

Review of Orange County Power Authority Foundational Documents and CCA Options to the City of Lake Forest

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This report was prepared by MRW & Associates. MRW has been working on Community Choice Aggregation (CCA) issues since they were authorized by the California State Legislature in 2002. MRW has prepared and critiqued numerous CCA feasibility plans and is providing rate forecasting and other ongoing support to CCAs throughout the state.

This Study is based on the best information available at the time of its preparation, using publicly available sources for all assumptions to provide an objective assessment regarding the prospects of CCA operation in the City. It is important to keep in mind that the findings and recommendations reflected herein are substantially influenced by current market conditions within the electric utility industry and state regulations, both of which are subject to sudden and significant changes.

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Executive Summary

The City of Irvine has extended an invitation to Lake Forest to become a member of the new Community Choice Aggregation (CCA) it is spearheading, the Orange County Power Authority (OCPA).¹ Other cities which have committed to the OCPA include Fullerton, Huntington Beach, Buena Park. Like Lake Forest, they too have the opportunity to withdraw from the JPA on or before April 1 (originally March 1).

The City of Lake Forest retained MRW & Associates (MRW) to: (1) review the OCPA's Joint Powers Agreement; (2) Review Implementation Plan; (3) provide the benefits and risks to the City of joining OCPA or forming a Lake Forest only CCA. This report addresses the first two items and qualitatively discusses Lake Forest's CCA options. A separate report, Technical Assessment of Community Choice Energy for the City of Lake Forest," addresses the benefits and risks of CCA formation as well as the viability of a stand-alone CCA for Lake Forest.

Review of the OCPA's Joint Powers Agreement

Overall, the OCPA Joint Powers Agreement (JPA) is patterned after and consistent with other California CCA JPAs. First, it explicitly states that the JPA member cities are not required to provide any funding to the OCPA and the OCPA's debts, obligations and liabilities cannot fall back onto the member cities. Second, the JPA also provides for a second "Voting Shares Vote."² The JPA states that during the same Board Meeting after an affirmative or tie vote, two or more Directors may request a "voting share vote to reconsider the action approved by a first vote. (Both Directors cannot be from Irvine.) The voting shares are proportional to the annual energy use of the community. Given the current OPCA makeup, Lake Forest Director's vote would be worth 10 out of a total of 100 (i.e., 10 percent). This is a common feature for all the CCA JPA Agreements that MRW has reviewed.

The OCPA JPA differs from other CCA JPAs in two ways. First, the City of Irvine will have two voting Directors on the OCPA Board of directors, while all other cities will have only one. Irvine will revert back to having only one Director once the \$2.5 million loan the city has made to the OCPA is repaid. Second, there will be two types of OCPA members: cities that joint the OCPA prior to April 1, 2021 will be Founding Parties, while those that joint after will be Additional Parties. Lake Forest would be a Founding Party. Founding Parties are automatically placed on the OCA's Executive Committee. (We note that the powers and responsibilities of the Executive Committee are not delineated in the JPA). No other CCA has two different types members.

¹ CCA is also called "Community Choice Energy," or "CCE."

² OCPA JPA Agreement, Section 3.9.2

Review of the OCPA's Implementation Plan

Overall, the assumptions and analysis in the Implementation Plan are sound. That is, the underlying customer phase-in, assumed power prices, operating costs, and CCA revenues are all reasonable or conservative. However, we note that the Implementation Plan may be underestimating the initial working capital requirements. The Implementation plan assumes \$15.5 million for starting and a working capital loan/line of credit. This represents about 30 days of average cash flow in the first year, in which due to the phase-in schedule is only a fraction of the load would be served. MRW's more conservative analysis assumes that the working capital loan / line of credit would be for 60 days of cash flow assuming the full load is served.

San Diego Community Power (SDCP) provides another data reference. OCPA's load is projected to be about 62% of that of SDCP. SDCP required \$40 million initial line of credit. Simply scaling SDCP's requirement down to OCPA suggests an initial bank load/line of credit around \$25 million.

Based on our review of the OCPA Implementation Plan, our financial feasibility analysis of a stand-alone Lake Forest CCA to date, and our analysis conducted for the City of Huntington Beach, MRW believes that the OCPA is, in the long run, financially viable. However, we believe that OCPA's may not be able to offer rate savings in the first few years of operation. This is because of SCE rates (including the PCIA), the need to pay off its start-up debts, and the need to build up financial reserves.

CCA Options Available to Lake Forest

Lake Forest's three primary options for CCA are: joining the OCPA; forming a stand-alone Lake-Forest only enterprise-based CCA; or forming a Lake Forest CCA and joining the CalChoice Energy Authority (CCEA). CCEA is a "hybrid" JPA, where the JPA provides services to its member CCAs but does not control any of its general policies or programs.³ This is a good match for smaller cities who are interested in local control of the CCA but not interested in bringing in-house the day-to-day management needed to operate a CCA.

The primary benefits of either of the Lake Forest-only CCA options are more local control over procurement practices and budgets and services better tailored to Lake Forest. Joining with CCEA greatly reduces the administrative burden relative to keeping all the CCA activities in-house in Lake Forest. The primary benefits of joining with OCPA are foregoing the need to provide upfront financing for the CCA's startup process, less potential financial exposure to the City as the JPA will be a financially distinct entity, economies of scale which can translate into lower average operating costs and reduced administrative burdens.

³ See, <https://californiachoiceenergyauthority.com/>

Introduction

The City of Irvine has extended an invitation to Lake Forest to become a member of the new Community Choice Aggregation (CCA) it is spearheading, the Orange County Power Authority (OCA). Other cities which have committed to the OCA include Fullerton, Huntington Beach, Buena Park. Like Lake Forest, they too have the opportunity to withdraw from the JPA on or before April 1 (originally March 1).

The City of Lake Forest retained MRW & Associates (MRW) to: (1) review the OCA's Joint Powers Agreement; (2) Review Implementation Plan; (3) provide the benefits and risks to the City of joining OCA or forming a Lake Forest only CCA. This report addresses the first two items and qualitatively discusses Lake Forest's CCA options. A separate report, "Technical Assessment of Community Choice Energy for the City of Lake Forest," addresses the benefits and risks of CCA formation as well as the viability of a stand-alone CCA for Lake Forest.

Part 1: Review of the Orange County Power Authority (OCA) Joint Powers Agreement

The Joint Powers Agreement (JPA) is the fundamental governance document for the OCA. In this section, we review sections of the JPA that are particularly important to Lake Forest and note where the OCA JPA differs from, or is consistent with, other CCA JPAs.

Board of Directors and Voting

The OCA would be governed by a Board of Directors, with one director appointed by each JPA member, except for the City of Irvine, which would initially have two directors but would drop down to one director once Irvine's loan to the OCA is paid off.⁴ This structure is unique; all other California CCA JPA agreements that MRW has seen specify that each member community would have one member on its JPA Board.

The JPA also provides for a second "Voting Shares Vote."⁵ The JPA states that during the same Board Meeting after an affirmative or tie vote, two or more Directors may request a "voting share vote to reconsider the action approved by a first vote. (Both Directors cannot be from Irvine.) The voting shares are proportional to the annual energy use of the community. Given the current OCA makeup, Lake Forest Director's vote would be worth 10 out of a total of 100 (i.e., 10 percent).

This voting shares vote option is common. East Bay Community Energy (EBCE), Marin Clean Energy (MCE), Clean Power Alliance, Peninsular Clean Energy, Sonoma Clean Energy, and

⁴ OCA JPA Agreement, Section 3.1

⁵ OCA JPA Agreement, Section 3.9.2

Silicon Valley Clean Energy are all major CCAs that allow for a “voting shares vote” for a particular matter if requested by a certain number of board directors. MRW is not aware of any CCA Board of Directors exercising a Voting Share Vote.

The OCPA JPA Agreement also explicitly states that membership does not require any financial obligations: “Parties are not required under this Agreement to make any financial contributions or payments to the Authority, and the Authority shall have no right to require such a contribution or payment.”⁶ Instead, the City of Irvine is providing the initial capital loan and collateral to the OCPA, with terms laid out in the JPA agreement Section 5.5 and Exhibit D.

The voting shares for OCPA, given the current makeup and projected load for each community, is shown in the table below.

Table 1 OCPA Voting Shares

Community	Directors	Equal Vote	Voting Shares Vote
Irvine	2*	33%	42.4%
Fullerton	1	17%	14.8%
Huntington Beach	1	17%	22.9%
Buena Park	1	17%	9.8%
Lake Forest	1	17%	10.0%
Total	6	100%	100%

*Irvine will have 2 Directors on the Board until its loan to the CCA is paid off.

Financial Exposure

Generally, all CCAs have similar stipulations in their JPA agreement to those of OCPA regarding the financial obligations of their members. Individual member jurisdictions are not held responsible for the debts, liabilities, or obligations of a JPA unless the governing board of each member jurisdiction (i.e., its City Council) agrees to assume a debt, liability, or obligation. Additionally, CCAs typically indemnify and hold harmless member jurisdictions and their associated staff from any claims, losses, damages, costs, injuries, and liabilities arising directly or indirectly from the conduct, activities, operations, acts, and omissions of the JPA. For those JPAs that allow for members to be required to make contributions or pledge assets as a condition of continued participation in a CCA program, the JPA agreement requires a vote of at

⁶ OCPA JPA Agreement, Section 5.6.

least 75% of all directors and the approval of the governing boards of each member jurisdictions who are being asked to contribute.

The establishment of many JPAs necessitated that the initial implementation costs of a CCA Program be funded by an initial member jurisdiction. In these situations, the member jurisdiction providing the initial funding was not entitled to any reimbursement of these cost if the CCA program did not become operational.

Founding Party Versus Additional Party

Since Lake Forest joined the OCPA JPA before the end of the year, it is a “Founding Party;” if it withdraws membership before April 1 and rejoins sometime later, it will become an “Additional Party.”⁷ Being a Founding Party would automatically place the Lake Forest Director on the JPA’s Executive Committee. The benefits and obligations of being a member of the Executive Committee are note laid out in the JPA. The Executive committee would be formed if the Authority’s membership reaches nine or more members. If the City waits to commit after the end of the year, it will join as an Additional Party and potentially be subject to a membership fee upon joining.⁸ This tiered membership, which provides privileges to the initial members, is again unique among CCAs.

No other CCA JPA differentiates Board Members benefits based on when the jurisdiction joins. We note that there has been at least one instance where a JPA revised its board membership rules once it reached a certain number of member jurisdictions. Central Coast Community Power (formerly known as Monterey Bay Community Power) originally allocated seats on its Policy and Operations board based on a one jurisdiction, one seat basis until the number of member jurisdictions exceeded eleven. Once the number of member jurisdiction reached more than eleven, the JPA’s Policy and Operations boards’ composition shifted to a regional allocation based on population size.

Withdrawing from the JPA

The JPA agreement also provides for the right to withdraw from JPA membership: “a Party may withdraw from the Authority for any reason and without liability or cost prior to March 1, 2021 upon providing the Authority fifteen (15) days advance written notice.”⁹ This option reduces the risk to the City of committing to the OCPA now by allowing a more thorough analysis of the implications during the next few months.

After March 1, 2021, the City could withdraw from the JPA effective at the beginning of an OPCA’s fiscal year by providing no less than 180 days written notice. If the City exercises this latter withdrawal option, it could be responsible for the various damages and losses its withdrawal might cause to the JPA.¹⁰ These damages would likely be associated with the value

⁷ OCPA JPA Agreement, Preamble.

⁸ OCPA JPA Agreement, Section 6.1.

⁹ OCPA JPA Agreement, Section 6.1.

¹⁰ OCPA JPA Agreement, Section 6.3.

of power purchase contracts entered into by the OCPA on the City's behalf which the OCPA could not liquidate.

Other CCA JPAs allow member jurisdictions to withdraw from the authority after giving a certain amount of notice in advance, usually 180 days. Like OCPA, some JPAs also require an affirmative vote from the governing board of the departing jurisdiction (i.e., City Council) before the jurisdiction can withdraw. However, JPAs will typically hold departing jurisdictions responsible for certain continuing liabilities or financial obligations, such as power purchase agreements. These liabilities and obligations are typically costs incurred by the JPA on behalf of the departing jurisdiction.

Part 2: Review of the OCPA’s Implementation Plan

This section reviews the analytical approach, assumptions, and results of the OCPA Implementation Plan pro forma financial analysis and compares the key assumptions and results against the independent analysis conducted by MRW. The fundamental question addressed is, “Are the assumptions reasonable and is the OCPA likely to be financially viable?” As detailed below, the assumptions underlying the OCPA Implementation Plan are generally reasonable. Further, MRW believes that the OCPA is likely to be financially viable, although the margins in the first few years will be tight and the OCPA may not be able to offer more than token rate savings.

Table 2 summarizes MRW’s findings on the financial analysis underlying the OCPA Implementation Plan. Each entry is discussed in the following sections.

Table 2. Implementation Plan Assumption Summary

		Conservative	Reasonable	Potential Issue
	Modeling Approach		✓	
Load Assumptions	Load Forecast		✓	
	Line Losses	✓		
	Opt-Out Rate	✓		
CCA Power Assumptions	CCA Power Portfolio		✓	
	Wholesale Power Prices		✓	
	Renewable Power Prices		✓	
	RA Costs		✓	X
CCA Admin. and Other Cost Assumptions	Startup Costs		✓	
	Financing Costs		✓	X
	Admin. Costs		✓	
SCE Rate Assumptions	PCIA	✓		
	SCE Generation Rate		✓	X

Implementation Plan Approach

The Implementation Plan's financial analysis approach is sound and complete. It includes all the necessary expense and revenue categories and modeled a CCA program's pro forma cash flow accurately.

Main Assumptions

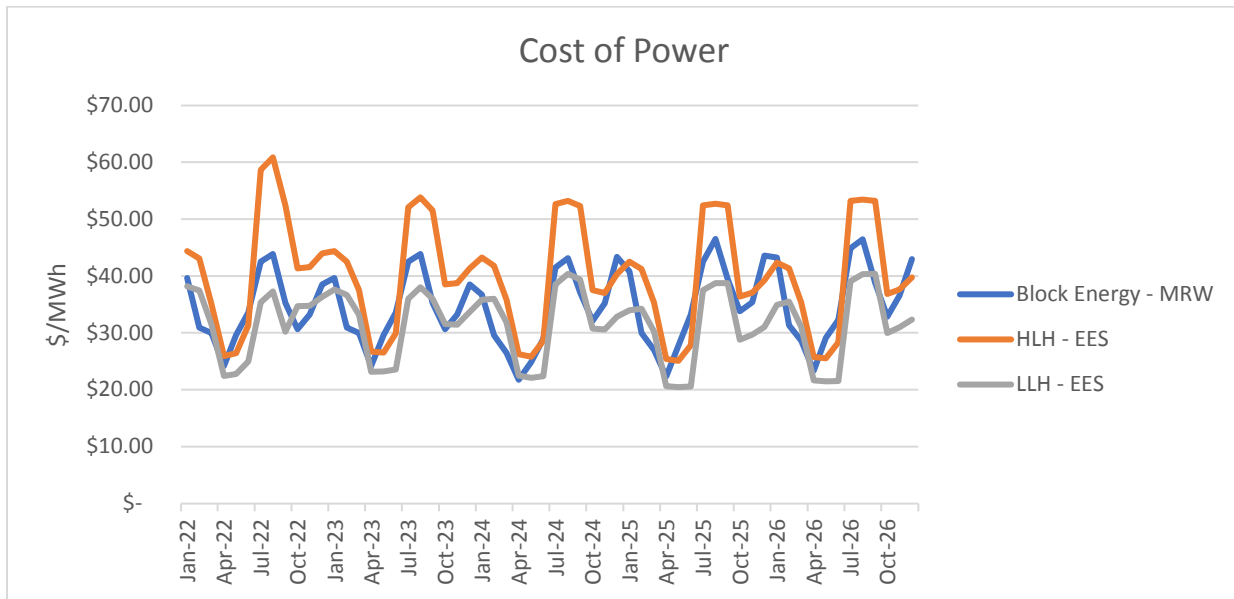
This section reviews each of the major assumptions that the Implementation Plan makes and opines on the reasonableness of the assumptions. While most of the assumptions made by the Implementation Plan were reasonable, two of the assumptions were understated or outdated. Additionally, many of the assumptions that the Implementation Plan characterizes as "conservative" MRW would consider reasonable, but not necessarily conservative.

Load Forecast. The Implementation Plan's load forecast is reasonable. It is based on recent historical data provided by SCE, assumes conservative opt-out rates, and modest growth. With respect to the opt-out rate, the Implementation Plan assumes that 5% of the residential customers and 10% of the commercial and industrial customers will choose to remain with SCE for their electric energy. With one notable exception, opt-out rates seen by recent CCA program launches have been less than this, making the assumption conservative. The exception is the Clean Power Alliance of Southern California (CPA), the CCA that serves Los Angeles and Ventura counties, which experienced a much higher opt-out rate, closer to 50%, for its largest industrial customers. This was because CPA chose not to offer rates that were lower than SCE's for this customer class, but instead chose to set rates at levels equal to CPA's cost to provide power to them. Because the CPA rates were higher, and this class is especially sensitive to power costs, a large fraction of the industrial customers declined to take service from CPA.

Cost of Power. As outlined in its Implementation Plan, OCPA intends to purchase significant amounts of power from power marketers, public agencies, generators, or utilities during the first several years of operation. It will utilize one or more power supply agreements to obtain all of its electricity from one or more third-party providers. These suppliers will be responsible for procuring the mix of resources, including renewable energy, needed to meet OCPA's portfolio requirements and provide cost-effective electricity.

The figure below shows the forecasted monthly power costs for block energy estimated by MRW and the heavy load hours (HLH) and light load hours (LLH) used in the Implementation Plan. The figure shows that the Implementation Plan estimates are similar in pattern and value to MRW's estimate for block power and therefore appear reasonable.

Figure 1. Implementation Plan Assumed Cost of Power



Cost of Renewable Power. OCPA anticipates purchasing a minimum of 50% of renewable energy by 2026, 60% of renewable energy by 2030, and 100% carbon-free energy by 2045, as mandated by California law. To achieve these Renewable Portfolio Standards (RPS) goals, OCPA will secure renewable power supply from third-party electric suppliers, potentially supplementing these renewable power contracts with direct purchases off renewable energy from renewable energy facilities or from renewable generation owned by OCPA.

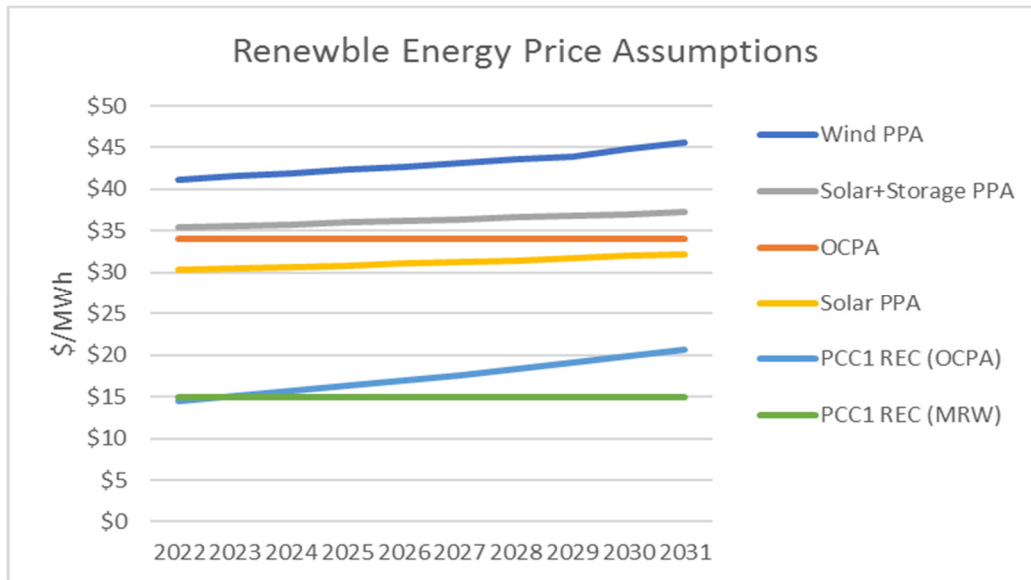
The renewable energy OCPA plans to procure would come bundled with its individual clean energy attributes in the form of Renewable Energy Credits (RECs). RECs are tradable instruments, with each individual REC representing one megawatt hour of renewable energy generated. In California, there are different types of RECs. The most stringent is the “PCC-1” REC. These RECs require that the associated renewable power be directly provided into the California power grid. This is in contrast to the more generic PCC-3 REC, where the renewable power need not be used in California but generated elsewhere. The State sharply limits the use of these PCC-3 RECs, and the OCPA Implementation Plan’s use of RECs is strictly limited to the stringent PCC-1 type.

Beyond these RECs, the OCPA Implementation Plan says it will secure renewable power from third-party suppliers, with the potential of supplemental procurement from other renewable facilities or OCPA-owned renewables. OCPA acknowledges in its implementation plan that transmission access cost and transmission congestion cost risks must be considered in any bid evaluation if the delivery point for electricity is outside of OCPA’s load zone.

The figure below shows the projected average annual renewable power costs based on current reported renewable contract prices from other load-serving entities, including California CCAs

and municipal utilities.¹¹ The Implementation Plan assumes a flat price of \$34 per MWh for renewables across all years (orange line). The price used in the Implementation Plan falls between expected price for a solar plus storage PPA (gray line) and a solar PPA. (yellow line). The Implementation Plan’s assumed PCC1 REC price starts at about the same level as MRW’s projection but escalates modestly with time.

Figure 2 Implementation Plan and MRW Renewable Price Assumptions



Overall, the Implementation Plan’s forecast of renewable energy purchasing and pricing is reasonable.

Cost of Resource Adequacy. Resource Adequacy, or “RA,” is a state-mandated system whereby each load-serving entity (e.g., utility, CCA) must demonstrate that they have contracted with sufficient resources to keep the state’s power grid reliable. To satisfy RA standards, OCPA will need to demonstrate one year in advance that it has secured physical capacity for 90 percent of its projected peak summer loads plus a minimum 15 percent reserve margin. It must also demonstrate 100 percent of the peak load plus a 15 percent reserve margin on a month-ahead basis. Up until 2023, each load-serving entity must also ensure that a fraction of the physical resource with which it has contract are located within certain local areas (“Local RA”) where transmission constraints require power plants/generators to be located within that area so as to maintain reliable service. After 2023, SCE will be in charge of purchasing the entire amount of required local RA on behalf of all load-serving entities, including any CCAs in their jurisdictions. Therefore, local RA will be purchased on behalf of OCPA and other CCAs

¹¹ https://emp.lbl.gov/sites/default/files/2020_utility-scale_solar_data_update.pdf

by SCE within its service territory, and thus saving the CCAs the cost of procuring this resource themselves.

Although OCPA acknowledges that a portion of their capacity requirements must be procured locally (from the SCE jurisdictional area), its implementation plan does not take into account the transition to SCE as the procurer of local RA after 2023. change in Local RA policy. This means that the Implementation Plan is overstating the costs for RA in 2023 and thereafter.

The Implementation Plan's projected costs for RA are based on publicly available documents from the CPUC.¹² While this is the best publicly available source, the amount the CCA's have had to pay for RA in in 2019 and 2020 are about 20-30% higher than the Implementation Plan's assumption. Thus, MRW finds the Implementation Plan's RA cost assumptions to be at the low end of reasonableness, but not conservative.

Administrative Costs The administrative and operating costs estimated by ESS for its pro forma analysis (2021 – 2031) for the Implementation Plan include costs for data management, a scheduling coordinator, SCE fees, consulting services, staffing, general & administrative expenses, and debt service payment on financing. The OCPA Implementation Plan thoroughly presents what types of activities a new CCA program should expect along with providing reasonably detailed estimates for the costs of those activities.

Financing. OCPA anticipates “one or more rounds of financing, inclusive of prospective direct term loans between OCPA and its Member Agencies, will be necessary to support OCPA Program implementation,” with any subsequent capital requirements met through OCPA's accrued financial reserves. MRW understands that “loans from its Member Agencies” refers to the \$2.5 million loan from the City of Irvine. OCPA currently projects repaying this loan by 2027, subject to change based on final power prices. OCPA projects that its full start-up and working capital requirements will be \$15.5 million, or \$13 million beyond the Irvine loan. The OCPA Implementation Plan assumes that the remaining financing will be primarily via a short-term loan or letter of credit, which would allow OCPA to draw cash as required. Requisite financing would need to be arranged no later than the first quarter of 2021.

MRW finds the start-up cost estimate to be reasonable, but the working capital amount to be low. The OCPA Implementation Plan assumes 30 days of cash or line of credit. MRW expects that a financier would require at least 60 days of working cash. Second, MRW notes that in addition to the loan by Irvine, OCPA's financier will likely require a guarantor to any short-term loan or line of credit. This responsibility will likely have to be taken upon by an OCPA Member or Members.

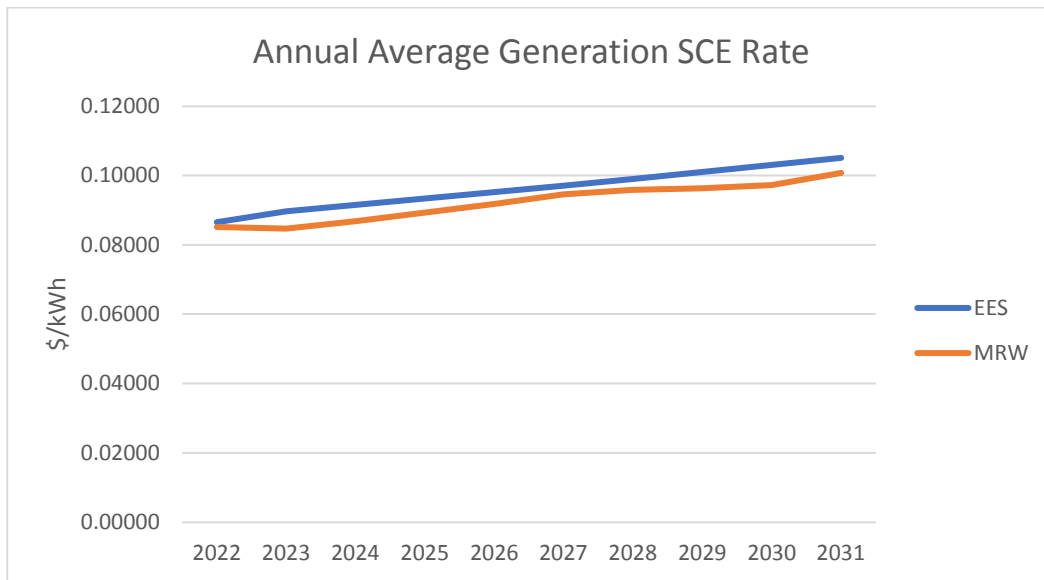
SCE Generation Rates. OCPA's goal is to offer customers competitive electric rates compared to SCE. OCPA plans to offer rate options for a higher proportion of renewable energy and reduced GHG emissions compared to SCE while also offering rates that are lower than SCE's

¹² CPUC Energy Division, “Calculation of the Market Price Benchmarks for the Power Charge Indifference Adjustment Forecast and True Up,” November 2, 2020

bundled rates. The base rate tariff offered OCPA will meet the state’s renewable energy mandate, while the other tariff options will offer customers electricity based on 50% or 100% renewable energy. The initial rates offered by OCPA will be set at a discount to SCE’s rates, with the discount level depending on the default product chosen by the member agencies of OCPA.¹³ Any rate differences between customer classes will be based on the rates charged by SCE and costs differences in serving each class. Additionally, rate benefits may differ among customers based on OCPA’s rate designs.

The figure below shows the forecasted annual average generation rate for SCE estimated in the OCPA Implementation Plan and by MRW. It is important to note that the SCE generation rate estimate likely does not reflect the advent of SCE as the central procurement entity for local RA on OCPA’s behalf after 2023. While the two are relatively consistent, MRW’s is about 0.4¢/kWh lower than that shown in the implementation plan. A 0.4¢/kWh decrease in rates translates to a \$13 million decrease in CCA revenue, which could, in some years, hamper the OCPA’s ability to offer its target rate savings. However, as discussed below, these lower generation rates would be offset by the Implementation Plan’s very conservative PCIA assumption.

Figure 3. Implementation Plan and MRW Projections of SCE Generation Rate



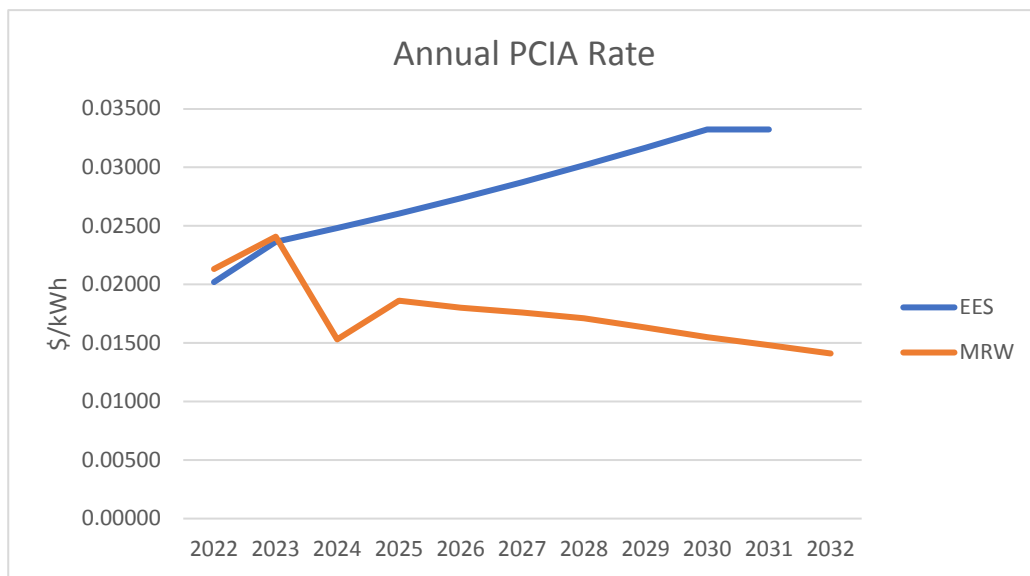
Power Charge Indifference Adjustment (PCIA). The PCIA is a fee charged to CCA customers by SCE (and other incumbent utilities) to ensure that remaining utility customers are not impacted by cost increases due to customers who have departed for CCA service. More

¹³ OCPA plans to base its initial rates at launch on default SCE TOU rates.

specifically, it pays for the above-market costs of SCE generation resources that were acquired, or which SCE committed to acquire, prior to the customer’s departure to CCA. Bundled customers also pay the PCIA, but it is embedded into the commodity portion of their total rate. The value of the PCIA charged to customers is dependent on the year that they departed or “vintage.” CCAs are sensitive to the value of the PCIA since high values could potentially cause CCA customers to pay more for electric service than if they stayed with SCE.

The figure below shows the forecasted annual PCIA rate contained in the Implementation Plan compared to the rate estimated by MRW’s forecast. The the Implementation Plan’s PCIA rate is much more conservative than MRW’s forecast, with the rate reflecting a straight escalation approach versus the bottoms-up modeling approach used by MRW. This conservative approach used for the Implementation Plan removes the risk that OCPA will underestimate the impacts of the PCIA on their rates.

Figure 4. Implementation Plan and MRW Projections of SCE PCIA Rate



Is the OCPA likely to be financially viable?

Based on our review of the OCPA Implementation Plan, our financial feasibility analysis of a stand-alone Lake Forest CCA to date, and our analysis conducted for the City of Huntington Beach, MRW believes that the OCPA is, in the long run, financially viable. However, we believe that OCPA’s may not be able to offer rate savings in the first few years of operation. This is because of SCE rates (including the PCIA), the need to pay off its start-up debts, and the need to build up financial reserves.

Part 3: CCA Options Available to Lake Forest¹⁴

Lake Forest’s three primary options for community choice aggregation (CCA) are: joining the Orange County Power Authority (OCPA); forming a stand-alone Lake-Forest only enterprise-based CCA; or forming a Lake Forest CCA and joining the CalChoice Energy Authority. The primary benefits of either of the Lake Forest-only CCA options are more local control over procurement practices and budgets and services better tailored to Lake Forest. The primary benefits of joining with OCPA are foregoing the need to provide upfront financing for the CCA’s startup process, less potential financial exposure to the City as the JPA will be a financially distinct entity, economies of scale which can translate into lower average operating costs and reduced administrative burdens.

Both the city enterprise model and the JPA create entities that are independent of the City’s finances and offer protections to the city’s general fund. The JPA model’s independence is demonstrated by a number of CCAs¹⁵ getting investment grade credit ratings independent of their member cities and counties. Still, no CCA has experienced serious financial difficulties, so how much a CCA could financially lean on its constituent members has never been tested.

Forming a Single City Agency

In a sole jurisdiction approach, the City maintains full flexibility—and responsibility—for developing policies and procedures. This means that they can be specifically tailored to and responsive to the City’s stakeholders and constituents and based upon their own objectives. The City would be responsible for setting policy priorities in general and making specific decisions about power generation, staffing policies, local economic development activities and strategies, formulation of financial and debt policies, and development of customer-focused programs, such as those promoting energy efficiency, electric vehicles (EV), and distributed generation (e.g., rooftop solar PV). Along with greater autonomy, the City would assume all risk, liability, and costs associated with operating the CCA. In this case, the likely path would be for the City to establish the CCA as an enterprise, and work with appropriate legal counsel to explore options for controls and structural safeguards to financially insulate the CCA and minimize risk to the City’s general fund.

Enterprises are commonly used for public utilities such as electric, water and wastewater, or other city functions where a public service is operated and provided in a manner similar to a separate business enterprise. Fees and charges are collected for services provided and accounting and budgeting are separate from a city’s general fund. Establishing an enterprise provides management and CCA customers with visibility and accountability, and the ability to more easily separate and measure performance, analyze the impact of management decisions,

¹⁴ This chapter is generally duplicative of the analogous chapter in MRW’s report, “Technical Assessment of Community Choice Energy for the City of Lake Forest.”

¹⁵ E.g., Marin Clean Energy (Fitch “BBB+”), Central Coast Community Energy (S&P “A”), Peninsula Clean Energy (Moody’s “Baa2”)

determine the cost of providing electric service, and use this information to develop electric rates and services. Enterprise accounting would allow the City to demonstrate to customers, the public, and other stakeholders that the cost of power is being recovered through its rates, and not being subsidized or comingled with other City funds or functions.

Within the city-only option, the Lake Forest CCA would have to determine if it is to be a fully in-house operation with existing or added City staff, or if the City would outsource some of or all of the activities, with the City only administering contracts and managing vendors. Examples of some of the categories of operating activities that would need to be performed in-house or outsourced:

- Power procurement and operations
- Finance, budgeting, and accounting
- Coordinating with SCE on billing
- Customer service
- Communications, outreach, and public relations
- Customer service programs (EE, EV, or rooftop solar PV)
- Regulatory monitoring and compliance (e.g., CPUC filings)

The likely best short-term option would be to outsource the highly technical functions and maintain some of the management, planning, and other public-facing functions, like communications, in-house. The range of options depends upon the degree of operating control the City wishes to maintain, the costs associated with maintaining those functions, and the degree of risk it is willing to accept on its own, or delegate to third-party providers to assume these responsibilities.

If the Lake Forest CCA were to pursue additional services, it would require at least one or two managers, supported by analyst professionals, some of whom could be shared with other Lake Forest departments.

Joining a Joint Powers Agency (generically)

The second option would be the formation of a JPA, where the JPA is an independent agency that operates on behalf of the public agencies which are party to its creation. In this approach, the City effectively shares responsibility with the other agencies participating in the JPA. The divisions of these responsibilities and the sharing of decision-making authority would be determined at the time the JPA is created. Other critical ‘ground rules’ are negotiated and memorialized, such as financial and possibly staffing commitments of each participating agency, and the composition of the board and voting procedures.

The JPA structure reduces the risks of implementing a CCA program for the City by completely separating its books from the financial assets and liabilities of the City and the other participating agencies, and distributing the risks and costs associated with the CCA among the participating entities. It could also provide the benefits of scale and economy for certain aspects of CCA operation, such as power procurement or back office billing and accounting functions.

Key tradeoffs to the benefits of a JPA are that decision making is allocated amongst the parties and management independence is diminished. Objectives of participating agencies will likely differ, and reduced autonomy can manifest when setting priorities for local generation, economic development activities, and importance of support programs.

Joining CalChoice Energy Authority

CalChoice Energy Authority (CCEA) is described as a “hybrid” JPA, where the JPA provides requested services to its member CCAs but does not control any of its general policies or programs.¹⁶ More specifically, CCEA provides to its members, as desired:

- Power, including contract procurement, portfolio management, load forecasting and scheduling, and complying with and demonstrating procurement-related regulatory requirements (e.g., resource adequacy, renewables, etc.).
- Regulatory and compliance support, including preparing and filing compliance reports to the California Public Utilities Commission, the California Energy Commission, and the California Independent System Operator; and general regulatory advocacy.
- Billing and data management, including interface with SCE and call center operations.
- Treasury, including CAISO invoice validation, rate design development, and risk management.

Thus, CCEA is effectively a non-profit outsource for all of the detailed activities of a CCA. This is a good match for smaller cities who are interested in local control of the CCA but not interested in bringing in-house the day-to-day management needed to operate a CCA.

CCEA members that are providing power are: Lancaster Choice Energy, San Jacinto Power, Pico Rivera Innovative Municipal energy, Rancho Mirage Energy Authority, and Apple Valley Choice Energy, Baldwin Park Resident Owned Utility District and Pomona Choice Energy. The cities of Commerce, Palmdale and Santa Barbara are members but have yet to begin service.

All of the city-only CCAs in SCE’s territory are CCEA members. This makes sense, in that they are all small. Only one, Lancaster Choice Energy, serves more load than would be served by a Lake Forest CCA.

Were it to join CCEA, Lake Forest would be responsible for setting policies, setting rates, marketing and customer outreach, and the implementation of any desired local programs. It would also still have to provide any start-up loans and any collateral or loan guarantees needed to acquire financing.

The CCEA Board of Directors is the Lancaster City Council. The actual services provided by CCEA are via contractors and consultants supervised by City of Lancaster personnel (e.g., Lancaster City Manager, Lancaster Choice Energy’s Executive Director.) Thus, CCEA’s administrative simplicity (the city not having to acquire expertise or expert contractors) is a traded off against the fact that Lake Forest would have to accept the contractors and service

¹⁶ See, <https://californiainchoiceenergyauthority.com/>

providers selected by CCEA. The bottom line is that CCEA is by design more of a client-Lake Forest would remain fully in control of the power that the JPA purchased on its behalf as well as which services the JPA provides to the City.

Comparison of Lake Forest Options

The table below qualitatively compares Lake Forest’s three CCA options against remaining with SCE. First, MRW cannot project any quantifiable difference in rate or GHG savings between the three CCA options. The stand-alone and CCEA options offer greater flexibility and control, but at the price of higher start-up costs, greater staff effort, and higher financial risk. Lastly, remaining with OPCA is the quickest option, allowing CCA formation at least one year sooner than the other two options.

Table 3. Comparison of Lake Forest CCA Options

Criterion	Join OPCA	Use CCEA JPA	Stand-alone Enterprise	Stay with SCE
Rates	Comparable/modestly lower	Comparable/modestly lower	Comparable/modestly lower	Base
GHG Reduction Potential Over Forecast Period	Some	Some	Some	Base
Local Control/Governance	Some	Greater	Greatest	None
Local Economic Benefits	Some	Greater	Greatest	Minimal
Start Up Costs/Cost to Join	None	Some	Greatest	None
Level of Effort	Minimal	Some	Greatest	None
Timing (earliest)	2022	2023	2023	N/A