

CITY OF OAKLAND
AGENDA REPORT

OFFICE OF THE CITY CLERK
OAKLAND
2005 JUN 16 PM 6:28

TO: Office of the City Administrator
ATTN: Deborah Edgerly
FROM: Mayor's Office, Sustainability Programs
DATE: June 28, 2005

RE: A SUPPLEMENTAL TO THE REPORT ON THE RESULTS OF A FEASIBILITY ANALYSIS OF COMMUNITY CHOICE AGGREGATION FOR THE CITY OF OAKLAND. COMMUNITY CHOICE AGGREGATION REFERS TO THE ABILITY OF THE CITY TO AGGREGATE THE ELECTRIC LOADS OF ELECTRIC CUSTOMERS WITHIN CITY BOUNDARIES TO FACILITATE THE PURCHASE AND SALE OF ELECTRICITY.

A RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR TO: 1) APPROVE AND SEND A LETTER OF INTENT TO THE CALIFORNIA PUBLIC UTILITIES COMMISSION (CPUC) STATING OAKLAND'S INTENT TO BECOME A COMMUNITY CHOICE AGGREGATOR PENDING FINAL RESULTS OF THE IMPLEMENTATION PLAN; AND 2) NEGOTIATE JOINT CCA EFFORTS WITH OTHER BAY AREA CITIES

Staff provided a briefing on Community Choice Aggregation to the Public Works committee on June 14, 2005. The following three questions came up and are addressed in this supplemental report below.

1. **Clarification on Rates Oakland Customers are Currently Paying:** On page 7 of the original agenda report, the third paragraph under the heading *Cost Savings (and their counterweight in the form of Exit Fees or Cost Responsibility Surcharges)* caused some confusion about rates the City of Oakland pays. The original paragraph reads as follows:

The Cost Responsibility Surcharge (CRS) is calculated as if the City served a mix of customers identical to the mix of customers on PG&E's entire system. However, the actual customer mix within the City is more heavily weighted towards commercial and industrial customers, which subsidize the residential customer class under PG&E's current rate structure. The average generation rates paid to PG&E by customers within the City are approximately 5% higher than the average of all customers within PG&E's service territory, improving the financial feasibility of implementing a CCA program in Oakland.

The point we were attempting to make here is that 1) the rates charged by PG&E for generation services differ by customer class (residential, commercial, industrial); 2) the PG&E generation rates are highest for commercial customers; 3) there are a relatively high number of commercial customers within the City of Oakland as compared to the PG&E service territory as a whole; 4)

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because the City has more customers that pay relatively high rates and fewer customers that pay relatively low rates, the overall average rate currently paid by customers located within the City is higher than the overall average of customers located with the entire PG&E service territory. These facts make it easier for the CCA to provide electricity at a lower cost than the rates charged by PG&E.

2. What is Ohio's Investment Strategy Relative to Generation Resources?

The program in Ohio is somewhat different than in California because customers have the opportunity to opt-out every two years. This feature makes it difficult for the cities to invest in generation resources due to the risk that customers would subsequently opt-out of the program. As a result of this feature, the CCA cities in Ohio jointly negotiated a supply contract with an energy service provider that provides guaranteed savings to customers (currently 6% for residential and 4% for commercial customers). There has not been any CCA investment in generation resources in Ohio.

The analysis performed by Navigant Consulting Inc., (NCI) shows that Oakland should be able to contract for electricity at a discount to PG&E rates for several years without requiring any investment in generation resources although investment in generation would increase the savings available to Oakland's customers. For a breakdown of the costs and savings available to an Oakland CCA in the preferred base case supply scenario, which includes investment in generation resources and would achieve 50% renewables in the energy portfolio by 2017, see page 60 of the Base Case Feasibility Evaluation Report. For a breakdown of the costs and savings to an Oakland CCA in four alternative scenarios that were also considered, see Appendix F on page 131 of the report. Alternative Scenarios 1 and 2 include no investment in generation resources, with 20% and 40% renewables in the portfolio, respectively. Alternative Scenarios 3 and 4 include investment in generation resources with 20% and 40% renewables in the portfolio, respectively.


3. Could Oakland's CCA rates exceed PG&E's if the Cost Responsibility Surcharges (Exit Fees) are high, especially in the first few years of the CCA?

A high Cost Responsibility Surcharge (CRS) case sensitivity was run (pp. 64 and 65 of the Base Case Feasibility Report) that shows the impact if the CRS is 50% higher than the base case assumption. Under that extreme scenario, CCA program rates could be 1% to 3% higher than those of PG&E in the first three years, before the program begins generating cost savings. The high CRS case represents essentially a worst-case scenario regarding the impact of the CRS. If it appears that the CRS will be higher than projected, the City can phase in the program to mitigate the cost impacts and maintain rates at or below those of PG&E.

RECOMMENDATION

Staff recommends that the Council receive this supplemental report and the original agenda report on the feasibility of Community Choice Aggregation for Oakland; approve the resolution to submit a letter of intent from the City to the California Public Utilities Commission (CPUC) stating Oakland's intent to become an aggregator pending final results and recommendations of the Implementation Plan; and authorize staff to negotiate with other Bay Area communities about the feasibility and benefits of forming a JPA for the purposes of developing and implementing a CCA program in Oakland.

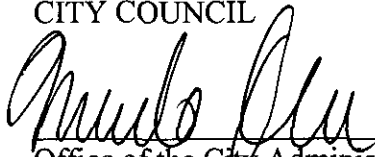
Respectfully submitted,


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APPROVED FOR FORWARDING TO
CITY COUNCIL


Office of the City Administrator