

Comments Regarding Contra Costa CCE Technical Study

Submitted by IBEW Local 1245

As the largest utility union in California, IBEW 1245 has been actively involved in Community Choice Aggregation for the better part of a decade, and we have been working diligently to ensure that any new CCAs in California live up to the promises made by their proponents.

We have carefully reviewed the “technical study” prepared by MRW, EDRG and Sage, and our feedback is outlined below. We noticed that much of this report is strikingly similar to the report that MRW and EDRG compiled for Alameda County. As members of the Alameda CCA steering committee, our feedback and objections to that study have already been submitted and discussed at length with representatives from EDRG, but since we are seeing much of the same flawed application in the Contra Costa report, it bears repeating, so for the benefit of the Board of Supervisors, City Councils and leadership in Contra Costa, we will once again identify the specific components that strike us as erroneous or misguided.

Our primary concerns with this report relate to the cost projections (and the related jobs analysis) and the promises of greenhouse gas emissions reduction. As detailed below, the claims in this report -- which state that a CCA in Contra Costa could reduce GHG emissions by 50% within the specified cost parameters equal to or lower than PG&E -- are largely flawed and fail to take into account the realities of the current energy market.

COST PROJECTIONS

We take issue with much of the power cost projections included in this report. As any expert in the field can tell you, future power costs are difficult to forecast due to constantly changing dynamics and unanticipated factors, and projecting past the next 7 to 8 years is essentially impossible.

We have seen previous estimates fail repeatedly. For example, Enron et. al. banked on power costs rising on average 20% every five years after deregulation, as did the banks, which is why they loaned Enron and many other Independent Power Producers hundreds of millions of dollars to buy/sell power and build plants in CA. After a five-year period from 1996-2000 produced a 30+% increase in electricity costs, electricity costs fell sharply between 2001-2004, due to a number of unanticipated factors, including the dot.com bust, aftermath of energy crisis, etc. This is evidence that there is simply no way to accurately provide long-term assessments on energy costs in realistic terms.

This report makes a false and deceptive prediction that PG&E's generation costs will continue to go up. While it is accurate to assume that PG&E rates will continue to increase over time, the generation component – the “apples to apples” comparison – fluctuates greatly, and is actually going down at present. So while this report suggests that Contra Costa can move forward and succeed as a CCA, the Executive Summary warns that electricity rates are expected to be close to or the same as PG&E rates, thereby undermining every other conclusion made in the study.

With so many factors contributing to the cost of electricity, any estimates past 2024 are merely guesses, and the fact that this report endeavors to offer projections out to 2038 is reason to be suspect, for the following reasons:

- Fuel (natural gas) remains a big factor on electricity costs. Lower natural gas prices amounts to a significant reduction in electricity costs in CA. We are experiencing that right now, and expect it to continue at below-average for several more years due to a surplus of natural gas on the market. Eventually this cost will rise, increasing the cost of all electricity.
- Renewable energy development is a highly subsidized market, particularly solar. But these subsidies are not permanent, and are absolutely going to change at the Federal level. Federal tax breaks are by far the biggest subsidy, making that cost of newly developed renewables higher, and potentially significantly higher, over time. As an established, large-scale utility, PG&E enjoys many large contracts of extremely low-cost (3 and 4 cents a kWh) wind and solar power. For this reason, PG&E's renewable portfolio will be lower cost than any start-up CCA would be able to secure, and that will be true for many years. PG&E will be able to re-new these contracts at good (but higher) costs after the current PPA expires.
- In regards to Table ES-2, reliance on the NEM and new rooftop solar generation is completely misplaced. The NEM is shifting costs from solar customers to the rest of the PG&E (IOU) customers, effectively allowing wealthier customers to have their electricity subsidized by less affluent customers. This will be reversed in 2018 – the low income advocates and consumer advocates know what is going on, and are already lobbying the CPUC on the issue. Depending on exactly how the costs for solar were calculated, Table ES-2 is almost certainly wrong.
- This study claims that much of the power will come from Hydroelectric power – which was clearly a way to demonstrate a reduction in cost, as hydro is relatively inexpensive. However, the report does not specify where all this hydro will come from. The fact is, there is no hydro left in CA – it is all already conscribed. In fact, there is almost no Hydro left in the entire Northwest – same situation. There are no new large dams being constructed anywhere in this region. Dams are actually being torn down in Northern California, reducing slightly the amount of hydro power generated. There is a very limited amount of BC Hydro currently available, and it comes at a very high price. A hydro-dependent CCA in Contra Costa will not lower costs, and there will be very little power available. By comparison, PG&E already has quite a bit of hydro, and will get close to 20% of its power from its hydro facilities this year, at an estimated average of 4.5 cents per kW/hr. That is extremely inexpensive.

- Figure ES 2 assumes that the PCIA remains relatively low for the next five years, and then fades away after 10 years. However, the future of the PCIA is unknown, and therefore this projection is false. The PCIA is the device used by the CPUC to assure that future power costs contracted by PG&E for customers that subsequently leave to join a CCA are fairly distributed to those customers. In other words, customers can't get out of paying for power that has been bought for them by joining a CCA so the CCA assesses this charge monthly. The PCIA is set annually and fluctuates year by year. By design, the PCIA will increase as more customers leave PG&E. At some point, customers would go without paying, but that point has not been determined, and will be different for each group of customers that leave to join a CCA based on when they left. This means that Marin Clean Energy's (MCE) original customers should expect to stop paying a PCIA at some point. But MCE customers in San Pablo that joined the CCA five years later would continue to pay the PCIA. So Figure ES 2 is inherently flawed.
- Figure ES 2 also does not take into account the impending Diablo Canyon closure settlement. Whether this is a separate assessment OR included in the PCIA is not determined, but every PG&E customer from 1985 (when Diablo Canyon's first unit went into service) until 2025 (when Diablo Canyon's second unit will shut down) will pay to help decommission the plant. Every customer has paid a small portion of this already, but more cost will inevitably be added to the bills. This cost is not reflected in the estimates provided in this report, and this oversight is disconcerting.

The jobs analysis provided in this report is predicated mostly on lower energy costs creating a small rent (economic version) and giving smaller business employers the opportunity to invest that savings in the form of more hiring. It also includes increased job creation by the County CCA, if it decides to build renewable energy generation in County. Both of these factors are highly unreliable. As we note above, there is no indication that there will be a substantive difference between PG&E and CoCo CCA future power costs – and without cost savings, there's no real benefit to employment, and no funds left for hiring. We also must underscore that if there are good locations for solar and wind development in the County, PG&E or some other utility will develop those areas, regardless as to whether a CCA is operating in the County. Renewable energy development is marching up the San Joaquin Valley as the cheaper land is eaten up by new renewable plants. We agree with the study location criteria that there are a number of very good sites for solar and a few for wind in the County. When they become cost competitive, those sites will be developed, and County residents will benefit, but the CCA is absolutely not necessary for this to happen.

GREENHOUSE GAS EMISSIONS

This report estimates GHG emissions reductions of 50% below PG&E, largely based on the availability of hydro power to supply 40% to 60% of the County CCA's load. This could possibly be viable during the first year of operation, when the number of customers is minimal, but is simply not sustainable over the long term because, as previously outlined above, there simply isn't enough inexpensive hydro on the market. The only other way that the CoCo CCA could possibly reach 50% less GHG emissions than PG&E would involve the use of Renewable Energy Credits or RECs (as Marin Clean Energy does). However, the

enactment of AB 1110 -- which will force CCAs to fully disclose of their GHG emissions portfolio – means that “greenwashing” with RECs is no longer an option.

We also observed that the comparisons to PG&E in this report appear to be dated and disingenuous. When we look at the most recent data available from 2016, PG&E has reached 32% RPS; it receives between 20%-23% of its power annually from Diablo Canyon; and this year was an above-average hydro year, so it will receive 15%-18% from hydro. Aggregate these GHG-free sources, and PG&E is providing at least 70% of its power from GHG-free sources this year. Since it uses natural gas for the remainder, PG&E has an exceedingly low GHG emissions rate. The Technical study appears to have used 2013 or 2014 PG&E information, each of which were very low hydro production years. Additionally, in 2013, Diablo Canyon had two outages, resulting in far less power from nuclear than usual. Plus, PG&E RPS was in the low 20s during these years. Even if we were to look at 2015, the lowest hydro year on record at 8%, PG&E was still at 56% GHG-free power.

Lastly, as PG&E loses load (which it has and will continue to do), the amount of GHG-emitting sources will be reduced, and the percentage of their RPS and other non-GHG emission sources will increase. For example, this years’ 70% GHG-free would actually amount to 75% in three years, due to decreased load but the same amount of power procured. The big driver of this reduction of load is Distributive Generation and the Alameda CCA – they have more load in the County than all the rest of the existing CCAs put together. PG&E will be supplying less and less power annually, and that makes their GHG emissions rate drop even lower.

Assuming that Contra Costa’s CCA can get 35% RPS and exclude nuclear, the County would have to procure almost 100% non-GHG power or 60+% of their power from Hydro, which simply is not available. The only way to procure this amount of hydro would involve the County outbidding other existing contracts, making the cost projections entirely unachievable.

In closing, our analysis concludes that there is simply no way to achieve both the GHG emissions reductions at the costs that are projected in this report. We urge the Board of Supervisors, City Councils and decision-makers to closely evaluate the numbers presented in this report, put them into the context of the present energy market, and get a more realistic interpretation of what a CCA could feasibly accomplish in the County.

Questions pertaining to these comments may be directed to IBEW 1245 staffer Hunter Stern, hls5@ibew1245.com or (415) 517-0318.