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Frequently Asked Questions About
Community Choice Aggregation
City of Oakland
Compiled by Navigant, Inc.

Introduction
These frequently asked questions (FAQs) are designed for the City of Oakland to assist in understanding some of the major issues and concerns regarding the operation of a community choice aggregation (CCA) program. The questions are divided into five major sections: (1) What is CCA? (2) How does CCA impact a city's/county's relationship with PG&E? (3) Does CCA create new risks for a city/county? (4) Where will the power supply come from? (5) How will CCA be financed?

CCA Overview
Q: What is Community Choice Aggregation?

A: CCA provides an opportunity for local governments (cities, counties, or combinations of cities and counties) to purchase electricity on behalf of their constituents. CCA allows local governments to potentially combine the electricity requirements of all of their constituents in order to access the competitive electricity market with more purchasing authority. It also provides the opportunity for local leaders or communities to make decisions regarding the "green" content of the electricity consumed locally.

Q: How does a CCA Program work? Is it a big change from today?

A: CCA is only for the purchase of electricity. The delivery, metering, billing, operation and maintenance of wires remains the responsibility of the local utility. All customers are in the program unless they exercise their right to opt-out and remain with PG&E.

Q: Who can participate in a CCA Program?

A: All electricity customers within the jurisdictional boundaries of the aggregator are allowed to participate in the CCA Program. However, the customer has the explicit right to "opt out" of a CCA Program.

Q: Has CCA been done anywhere else?

A: Yes, this isn't a new concept or a theory. California's CCA law was crafted in the mirror image of Ohio's electric choice law. Both California and Ohio's CCA programs enable local governments to pool their residents together and purchase electric service. This process is known as electric aggregation and accounts for the vast majority of residential consumers who have switched to new suppliers.

Q: Has the Ohio CCA been successful?

A: Yes. So far, over 200 Ohio communities have decided to aggregate. The majority of these communities are in the northern part of the state. However, ballot issues have been approved by voters in a number of communities in central and southwestern Ohio.

Q: What benefits does a CCA provide to the City of Oakland?

A: An Oakland JPA would be a community-based nonprofit public agency offering new public benefits and competitive advantages that are not being maximized today, including the following:

- **Local Accountability** – communal resources such as water and electricity have been historically better managed and accounted for under local control.
- **Affordable Renewable [green] Resources** – participants can enjoy all the benefits of non-polluting resources at an affordable price rather than environmentally friendly resource mixes utilized today.
- **Consumer Savings** – because a JPA would be a not-for-profit organization with a lower cost of capital than the existing utility, rate stability or reductions are possible.
- ***Feasibility Study Savings*** - *Oakland CCA program should achieve* nominal electricity cost savings averaging over $17.9 million per year, equivalent to approximately 5% of total electricity bills.
- **New Source of Revenues** - electric cost savings could be used for various purposes such as rate reductions, general funds for the city, additional conservation programs, rate stability fund, or other public purpose programs.
- **Greater Reliability** – to the extent that resources are local and not subject to general curtail ability, the effects of outages as we've seen in past summers will be mitigated.

Q: Is CCA the same as forming a municipal utility?

A: No! Under CCA, the local community is merely contracting for power supply (electricity). The electricity will be delivered to your home or business over the existing wires owned, operated, and maintained by PG&E. The customer will see no difference in service between taking power from the CCA or from the traditional utility. In fact, the customer will continue to receive a single bill for electricity that will continue to be issued and paid to the incumbent utility. Forming a municipal utility would include replacing the existing utility (either via new construction of wires or condemnation of existing wires) with a locally owned utility. CCA does not in any way involve a change in how the electricity is delivered to the customer.

Q: Who do my citizens call if their power goes out?

A: The incumbent utility (PG&E) continues to be responsible for (and is paid to) perform all operation and maintenance of the wires infrastructure that delivers electricity to residences and businesses. The reliable delivery of electricity remains the incumbent utility's primary responsibility. Any issues with electricity interruption will continue to be directed to and addressed by PG&E.

Q: Where are we in the process right now?

A: Navigant Consulting, Inc. has completed a CCA Feasibility Study for the City of Oakland which completes all the requirements of Phase 1. The feasibility study answered the question of whether or not a CCA for Oakland is an economically viable choice. If the City of Oakland chooses to proceed it moves on to the Phase 2 which involves an implementation plan [business plan] to be submitted to the CPUC. If the CPUC approves the implementation plan, the City of Oakland can then decide whether to implement the CPUC approved plan under Phase 3.

Q: What other Demonstration Project Participants are budgeting for Track 2 involvement?

A: Currently, within PG&E's service territory, Marin County, Pleasanton, Richmond, Berkeley, and Emeryville are budgeting for the development of Track 2 & 3. It is probable Marin County will do their own JPA and attempt to attract neighboring counties and cities such as Sonoma County. Others in the demonstration Project are considering going it alone or partnering with neighboring communities or staying within the consortium. It is important to note that whether there is one JPA or more does not diminish the individual benefits in the feasibility studies. If there were several JPA's, economies of scale and savings can still be achieved by sharing common technical and administrative resources.

Relationship with existing utility

Q: What impact will CCA have on my city's franchise fee?

A: CCA will not at all impact the amount of franchise fee that your city currently receives from PG&E. In fact, the investor-owned utilities (IOUs) (PG&E, and SCE) have recently filed their CCA tariffs with the California Public Utilities Commission (CPUC). These tariffs provide for a charge to CCA customers that will insure that the host IOU will continue to make full franchise fee payments to the City. Therefore, the City will continue to receive the same payment from PG&E for franchise fees under the CCA program as you would receive if the City did nothing.

Q: Will implementing a CCA program negatively impact my city's relationship with PG&E?

A: Implementation of a CCA program should in no way negatively impact a city's relationship with the incumbent utility. CCA is a California law that PG&E supported and which directs the complete cooperation and assistance of the host IOU to implementing cities/counties. PG&E will continue to have a franchise agreement with the City, be responsible for operations and maintenance of the distribution facilities (lines, poles, meters, substations) within the City and will continue to be an important member of the community. A CCA program may well result in increased coordination and interaction between your city and PG&E on matters regarding power delivery, billing, public purpose programs, and other utility matters.

Q: Will implementing a CCA program cause delays in PG&E's distribution system expansion and the hook-up of new customers?

A: California law mandates CCA, and the California IOUs are directed to support and cooperate with all cities and counties that implement CCA. Whether or not a city elects to implement a CCA program should have no impact on PG&E's distribution expansion efforts with your city. Rule 15 and Rule 16 at the CPUC govern distribution system expansion and attaching new customers to the electric grid. All of California's IOUs have filings on how they implement Rules 15 and 16, which do not allow for discrimination in how system expansion and customer hook-ups are administered. CCA does not in any way impact these rules or requirements of the IOUs.

What risks does a CCA Program Face?

Q: Will a CCA Program impact the reliable delivery of electricity?

A: Participation in a CCA Program will not in any way impact the delivery of electricity to your city or to your constituents. Before a CCA Program can begin, an implementation plan must be approved by the CPUC. That implementation plan will describe where the electricity is going to be purchased from and who will schedule the electricity. In essence, the CCA will procure and schedule electricity via a scheduling coordinator (a professional energy company) just like PG&E purchases and schedules energy. Once the electricity is scheduled, the state's transmission operator and PG&E will not see any difference between the CCA electricity and that of the IOUs.

Q: Will the CCA Program have Energy Portfolio Risk?

A: The development of a power supply, diversity, and risk management of the power supply should all be clearly addressed and developed as part of a CCA Implementation Plan. A portfolio with a mix of either owned generation or long-term contracts, combined with short-term or seasonal contracts that have either supplier or fuel diversity can minimize portfolio

risk. Alternatively, a CCA aggregator can contract with a third party to purchase energy at a fixed price; this approach removes the portfolio risk, but also removes a portion of the CCA upside.

Q: If the majority of the electricity is from a gas-fired plant, doesn't that expose the CCA to fuel risk?

A: For a CCA Program being supplied by a local generation resource (natural gas or other fuel) there may be some fuel risk. In the past four years we have experienced a significant increase in the cost of natural gas. However, the overwhelming majority of all new power plants in California (and the West) are gas-fired. Therefore, the market price for electricity is closely tied to the price of natural gas. For a CCA Program, the ability to go to the market and competitively solicit not only natural gas, but also a marketing agent for natural gas gives the CCA provider the ability to tap the very best natural gas specialists rather than relying on the existing staff at the host IOU.

Q: If the majority of the electricity is from a single gas-fired plant, what happens if the plant is not running?

A: Under this scenario, the electricity provider will have agreements in place in the event that the power plant is unable to run. This part of the overall risk management strategy will be put in place as part of both the CCA Implementation Plan and the actual implementation of the CCA Program. In addition, routine maintenance will be scheduled to coincide with low demand periods when contracts will be in place to cover the energy requirements. Industry rules also require specific reserve levels to protect the reliability of the supplier in the event that the generation plant experiences outages.

Q: How can we make this CCA Program work more cheaply or better than the IOU, which has over a hundred of years of experience?

A: The City is not attempting to do CCA by itself. Rather it is pursuing a program with the assistance of energy professionals and it will be competitively bidding several different components of the overall CCA Program. The City will be able to tap the very best that a competitive market has to offer with multiple suppliers for each service, rather than have the current monopoly supplier (PG&E) provide all services.

Q: What risk does the CCA have if customers defect back to PG&E or another provider?

A: Even though all customers will have the opportunity to "opt-out" of the CCA Program prior to its initiation, less than 8% of all loads in Ohio's CCA have opted-out. Once 60 days after initial period has passed, the CCA Program will have "exit fees" (similar to those that we will be paying to PG&E) for customers that opt-out of the CCA Program. This feature will ensure that the costs for the power supply and agreements entered into

on behalf of the initial customer base will be paid for by the customer base. This risk is further minimized by buying a 60-day power purchase contract for the initial CCA opt-out period.

Q: How do we guarantee that the CCA rates will be lower than PG&E's in the future?

A: There are no guarantees that the CCA rates for electricity will always be lower than PG&E's. However, *the following facts lead us to believe that* the CCA Program rates will be lower than PG&E's: (1) the locally administered CCA program has no profit margin on power supply (if PG&E owns the generation it will have a return on investment of approximately 11 percent); (2) the goal of the CCA Program is to provide value (savings) to the local community not value (profits) to shareholders; (3) if the CCA Program owns generation it can finance 100 percent of that generation, likely with tax-exempt bonds; (4) the CCA will not be required to pay federal income taxes; and (5) on average PG&E's rates have increased by 4.8 percent annually over the past 25 years.

Q: Have all of the CCA Rules been established at the CPUC?

A: The CPUC bifurcated its rulemaking for CCA into two phases. The CPUC issued a final order in Phase I of the rulemaking in December 2004. Phase I focused on the economics of CCA primarily addressing exit fees and overall structure of a CCA program. Phase II is currently ongoing at the CPUC with an expected decision in late summer early fall 2005. Several potential CCA parties are actively involved at the CPUC to protect CCA provider rights and help influence the CPUC's decision.

Q: Is there state regulatory oversight for CCA?

A: A CCA is required to file an implementation plan with the CPUC. The CPUC is charged with reviewing and approving the implementation plan prior to the start of the CCA program.

Q: Community Checks and Balances?

A: A CCA/JPA can be perceived more as a fundraising mechanism for the General fund or other pet purposes if the committee does not believe the cost savings are being managed responsibly. Most of these checks and balances can be achieved in the government structure and committee structures of a JPA/CCA.

Q: Isn't it impossible to have cost savings because of the exit fees?

A: Exit fees or the "cost responsibility surcharge" (CRS) was one of the primary issues associated with Phase I of the CCA Rulemaking at the CPUC. The CRS is designed to hold harmless the captive customers of the incumbent utilities (those customers who do not take advantage of CCA). The exit fees are structured to represent PG&E costs that are above the market price for electricity. Therefore, if the CCA purchases

electricity in the competitive market the price comparison to the existing utility should be zero.

Q: Will the PG&E purchase further resources on Oakland's behalf?

A: Only if you do nothing or request them to do so. But, if you wait too long PG&E shall procure further resources on your behalf. If they do, your Exit fees or the "cost responsibility surcharge" (CRS) will go up accordingly. It is in your interests to submit your implementation plan to the CPUC by the end of summer. This requires that Phase 2 work begin on or around July 2005.

Where will the CCA purchase its electricity?

Q: Where will the CCA get its electricity?

A: There are essentially two strategies for the CCA to obtain the necessary electricity to serve its customer base: (1) contractual strategy; and (2) asset ownership. Under the contracting strategy the CCA provider would access the competitive wholesale electricity market and have numerous suppliers provide competitive bids to meet the energy requirements of the CCA. Under the asset ownership strategy, the CCA provider would meet all or a portion of its electricity requirement through the development of generation assets.

Q: How are there cost savings from owning assets?

A: Asset ownership could result in significant cost savings for the CCA because: (1) no profit margin; (2) ability to use tax-exempt financing; (3) ability to use 100 percent debt financing; and (4) exemption from property and income taxes.

Q: Must a CCA meet California's renewable portfolio standard (RPS)?

A: Yes. The enabling legislation for CCA requires that CCA providers meet the same RPS standards as the IOUs. That requirement is to purchase at least 20 % of all electricity consumed from qualifying renewable resources by 2017.

Q: Can the CCA exceed the RPS?

A: Yes. In fact several cities and counties across California are currently developing CCA programs designed to double the RPS requirement.

Q: Is it true that CCA could significantly foster the development of a renewable energy market?

A: YES! Not only are several potential CCA programs looking at potentially doubling the RPS requirement, but any city or county that pursues CCA will start from a basis of zero (0) percent renewable resources. This will require the CCA provider to contract for or develop all the renewable energy supply. By comparison SCE is currently at 18 percent and PG&E is at 13 percent of total load from renewable resources. This is not

because PG&E and SCE have recently gone out and developed or contracted for all of this renewable energy. Rather, the utilities have reclassified existing mandatory contracts as renewables. Therefore, CCA provides an excellent opportunity for fostering a robust renewable energy market in California.

How is a CCA Program Financed?

Q: What are the start-up costs for CCA? How are the start-up costs to be funded?

A: Initial costs for a CCA program include the costs to develop an implementation plan, file that plan before the CPUC, and begin the implementation process once the plan is approved. The total costs for these activities are expected to be several hundred thousand dollars. The CCA provider will also need working capital to begin operation of the CCA program (exact amounts to be developed in the implementation plan). The costs for these activities can come from multiple sources including: existing funds, via some form of bridge financing, or from a third-party *(future energy supplier, scheduling coordinator, or other)*.

Q: Will my city/county need to "float" bonds to participate in CCA?

A: No. One option to fund start-up costs is via a development bond, commercial paper or other short-term financing. Other options exist, including having a future supplier cover these costs. Of course, the carrying costs of using a for-profit entity may be significant.

Q: If an asset ownership is pursued, how will the infrastructure projects be financed?

A: It is anticipated that a CCA provider pursuing infrastructure projects (generation resources) will finance 100 percent of the project with tax-exempt bonds. The bonds will be backed by the ability of the CCA provider to set electricity rates for the sale of electricity to its customers or via other power sales agreements entered into by the CCA provider.