

**TOWN OF  
APPLE VALLEY, CALIFORNIA**

**AGENDA MATTER**

**Subject Item:**

**COMMUNITY CHOICE AGGREGATION FEASIBILITY STUDY UPDATE**

**Summary:**

At its November 9, 2010 meeting, the Town Council approved a consulting service agreement with John Dalessi, Principal, with Dalessi Management Consulting LLC (DMC), to prepare a Community Choice Aggregation (CCA) feasibility study for \$20,000. The consultant commenced the study and provided an update to the Town on December 15, 2010. DMC estimated the total cost of providing electricity to the Town's residents and businesses through a CCA program and compared that cost to the rates charged by SCE as projected over a twenty-year study period. In estimating program costs, DMC used historical electric utility data and sample hourly class load profiles published by SCE to create a composite hourly load profile for all electricity customers in the Town, consistent with industry practices.

Based on Mr. Dalessi's economic analysis, it does not appear that forming a CCA program in Apple Valley is feasible at this time. Therefore, DMC recommends suspending further program analysis until conditions change that might improve the economics of CCA for the Town. Factors that could change the economics include the potential for significant increases in Southern California Edison (SCE) generation rates as well as reductions in Edison's Cost Responsibility Surcharge. SCE is allowed to impose the Cost Responsibility Surcharge on CCA customers to protect SCE from losses that might result from customers switching to CCA service. The consultant also encourages the Town to join other local governments and interested parties who are active at the California Public Utilities Commission (CPUC) in pressing for reform of the rules that currently hamper the Town's ability to provide competitive alternatives to SCE for electric supply services.

The total amount billed to the Town for work performed to date is \$10,012.50, leaving a balance of \$9,987.50 of the \$20,000 set aside for the study. Staff commends Mr. Dalessi for voluntarily ceasing billing once the analyzed data showed the infeasibility of the study. The consultant has indicated that the data and analysis that DMC has completed for the Town can be used to perform an updated feasibility assessment in the future at a fairly nominal cost if changes in SCE rates or other factors indicate that a reevaluation is warranted.

**Recommended Action**

That the Town Council receive and file the CCA feasibility status report and direct staff to monitor and actively participate with other local governments to pursue reform changes with the CPUC that may make Community Choice Aggregation feasible for the Town in the future.

**Proposed by Economic Development & Housing Div.                      Item Number \_\_\_\_\_**

**T. M. Approval: \_\_\_\_\_ Budgeted Item  Yes    No    N/A**

December 22, 2010

John Dalessi  
Dalessi Management Consulting, LLC  
3941 Post Dr., Suite 20-201  
El Dorado Hills, CA 95762

Kenneth J. Henderson  
Town of Apple Valley  
14955 Dale Evans Parkway  
Apple Valley, CA 92307

Dear Mr. Henderson:

Dalessi Management Consulting LLC (DMC) was retained by the Town of Apple Valley to assess the feasibility of the Town forming a Community Choice Aggregation (CCA) program, whereby the Town would seek competitive sources of electricity on behalf of participating residents and business. DMC has completed a preliminary economic analysis, which shows that projected costs for customers in such a program would likely be higher than the rates charged by Southern California Edison Company (SCE) under current market conditions, as further explained below. As discussed via teleconference with you and your staff on December 15<sup>th</sup>, DMC recommends that further work on the feasibility study be suspended until such time as the market and regulatory environment change to make CCA more feasible for the Town. The benefit of this approach would be an estimated cost savings of approximately \$8,500 or 43% of the amount budgeted for the study.

The data and analysis that DMC has completed for the Town can be used to perform an updated feasibility assessment in the future at a fairly nominal cost if changes in SCE rates or other factors indicate that a reevaluation is warranted. DMC also encourages the Town to join other local governments and interested parties who are active at the California Public Utilities Commission (CPUC) in pressing for reform of the rules that currently hamper the Town's ability to provide competitive alternatives to SCE for electric supply services.

#### Overview of Analysis

DMC estimated the total cost of providing electricity to the Town's residents and businesses through a CCA program and compared that cost to the rates charged by SCE as projected over a twenty-year study period. In estimating program costs, DMC used historical electric utility data and sample hourly class load profiles published by SCE to create a composite hourly load profile for all electricity customers in the Town, consistent with industry practices. For the electricity cost estimates, DMC used the modeled load profile and current market electricity prices obtained from a major competitive energy supplier active in the California market. These power supply costs include costs for electric energy, capacity, renewable energy to meet state



requirements, and associated grid management services. Estimates for administrative and other operating costs were estimated based on DMC's experience with an existing CCA program operating in Marin County. An average program rate was derived by dividing total program costs by total program electricity sales.

For comparison, SCE generation charges were calculated using currently effective rates for each customer class and projected forward for the twenty-year study period. The total costs were summed for all customers in the Town, and an average SCE generation rate was derived by dividing total SCE generation charges by total electricity sales.

The resulting average program rate is estimated to be approximately 7% higher than the average SCE generation rate based on today's SCE rates, electricity market prices, and current estimates for program administrative and operating costs (8.5 cents per kWh for the CCA vs. 8.0 cents per kWh for SCE). SCE is also allowed to impose a surcharge, known as the Cost Responsibility Surcharge, on CCA customers which protects SCE from losses that might result from customers switching to CCA service. The Cost Responsibility Surcharge for 2011 is 2.9 cents per kWh. This means that CCA customers would pay, on average, the 8.5 cents per kWh program rate plus the 2.9 cents per kWh Cost Responsibility Surcharge for a total of 11.5 cents per kWh, creating a very large competitive advantage for SCE.

#### Factors that Could Change the Results

The economic analysis summarized above represents a snapshot in time, and various factors could change in the future that would affect the results. Regulatory proceedings at the CPUC can have a significant impact on SCE's generation rates as well as the Cost Responsibility Surcharge, two key factors in the economic analysis. SCE has been successful in recent years in moving costs from the generation rate, where there is potential competition, to the delivery rate in the form of various surcharges, where it retains a monopoly. A current regulatory proceeding is examining reforms to the Cost Responsibility Surcharge due to complaints from customers and competitive energy suppliers that it creates an unfair advantage for the investor owned utilities. It is likely that a decision on this issue will be finalized in early summer 2011, and this could have a material impact on the feasibility assessment.

All SCE rates must be approved by the CPUC and generally change in January of each year. It is possible that an increase in SCE generation rates coupled with a decrease in the Cost Responsibility Surcharge could make a CCA program for the Town feasible. DMC recommends that the Town keep abreast of regulatory changes that might change the economics of CCA for the Town and be prepared to reevaluate forming a CCA program if such changes occur. The Town could also take a proactive role by participating in CPUC proceedings to make its interests known to the CPUC.

#### Conclusion

Dalessi Management Consulting, LLC



Based on DMC's economic analysis, it does not appear that forming a CCA program in Apple Valley is feasible at this time, and DMC recommends suspending further program analysis until conditions change that might improve the economics of CCA for the Town. Factors that could change the economics include the potential for significant increases in SCE generation rates as well as reductions in the Cost Responsibility Surcharge. DMC recommends the Town continue to monitor - and potentially become involved in - the regulatory processes that influence these factors and be prepared to reevaluate CCA feasibility if conditions become more favorable

If you have any questions or wish to discuss further, please feel free to call me at 916-293-9730.

Sincerely

John Dalessi  
Principal  
Dalessi Management Consulting, LLC