

# Community Choice Aggregation

## Base Case Feasibility Evaluation

City of Oakland

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## EXECUTIVE SUMMARY

This report offers Navigant Consulting, Inc.'s (NCI) evaluation of the feasibility of forming a Community Choice Aggregation program, pursuant to provisions of Assembly Bill 117, whereby the City would aggregate the electric loads of customers within its jurisdiction for purposes of procuring electrical services. Community Choice Aggregation relates to electric generation services only. Delivery of the electric power would continue to be provided over PG&E transmission and distribution facilities at rates regulated by the California Public Utilities Commission (CPUC) and under the same terms and conditions that apply today. Community Choice Aggregation allows the City to provide retail generation services to customers without the need to acquire transmission and distribution infrastructure. All PG&E customers within the City would have the option of buying electricity from the City or, alternatively, remaining as generation customers of PG&E by exercising their rights to opt-out of the program.

AB 117 grants the City authority to competitively procure electric services rather than continuing to rely on PG&E as the single supplier for electric services provided to customers within the City. Implementation of Community Choice Aggregation provides the community the power to choose what resources will serve their loads. Expanded access to competitive suppliers and local control of resource planning decisions provide opportunities to enhance rate stability for customers, significantly increase utilization of renewable energy resources, and generate electricity cost savings.

The detailed analysis performed for the City suggests that by forming a Community Choice Aggregation program, backed by investments in generation resources, the City could:

- Achieve nominal electricity cost savings averaging over \$17.9 million per year over the next 20 years, equivalent to approximately 5% of total electricity bills;
- Increase renewable energy utilization to 50% by 2017, more than doubling the renewable energy content that PG&E would provide over the same time period;
- Obtain control over electric generation costs to provide a higher level of rate stability for local residents and businesses; and
- Improve statewide reliability by increasing capital investment in generation plants.

Energy procurement and resource planning are subject to certain risks or uncertainties that must be managed by the energy supplier, whether it is PG&E

or the operator of a Community Choice Aggregation program. Forming a Community Choice Aggregation program would not increase energy procurement risks, but responsibility for their management would transfer to the Community Choice Aggregator and/or its suppliers. The City will be able to obtain services from a variety of large, experienced suppliers to help manage the Community Choice Aggregation program. The City would exercise a greater degree of autonomy in its energy procurement activities than PG&E is allowed under current regulations. The City should therefore be able to manage energy procurement risks at least as effectively as does PG&E. Professional program management and application of standard industry risk management practices will be keys to this effort.

The scenario analysis shows that the existence of cost savings is not dependent upon the specific financial assumptions underlying the base case feasibility assessment; specifically, the average program savings range from a low of 2% to a high of 17% across the eight cases evaluated to test the sensitivity of these results to changes in wholesale energy market conditions, PG&E rate projections, and cost responsibility surcharges. However, under two of the cases examined, the high cost responsibility surcharge case and the revised PG&E rate design case, program rates would be from 2% to 3% higher than those of PG&E in the initial three years of program operations. Section 6.3 of this report describes the sensitivity cases and their impact on the program's finances. The range of potential outcomes suggest that if the City decides to form a CCA program, it should be prepared for the possibility that rates in the near term could exceed those of PG&E.

The City's ability to make capital investments in generation projects using low cost debt financing creates cost savings opportunities. The benefits of public financing are significant – during the first year of generation plant operation, the City can produce energy at a cost that is nearly 40% lower than what an investor owned utility would incur if it owned the identical resource. Although the City could implement a CCA program without investing in generation resources, such a strategy is unlikely to yield sustainable electricity cost savings. Two alternative supply portfolios that do not involve City investment in generation resources were examined in this study, and these portfolios yielded rates that are approximately 1% to 2% higher than those of PG&E, on average during the study period. Therefore, NCI recommends a phased approach to implementation that includes initially purchasing all of the program's electric supply requirements on the open market or from a third party energy supplier and transitioning to a strategy of generating the bulk of the program's resource needs through community-owned generation.