbent investor-owned utility (IOU), such as PG&E. While a CCE program determines the sources of its power supply, sets customer rates, and develops programs and incentives, the IOU continues to deliver the energy, maintain infrastructure, read meters, and bill the customers. Participation in a CCE program has the potential to provide substantial economic benefits through the provision of favorable electricity rates and incentive programs tailored to local needs. All IOU customers are automatically enrolled in a CCE program but any may opt out of the program at any time.

Staff reports presented at the City Council meetings on September 20, 2016, November 1, 2016, and April 18, 2017 provide much background information about CCE programs and VCEA, the joint powers agency (JPA) formed by the City of Davis and Yolo County to develop a local CCE program.

At its April 18, 2017 meeting, the Woodland CCE Advisory Committee presented the results of its evaluation of several options for Woodland regarding CCE participation, including no participation in any CCE. The committee recommended that the City take the steps necessary to join VCEA as soon as possible, before development of the VCEA implementation plan that will be submitted to the California Public Utilities Commission in August/September 2017 and initiation of the VCEA's CCE program in early 2018. The City Council agreed with the recommendation and directed staff to proceed with the necessary steps. The first of these is to provide a resolution to the VCEA Board to request VCEA membership.

Subsequent steps for the City Council are adoption of a CCE ordinance, approval and execution of the VCEA JPA agreement, approval of any terms and conditions set by the VCEA Board, and designation of two City Council members to represent the City on the VCEA Board. Woodland's request for membership is subject to approval by the existing VCEA Board.

Discussion

The following summary of financial risks is provided in response to Council members' questions about Woodland's financial commitments toward CCE program startup costs.

The CCE Advisory Committee's evaluation of Woodland's CCE options was based on many sources of information, including a technical analysis and pro forma prepared by The Energy Authority (TEA), which supplements the technical analysis TEA prepared last year for the City of Davis and Yolo County. The TEA report is an attachment to the CCE Advisory Committee's report that was presented to the City Council on April 18, 2017.

The analysis indicates that significant financial benefits are possible under current market conditions, which should enable VCEA to offer customers lower electricity rates than the incumbent utility while building a strong reserve in both the short and long term. These fiscal outcomes are primarily due to favorable wholesale energy markets and downward trends in renewable energy supply costs, conditions that are, however, subject to

change. The City of Davis and Yolo County, in deciding to go forward with development of the VCEA CCE, concluded that the resulting financial risk can be mitigated and managed through update of the program financial analyses as the CCE program proceeds and beginning active hedging against rising wholesale energy prices as soon as possible. These financial risk mitigation and management strategies are common in the energy industry and are practiced by investor owned utilities (PG&E) and by other existing CCE programs.

The City of Davis and Yolo County have each allocated \$500,000 to fund CCE program start-up costs. This initial funding covers project costs such as consultants, public outreach, and early JPA staffing. Staff expects that the City of Woodland would need to allocate a similar amount. The VCEA JPA agreement states that the start-up investments are to be reimbursed through customer charges for electricity services and that “VCEA may establish a reasonable time period over which such costs are recovered.” No specific time period has been established yet, but the working assumption has been that the reimbursement will occur within 1-3 years of initial program revenue.

In addition, VCEA will require short-term working capital to complete the start-up phase and begin serving customers (i.e., buying power to serve customers before revenue is available), approximately 6 months prior to program launch. This type of credit covers negative cash flow in the first few months of program operations until stable revenues are achieved. The amount of working capital needed will depend on the size of VCEA’s customer enrollment, early staffing/agency expenses, the cost of power, and required utility bond and deposits. Initial working capital of existing CCE programs has ranged from \$5M to \$15M. This debt is usually short term (e.g., a 1-2 year line of credit) and is often provided by a third-party lender, although it can be municipally financed as well. One or more members of the VCEA will need to provide a credit guaranty for this pre-revenue credit. The guaranty requirement is expected to be less than \$3 million and to be released soon after revenues begin flowing (likely within 12 months of program launch), at which point VCEA should be ready for longer-term, unsecured debt and larger lines of credit.

This basic structure of third party financing (generally a line of credit) with a credit guarantee to support the pre-revenue portion of the credit has been used in successful CCE launches including Marin Clean Energy, Sonoma Clean Power and Peninsula Clean Energy.

Commission/Committee Recommendation

The Sustainability Committee and Community Choice Energy Sub-Committee support the recommendation to move forward with VCEA membership.

Conclusion

Staff recommends that the City Council:

- (1) adopt Resolution No. _____, requesting membership in the Valley Clean Energy Alliance; and
- (2) provide direction to staff regarding the additional steps needed for Woodland to join VCEA.

Prepared by: Roberta Childers, Environmental Sustainability Manager

Reviewed by: Gregor G. Meyer, Public Works Director

A handwritten signature in cursive script that reads "Paul Navazio".

Paul Navazio, City Manager

Attachment: Resolution

CITY OF WOODLAND

RESOLUTION NO. _____

**RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF WOODLAND REQUESTING MEMBERSHIP IN THE
VALLEY CLEAN ENERGY ALLIANCE**

WHEREAS, Community Choice Energy (“CCE”) – also called Community Choice Aggregation – enables local governments to procure and/or develop power on behalf of their public facilities, residents, and businesses with the aim of increasing local choice in energy supply while providing electricity with high renewable energy content at rates that are competitive with those of the incumbent investor-owned utility; and

WHEREAS, the City of Davis and Yolo County are developing a CCE program in accordance with the provisions of Public Utilities Code section 366.2 and established a joint powers agency (“JPA”), named Valley Clean Energy Alliance (“VCEA”), pursuant to Chapter 5 (commencing with Section 6500) of Division 7 of Title 1 of the Government Code to administer the CCE program; and

WHEREAS, any other city or county may request membership in the VCEA JPA and participation in the CCE program by submitting a resolution adopted by its City Council or Board of Supervisors to the VCEA Board, which shall review the request and vote to approve or disapprove the request, establish any conditions under which the city or county may become a member of VCEA, and notify the existing member agencies of the request and the date that the request will be on the VCEA Board’s agenda for action to allow them the opportunity to provide input to the VCEA Board’s decision; and

WHEREAS, the City Council designated a subcommittee on September 20, 2016, to consider CCE program participation and formed a citizen CCE Advisory Committee on November 15, 2016, to assist in evaluating the benefits and risks of CCE participation and present a recommendation to the City Council; and

WHEREAS, the CCE Advisory Committee, using a technical study prepared by an outside consultant and numerous other information sources, investigated several CCE options, including non-participation, participation in different CCEs, and joining VCEA before or after the initial launch of its CCE program and concluded that the most favorable option is for Woodland to join VCEA before program launch in order to participate in decisions of the VCEA Board during the CCE program’s formative period; this conclusion was supported by the Council sub-committee; and the committee on April 18, 2017 recommended that the City Council request VCEA membership at its earliest opportunity; and

WHEREAS, the City Council agreed with this recommendation, recognizing the potential benefits of VCEA participation to the Woodland community and that participation presents no risk for utility customers because under Public Utilities Code section 366.2, customers have the right to opt-out of the CCE program and continue to receive service from the incumbent utility if they choose to do so; and

WHEREAS, the City Council wishes to request membership in VCEA, with the understanding that if the VCEA Board approves of Woodland’s membership, the City Council will be required to complete additional actions in order to join, which include adopting an ordinance pursuant to Public Utilities Code section 366.2, adopting a resolution to execute the Joint Exercise of Powers Agreement Relating to and Creating the Valley Clean Energy Alliance, and making financial commitments to cover Woodland’s share of initial costs of the CCE program launch as specified by the VCEA Board.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Woodland hereby requests that the VCEA Board approve Woodland's request to become a member of VCEA pursuant to Section 2.4 of the VCEA Joint Exercise of Powers Agreement.

PASSED AND ADOPTED this 4th day of May 2017, by the following vote:

AYES: Council Members:
NOES: Council Members:
ABSENT: Council Members:
ABSTAIN: Council Members:

Angel Barajas, Mayor

ATTEST:

APPROVED AS TO FORM:

Ana B. Gonzalez, City Clerk

Kara K. Ueda, City Attorney