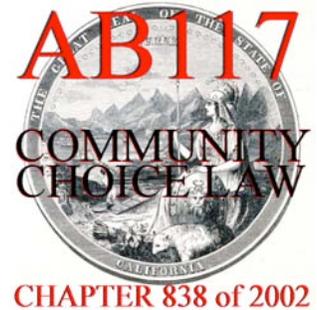


Managing Energy Risk With Community Choice Aggregation An Opportunity for Marin County

Community Choice is an authority granted by California law (AB 117, Migden) that allows cities and counties to take charge of their own energy future. Under Community Choice, local governments can serve as a virtual "electricity buyer's cooperative" for local residents, businesses and government agencies. Unlike ordinary cooperatives, however, the day-to-day management for securing electricity supplies is managed by a qualified and experienced third party, while the local government is placed in the role of strategic planner.



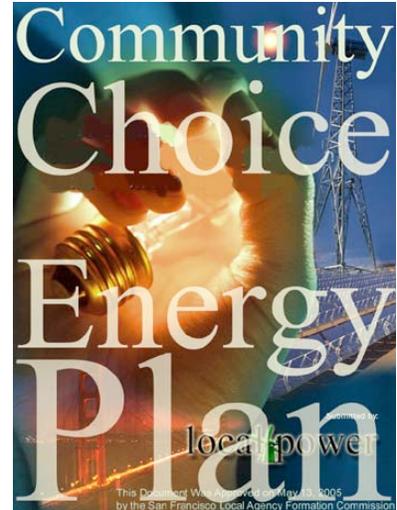
The government entity, called a Community Choice Aggregator (CCA), contracts with existing licensed suppliers called "Electric Service Providers" (ESPs). These suppliers are used to providing reliable and cost-competitive electricity for large businesses and government agencies. About 12 percent of California's electricity is currently purchased from Electric Service Providers.

Community Choice enables local governments to have a voice over a level of policy that would otherwise be closed to them, and make decisions that take into account the best interest of their own particular local region. Such policy decisions can include:

- **Strategies for energy security and supply.** This allows communities gradually to lower their reliance on undependable and depleting resources;
- **Replace a cost-based power monopoly with competitive, fixed rates.** Whereas PG&E can change its rates twice a year and has been bailed out repeatedly in the past decade, ESPs commit to structured rates that are more predictable;
- **Energy portfolios that manage price and risk.** Diversification of energy sources, with a mix of renewable supplies, is protection from energy price shocks;
- **Financing and ownership of local energy resources.** Low-interest bonds that finance clean, efficient electric generation yield significant long-term cost savings;
- **Development of local energy efficiency programs.** Increasing energy efficiency lowers energy costs, and is a proven, effective strategy for economic growth;
- **Implementing environmental goals.** Community Choice is a tool for local governments to change their "ecological footprint" on a larger scale than is possible under conventional policy options.

The technical steps required to become a CCA are fairly simple. CCAs are responsible to declare themselves a CCA, create an implementation plan, formulate a competitive bidding document or Request for Proposals (RFP), submit information to the California Public Utilities Commission, choose a provider and sign a contract. On the political level, local governments should encourage public input and, in the case of Marin County, agreement from the city councils and mayors of participating cities in the form of a Joint Powers Agency (JPA). We recommend a JPA that is accountable to local government participants, with each municipality holding a seat, with each representative appointed by his/her city council or mayor.

Running a CCA can be simple or complex, according to preference for level of involvement. The CCA can take a "hands off" approach and allow the service provider to take care of the details of managing energy supply and executing the terms of the contract, or the CCA can participate in ongoing decisions, programs, and management. The second strategy is appropriate for CCAs that want to pave the way toward forming a municipal utility – with more control, but also more risk assumed by the public entity. In most cases, Local Power recommends that CCAs transfer risk and responsibility to the Electric Service Provider, and pay a minimal premium that is essentially insurance for the local government jurisdiction.



From the customer's point of view, Community Choice is a seamless continuation of their current electric service. Prior to commencement of the change to a CCA, all customers would be sent an enclosure in their PG&E bill explaining that PG&E will hand over responsibility for their electricity supply to a new provider in sixty days. The customer will be informed in this manner for four consecutive months of their right to "opt out" and remain with PG&E if this is their preference. If the customer goes with the CCA, then PG&E would continue to do billing, read meters, handle customer service, as well as own and operate the wires.

Under CCA, the new service provider (the ESP) will enter into power contracts with merchant generators, and also contract with developers to design, build, operate and maintain power generation facilities owned by the CCA. All this would be in accordance with the contract with the CCA, and the requirement that Marin County has the electricity to meet its needs. Under law, a bond must be posted (or insurance demonstrated) sufficient to cover the full cost of a return to PG&E should it ever fail to meet its obligations. Local Power recommends that the CCA require its ESP to provide this bond/insurance, so that both ratepayer and participating local governments are shielded from risks.

Community Choice opens a door to opportunities impossible for other electricity customers. Due to the sheer size of cities and counties, their collective buying power makes it feasible to demand actual planning and construction of CCA-owned energy infrastructure, tailored to their own needs, resources and preferences. Low interest tax-free revenue bonds (H Bonds), and avoiding the cost of 11% to 15% annual profits for utility and generator companies, can significantly improve the economics of capital intensive projects. Since the CCA is a secure and built in long-term market for their own power plant, financing and construction is much easier than it would be for independent power producers (or even the utility companies).

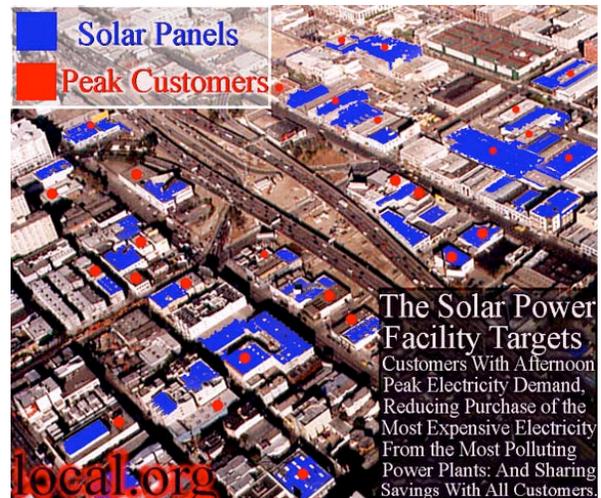


The CCA's financial advantages can, in fact, improve the economics of almost any energy project. But they particularly favor projects that are capital- rather than fuel-intensive, such as wind, geothermal, tidal and wave power, and other (non-fuel-based) renewables. As demand-side rather than supply-side entities, CCAs also favor cost-saving energy applications that are frequently neglected or pushed aside by utility companies, such as cogeneration and energy efficiency improvements.

The savings, and assured energy supply, benefit the customers in a CCA, and such self-ownership is the strongest tool for managing future electric rates. Locally controlled, publicly owned infrastructure is the main reason why Municipal Utilities, such as SMUD, have achieved rates that are 10% to 30% lower than PG&E, SDG&E, and SCE. Community Choice allows cities and counties to participate in some of the benefits of a municipal utility, without having to assume the risks and cost burdens of forming an actual utility company.

While a CCA is not an instant fix for high electric rates, it does allow for an off-ramp from the many problems faced by California's electric utilities: rising natural gas prices, fuel supply risks, aging power plants, and a number of regulatory entanglements. Navigant Consulting ran eight scenarios for Marin's rate risk under CCA. All showed savings over a twenty-year period. These range from a worst case of 1% savings to a best case of 14% savings. It is noteworthy that the higher savings is contingent upon PG&E's cost of electric generation escalating by 3% per year, while the worst case assumes only 1% per year cost increase. Historically, PG&E's rates increased an average of 4.1% per year between 1980 and 2006.

Community Choice opens a door to saving money while implementing cleaner energy policies. Community Choice is the only tool that allows local governments to help decide upon their community's energy future, and the most powerful tool for managing energy risk and pollution.



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