Community Choice Energy: Frequently Asked Questions

Q: *What is Community Choice Aggregation?*
A: Community Choice Aggregation (CCA) is a program that enables local governments to pool (or aggregate) the electricity demand of their communities for the purpose of supplying electricity. Often called Community Choice Energy, a CCA buys and/or develops power resources on behalf of the electricity end users in its jurisdiction. Southern California Edison would continue to provide all transmission and distribution of electricity, as well as system maintenance and customer service. Areas served by an existing publicly owned utility, such as Imperial Irrigation District, are not eligible for CCA programs.

Q: *How is a CCA financed?*
A: Once launched, a CCA is financed by the revenues received from customers based on electricity sales. A CCA is a self-funded, not-for-profit public agency which ensures that any financial benefits directly serve the community. CCAs are not subsidized by tax dollars. Start-up costs may be financed by member agencies, banks, or other lenders; these costs are paid back once revenues from the sale of electricity accumulate. Surplus funds generated by the CCA may be reinvested back into the community in the form of lower rates, or new energy projects and programs that serve the entire customer base.

Q: *Who governs and administers the CCA?*
A: There are options for governance. CVAG's Ad Hoc CCA working group has recommended formation of a separate joint powers authority (JPA) to be governed by a Board of Directors made up of elected representatives from each of the participating jurisdictions. The Board will conduct its business in regular meetings that will be open to the public, ensuring transparency and community involvement.

Q: *Why are so many local governments considering CCA?*
A: CCAs give electricity consumers a power supply choice where none currently exists, providing communities with local control over their energy supply. CCAs introduce competition into the energy market, which helps drive costs down, diversify power choices, and stimulate new investments in renewable energy. Consumers can increase the amount of electricity from non-polluting renewable sources including wind, solar and geothermal energy. In the Coachella Valley, a CCA offers a way to advance local renewable energy resources. Existing CCAs offer a "default" option that is both cleaner and cheaper than the incumbent utility, as well as a voluntary, 100% renewable energy option offered at a rate premium. Under a CCA, Coachella Valley ratepayers can determine how our electricity is generated – from clean and renewable resources rather than more polluting and finite fossil fuels. And simultaneously achieve modest savings over current SCE rates.

Q: *How will the CCA set its rates?*
A: The CCA Board of Directors will have the authority to set electric generation rates for our customers, after they are carefully developed, discussed, evaluated, and approved at public meetings. To date, existing CCAs in California offer competitive electricity rates, currently ranging from 3%-10% lower than investor-owned utility (IOU) rates, depending on the customer class and particular CCA option each customer chooses. While utility rates change several times a year, CCA rates generally adjust once per year, offering a greater measure of rate stability. While there is no guarantee that CCA generation rates will always be lower than SCE rates, publicly managed CCAs do have the advantage of being non-profit agencies that pay no shareholder dividends, investor returns, high corporate salaries, or income taxes like commercial services or investor-owned utilities, which helps keep costs down. Initial studies estimate that a CCA program could save ratepayers millions of dollars over the next twenty years.

Q: *What financial or other obligation does a city or county incur by establishing a CCA?*
A: Formation of a CCA through a Joint Powers Authority would not require contributions from participating member agencies. By establishing a CCA, the JPA, acting on behalf of its members, assumes various powers and responsibilities such as assuming ratemaking authority for retail customers and the responsibility to procure power for customers in its jurisdiction. The authority and responsibilities of the Joint Powers Authority (JPA) will be determined by the participating cities.

Q: *Will creating a CCA require setting up a new bureaucracy? Isn't the private sector better at managing the complexity of today's electricity markets than the public sector?*
A: Setting up a CCA program does not require hiring a large staff to manage the tasks of running the CCA. CCA tasks and functions can be handled through contracts with existing private and public sector organizations with significant CCA expertise and experience. The proposed CCA would be a public-private partnership that takes advantage of the opportunities offered by both the private and public sectors. The private sector will be employed to carry out many of the functions associated with a CCA program. A CCA is more a matter of public control over critical resources required to sustain our communities and a way to take advantage of unique and cost-effective financial opportunities available only to the public sector based on local input. In fact, public utilities have a long track record of providing power supply services at less cost than their private-sector counterparts.

Q: *Can cities and counties be legally shielded from the actions of the CCA?*
A: Regardless of administrative structure, the assets and liabilities of the CCA program remain separate from those of the participating agencies' general funds. Financial liability is mitigated by specific JPA ordinance and vendor contract language that protects municipal assets.

Q: *What are the options for customers to opt-out and, if they change their minds, opt-in to a CCA at a later date?*
A: A new CCA is required to send a total of four notices to customers, two notices prior to commencement of CCA service, and two notices during the 60-day period following commencement of CCA service. Customers who opt out before or within the first 60 days of CCA service may return at any time. Customers who opt out after the first 60 days of service with a CCA will be prohibited by Southern California Edison from returning for one year.

Q: *Is the CCA subject to the same energy price fluctuations that undermined the IOU's financial stability in 2000?*
A: Due to the restructuring law passed in 1996, the CPUC prevented utilities from entering into long-term purchase contracts because it was assumed that market competition would lower prices. At the time of California's energy crises, IOU's were caught in a unique situation of having to purchase power from the spot market as prices skyrocketed due to market manipulation, escalating natural gas prices, and other factors. Since the energy crisis of 2000-2001, the CPUC has changed power purchase rules that reduce many of the risks exposed by California's experimentation with market restructuring. One way an incipient CCA can reduce such risk is by "forward procurement," thereby reducing its reliance on more volatile spot market purchases, which is an accepted industry practice for meeting variable peak demands and simultaneously limiting exposure to the volatility of day-to-day price swings.

Q: *Why is CVAG moving so quickly to form a CCA?*
A: Timing is crucial in starting up a CCA. Currently, power and renewable resource rates are at historic lows. With so many CCA's on the verge of formation, each one will be aggressively pursuing procurement contracts for their own customers. If we wait too long to form a CCA, it may be more difficult to secure energy contracts for the CCA and/or market prices may shift. Also SCE is in the process of proposing changes to the current calculation of the 'exit fee' charged to customers when they shift to a CCA. If their proposed changes are approved by the California Public Utilities Commission (CPUC), it could significantly affect the rates of the CCA, possibly making it much less viable to operate.

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