

**COMMUNITY CHOICE AGGREGATION  
REPORT TO THE CALIFORNIA LEGISLATURE**

*Pursuant to Assembly Bill 117  
(2001-2002 Session)*

California Public Utilities Commission  
January 1, 2006

## Report Submitted Pursuant AB 117

This report is submitted to the Legislature pursuant to Assembly Bill (AB) 117 and in compliance with Section 366.2 (j) of the Public Utilities (P.U.) Code, which directed the California Public Utilities Commission (Commission) to "...prepare and submit to the Legislature, on or before January 1, 2006, a report regarding the number of community choices [sic] aggregations, the number of customers served by community choice aggregations, third party suppliers to community choice aggregations, compliance with this section, and the overall effectiveness of community choice aggregation programs."

There are currently no local governments in California that have implemented a Community Choice Aggregation (CCA) program, although the City and County of San Francisco (CCSF) and the City of Chula Vista have stated their intent to submit an implementation plan to the Commission soon after the adoption of the Phase Two Decision.

### **What is a Community Choice Aggregation Program?**

A CCA program enables local governments – i.e. cities, counties, or a combination of cities and/or counties – to aggregate the electric load of the residents, businesses, and municipal facilities that are located within their city or county limits and enter into electric power contracts on their behalf.

In order to implement a CCA program, local governments will need to register with the Commission as CCAs, submit their CCA implementation plan to the Commission, and give customers an opportunity to opt-out of the CCA program, before being able to begin providing procurement services as CCAs. Once the program is implemented, CCA customers will pay the electric commodity cost to their CCA and pay distribution and transmission service costs to the investor-owned utility in whose service territory they are located.

A customer that chooses not to opt-out of the CCA program initially has the option to opt-out of the program in the future, whereby that customer would receive procurement service from the utility as a bundled service customer.

The CCAs will provide electric services to different customer classes in phases, which will enable them to gradually get into the procurement business. Under P.U. Code Section 366.2 (b), all CCAs must offer procurement services to residential customers.

In adopting the Phase One Decision, D. 04-12-046, on December 16, 2004, the Commission addressed the CCA program's implementation and transaction costs, adopted cost allocation and ratemaking principles for utility services offered to CCAs, created conditions under which CCAs can acquire customer information from the utilities, adopted a methodology for calculating the Cost Responsibility Surcharge (CRS), and on an interim basis, set the CRS at 2.0 cents per kWh.

The Commission adopted the Phase Two Decision, D. 05-12-041, on December 15, 2005. Among the various issues that the Phase Two Decision addressed are CCA customer notice, operational protocols between the utilities and the CCAs, and the scope of the Commission's jurisdiction over the CCAs. The Phase Two Decision also specified a process that local governments must follow in order to be registered as CCAs by the Commission.

The Commission's formal work on these matters conforms with all the relevant sections of AB 117.

## Commission CCA Proceeding Had Two Phases

Rulemaking 03-10-003 was instituted by a Commission Order filed on October 2, 2003 for the purpose of implementing those portions of AB 117 concerning Community Choice Aggregation.

Following a pre-hearing conference on November 26, 2003, the Commission decided to bifurcate the proceeding into two phases in order for the Commission to consider, in the first phase, those issues relating to certain utility costs that would be assumed by CCAs and later, in the second phase, issues concerning the implementation protocols between CCAs, utilities, and energy customers.

Evidentiary hearings were held from June 2, 2004 through June 10, 2004, which led to the Commission's adoption of the Phase One Decision, D. 04-12-046, on December 16, 2004.

As previously noted, the Phase One Decision addressed the CCA program's implementation and transaction costs, adopted cost allocation and ratemaking principles for utility services offered to CCAs.

It also created conditions under which CCAs can acquire customer information from the utilities, adopted a methodology for calculating the Cost Responsibility Surcharge (CRS), and on an interim basis, set the CRS at 2.0 cents per kWh.<sup>1</sup>

The Commission conducted a pre-hearing conference for the second phase of this proceeding on January 25, 2005. It held workshops throughout the month of March of 2005 and hearings in May and June. On December 15, 2005, the Commission adopted its Phase Two Decision, D. 05-12-041.

The Phase Two Decision, as stated earlier, resolved the outstanding transition and implementation issues such as customer notice, customer protection, operational protocols, billing, metering and distribution services, reentry/switching fees, and CARE discounts, in addition to determining cost responsibility for individual CCAs, known as CRS "vintaging."

### **Why Will CCA Customers Pay the CRS?**

The collection of the Cost Responsibility Surcharge (CRS) assures that the utilities' remaining bundled customers will remain financially indifferent to the departure of load from bundled service to a CCA Program's procurement portfolio. Essentially, the departure of customers from the utility to a CCA should not result in stranded costs that the utility's remaining bundled customers would have to pay.

The 2.0 cent/kWh CRS will be allocated for the payment of such charges as the competition transition charge (CTC), the DWR Bond charge, and any uneconomic portion of the DWR power contracts, which is collected through a charge that is referred to as the DWR Power charge.

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<sup>1</sup> Unlike Direct Access customers, who currently pay a 2.7 cent/kWh CRS, CCA customers will not have an obligation to pay a CRS undercollection (which began accruing in 2002) in addition to the current year's CRS obligation. CCA customers only have to pay those charges that begin accruing on the year that their respective CCA begins providing service; hence, the Commission has determined that setting the CCA CRS at an interim rate of 2.0 cents/kWh is adequate, but should be re-evaluated in no later than 18 months.

## Proceeding Participants Included Local Governments, Utilities, And Other Intervenors

The utilities that have participated in the Commission’s CCA proceeding are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas and Electric (SDG&E), identified in the proceeding as “the Utilities” when submitting jointly filed briefs.

Representing the interests of the CCAs were the City and County of San Francisco (CCSF), the City of Moreno Valley, Community Environmental Council, the Local Government Commission, the County of Los Angeles, and the City of Chula Vista. When filing joint briefs, these parties referred to themselves as “CCA Community and Supporters.”

Other parties that have participated in the proceeding are the Office of Ratepayer Advocates (ORA), Local Power, The Utility Reform Network (TURN) – formerly known as the Toward Utility Rate Normalization – Energy Choice, Inc. (ECI) and the King’s River Conservation District (KRCD). The California Department of Water Resources (DWR) and its consultant Navigant Inc. assisted the Commission with calculations and estimates related to the delivery of “in-kind” power and the modeling of stranded costs.

## CCA Service To Customers Appears Imminent In Two Cities

There are currently no CCAs that are providing electric procurement services to California customers. However, CCSF and the City of Chula Vista have taken the following steps in order to implement procurement services for local residents and business.

San Francisco approved Ordinance 0086-04 in May 27, 2004, which required the San Francisco Public Utilities Commission (SFPUC) to create a CCA draft implementation plan.<sup>2</sup> In its draft implementation plan, SFPUC forecasts that in a best case scenario, CCSF’s proposed CCA program could save the City and County close to \$700 million over 30 years, representing a total net present value savings of \$266 million.<sup>3</sup> The SFPUC estimates that as a CCA, CCSF could account for up to 5% of PG&E’s energy sales, making CCSF the largest single electric customer in California and giving it sufficient market power that SFPUC believes will enable CCSF to establish an effective CCA program.<sup>4</sup>

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<sup>2</sup> A final implementation plan will be submitted by SFPUC after the California Public Utilities Commission has approved the Phase Two decision in this proceeding.

<sup>3</sup> CCSF Community Choice Aggregation Draft Implementation Plan, p 6 and fn 5.

<sup>4</sup> CCSF Community Choice Aggregation Draft Implementation Plan, p 10.

CCSF has stated that a resolution to Phase Two issues must occur – such as customer notice, operational protocols, and the determination of cost responsibility protocols for individual CCAs – before CCAs can file their respective implementation plans. Given the Commission’s adoption of its Phase Two Decision on December 15, 2005, CCSF estimates that it can start delivering power as a CCA to electric customers as soon as March of 2007, assuming CCSF can meet various other milestones based on AB 117 requirements and its own City Ordinance.<sup>5</sup>

The City of Chula Vista conducted a similar CCA program feasibility study in 2004 and determined that implementing a CCA could save the City between \$21 million and \$122 million on a net present value basis from 2006 through 2023.<sup>6</sup>

Navigant Inc. has also conducted a feasibility analysis for various California cities and counties (see the list of the participating entities in the chart below).<sup>7</sup> A research group at the Goldman School of Public Policy at U.C. Berkeley estimates that up to 29% of California's electric load is attributable to customers whose local governments are interested in forming CCAs. This percentage represents the load of those customers that are located in the jurisdictional areas of the local governments included in the chart below, in addition to the load of those customers that are located in San Francisco and the City of Chula Vista.<sup>8</sup> However, the list in this chart does not exhaust the total number of cities and counties that may eventually take part in the CCA program.

Pacific Gas & Electric Service Territory	Southern California Edison Service Territory	San Diego Gas & Electric Service Territory
<b>Berkeley Emeryville Oakland Marin County - 11 Cities Pleasanton Richmond Vallejo</b>	<b>Beverly Hills Los Angeles County Torrance West Hollywood</b>	<b>San Diego County San Marcos</b>

<sup>5</sup> CCSF Community Choice Aggregation Draft Implementation Plan, “Chart 1: Potential CCA Implementation Timeline and Milestones”, p 12.

<sup>6</sup> City of Chula Vista Municipal Energy Utility Feasibility Analysis Report Submitted Jointly By: Duncan, Weinberg, Genzer & Pembroke, P.C. McCarthy & Berlin, L.L.P., and Navigant Consulting, March 19, 2004, p 31.

<sup>7</sup> This report has not been made public and its findings, in their entirety, are unknown to the Commission.

<sup>8</sup> “Community Choice Aggregation: The Viability of AB 117 and its Role in California’s Energy Markets – An Analysis for the California Public Utilities Commission,” June 13, 2005 – The Goldman School of Public Policy, U.C. Berkeley, p 15.

## Third Party Power Suppliers Will Be Identified Via CCA Implementation Plans

Since there are currently no CCAs that are providing electric service to California customers, the Commission cannot report on any third party power suppliers to CCAs.

AB 117, however, requires CCAs to identify their third party suppliers in the implementation plan they will submit to the Commission prior to providing electric procurement service to customers. The implementation plan will include information pertaining to the third party suppliers' financial, technical, and operational capabilities.

## The Commission Has Complied With P.U. Code Section 366.2 (j)

The attached Commission Decisions detail the Commission's actions and findings in the CCA proceeding.

The Phase One Decision, D. 04-12-046, adopted on December 16, 2004, addressed the CCA program's implementation and transaction costs, and adopted cost allocation and ratemaking principles for utility services offered to CCAs. It also created conditions under which CCAs can acquire customer information from the utilities, adopted a methodology for calculating the Cost Responsibility Surcharge (CRS), and, on an interim basis, set the CRS at 2.0 cents per kWh.

The Phase Two Decision, D. 05-12-041, adopted on December 15, 2005, addressed the CCA customer notice process, the operational protocols between the utilities and the CCAs, the scope of the Commission's jurisdiction over the CCAs, and the process that local governments must follow in order to be registered as CCAs by the Commission.

These Decisions reflect the Commission's compliance with AB 117 and P.U. Code section 366.2 (j).