



City of Sunnyvale

Agenda Item-No Attachments (PDF)

File #: 15-0421, Version: 1

REPORT TO COUNCIL

SUBJECT

Approve Actions Needed to Move Forward with Developing and Launching a Multi-Jurisdictional Community Choice Energy Program in the South Bay, and Finding that these Actions are Exempt from CEQA

REPORT IN BRIEF

Community Choice Energy (CCE) is a process authorized by California law that enables cities to pool customer electricity demand within their jurisdiction to directly procure or invest in electric power supplies. CCE is garnering substantial interest among California communities for its potential to provide greener power at competitive, currently lower, rates, in addition to other community benefits. The two operating CCE programs in Marin and Sonoma counties provide useful benchmarks for program evaluation, development, and operation.

Prompted by the featured role CCE plays as a proposed strategy in Sunnyvale's adopted Climate Action Plan, the City Council prioritized and funded an initial study of a CCE program for the South Bay. The Cities of Cupertino and Mountain View and the County of Santa Clara have joined Sunnyvale in a partnership to assess and potentially form a multi-jurisdictional CCE program. The initial Assessment Report was completed in May 2015 and concludes that market and program conditions are favorable for proceeding to the next step - a detailed Technical Feasibility Study. This report to Council recommends proceeding with the Technical Study and seeks approval of the administrative steps needed to advance the Study and continue the multi-jurisdictional partnership.

BACKGROUND

Authorized by California law, CCE enables city and county governments to pool the electricity demand within their jurisdictions to directly procure or generate electrical power supplies on behalf of the residents and businesses in their communities. The main driver for interest in CCE programs in California is the opportunity to accelerate the shift to renewable and low greenhouse gas (GHG) emitting energy sources in support of climate action objectives. While electric supply is handled by the CCE, the electricity grid and customer service remain with PG&E. Two multi-jurisdictional programs now operate in California - Marin Clean Energy and Sonoma Clean Power.

In May 2014, the City Council approved Sunnyvale's Climate Action Plan (CAP). The CAP is a GHG emissions reduction plan to address the causes of climate change and reduce the impacts of climate change in the future. It was adopted as a response to the State of California's legislative directive (AB 32) for cities to develop local plans to reduce GHG emissions. Of the more than 130 actions included in the CAP, shifting the energy portfolio to lower GHG sources is the single most impactful action featured, with CCE identified as the key approach to accomplishing the shift.

In 2014, Council prioritized Study Issue [ESD 14-02](#)

<http://sunnyvale.ca.gov/Portals/0/Sunnyvale/StudyIssues/Studies2014/ESD%2014-02.pdf>:

Community Choice Aggregation and approved funding with the FY 2014/15 Budget. The Study Issue directed an initial assessment of a CCE program for the South Bay, including four components: 1) Interest of other communities in forming a South Bay CCE program; 2) Benefits of forming a CCE program, including the potential to advance other strategies within the CAP; 3) Costs and risks to forming a program; and 4) Framework to guide the formation of a CCE program. This report presents the results of that study issue. On June 9, 2015 staff and the project consultant provided a presentation to the City Council on the study issue results.

EXISTING POLICY

Climate Action Plan, *Provide a Sustainable Energy Portfolio (EP)*, Reduction Measure EP-1.1: Create or join a community choice aggregation (CCA) program to take control of power generation for city residents and businesses.

ENVIRONMENTAL REVIEW

The decision to proceed with the Technical Feasibility Study is exempt from environmental review because it involves preparation of a feasibility or planning study for possible future actions which have not yet been approved, adopted, or funded. (CEQA Guideline 15262). In addition, the actions recommended in this report involve organizational and administrative activities that will not result in any direct or indirect physical change to the environment. (CEQA Guidelines 15378(b)(5), 15061(b)(3).)

DISCUSSION

This report addresses the four key components of the Study Issue.

Interest in a South Bay CCE

Spurred by the Sunnyvale Council's direction to proceed with a study issue and by discussions among elected officials at the Santa Clara County Cities Association, three other communities stepped forward, prepared to contribute funding to a collaborative study - Cupertino, Mountain View, and the County of Santa Clara (for its unincorporated areas). With each agency contributing \$20,000, the four agencies formed the Silicon Valley CCE Partnership (SVCCEP). Sunnyvale staff led the project team, and procured the consultant services needed to support the partnership and to conduct an initial assessment to assist decision-makers with determining whether and how to move forward with a CCE program. A SVCCEP website was also developed, available at www.SVCleanEnergy.org.

In addition, eight other small and medium sized communities in Santa Clara County have stepped forward and expressed interest in the prospect of a multi-jurisdictional CCE. Campbell, Gilroy, Los Gatos, Los Altos, Los Altos Hills, Monte Sereno, Morgan Hill, and Saratoga have all taken a requisite preparatory step of authorizing Sunnyvale to request that PG&E provide detailed data for their jurisdictions. This is essential for conducting the next step, a Technical Feasibility Study, as described later in this report.

More than 20 communities across California are actively evaluating CCE, including San Mateo County, Alameda County, and a collaboration among Monterey, Santa Cruz, and San Benito Counties.

Benefits of CCE Programs

SVCCEP commissioned an initial Assessment Report to evaluate the potential for forming a South Bay CCE. The Assessment Report, *The Potential for Community Choice Energy in the Heart of Silicon Valley*, was completed by LEAN Energy US in May 2015. The full report is included as Attachment 1 to this report.

Based on the experiences of the Marin and Sonoma programs (launched in 2010 and 2014, respectively), the Assessment Report finds that CCE programs offer many benefits and programs that can be designed to achieve a variety of public policy and program objectives. Both CCE programs offer electricity supply portfolios with lower GHG emissions than that of PG&E, with customer options for a standard service (with higher renewable energy ratios than PG&E) and a voluntary program to pay a moderate premium for 100% renewable energy supply. CCE programs also offer competitive rates. While they are careful to not promise to always have rates lower than PG&E, both programs are currently providing lower rates for baseline, greener electricity supply.

CCE programs can be designed to also achieve other climate action objectives. Local investments can be directed to incentivizing solar installations and energy conservation programs, in addition to promoting innovative approaches that incorporate new technologies. Both operating programs offer favorable terms for existing and new rooftop solar installations. Marin Clean Energy has invested in local and in-state renewable projects totaling more than 225 megawatts (MWs) of new clean power, and resulting in construction and related vendor jobs. In this way, CCE programs also provide local economic development benefits. Sonoma is taking a similar path and is also investing in an innovative 12 MW “floatovoltaic” solar array installation atop local irrigation ponds. Marin recently launched a partnership with Tesla to promote on-property battery storage. Marin also secured more than \$5M from state public purpose programming funds (paid by all electricity ratepayers) to expand their local energy conservation programs. CCE programs offer strong opportunities to meet CAP objectives for energy conservation and local solar programs. Here in the South Bay, there is also enhanced potential for synergies with Silicon Valley technology companies.

Costs and Risks

The operating costs of a CCE program are fully supported by customer rate revenue and do not draw on the general funds of participating communities. Additionally, the costs to study and form a CCE program can be recovered over some period of time with the operating revenues.

The Assessment Report summarizes the various steps needed to form a CCE program and concludes that a program could be established for at least the four partner agencies at a cost of \$1.7M. Additional funding would be needed should a program be launched in order to bridge the term between the beginning of operations and the receipt of customer revenues. Based on the Sonoma Clean Power implementation plan, these “bridge” costs are estimated between \$9M and \$15M. These additional costs were financed during the launch of the two existing programs and, like the initial costs of \$1.7M, were repaid in the first few years of the programs.

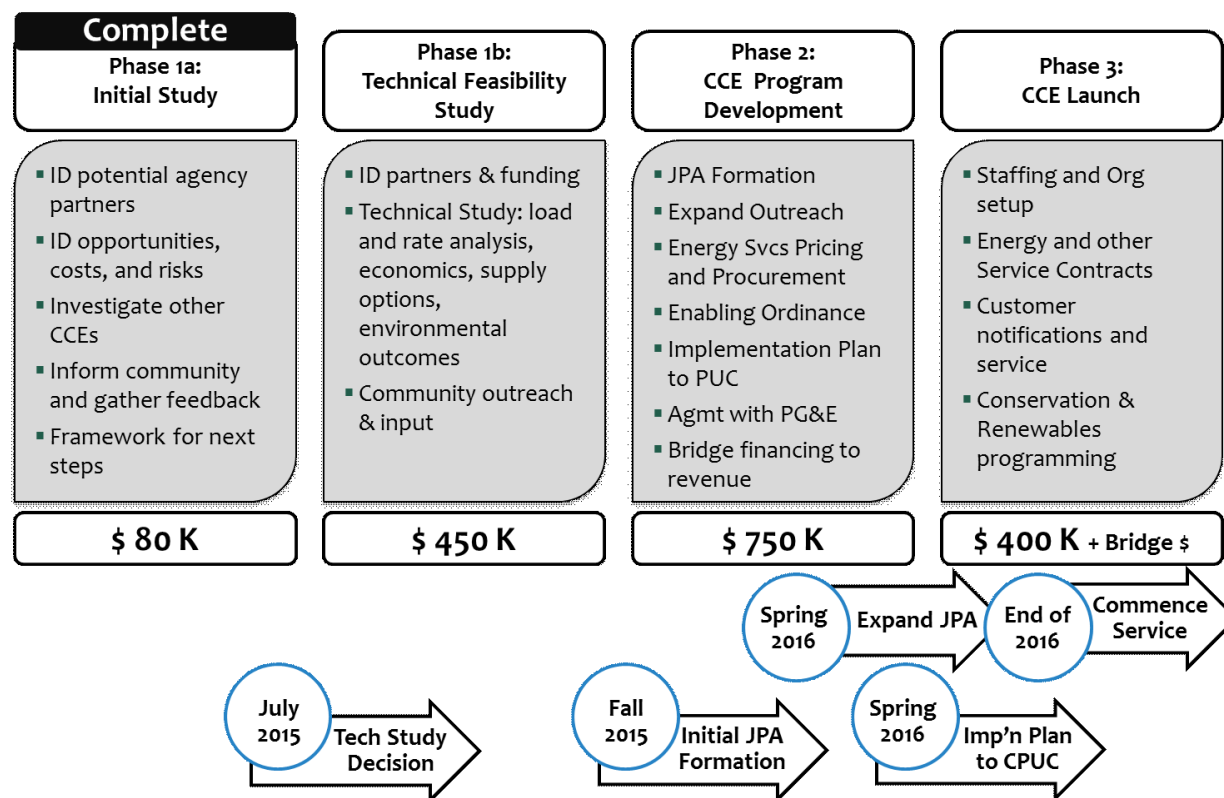
CCE programs offer many opportunities and also present some risks. The Assessment Report summarizes the risks, such as those associated with energy market dynamics and price fluctuations and regulatory uncertainty. The report also cites the good practices used by the successfully operating programs to mitigate these risks, including diversified portfolios, smart contracting and investment practices, securing relevant expertise, and strong engagement in the regulatory and legislative arenas.

Framework for Forming a CCE Program

The Assessment Report provides an overview, shown in Figure 1, of the steps needed to launch a CCE program, along with planning level cost and timeline estimates. With the four-agency partnership, Sunnyvale's costs would be one quarter of those shown.

This report to Council marks the completion of the Initial Study phase (1a). The Assessment Report concludes that energy market and CCE program development conditions are favorable for a South Bay program to move forward. The next step is to proceed with the Technical Feasibility Study phase (1b), which would analyze customer electric load data and assess whether a CCE program could achieve desired environmental program objectives related to resource mix and program services, at competitive rates for its customers. The study would evaluate and reflect the unique characteristics of our community, particularly the region's large commercial and industrial customer base. During this next phase, community engagement also begins to educate stakeholders on the fundamentals of CCE programs and to get feedback on potential program goals. At the conclusion of the Technical Feasibility Study phase staff would return to Council to get further direction on whether to proceed with formal program development and JPA formation.

Figure 1. CCE Work Plan Overview



Governance Structure

The two existing multi-jurisdictional CCE programs each employ a Joint Powers Authority structure for program governance. Such a structure offers centralized administration of the operations and typically representation from each community in the program. The JPA structure also offers a fiscal firewall so that the assets and liabilities of the CCE program are completely separate from the funds of the participating cities. The JPA documents for the two existing programs have many similarities, with Sonoma having used the Marin agreement as a model for its own structure. During

implementation of Phase 1b, the project team will also facilitate the development of a potential governance structure for a CCE program. This will support efficient decision making, should the Technical Study conclude favorably.

Continuing the SVCCE Partnership

Cupertino, Mountain View, and the County have approved continued participation in the four-agency partnership to implement the Technical Feasibility phase. To date, the partnership has been advanced and supported by 1) a project team comprised of staff from each agency; 2) an advisory task force of an elected representative from each agency; 3) an executive administration group (e.g., the City Managers) to facilitate project direction and resources; and 4) consultant support selected through a Request for Qualifications process implemented by Sunnyvale in late 2014. These mechanisms are all envisioned to be engaged through the next phase as well.

Given the significant and multi-faceted needs for staff resources to support the project, the next phase will include more distribution of key functions across the partner agencies. For example, Cupertino will lead implementation of the community engagement function for the partnership, including media relations. An inter-agency agreement will be executed to establish roles and responsibilities; financial control mechanisms; and provisions for making adjustments to the resource approach, subject to the approval of the executive administrators of each organization. Sunnyvale is envisioned to continue in the role of project team leadership and will serve as fiscal agent for the inter-agency partnership. Each partner will manage staff and consultant support needed to fulfill their functional roles and will submit invoices and requests for staff cost reimbursement to Sunnyvale for payment. Sunnyvale staff will track these costs both for project management and prospective future reimbursement from the CCE program if formed. Additional resources may be needed as the partners gain experience with the inter-agency model for project implementation.

During this next phase, SVCCEP will also engage the additional eight communities included in the Technical Feasibility Study. This is anticipated to include updates and education of the communities' elected and executive representatives on CCE programs and the SVCCEP project; some community meetings; and engagement regarding future program goals and governance. Looking ahead, should the Technical Study phase conclude that the project should move to Phase 2: Program Development, project cost estimates will be revised to reflect the expanded scope and cost-share mechanisms considered for the expanded partnership.

Sustainability Commission Recommendation

On June 15, the Sustainability Commission received a presentation on the Study Issue results, including draft staff recommendations (which reflect Alternatives 1-4 of this report). The Commission had six of its seven members present and voted 6-0 to support Alternatives 1-4, with the additional direction that staff expedite the discovery of the direct access customer percentage and make that information available to decision makers when it is available. Direct access customers, typically large commercial businesses, have electricity contracts with direct providers instead of PG&E. CCE programs typically exclude such customers at the initial launch as a default and allow them to opt in if they choose.

FISCAL IMPACT

The Assessment Report concludes that a total of approximately \$1.7M would be needed to support the development of a CCE program through each of the three upcoming phase (not including bridge funds). The FY 2015/16 Adopted Budget has \$500,000 budgeted in the General Fund for Project

830990, Community Choice Aggregation Program. This funding was approved to support the more robust feasibility study and potential formation of a CCE program.

Each of the four partner agencies have agreed to contribute equally to the upcoming phase as part of a cost sharing agreement. The full estimated cost of this next phase is \$600,000. This amount includes \$450K for Phase 1b Technical Feasibility Study, plus an additional \$150K to perform the initial work required in advance of Phase 2, CCE Program Development. The City's share for this next phase is \$150,000, which will come from the \$500,000 project budget.

Should a CCE program be successfully formed and implemented, the project costs would be reimbursed to the sponsoring agencies, including Sunnyvale, in the early years of operation.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

Staff conducted early outreach on the study topic prior to and during the study. Business Workshops were conducted in partnership with Joint Venture Silicon Valley (JVSV) in 2014 and January 2015, with the latter attended by approximately 20 sustainability and facility management representatives from the region's most prominent businesses. Presentations have been given to Sunnyvale Cool, the Moffett Park Business Group, the Sunnyvale Democratic Club, the JVSV Smart Energy Enterprise Development Zone (SEEDZ) working group, and the Santa Clara County Cities Association. Most recently, a Community Meeting was held on June 25 at the Sunnyvale Community Center. After a presentation and discussion, the eight attendees were invited to provide input to potential guiding principles for a CCE program, and to vote on whether they support proceeding to the Technical Study phase; all participants supported proceeding with the project.

ALTERNATIVES

1. Accept the Assessment Report, *The Potential for CCE in the Heart of Silicon Valley*, in response to Study Issue ESD 14-02.
2. Direct staff to proceed with the Technical Study phase, including community engagement and development of governance agency draft formation documents.
3. Delegate authority to the City Manager to negotiate and execute a multi-jurisdictional agreement to continue the Silicon Valley CCE Partnership.
4. Delegate authority to the City Manager to procure and execute individual service agreements and associated amendments in amounts that may exceed \$100,000, so long as the total of Sunnyvale's financial commitment for all issued contracts does not exceed the appropriation limit of \$500,000.
5. Find that the above actions are exempt from CEQA.
6. Other action as determined by City Council.

STAFF RECOMMENDATION

Alternatives 1, 2, 3, 4 and 5: 1) Accept the Assessment Report, *The Potential for CCE in the Heart of Silicon Valley*, in response to Study Issue ESD 14-02; 2) Direct staff to proceed with the Technical Study phase, including community engagement and development of JPA formation documents; 3) Delegate authority to the City Manager to negotiate and execute a multi-jurisdictional agreement to

continue the Silicon Valley CCE Partnership; 4) Delegate authority to the City Manager to procure and execute individual service agreements and associated amendments in amounts that may exceed \$100,000, so long as the total of Sunnyvale's financial commitment for all issued contracts does not exceed the appropriation limit of \$500,000; and 5) Find that the above actions are exempt from CEQA.

This action will allow the City to expediently move forward with the next project phase as part of a multi-jurisdictional partnership.

Prepared by: Melody Tovar, Regulatory Programs Division Manager

Reviewed by: John Stufflebean, Director, Environmental Services

Reviewed by: Jane Chambers, Interim Assistant City Manager

Approved by: Kent Steffens, Assistant City Manager

ATTACHMENT

1. Assessment Report: *The Potential for Community Choice Energy in the Heart of Silicon Valley*