



MEMORANDUM

To: Bruce Jensen
Alameda County Planning Department

From: Mark Fulmer

Subject: **Response to Pleasanton Peer Review**

Date: October 11, 2016

Per your request, I have reviewed the June 13, 2016 Memorandum prepared by Jeff Caton of ESA Community Development entitled, “Review of the *Draft Technical Study for a Community Choice Aggregation Program in Alameda County* (Feasibility Study). Overall, most of Mr. Caton’s suggestions and recommendations are worth consideration by the Joint Power Authority (JPA) or CCA management (if the CCA moves forward), but none require revision or expansion of the final Feasibility Study.

In the remainder of this memo, I respond to Mr. Caton’s Findings and Recommendations in the same framework in which he presents them.

Findings

Risk assessment: Mr. Caton suggests that the Feasibility Study should have explored lower PG&E rates, higher renewable prices and costs and greater PCIA risk. While I agree that these are key variables, between the internally-consistent assumption sets used to forecast all three of these variables and the sensitivity cases, I believe that the Feasibility Study is sufficiently robust. With respect to some specific comments, I first note that while PG&E is larger, any “economies of scale of purchasing” are not pronounced. Most of PG&E’s forecasted generation costs are for projects that are in operation and/or under contract and whose costs are known. Thus, even if PG&E can get better deals on wholesale power, the impact would be marginal. Second, the assumed CCA renewable costs are consistent with published sources for contracts of similar sized agencies. Third, we modeled the PCIA from the bottoms-up so as to be consistent with the other elements of the forecast. While the PCIA will likely be more volatile than our forecast (which is accounted for in the sensitivity runs), given how it is calculated, past values and simple extrapolation do not provide meaningful insight into future PCIA trends.

Loads and forecasts: Mr. Caton found that the forecasted load might be on the low side, particularly if there is rapid increase in electrified transportation. If the Alameda CCA comes to fruition, CCA management should monitor transportation electrification trends and account for it in their ongoing procurement and business plans.

Power Supply and Rate Forecasting. First, Mr. Caton notes that Feasibility Study did not include a rates and bills analysis. I believe that the scope of work was correct in omitting this analysis, as it would be too detailed for a

feasibility study. Second, Mr. Caton discussed the three scenarios,¹ recommending that additional sensitivity analysis be conducted with respect to lower PG&E generation rates, higher renewable prices, higher PCIA charges, and hydro variability. Between the four scenarios analyzed, which were requested and specified by the Steering Committee, and the explicit sensitivity modeling conducted around PG&E rates, renewable prices, and PCIA, I believe that additional sensitivity runs are not needed. In addition, while Mr. Caton's observations that hydro output (and prices) could be volatile is true, the Feasibility Study concentrated on long-run averages rather than year-to-year detail. The Feasibility Study notes that even though a scenario shows CCA costs below PG&E's rates on average, there will likely be isolated years (such as during droughts) when this is not the case, and that the CCA management must be prepared for such occasions by (for example) maintain a cash reserve.

Alignment of the CCA with the City's Energy and Climate Goals. No comments.

Recommendations

Mr. Caton makes a number of recommendations for further study. In general, I concur with his recommendations and suggest that they be integrated into the CCA's procurement, implementation, and/or business plans.

Benchmark against other CCAs. I concur that it is wise to learn from, and collaborate with, other CCAs. Such action should be considered by the JPA when formed.

Rate Design Strategy. Mr. Caton notes that that well-designed rates are important for the success of the Alameda CCA. This is true. I note that in the Feasibility Study, we implicitly assume that the rates charged by the CCA would mirror PG&E's generation rates but for an equal percentage decrement. Details beyond that should be included in any implementation and/or business plan(s).

Assess Value and Risks of Hydro. Mr. Caton notes that there are certain risks associated with the acquisition of hydropower. There are risks, of course, with any particular generation resource, including hydropower. I concur that it is a good idea to address them when the CCA's procurement plan is developed. Still, I believe that the higher-level price sensitivity analyses conducted in the Feasibility Study is sufficiently robust to encompass hydropower price risk.

Opt-out/retention. Mr. Caton accurately notes that opt-out and retention can be impacted by CCA Rates relative to those of PG&E: if prices are higher than PG&E's, then greater opt-out could be expected. While this is of course reasonable, I note that there wasn't wholesale opt-out in MCE territory during periods that MCE's prices were greater than PG&E. My point being, that with an opt-out structure (rather than opt-in), it would take more than an isolated period of higher prices to markedly decrease the CCA participation. In addition, CCA rates that exceed PG&E's rates is a cost-management issue, which as noted in the Feasibility Study can be dealt with using good customer communications, a rate reserve fund, and sound procurement practices.

One point of clarification: The Feasibility Study assumes that current direct access (DA) customers remain on DA service. None are assumed to take power from the CCA.

Overall, most of Mr. Caton's recommendations valuable and are worth consideration by CCA management (if the CCA moves forward), but none require revision or expansion of the final Feasibility Study.

¹ As he was reviewing a Draft Feasibility Study that did not include the Scenario 4 Addendum, he did not comment upon Scenario 4.