

F.2

COMMUNITY CHOICE ENERGY FEASIBILITY STUDY RESULTS

City Council
July 17, 2018

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Presentation Overview

1. County & City of SB Actions Today
2. Background
3. Feasibility Study Overview
4. Feasibility Study Results – Pacific Energy Advisors
5. Comparison to Previous Study
6. Timing and Next Steps
7. Recommendation

1. Today's Actions

- A. County of Santa Barbara
- B. City of Santa Barbara
- C. City of Carpinteria – July 23rd

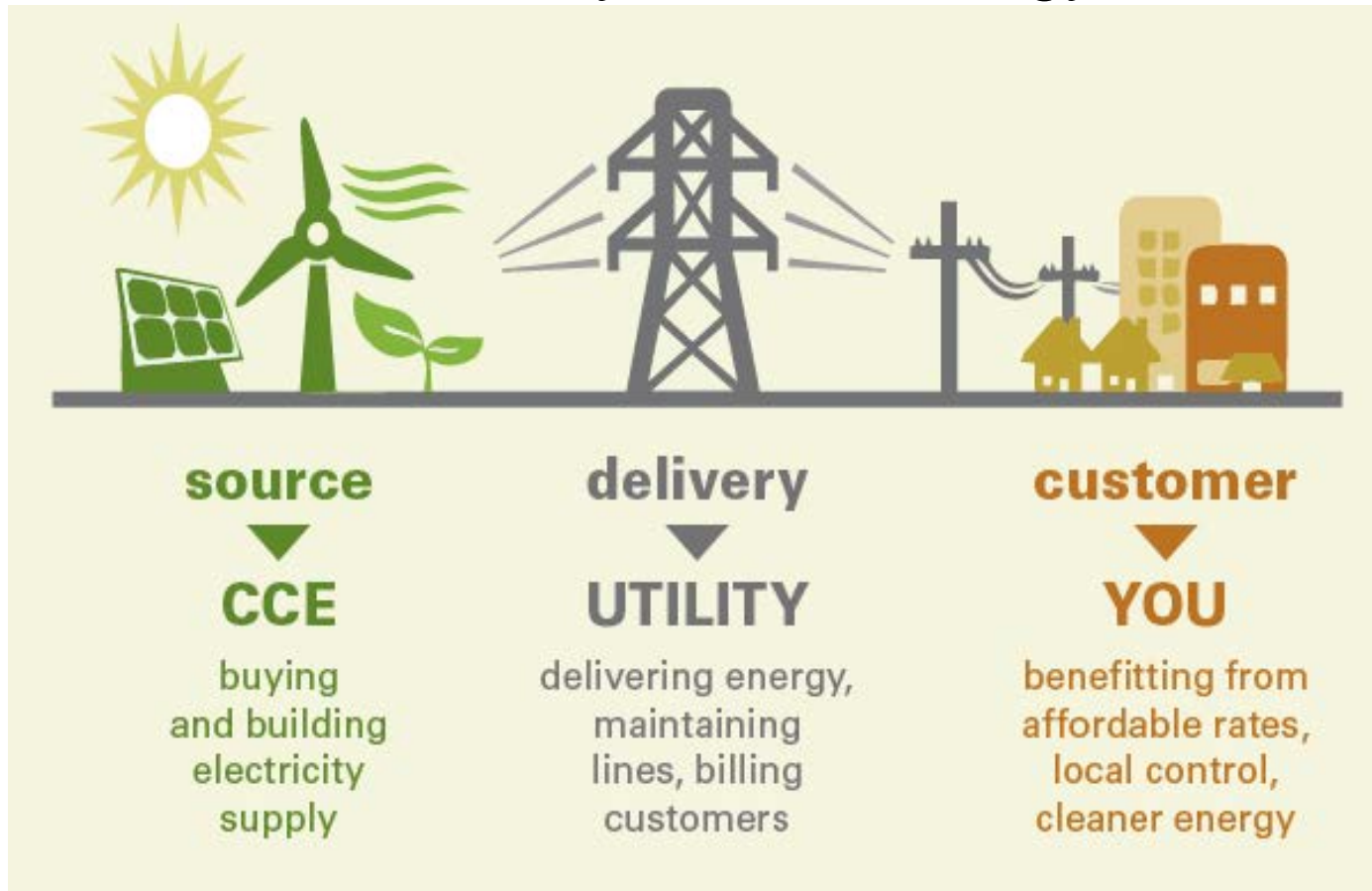
2. Background

A. December 2017 City Council Actions:

- Adopted 100% Renewable Energy Goal
- Received Update on Tri-County Regional CCE Feasibility Study
 - ✓ Finding: Likely Not Viable
- Approved \$7,500 for Additional CCE Feasibility Study
 - ✓ Consistent with CAP Measure CCA-1

2. Background

How Community Choice Energy Works



2. Background

B. Benefits

- Customer Choice about Energy Sources
- Local Control & Reinvestment
 - ✓ Community Focused Incentives & Programs
- Cost Competitiveness
- Support Climate Action Goals

2. Background

C. Risks

- Regulatory
 - ✓ PCIA (Power Charge Indifference Adjustment) or “Exit Fees”
- Customer Opt-Out
- Energy Costs
- Rate Competitiveness

3. Feasibility Study Overview

- A. Pacific Energy Advisors (PEA) Study Funded by:
 - Santa Barbara County
 - Cities of Goleta, Carpinteria & Santa Barbara
 - Community Environmental Council

- B. 3 Geographic Participation Scenarios:
 - All Santa Barbara County
 - Unincorporated Santa Barbara County Only
 - City of Santa Barbara Only

3. Feasibility Study Overview

- C. 3 Electricity Supply Scenarios in both PG&E & SCE Territory:
 - Compliant with the State Renewable Portfolio Standard
 - ✓ (33% Renewable in 2020 to 50% in 2030)
 - 50% Renewable All Years
 - 75% Renewable All Years
- D. 11-Year Study Period (2020-2030)

3. Feasibility Study Results

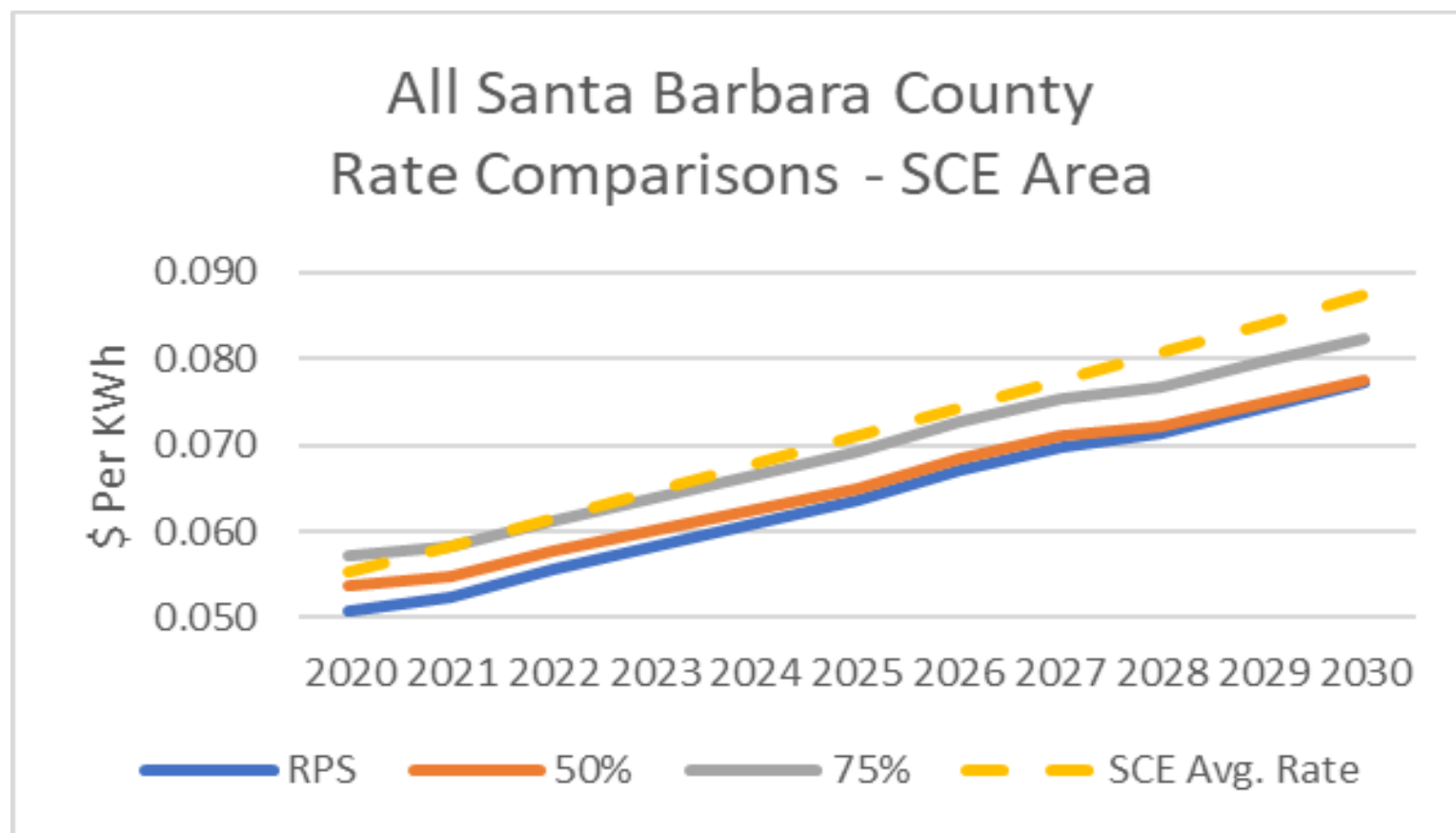
A. Pacific Energy Advisors, Inc. (PEA)

- Kirby Dusel and John Dalesi

Key Assumptions

- Customer opt-out rate of 10% for all scenarios.
- Start-up costs of approximately \$7-10 million, sourced from an 10 year interest-free loan for the City of Santa Barbara only scenario, and a 3% interest-only bank loan with a 1 – year principal balloon payment for All Santa Barbara County and Unincorporated Santa Barbara membership scenarios.
- Annual staffing costs were derived by benchmarking to currently operating CCAs of similar size that range from approximately \$558,000 to \$3,500,000 depending on membership scenario, with corresponding staffing levels ranging from 3 to approximately 20, respectively.
- All scenarios consider a single phase of customer enrollments.

All Santa Barbara County Rate Comparison (SCE Territory Only)



Pro Forma Overview

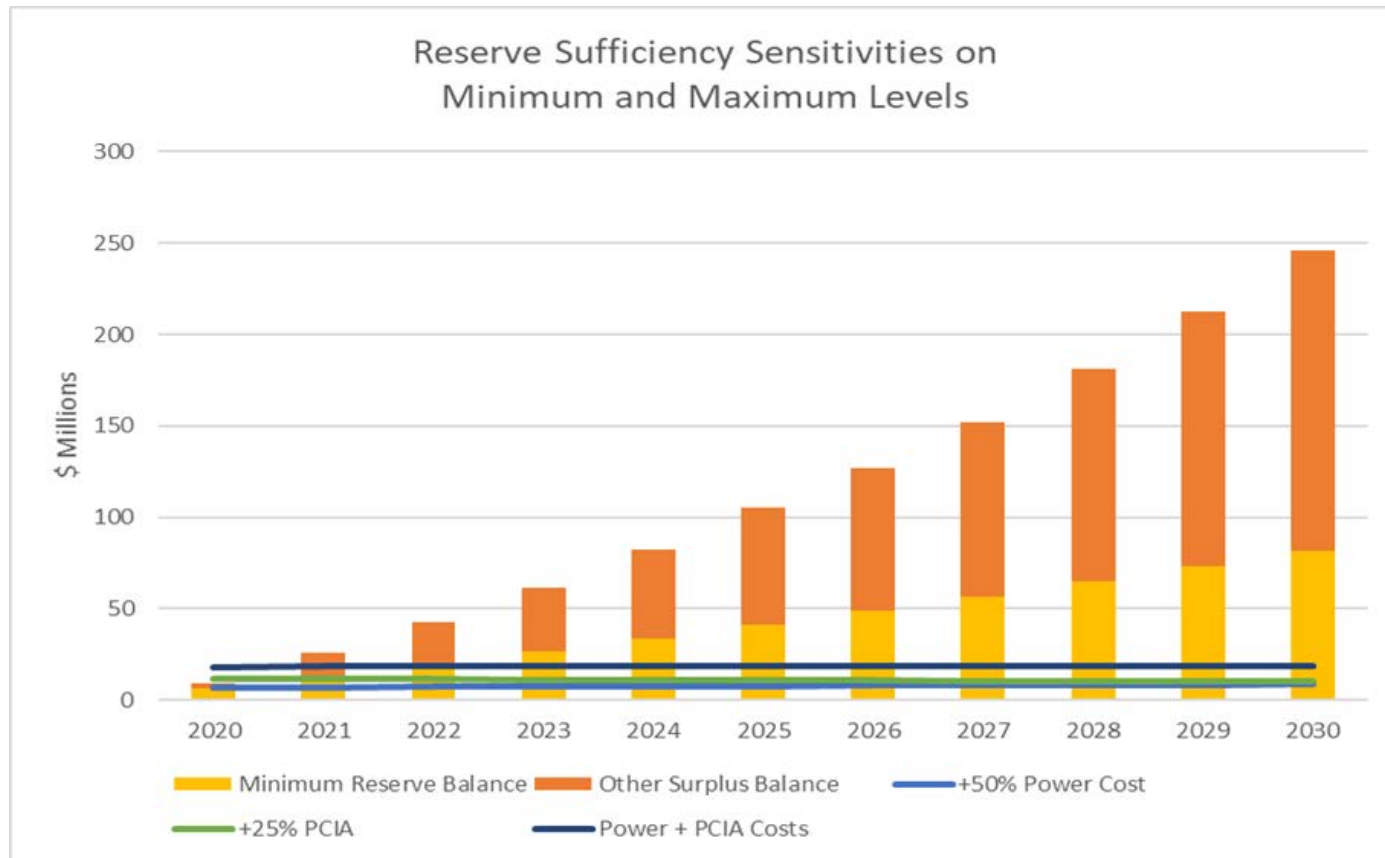
- The pro forma financial results indicate net surpluses would be realized by SBC if it charges similar rates as SCE and PG&E
- In the All Santa Barbara County membership structure, both the RPS-compliant and 50% Renewable Energy Supply scenarios have a net surplus starting in 2020; the 75% Renewable Energy Supply scenario has a net surplus starting in 2021.

All Santa Barbara County 50% Renewable Energy Supply Pro Forma

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| I. Revenue | - | 156,561,067 | 162,162,930 | 167,832,371 | 173,576,391 | 179,401,948 | 185,315,967 | 191,325,356 | 197,437,017 | 203,657,862 | 209,994,821 | 216,454,861 |
| II. Operating Expenses | | | | | | | | | | | | |
| Power Supply | - | 127,017,386 | 135,779,407 | 140,721,284 | 144,444,843 | 148,036,579 | 151,547,796 | 157,963,954 | 161,749,459 | 163,923,925 | 168,531,988 | 173,017,950 |
| Staff | 583,333 | 3,500,000 | 3,587,500 | 3,677,188 | 3,769,117 | 3,863,345 | 3,959,929 | 4,058,927 | 4,160,400 | 3,500,000 | 3,500,000 | 3,500,000 |
| Marketing and Communications | 349,005 | 1,234,676 | 1,164,759 | 1,194,594 | 1,225,196 | 1,256,586 | 1,288,784 | 1,321,810 | 1,355,686 | 1,141,194 | 1,141,900 | 1,142,610 |
| Legal, Consulting, other Prof. Services | 300,000 | 1,500,000 | 1,537,500 | 1,575,938 | 1,615,336 | 1,655,719 | 1,697,112 | 1,739,540 | 1,783,029 | 1,500,000 | 1,500,000 | 1,500,000 |
| Data Management | - | 1,898,527 | 1,908,014 | 1,917,550 | 1,927,134 | 1,936,753 | 1,946,435 | 1,956,166 | 1,965,931 | 1,975,746 | 1,985,623 | 1,995,536 |
| Utility Service Fees | - | 431,280 | 426,917 | 436,131 | 445,605 | 455,346 | 465,364 | 475,666 | 425,709 | 427,814 | 429,931 | 432,056 |
| Miscellaneous Admin. & General | 83,333 | 500,000 | 512,500 | 525,313 | 538,445 | 551,906 | 565,704 | 579,847 | 594,343 | 500,000 | 500,000 | 500,000 |
| Uncollectibles/Other | - | 782,805 | 810,815 | 839,162 | 867,882 | 897,010 | 926,580 | 956,627 | 987,185 | 1,018,289 | 1,049,974 | 1,082,274 |
| Subtotal Operating Expenses | 1,315,672 | 136,864,674 | 145,727,411 | 150,887,158 | 154,833,559 | 158,653,246 | 162,397,704 | 169,052,537 | 173,021,742 | 173,986,968 | 178,639,416 | 183,170,426 |
| Operating Margin | (1,315,672) | 19,696,393 | 16,435,520 | 16,945,213 | 18,742,832 | 20,748,702 | 22,918,263 | 22,272,819 | 24,415,275 | 29,670,894 | 31,355,405 | 33,284,434 |
| III. Financing | | | | | | | | | | | | |
| Startup Funding Repayment | 102,500 | 9,167,500 | - | - | - | - | - | - | - | - | - | - |
| Reserve Contribution | - | 6,262,443 | 6,486,517 | 6,713,295 | 6,943,056 | 7,176,078 | 7,412,639 | 7,653,014 | 7,897,481 | 8,146,314 | 8,399,793 | 8,658,194 |
| Subtotal Financing | 102,500 | 15,429,943 | 6,486,517 | 6,713,295 | 6,943,056 | 7,176,078 | 7,412,639 | 7,653,014 | 7,897,481 | 8,146,314 | 8,399,793 | 8,658,194 |
| IV. Total Revenue Requirement | 1,418,172 | 152,294,617 | 152,213,928 | 157,600,453 | 161,776,615 | 165,829,323 | 169,810,343 | 176,705,551 | 180,919,223 | 182,133,282 | 187,039,209 | 191,828,621 |
| V. Net Surplus/(Deficit) | (1,418,172) | 4,266,450 | 9,949,003 | 10,231,918 | 11,799,776 | 13,572,624 | 15,505,624 | 14,619,805 | 16,517,794 | 21,524,579 | 22,955,612 | 24,626,240 |
| VI. Cumulative Reserve | - | 6,262,443 | 12,748,960 | 19,462,255 | 26,405,310 | 33,581,388 | 40,994,027 | 48,647,041 | 56,544,522 | 64,690,836 | 73,090,629 | 81,748,824 |
| VII. Cumulative Net Surplus | (1,418,172) | 2,848,278 | 12,797,281 | 23,029,199 | 34,828,975 | 48,401,599 | 63,907,223 | 78,527,028 | 95,044,823 | 116,569,402 | 139,525,014 | 164,151,254 |
| VIII. Program Average Rate (\$/MWh) | - | 65.8 | 67.8 | 69.8 | 71.9 | 73.9 | 75.9 | 78.0 | 80.1 | 82.2 | 84.4 | 86.5 |
| IX. Power Supply (\$/MWh) | - | 53.4 | 56.8 | 58.5 | 59.8 | 61.0 | 62.1 | 64.4 | 65.6 | 66.2 | 67.7 | 69.2 |
| X. Program Average Cost (\$/MWh) | - | 64.0 | 63.6 | 65.6 | 67.0 | 68.3 | 69.6 | 72.1 | 73.4 | 73.5 | 75.1 | 76.7 |
| XI. Annual Sales (MWh) | - | 2,379,904 | 2,391,804 | 2,403,763 | 2,415,782 | 2,427,861 | 2,440,000 | 2,452,200 | 2,464,461 | 2,476,783 | 2,489,167 | 2,501,613 |

Stress Analyses on Reserves

- Accumulated reserves are projected to sufficiently cover the two largest risks by 2021.



Key Risks and Uncertainties

- Market price risk (i.e., open positions may be higher cost if market prices rise)
- PG&E/SCE generation rates and exit fees (e.g., PCIA) may be more or less than projected impacting the CCA's rates and revenues
- Customer load risk (i.e., opt out rates may be higher than expected, growth of distributed energy resources is much higher than anticipated, etc.)
- Regulatory/legislative risk; uncertainty on how new legislation may impede the future growth of CCAs (i.e., the California Public Utilities Commission recently published a "Green Book" that poses the risks of customer choice)

5. Comparison to Previous Study

Consultant Assumptions Compared to Operational CCE Reported Values

| Consultant | Power Costs | Start-Up Capital | Financial Reserve | Staffing |
|----------------------|---|----------------------------------|---|----------------------------------|
| PEA | At high end, but in line with CCE reported values | In line with CCE reported values | At low end, but in line with CCE reported values | In line with CCE reported values |
| Willdan | Higher than CCE reported values | Higher than CCE reported values | Higher than CCE reported values | Higher than CCE reported values |
| MRW (Peer Review) | At high end, but in line with CCE reported values | In line with CCE reported values | At high end, but in line with CCE reported values | Higher than CCE reported values |

5. Comparison to Previous Study

PEA Results Summary – All County Scenario 50% Renewable

| Start Up Capital | Break Even Year | New Surplus/Deficit | | Residential Customer Bill (\$/Year) | | |
|------------------|-----------------|---------------------|----------|-------------------------------------|--------|---------|
| | | Year 1 | Year 11 | | Year 1 | Year 11 |
| \$9.3 M | Year 1 | \$4.3 M | \$24.6 M | PG&E | \$11 ↓ | \$51 ↓ |
| | | | | SCE | \$8 ↓ | \$55 ↓ |

6. Timing and Next Steps

A. Likely Earliest Launch January 2021

- CPUC Requirements – Implementation Plans
- JPA Agreement Negotiation & Operating Guidelines

6. Timing and Next Steps

B. Resolution of Intent

- Non-Binding as to:
 - ✓ JPA Membership
 - ✓ Allocation of Funds
 - ✓ CCE Program Participation

C. Return to City Council for:

- Resolution for JPA Membership
- Authorize Financial Participation (Amount TBD)
- Adopt CCE Ordinance

7. Recommendation

A. Energy / Green Issues City Council Standing Committee

- June 13, 2018 Meeting
- Recommendation: Bring Forward to Full Council and Support Adoption of a Resolution of Intent

7. City Council Recommendation

1. Receive a Report on Results of the SB County CCE Technical Study
2. Adopt Resolution of Intent to Participate in Governance & Financing Discussions for a Proposed CCE JPA