



# City of Huntington Beach

**File #:** 21-085

**MEETING DATE:** 2/1/2021

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## REQUEST FOR CITY COUNCIL ACTION

**SUBMITTED TO:** Honorable Mayor and City Council Members

**SUBMITTED BY:** Oliver Chi, City Manager

**PREPARED BY:** Travis K. Hopkins, Assistant City Manager

**Subject:**

**Consider Maintaining Membership with the Orange County Power Authority (OCPA), a Community Choice Energy (CCE) Joint Power Authority (JPA)**

**Statement of Issue:**

On December 10, 2020, the City approved the required Ordinance, Resolution, and JPA agreement necessary for Huntington Beach to join the Orange County Power Authority (OCPA), a Community Choices Energy (CCE) Joint Power Authority (JPA). The decision was made to join the CCE at that time for a variety of reasons, including the following:

- The potential for ongoing electrical power cost savings when compared against rates charged by SCE.
- By joining in December 2020, the City would be considered a Founding Party member, which places Huntington Beach onto the JPA Executive Board Committee.
- The agreements expressly allowed for any participating agency to withdraw from the JPA for any reason and without any liability or cost by March 1, 2021 (subsequently, the withdrawal deadline was extended to April 1, 2021).

Given those factors, as part of the determination to join the OCPA, the City Council also directed that staff complete a full assessment of the proposed JPAs feasibility plan, and bring those findings back for review at the City's February 1, 2021 meeting. At that time, the City Council would make a final determination on whether or not to participate in the CCE.

Subsequently, staff coordinated with MRW & Associates (MRW), an independent firm that was hired to assess the OCPAs implementation plan. A summary of MRWs findings (see attached report assessing OCPA) is as follows:

- The OCPA CCE is expected to be financially feasible.

- The MRW analysis confirmed that OCPA is projected to be able to provide power at rates lower than Southern California Edison.
- The MRW assessment identified that the financial margins when comparing projected OCPA rates against SCE rates are the smallest during the first 2-3 years of operation, and that the margins increase over substantially over time.
- The financial analysis found that OCPA's Implementation Plan is generally sound, developed utilizing reasonable and conservative assumptions. MRW did identify that the projections for the amount of initial working capital that OCPA would need could be slightly understated.
  - Of note, given that the City of Irvine is assuming all of the initial risk / start-up costs, this does not seem to of particular concern regarding the viability of OCPA.
- The OCPA agreement helps minimizes potential financial risk for Huntington Beach by specifically stating that the agencies are not required to make any financial contributions or payments to OCPA, and that OCPA has no right to require a contribution or payment.
- A benefit of remaining a member of OCPA is that the City of Irvine has agreed to provide up-front funding for implementation, start-up costs, as well as collateral funds in order to secure all of the needed initial financing.

At this time, the City Council has the option to maintain membership with the OCPA JPA, or withdraw from the CCE organization with no cost or liability impacts.

**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 \$2.5M.
- Initial working capital cash collateral of up to \$5M for costs associated with procuring a working capital loan.

Under the OCPA JPA agreement, Founding Party members have no financial obligation to the CCE entity being formed, which provides financial protections for Huntington Beach. The OCPA JPA agreement specifically states that the debts of the OCPA cannot be transferred to its member cities, nor can the OCPA compel a member city to financially contribute to the OCPA. Therefore, the City's General Fund should not be impacted by maintaining membership, nor will membership impact the City's credit rating.

**Recommended Action:**

The City Council has the following options:

A) Maintain membership in the Orange County Power Authority Community Choice Energy Joint Power Authority,

OR

B) Withdraw from the Orange County Power Authority, and direct staff to complete all requisite documents necessary to terminate our participation in the CCE JPA.

**Alternative Action(s):**

Do not select either of the options and direct staff accordingly.

**Analysis:**

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).

A total of five (5) agencies are currently part of the JPA, including the cities of Fullerton, Buena Park, Lake Forest, Huntington Beach, and Irvine. These five jurisdictions are considered the Founding Party member agencies in the JPA and will be placed on the JPAs Executive Board Committee. Also of note, per OCPA staff, there are currently up to 10 other cities reviewing participation in OCPA.

**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 from where they purchase their power. 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 led an effort that in December 2020 to create a regional CCE Joint Power Authority named the Orange County Power Authority (OCPA). Currently, the OCPA consists of five (5)

founding member agencies; Buena Park, Fullerton, Irvine, Lake Forest, and Huntington Beach. Additionally, currently there are up to 10 other Orange County cities that are considering joining the OCPA. Of note, the original five members of OCPA, which includes Huntington Beach, are Founding Party Members and automatically placed on the JPA's Executive Committee. Any other agency that joins will be considered Additional Party member.

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 scenarios 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.

### **OCPA Financial and Operational Analysis**

The City Council directed staff to provide a financial analysis of the OCPA and present to the City Council prior to the JPA no-risk opt out deadline. At the City's request, MRW & Associates (MRW) completed an independent analysis of OCPA's financial viability, reviewed the OCPA Implementation Plan, and provide an analysis of risks and benefits if of remaining in the OCPA. MRW's report found that OCPA provides a financially viable option for the City to participate in a CCE with lower risk than establishing a stand-alone CCE with the following key findings:

#### **Financial Analysis**

The MRW independent analysis performed found the OCPA program is financially feasible, confirming that the OCPA's projected margin between the OCPA operating costs to provide power is projected lower than the SCE energy generation rate. This means OCPA will be able to provide energy wither at a lower rate or competitive with SCE. The tightest margins will occur during the first few years of operation and will increase over time. The MRW model projects the margin between OCPA power costs and SCE power costs will start near 1 cent/Kwh, and will increase to over 3.0 cents/kwh over the next 10 years.

MRW states that a CCE is feasible, but is not risk-free. OCPA will be participating in a competitive power market and subject to evolving state requirements and regulations. While an OCPA rate discount in the long run should be achievable, market prices and SCE rate volatility could combine to, in some isolated years, occasionally prevent the CCA from offering lower rates than SCE.

#### **Implementation Plan**

MRW found that the OCPA Implementation plan uses assumptions that are generally sound, confirming that the underlying customer phase-in, assumed power prices, operating costs, and

CCA revenues are all reasonable or conservative. MRW stated that they feel the amount of collateral provided by Irvine is lower than what may be required when OCPA secures the financing.

**Opt-Out Risk**

Customers may choose to opt-out of a CCA service before, during, or even after a CCE is formed. Most recent CCEs launched have only experienced very modest opt-out rates of around 2-3%. MRW modeled a high opt-out rate of 30%, and even at that level, the CCE remained financially viable.

**Governance Model Options**

The MRW evaluation found that joining the a JPA such as the OCPA would provide benefits from increased negotiation and buying power for power purchases, access to better financing terms for borrowing, and operation efficiencies gained by combining management and operating functions such as billing and accounting. The tradeoff to the benefits of joining a JPA are that decision making will be allocated amongst the participating parties as opposed to a single agency entity.

A benefit to the OCPA JPA, 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 associate with establishing the new OCPA entity as well as cash collateral up to \$5 million for power purchase financing. If the City chose to form a stand-alone CCE enterprise they would be required to fund the start-up capital and financial guarantee. By participating with OCPA, these financial burdens are being met by Irvine and not required of Huntington Beach.

**Greenhouse Gas (GHG)**

In order for OCPA to achieve GHG saving, the CCE will be required to acquire energy above the state renewable requirements. This would include purchasing energy from hydroelectric facilities (which is carbon-free but do not qualify as “renewable” under state law) or increase the renewable content of its electricity supply above that required by the state.

The MRW independent analysis confirms the OCPA studies and implementation plan is generally sound and that maintaining membership is viable option for the City of Huntington Beach should the Council choose to participate in a CCE. Additionally, maintaining membership in OCPA, will provide the additional benefits of no implementation costs, reduced financial risk and reduced administrative and ongoing management costs.

**Environmental Status:**

Not applicable.

**Strategic Plan Goal:**

Enhance and maintain high quality City services

**Attachment(s):**

1. Community Choice Energy for the City of Huntington Beach and Review of Orange County Power Authority

2. OCPA Implementation Plan
3. Orange County Power Authority Joint Powers Agreement