



City of Hermosa Beach

City Hall
1315 Valley Drive
Hermosa Beach, CA 90254

Staff Report

File #: REPORT 15-0803, Version: 1

Honorable Mayor and Members of the Hermosa Beach City Council Regular Meeting of November 10, 2015

COMMUNITY CHOICE AGGREGATION (CCA) CONTRACT-LANCASTER (Environmental Analyst Kristy Morris)

Recommended Action:

Staff recommends that:

- 1) City Council direct staff to continue exploring two opportunities for implementing Community Choice Aggregation (CCA) in Hermosa Beach: (1) the Los Angeles County CCA model, and (2) Lancaster Choice Energy CCA model;
- 2) Transfer \$77,000 of prospective expenditures to a newly established account and to utilize funds to contract with the City of Lancaster to prepare an implementation plan, which will include a feasibility study, for the City of Hermosa Beach CCA as described in the attached scope of work; and,
- 3) Adopt Agreement for Consulting Services by and between the City of Hermosa Beach and the City of Lancaster.

Background

On February 24th 2015 City Council adopted the Municipal Carbon Neutral Plan and adopted a goal to be carbon neutral as a municipality by 2020. The Municipal Carbon Neutral Plan recommends the City of Hermosa Beach pursue Community Choice Aggregation (CCA), which can leverage buying power to offer renewable, zero-emissions power to all electricity accounts in Hermosa Beach, starting in 2017. Although a goal for the community carbon emissions has not been established, the draft General Plan for a Low-Carbon Future will likely recommend 2040 as a goal. CCA has the potential to significantly reduce emissions from municipal and community sources that are attributed to electricity generation and supply. Emissions from this source comprise up to 41% of City's Greenhouse Gas (GHG) inventory according the GHG Inventory, Forecasting, and Target-Setting Report for an Energy Efficiency Climate Action Plan (2015).

City staff is concurrently exploring two opportunities for Community Choice Aggregation in Hermosa Beach: (1) the Los Angeles County CCA model, and (2) Lancaster Choice Energy CCA model. On September 24 2015, staff convened a Community Choice Aggregation Study Session to update City Council and the community on Community Choice Aggregation options for Hermosa Beach, and discuss the opportunities and challenges of the various models. Jason Caudle and Barbara Boswell from the City of Lancaster, and Joe Galliani of South Bay Clean Power were present to answer

questions regarding Lancaster Choice Energy (LCE) and LA County CCA, respectively. Staff confirmed that the City is committed to participating in the LA County CCA through South Bay Clean Power while expediting the implementation of CCA for Hermosa Beach through Lancaster Choice Energy (LCE).

On Monday September 21, 2015, staff spoke with Howard Choy, General Manager of the Los Angeles County Office of Sustainability, to discuss the current status of the Los Angeles County CCA Program and discuss the City's options for pursuing CCA simultaneously with Los Angeles County and the City of Lancaster. In a follow-up email (Attachment 1) from Mr. Choy he confirms that if we submit our data, we are included in the County Feasibility Study and Program, and we can pursue the Lancaster CCA however we choose.

At this time, staff proposed the City pursue both the Los Angeles County and Lancaster CCA models simultaneously in the initial start-up phase and that staff return to council with a contract with the City of Lancaster for \$77,000 to develop an Implementation Plan, which will include a feasibility study, for Community Choice Aggregation (CCA) for the City of Hermosa Beach.

Lancaster Choice Energy

Lancaster Mayor R. Rex Parris and the Lancaster City Council have led a comprehensive effort to implement renewable energy throughout the City of Lancaster in an effort to preserve the environment and protect their local air quality, with the ultimate goal of becoming the nation's first net-zero electricity city. Following a long and steadily increasing series of successful renewable energy projects, ranging from residential rooftop solar programs and energy storage to utility-scale solar developments, Lancaster Choice Energy (LCE) is the most recent step in the City's quest to reach net-zero status. The mission to establish LCE officially began on May 13, 2014, when the Lancaster City Council approved the implementation plan which outlined the City's intent to establish a Community Choice Aggregator (CCA). A month later, the approved plan was submitted to the California Public Utilities Commission (CPUC) for review and certification, making LCE the first CCA in Southern California Edison (SCE) territory. In October of this year, Lancaster became the State's first fully operational City CCA.

LCE offers customers two renewable energy rate options: 1) Clear Choice is 35% renewable and is offered at a rate 3% lower, on average, than SCE; and 2) Smart Choice is 100% renewable and is offered at an additional \$10 month to Clear Choice. LCE rates are set annually by the Lancaster City Council. LCE searches for the best transactions on both conventional and renewable energy sources from three categories:

- 1) Local renewable energy sources
- 2) Non-local, California renewable energy sources
- 3) Renewable Energy Credits (RECs) purchased from projects both in and out of California.

For 2015, LCE renewable energy mix includes 50% from category 1, 10% category 2, and 40%

category 3. This is expected to change in 2016 when a large, local solar project comes online. The LCE webpage provides more information on rate options, billing and opting-out:

<http://www.lancasterchoiceenergy.com/index.php>.

Analysis

To date, there have been two types of CCA's formed in California. The first type is Marin and Sonoma County models in which a regional entity took the initiative to organize a Joint Powers Authority (JPA) for the purpose of creating a regional CCA. The second is a stand-alone City CCA. In this case, the only operational City CCA in California is the City of Lancaster. Other possible models have been presented by private firms that look and act similar to a franchise system. In recommending a preferred approach that is a hybrid, staff is not suggesting the existing models are not effective, but rather to seek the best alternative to the current opportunities specific to Hermosa Beach. Otherwise, there are strengths and weaknesses to all of these approaches.

In the regional LA County JPA model, each member City when becoming a member receives one voting position on the respective board, and must submit control to the collective group of members. In exchange, the JPA provides all the service, and takes all the risk such as financial exposure or potential sudden cost increases to the customer. This scenario has proven very effective in situations where like-minded cities and like-minded areas pool their resources and attributes to make the group stronger.

In the stand-alone City model, the City assumes all the responsibilities and roles, in addition to all the risks related to financial exposures and energy market fluctuations. However, the City retains all control of the rate setting, operation, and operational revenues. This allows opportunities to tailor programs, and benefit from the continuing revenue stream as a community. The difficulty in this approach (or model) is the effort it takes to gain the required experience and expertise for the creation of such an entity. In addition, the knowledge gained is only used once, in that a City is only required to set up the CCA one time. This model works well where no cooperative like-minded Cities exist, and/or the City has capable Council and staff willing and able to implement such a venture.

In the private firm model, the risk is minimized, a portion of the revenue is retained by the City, staff time is minimal, and the Council's control is limited. This model works for a City that is not near an existing CCA, or is unwilling to submit to the JPA model, and has limited staff resources. There is a time and place for each model. Determining which model fits is essential to long term success.

In researching each of the JPA and CCA formation alternatives, it became apparent that first, one size does not fit all, and second, alternative JPA models can be created to mitigate the risk, share in experience, and allow member agencies to maintain control, and program revenues. Contracting with Lancaster to prepare an Implementation Plan, which includes a feasibility study, provides Hermosa Beach the ability to decide which model is best suited to achieve its goals while keeping all options open.

Summary

Staff has been working closely with LA County, through South Bay Clean Power, and the City of Lancaster to assess and pursue CCA options for the City of Hermosa Beach. As a result of this effort, staff recommends that it will be most prudent to stay the course with each opportunity as both models provide complementary and distinctive opportunities. The City of Lancaster has proposed

preparing an Implementation Plan, which includes a feasibility study, for a Hermosa Beach CCA. The attached Scope of Services describes the detailed scope of work and price. In addition, at the end of this process, Hermosa Beach will be the fourth certified CCA in the state.

At that point, staff will begin discussion and community outreach to determine the community interest. Senate Bill 790 describes how each customer is given an opportunity to opt-out of their community's aggregation program within 60 days or two billing cycles of the date of their automatic enrollment without penalty. The community choice aggregator will inform participating customers at least twice within two calendar months, or 60 days, in advance of the date of commencing automatic enrollment through notifications such as direct mailings to customers, or inserts in water, sewer, or other utility bills. To ensure the success of the program, the City of Hermosa Beach would conduct a poll to determine community interest in participating in the CCA.

Once sufficient interest has been gauged, City Council will discuss implementation strategies, determine rates, type of energy, and begin the procurement process if that is the direction of City Council (Figure 1). In the instance that City Council does not pursue the expedited Lancaster CCA proposal, it may be prudent to revise the 2020 carbon neutrality goal for municipal facilities and operations since CCA is one of the main tools identified for reducing municipal-generated carbon emissions.

Figure 1. Timeline for Hermosa Beach CCA Implementation



Fiscal Implications:

The cost of the contract is \$77,000. These funds will be transferred from prospective expenditures to a newly established account to contract with the City of Lancaster to conduct the attached scope of work. At the conclusion of the project, the City of Hermosa Beach will be the fourth registered CCA in the state, and will be prepared to take the next steps in securing our energy future.

Attachments:

1. Email from Howard Choi, Los Angeles County Office of Sustainability
2. Agreement for Consulting Services

Respectfully Submitted by: Kristy Morris, Environmental Analyst

Noted for Fiscal Impact: Viki Copeland, Finance Director

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Legal Review: Mike Jenkins, City Attorney

Approved: Tom Bakaly, City Manager