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STATE CAPITOL, ROOM 4035
SACRAMENTO, CA 95814
TEL (916) 651-4107
FAX (916) 642-8979

The Changing Electricity Landscape: The Growth of Community Choice Aggregators

State law allows for the creation of “community choice aggregators” (CCAs). Under the CCA law, a local government, or a collection of local governments, may choose to form a CCA to procure electricity to meet the demand of residences, business and municipal facilities within the CCA’s jurisdiction. This procurement of electricity by the CCA takes the place of such procurement by the incumbent investor-owned utility (IOU), such as Pacific Gas and Electric Company (PG&E), Southern California Edison (SCE) or San Diego Gas and Electric (SDG&E). (State law prohibits formation of a CCA in an area for which a municipal utility provides electric service.) A customer within the CCA territory is automatically “opted in,” meaning the CCA procures electricity on behalf of the customer unless the customer takes affirmative action to receive electric service from the IOU. The CCA procures electricity on behalf of its customers, while the IOU continues to transmit and distribute that electricity via its system of poles, wires and substations, and provides metering, billing and customer service.

Motivations for forming a CCA are many. Local representatives who have formed CCAs—and those who are considering doing so—cite a number of common reasons for forming a CCA, all of which fall under the general call for local control. Among those reasons: greater use of renewable energy, rate-setting authority, local economic development and lower rates. Further, all CCAs note that the existence of a CCA provides something new to the customers of an electric IOU: retail choice, though that choice is limited to procurement by the incumbent IOU or by the CCA.

Until recently, growth of CCAs had been modest. Statute first allowed formation of CCAs in 2002¹. The first CCA—Marin Clean Energy (MCE)—was formed in

¹ See Chapter 838, Statutes of 2002 (AB 117, Migden).



2010 within the service territory of PG&E. Today, there are eight CCAs that procure electricity, or are preparing to procure electricity, for over one million customers in northern, central and southern California that operate within the service territories of PG&E, predominantly, and SCE. However, communities throughout California are actively considering formation of CCAs.

In April of this year, the Los Angeles County Board of Supervisors approved formation of a CCA. Known as Los Angeles Community Choice Energy (LACCE), the CCA is to serve the unincorporated areas of Los Angeles County. Eventually, LACCE might procure electricity for incorporated cities in the region, too. LACCE anticipates that, eventually, it might account for more than 30 percent of SCE's retail load.

Similarly, the City of San Diego is considering formation of a CCA. If approved, the San Diego-area CCA potentially represents the majority of the service territory of SDG&E, the state's third-largest electric IOUs.

It is possible that CCAs soon will procure electricity on behalf of the majority of the customers of California's electric IOUs (potentially up to 80 percent of the IOU's in the near future). Whatever the motivation, CCA formation on this scale thrusts a number of considerations before policymakers. Among those considerations is the nature of the California Public Utilities Commission's (CPUC's) authority over CCA planning and procurement given the CPUC's role to oversee and regulate electric IOUs. Both IOUs and CCAs must meet the procurement requirements of the Renewable Portfolio Standard (RPS) program and regularly demonstrate to the CPUC that they have contracted with sufficient amounts of energy resources to adequately meet anticipated customer demand. Nonetheless, statute provides differing authority to the CPUC over the procurement plans of the IOUs and the CCAs.² The exact nature of this differing authority is in dispute, its effect on the procurement decisions of the CCAs as yet unknown. Notably, unlike the rates of an IOU, the rates charged by a CCA to its customers are not subject to approval by the CPUC.

This committee intends this hearing to air the implications of continued CCA growth and provide committee members the opportunity to ask questions of numerous experts involved in the formation and regulation of CCAs and energy procurement and regulation of the electricity sector in general. This committee will hear from CPUC's Energy Division and from Michael Picker, president of the

² For a discussion, see this committee's analysis of SB 618, (Bradford).

CPUC, who will present, from the CPUC point of view, the current state of CCA formation and activity, state regulatory authority over CCAs, and how various programs and regulatory activities might be affected by continued growth in CCAs. Next, this committee will hear from James Bushnell, professor in economics at the University of California at Davis, who will discuss the potential benefits of retail choice, such as community choice aggregation, and the challenges for planners and regulators to accommodate it. This committee will then hear from a panel of experts who will present, from each of their perspectives, the challenges and opportunities associated with CCAs and their growth. That panel will include representatives of CCAs, IOUs, ratepayers, utility employees and electric generators. Finally, this committee will allow time for public comment.

This committee expects the diversity of witnesses to elucidate the implications of the continued growth of CCAs. Some of those implications are unknown to this committee and its members today. However, this committee anticipates witnesses will address, at a minimum, the following questions:

- Does existing statute provide sufficient regulatory authority to ensure system-wide and local reliability of electric service?
- How does the anticipated growth of CCAs, combined with the IOUs' existing portfolio of long-term contracts for renewable energy, affect decisions regarding near-term procurement of renewable energy?
- How do the CCAs ensure credit-worthiness to allow financing and contracting to meet long-term resource needs?
- What are the principals governing allocation of IOU legacy costs? What entity is best to apply those principals and by use of what methodology?
- Does the potential of customer migration—from IOU to CCA and back again—challenge the traditional model of monopoly utility regulation and, if so, how can policymakers best manage this challenge in the interest of ratepayers?
- Are ratepayers adequately protected if a CCA is not financially sustainable and ceases operation?
- Does statute place undue limits on the ability of local governments to vet proposal for CCAs?

- What is the added value of a CCA in an environment where IOUs are meeting 50 percent, or more, of customer demand for electricity, through use of renewable energy resources?

As described above, the anticipated growth in CCAs presents a number of challenges to traditional utility regulation. This hearing, by necessity, addresses only some of those challenges. The hearing does not address, for example, how CCA growth might affect the workforce or the natural environment. Today's discussion will be full. It will, however, leave plenty of important topics for future discussion.