



Staff Report

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Honorable Mayor and Members of the Hermosa Beach City Council Regular Meeting of September 28, 2022

INTRODUCTION OF AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF HERMOSA BEACH APPROVING THE JOINT POWERS AGREEMENT FOR CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA AND AUTHORIZING THE IMPLEMENTATION OF A COMMUNITY CHOICE AGGREGATION PROGRAM

(Environmental Programs Manager Doug Krauss)

Recommended Action:

Staff recommends City Council:

1. Consider waiving full reading and introduce by title only an Ordinance of the City of Hermosa Beach approving the Joint Powers Agreement for Clean Power Alliance of Southern California and authorizing the Implementation of a Community Choice Aggregation Program **(Attachment 4)**;
2. Authorize the Mayor to execute and the City Clerk to attest to a Joint Powers Agreement subject to approval by the City Attorney; and
3. Provide direction on the default energy level for enrollment of customers.

Executive Summary:

The City has a long history of addressing greenhouse gas (GHG) emissions, both to achieve sustainability and to lower City operational costs. PLAN Hermosa identifies the goal of reducing emissions from both municipal and communitywide operations and suggests community choice aggregation as a key strategy to help achieve these goals.

As directed by City Council, staff secured a feasibility study from the Clean Power Alliance of Southern California (CPA) that addresses the City of Hermosa Beach's suitability for joining its Joint Powers Authority (JPA). Based on the results of the study, the CPA Board approved an invitation for Hermosa Beach to join the JPA. Approval of a Joint Powers Agreement and implementation of a Community Choice Aggregation Program would provide more local control over renewable energy options communitywide and greatly reduce citywide emissions.

Background:

In 2006, the City of Hermosa Beach endorsed the U.S. Mayors Climate Protection Agreement (the "Cool Cities Program"), committing itself to aligning with the greenhouse gas emissions reductions spelled out in the Kyoto Protocol. This heralded a series of actions by the City Council to address

GHG emissions reduction. These actions included development of a Sustainability Plan in 2011, and both a Carbon Neutral Scoping Plan and a Municipal Carbon Neutral Plan (**Attachment 1**) in 2015. PLAN Hermosa, completed in 2017, serves as the City's General Plan, as well as its Climate Action Plan (CAP). This plan incorporates many of these strategies and details a course of action the City should take to achieve its emission-reduction goals.

The State has set goals for reducing GHG emissions through AB 32 and Executive Order S-3-05 for local governments to achieve a 15 percent reduction below 2005 levels by 2020. PLAN Hermosa outlined the following City goals:

1. A Community emissions reduction target of at least 66 percent reduction below 2005 levels by 2040; and
2. A Municipal emissions reduction target that meets or exceeds 80 percent below 2005 levels by 2030.

Municipal emissions result from City-owned facilities and operations, while community emissions result from all the privately-owned facilities and activities in the City including residential and commercial. The City has greater control over municipal emissions, while community emissions represent a much greater amount of emissions from a more complex mix of sources. PLAN Hermosa also requires the City evaluate its progress at five-year intervals and take corrective action as needed to stay on track to meet its municipal emissions reduction goals. Inventories of municipal and community emissions were performed in 2015 by the South Bay Cities Council of Governments (SBCCOG) comparing the years 2005 and 2012 (**Attachment 2**). These inventories show the following progress toward the City's goals:

- The community of Hermosa Beach decreased emissions 7.7 percent from 2005 to 2012, from 137,160 metric tons of carbon dioxide equivalent (MTCO₂e) to 126,611 MTCO₂e;
- Under the Adjusted Business-as-Usual (BAU) forecast, community emissions will be 111,690 MTCO₂e in 2020 and 94,162 MTCO₂e in 2035. These emissions levels are 19 percent lower in 2020 than 2005 and 31 percent lower than 2005 by 2035; and
- Municipal emissions have decreased 9 percent from 2005 to 2012, from 1,501 MTCO₂e to 1,372 MTCO₂e.

Since then, the City has implemented many additional emissions reductions measures. These measures include:

- Installation of additional electric vehicle chargers for both the public and for City fleet. The City now maintains 34 chargers citywide, 28 of which are for public use;
- Installation of a 99 kilowatt (kW) solar photovoltaic system on the Community Center. The installation cost the City approximately \$200,000, but has saved the City approximately

\$70,000 in electricity costs to date while reducing energy use by more than half;

- Retrofit of over 900 streetlights from low-pressure sodium vapor bulbs to LED technology, reducing energy consumption by approximately 360,000 kilowatt hours (kWh) over the last three years; and
- The City revised its Clean Fleet policy in 2017 to align with the City's municipal carbon neutral plan and commit to a progressive transition to zero and low-emissions vehicles and equipment.

Despite this progress, the City must do more to ensure achievement of the emissions reduction goals adopted in PLAN Hermosa. At its November 6, 2021 retreat, City Council focused on the topic of City emissions reductions goals and strategies. At that meeting, there was an extensive discussion of community choice aggregation (CCA) including a presentation from the Clean Power Alliance (CPA). As described in the Municipal Carbon Neutral Plan and in PLAN Hermosa, CCA is one of the most impactful options the City has in reducing greenhouse gas emissions. Below is a discussion of CCA, the options available to the City, and recommended next steps.

Community Choice Aggregation (CCA)

CCA was made possible in California in 2002 with the passing of AB117 (Migden). CCA provides public agencies, such as the City, the opportunity to procure their own energy for their customers-the residents and businesses in their jurisdiction. CCA can purchase power and sell it to its customers, utilizing the infrastructure (poles and wires) of the existing Investor-owned Utility (IOU). In Hermosa Beach, the IOU is Southern California Edison (SCE). This would result in customer bills that include both the IOU's delivery costs and the CCA's energy ("generation") costs. The IOU would continue to provide customer billing with a description of the CCA's charges included.

One of the biggest benefits a CCA offers is the ability to control the energy portfolio. This has been used most commonly to increase the percentage of renewable energy in the portfolio compared to that currently offered by the IOUs. Another important feature of a CCA is that once a public agency chooses to form or join a CCA, every customer within the agency's jurisdiction is automatically enrolled into the program. The agency sets a default initial renewable energy level for both its municipal accounts and all other community accounts. Customers then have the option of opting out of the CCA entirely and going back to their original IOU for energy. Customers also have the option of changing their individual renewable energy level or remaining at the original default level set by the jurisdiction. The public agency also has the option of changing its citywide default renewable energy level if necessary.

Hermosa Beach was one of the first cities in the South Bay to seriously consider the CCA model. As early as 2014, with its work on a Municipal Carbon Neutral Plan, the City identified CCA as a viable strategy for reducing the City's overall carbon emissions. At the time, the only established CCA in Southern California was Lancaster Choice Energy which was also the first to be formed as a standalone CCA. Most CCAs in California are formed as Joint Power Authorities (JPA) between

multiple public agencies. A number of CCAs have been operating successfully in Northern California since 2010 including California's first CCA, Marin Clean Energy. CCAs now serve about one-third of California's electricity demand.

Since these early considerations of a CCA, the City has hosted study sessions on the topic and staff has produced reports concerning the topic of CCA. In June 2016, a draft technical feasibility study was completed and presented to City Council at a special study session. Following a discussion of the results, City Council directed staff to continue pursuing establishment of a City of Hermosa Beach CCA-Hermosa Beach Choice Energy (HBCE). Council also requested information on the timing and costs associated with the Los Angeles County CCA Program.

Much of the discussion at the time centered on potential risk to the City of forming its own CCA and associated costs. Amidst this discussion, in September 2016, Council approved an Ordinance and associated Implementation Plan and Statement of Intent allowing the formation of a Hermosa Beach CCA. Though it was made clear by Council that this was not a commitment to form a CCA, the Implementation Plan was filed with the California Public Utilities Commission to allow the City the option to proceed with the process.

Ultimately, the City decided against forming or joining a CCA at the time. In 2017, Los Angeles County spearheaded the creation of a new JPA, Los Angeles Community Choice Energy, which was subsequently renamed Clean Power Alliance (CPA). CPA now has 32 member agencies across Los Angeles and Ventura Counties, including neighboring Manhattan Beach, Redondo Beach, Hawthorne, and Carson.

Current CCA Options

Currently, there are three feasible options for Hermosa Beach to become part of a CCA:

1. Form its own standalone CCA;
2. Join CalChoice, a hybrid CCA model affiliated with Lancaster Choice Energy; or
3. Join Clean Power Alliance.

There would be significant administrative and financial burdens associated with formation of a new CCA. Though all the revenue of the CCA would go directly to the City of Hermosa Beach in this scenario, so would all potential risk. Although most likely operated by contractors and consultants, City staff would be required to oversee these operations and interface between Council and the CCA. This would require additional, specialized City staff to administer the program.

CalChoice provides a hybrid CCA option in which the City would technically have its own CCA, but would be overseen administratively by Lancaster Choice Energy. CalChoice has a team of consultants that handles administration and energy procurement for its members, and each member pays a fee for these services. The City would have total control over rate-setting, branding, billing, and programs. CalChoice personnel has indicated that Hermosa Beach would likely not be a viable

member for CalChoice due to the City's small size and would instead be encouraged to partner with another larger agency to join.

Clean Power Alliance is the largest CCA in California, covering 32 agencies in Los Angeles and Ventura counties. Clean Power Alliance is a JPA and each member agency has a representative on the Board of Directors. The JPA format relieves the member agencies from any liability to their general funds. However, if a member agency withdraws from the JPA, the agency is liable for the cost of energy acquired by CPA on behalf of the customers in its jurisdiction. To date, no member agency in California has exited from a CCA JPA.

The Board of Directors determines the programs, rates, and policies of the JPA with the guidance from Clean Power Alliance staff. Current CPA program offerings include: solar plus clean backup power for critical member agency facilities; rebates for publicly accessible electric vehicle chargers; demand response incentives for residential and commercial smart technologies; and community solar for customers in disadvantaged communities. CPA also offers a generation compensation rate 10 percent higher than that of SCE for customers that generate excess power (i.e., from rooftop solar). CPA customers continue to receive bills from SCE that include CPA charges. Clean Power Alliance currently offers three energy options: Lean Power (40 percent clean energy, similar to SCE's base product), Clean Power (50 percent clean energy), and 100 percent Green Power (100 percent renewable energy).

The most likely risk associated with CCA is based on the potential for errors made in forecasting energy needs and costs. If Hermosa Beach had its own CCA with its own unique energy needs, forecasting and purchasing supplies would be critically important. CCAs across the State, and CPA specifically, have experienced professional staff and an established track record of meeting or exceeding its capacity and load requirements. In the CCA model, customers are not at any greater risk of outages than bundled IOU customers, as grid reliability for all customers is managed by CAISO, the State's independent system operator. CPA's Board-approved risk management policy and procurement hedge strategy are aimed at minimizing the risk of exposure to large swings in energy costs.

Clean Power Alliance's combination of low risk, with cooperative local control, has made it a popular option among local agencies in Los Angeles and Ventura Counties. Clean Power Alliance is now the State's largest CCA and is currently accepting new members.

In terms of default renewable energy levels, the City of Manhattan Beach started out at Clean Power (50 percent clean energy) in 2019 and changed its default energy level in 2021 to 100 percent Green Power. The City of Redondo Beach also started at Clean Power in 2019 and is in the process of changing its default level to 100 percent Green on October 1, 2022. Regardless of the default chosen, individual customers always have the option to choose a different CPA rate, or opt out of the

program altogether, and pay SCE for both generation and delivery costs.

The Clean Power Alliance Board conducts an annual rate setting process, usually in June, for rates effective starting July 1. From 2018 through 2020, Clean Power Alliance's rates were 1-2 percent less expensive than SCE's for Lean Power, at parity with SCE for Clean Power, and 7-9 percent more expensive for 100 percent Green Power. In 2021, the Lean Power and Clean Power rates became more expensive than SCE due to an increase in the Power Charge Indifference Adjustment (PCIA) (commonly referred to as the "exit fee") and market conditions that forced CPA to purchase system power at historically high prices. The 100 percent Green Power rate remained around the nine percent premium as falling prices for renewable energy offset the rise in system power prices. Effective July 1, 2022, the CPA Board of Directors adopted rates that returned rate comparisons to levels similar to the 2018-2020 period for Lean and Clean and reduced the premium for 100 percent Green to 3 percent for most customers. Low-income customers in 100 percent Green default communities receive 100 renewable energy at no extra charge.

Joining Clean Power Alliance would be the most efficient and impactful strategy for further reducing the City's overall GHG emissions. Based on the City's most recent emissions inventories, community energy use (residential and commercial) contributes approximately 40 percent of the City's overall GHG emissions. By switching to 100 percent renewable sources for energy (for comparison, currently SCE's default service uses approximately 36 percent renewable energy), the City could reduce its GHG emissions instantly by roughly 40 percent. This would help the City move significantly towards meeting both its municipal and community emissions goals simultaneously.

In Spring 2022, the City subscribed to SCE's 100 percent renewable option for its municipal accounts. This eliminated virtually all GHG emissions associated with energy consumption at City facilities. This option has increased the City's annual energy bill by approximately \$11,000. This SCE option is no longer available to other SCE customers in Hermosa Beach, as SCE has suspended new enrollments in their Green Rates.

The City also continues to explore other energy efficiency and emissions reductions strategies. These strategies include: more efficient HVAC systems; lighting retrofits; and more significant green construction practices during remodels and new builds of facilities. The City is currently working to incorporate electric appliances, solar panels, and battery storage in the upgrades planned for the Clark Building. As a member agency, Hermosa Beach may be able to partner with Clean Power Alliance on these, and other initiatives, leveraging Clean Power Alliance's technical expertise, industry relationships, and collective purchasing power.

Past Council Actions

Meeting Date	Description
November 18, 2014	Hosted Study Session and approved Feasibility Study to Explore formation of a CCA

February 24, 2015	Accepted Carbon Neutral Municipal Plan
August 22, 2017	Adopted Plan Hermosa
November 6, 2021	Hosted Council Retreat to discuss emissions reductions strategies and directed staff to return to Council with CCA options and recommendations
January 25, 2022	Approved funding a feasibility study with CPA and transitioned City facilities to SCE's 100 Green Rates

Discussion:

At its January 25, 2022 meeting, Council approved funding for the CPA to perform a feasibility study to determine the City of Hermosa Beach's suitability for joining its JPA. Recently completed, this feasibility study shows that because of Hermosa Beach's small size, relative to CPA's total customer base and load, admitting Hermosa Beach to CPA's Joint Powers Authority is expected to have minimal impact on CPA's forecasted load, renewable energy requirements, and net revenue. At the same time, the inclusion of Hermosa Beach would extend local control, choice, access to CPA programs, and the opportunity to significantly reduce greenhouse gas emissions to Hermosa Beach's residents and businesses. At its September 1, 2022 meeting, the CPA Board approved the extension of an invitation to allow the City of Hermosa Beach to join the Joint Powers Authority (**Attachment 3**).

Should Council adopt the proposed ordinance (**Attachment 4**) approving the Joint Powers Agreement for Clean Power Alliance of Southern California and authorizing the Implementation of a Community Choice Aggregation Program, Hermosa Beach customers would be enrolled in the service beginning in 2024 . City Council may choose the default renewable energy level that customers would be enrolled in at this time or may defer this decision to 2023.

PLAN Hermosa identified the importance of CCA and renewable energy in achieving emissions reduction goals. Setting a default of 100 percent renewable energy would be a major step towards this goal. The City's neighboring agencies of Redondo Beach and Manhattan Beach have each defaulted its customers to the 100 percent renewable "Green" rate level. This default rate level results in monthly energy costs to most customers that are approximately 3-4 percent higher than the current default energy rates offered by SCE. Should they wish to do so, customers may opt out of the default level and chose another level or opt out of the program altogether. CPA commits to providing competitive rates and strives to offer an available rate that is less expensive than SCE.

Should Council approve joining CPA, staff would work with CPA during 2023 to prepare for customer rollout. This work includes:

1. Start Date Identification-CPA would consult with the City to determine the optimum date in 2024 to enroll customers city-wide or identify potential enrollment phasing. These discussions would be primarily driven by financial conditions and market dynamics;
2. Energy Procurement-informed in part by the feasibility study, CPA would procure energy in

2023 to meet Hermosa Beach's demand and ensure adequate supply would be available; and

3. Develop Outreach Strategies-the City would work with CPA's external affairs team to develop outreach materials and communication strategies specific to Hermosa Beach. Communication avenues could include community meetings, branded materials, social media content, or other engagements.

Staff would thoroughly engage the community and all relevant stakeholders in this process and keep Council updated throughout the year. Upon joining the JPA, the City of Hermosa Beach would have a seat on the CPA Board of Directors. The position would be appointed by the City Council. Each member of the JPA has one seat and carries equal voting rights. Per the CPA Joint Powers Agreement (Section 4.10), each CPA Director has one vote-one member, one vote, regardless of the jurisdiction's size. This approach is referred to in the JPA as a "Percentage Vote."

Immediately following an affirmative Percentage Vote, three or more Directors may request a "Voting Shares Vote," in which Directors' votes are weighted based on member jurisdictions' retail loads in the previous fiscal year. Since its inception, all CPA Board votes have been based on the Percentage Vote; there has been no instance of CPA Directors invoking a Voting Shares Vote. The Board position is required to be filled by an elected official and two alternates may also be designated from other elected officials, staff, or members of the public.

General Plan Consistency:

This report and associated recommendations have been evaluated for their consistency with the City's General Plan. Relevant Policies are listed below:

Sustainability and Conservation Element

Goal 1. Hermosa Beach is a low-carbon municipal organization, reducing greenhouse gases at a rate that meets or exceeds 80% below 2005 levels by 2030.

Policy:

- ***Low-carbon municipality.*** Demonstrate environmental leadership and reduce greenhouse gas emissions from municipal facilities and operations by at least 80% below 2005 levels by 2030.

Goal 2. Hermosa Beach is a low-carbon community meeting State greenhouse gas reduction goals by 2040

Policy:

- ***2.1 State targets and goals.*** Reduce greenhouse gas emissions at a rate that meets long-term State targets and goals to reduce emissions by at least 66% below 2005 levels by 2040.

Fiscal Impact:

There is no cost to the City for joining the JPA. However, if the City were to remove itself from the JPA, it would be obligated to compensate the JPA for energy supplies reserved for Hermosa Beach customers. Though this amount is not able to be calculated at this time, it would be a significant and prohibitive amount.

Should the City join the CPA, it may experience a change in annual Utility User Tax (UUT) revenue due to the change in overall energy rates paid by customers citywide. This change is estimated to range from a 1 percent decrease to a 3 percent increase in energy related UUT revenue depending on the City's default rate selection.

Attachments:

1. Hermosa Beach Municipal Carbon Neutral Plan 2015
2. GHG Inventory and EECAP 2015
3. CPA Invitation Letter Dated September 7, 2022
4. Draft Ordinance
5. Link to November 18, 2014 Study Session
6. Link to February 24, 2015 City Council Staff Report
7. Link to August 22, 2017 City Council Staff Report
8. Link to November 6, 2021 Study Session
9. Link to January 25, 2022 City Council Staff Report

Respectfully Submitted by: Doug Krauss, Environmental Programs Manager

Noted for Fiscal Impact: Viki Copeland, Finance Director

Legal Review: Mike Jenkins, City Attorney

Approved: Suja Lowenthal, City Manager