



CITY OF HUNTINGTON BEACH REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: 12/10/2020
SUBMITTED TO: Honorable Mayor and City Council Members
SUBMITTED BY: Oliver Chi, City Manager
PREPARED BY: Travis Hopkins, Assistant City Manager
SUBJECT: Consider joining the Orange County Power Authority (OCPA), a Community Choice Energy (CCE) Joint Powers Authority (JPA)

Statement of Issue:

In 2018, the City of Irvine initiated a feasibility study to assess the possibility of implementing a CCE program for their community. Those efforts evolved over the past two years, and in 2020, Irvine extended an invitation to all Orange County municipalities, asking interested parties to consider joining them in forming a CCE JPA, which has since been named the Orange County Power Authority (OCPA).

Currently, the city of Fullerton has signed on to participate in the OCPA with Irvine. In addition, the cities of Buena Park and Lake Forest are also expected to sign-on in 2020 to join the OCPA. Pursuant to the OCPA JPA agreement, there are certain benefits to joining the group in 2020, including the following:

- Jurisdictions that join the group in 2020 will be considered a Founding Party member agency.
- Founding Party agencies will automatically be placed on the new JPAs Executive Committee.
- Those joining the JPA after 2020 will be considered an Additional Party member, and could be subject to a membership fee upon joining.

Of note, the JPA agreement also provides that any agency joining the group has the right to withdraw for any reason and without any liability or cost prior to March 1, 2021.

Given these factors, members of the City Council have requested the opportunity to consider joining the OCPA JPA, thereby opting Huntington Beach into the CCE program as a Founding Party member.

Financial Impact:

There is no direct fiscal impact from joining the OCPA JPA. Per the JPA agreement, participating agencies are not required to make any financial contribution. Rather, the City of Irvine has agreed through the JPA agreement to cover all initial start-up costs associated

with establishing the new OCPA entity. Those costs that Irvine has agreed to cover include the following:

- OCPA agency start-up costs, which are estimated at \$2.5 M.
- Initial working capital cash, which is estimated to be \$8 - \$17 M, depending on the participation level in the initial JPA agency.

Additionally, as noted above, the JPA agreement stipulates that any participating agency has the right to withdraw from the venture for any reason and without any liability or cost prior to March 1, 2021.

Financial details and risks associated with the proposed JPA, and its associated impacts on Huntington Beach, would need to be further reviewed and assessed based on actual participation levels after the JPA is formed. Of note, under the JPA agreement, Founding Party members have no financial obligation to the CCE entity being formed, which provides financial protections for Huntington Beach in the event that the City Council decides to move forward joining the OCPA. Additionally, in California, there are currently 21 CCE entities that have been formed, and none of those entities have experienced any serious financial difficulties. This reality means that it remains untested how much a CCE JPA could financially lean into its member agency, should any fiscal difficulties arise.

Given these fiscal scenarios, should the City Council decide to move forward with joining the OCPA agency as a Founding Party member, staff would recommend that the City Council also direct that a full fiscal analysis of the JPA situation and its impacts on Huntington Beach be developed and presented for consideration by February 1, 2021.

Recommended Action:

Provide direction to staff on whether to join the Orange County Power Authority CCE JPA as a Founding Member.

If the City Council directs to move forward, the staff recommendation would be as follows:

- A) Introduce Ordinance No. 4227 for first reading; An Ordinance of the City of Huntington Beach Authorizing the Implementation of a Community Choice Aggregation Program; and
- B) Adopt Resolution No. 2020-87; A Resolution of the City Council of the City of Huntington Beach, Approving the Orange County Joint Powers Authority Agreement and Authorizing the Implementation of a Community Choice Aggregation Program; and
- C) Authorize the City Manager to execute the Orange County Power Authority Joint Powers Agreement; and
- D) Appoint from the City Council one Board Member and one Alternate to serve on the Board of Directors of the Orange County Power Authority on behalf of the City of Huntington Beach; and

- E) Authorize and direct that staff perform a full financial risk assessment associated with joining the Orange County Power Authority, and bring those findings back for City Council consideration by February 1, 2021, to determine if the City should maintain membership or withdraw from the Orange County Power Authority before the March 1, 2021, no-risk deadline.

Alternatively, the City Council should take no action if the decision is made to not move forward with joining the Orange County Power Authority as a Founding Party member.

Analysis:

CCE Background

CCEs are a mechanism authorized in California in 2002 by Assembly Bill 117, whereby local electrical service customers are provided with options when it comes to determining who they purchase their power from. Under the CCE set-up, customers can continue to procure their electrical power through their current utility provider (in the case of Huntington Beach, that would be Southern California Edison), or they can opt to have a local municipal government (or a coalition of local governments) procure electrical power on their behalf.

Typically, CCEs are established with larger environmental or social goals in mind, such as increasing the share of power procured from renewable sources. In addition, CCEs have been shown to provide slight cost savings (around 1-2% decrease) over traditional investor-owned utility operations.

Of note, establishing a CCE does not mean completely severing ties with the investor-owned utility, given that the utility agency still owns and manages the distribution lines that transmit electrical power to homes and businesses. Further, the utility company still meters each customer's power usage, and continues to send customers their electrical bill. Under the CCE model, what changes is the entity which purchases electricity on behalf of the customer – rather than the utility company performing that role, the responsibility is transferred to the newly formed local entity.

The Orange County Power Authority

The City of Irvine has been spearheading an effort to create a regional CCE Joint Powers Authority (JPA), called the Orange County Power Authority (OCPA). Under this JPA approach, the OCPA would become the entity that procures power for its customer base, and would coordinate with SCE on electrical distribution, metering, and billing related matters. Of note, CCEs have been authorized to exist in California since 2002, and today, there are 21 CCE programs in California that serve around 10 million customers.

Based on Irvine's efforts to date, staff is aware of at least 8 other agencies that are interested in joining the OCPA today. Those agencies include:

1. Irvine
2. Fullerton
3. Lake Forest
4. Buena Park
5. Costa Mesa

6. Laguna Woods
7. Santa Ana
8. Villa Park

Of note, it appears that Irvine, Fullerton, Lake Forest, and Buena Park will be joining as Founding Party members by entering the JPA before the end of 2020, with the other identified agencies looking to participate as Additional Party members with possible JPA entry dates in 2021.

Given the uncertain nature of which agencies are looking to join the JPA, it is difficult to model precise fiscal data for the proposed OCPA entity. However, Irvine has commissioned a detailed fiscal analysis to assess various possible scenario through a 10-year pro forma document, a copy of which is included as an attachment to this report. Per that assessment, the proposed OCPA was identified as being financially viable, with the following key summary findings:

- OCPA would be able to repay the City of Irvine's start-up and working capital loans, and build up proper financial reserves, during the first 5-7 years of operation.
- After initial debt service costs are repaid, it is estimated that a significant amount of net income will be available to the OCPA for use towards customer program or additional electrical rate discounts.

If the decision is made to move forward with joining the OCPA, staff would recommend that a full assessment of the arrangement be analyzed and brought back for City Council review by February 1, 2021. In addition to a full financial analysis of the effort, included among some of the other issues that should be assessed are:

- Structure / Management of the OCPA
 - The proposed OCPA agency is expecting to hire 2 staff members in 2021, and ramping up to 5 staff members in 2022. At build out in 2023, the OCPA is expected to have 10 employees in 2023.
 - The staffing, structure, and management of the OCPA will be critical to its success, and needs to be assessed moving ahead.
- Customer Opt-out Risks
 - The primary risk to the CCE would be if it could no longer offer competitive electrical power rates when compared against SCE. Customers have the option of opting out of the OCPA CCE option, and will likely do so if power costs for the JPA exceed what is charged by SCE.
 - Based on actual experience in California, CCEs have seen opt-out rates of around 2-3% of eligible customers.
 - Additionally, customers could leave the OCPA entity and move to Direct Access programs.
- Energy Cost Risks
 - CCEs face real financial risks associated with procuring energy, capacity, renewable energy credits, and carbon-free energy, all at a cost that is below revenues received from retail customers.

- Legislative and Regulatory Risks
 - The electrical power industry is in the midst of significant change and disruption, and regulatory issues related to electrical energy procurement and management pose a possible risk moving forward. These issues need to be properly analyzed and reviewed moving forward.

Environmental Status:

Not applicable.

Strategic Plan Goal:

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Attachment(s):

- 1) Orange County Power Authority Joint Powers Agreement
- 2) Ordinance No. 4227, An Ordinance of the City of Huntington Beach Authorizing the Implementation of a Community Choice Aggregation Program
- 3) Resolution No 2020- 87, A Resolution of the City Council of the City of Huntington Beach Approving the Orange County Joint Powers Agreement and Authorizing Implementation of a Community Choice Aggregation Program
- 4) OCPA Preliminary *Pro Forma*