

# CCA-Enabled Asset Acquisition: Pros, Cons, Rights and Responsibilities

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# Introduction

Some northern California CCAs and irrigation districts have bid to acquire PG&E electric distribution assets in the areas they serve. In the past such asset acquisitions were associated with the formation of municipal utilities. The California Alliance for Community Energy posed the following questions for discussion:

1. What do you see as the biggest PRO of municipalization, and the biggest CON?
2. What could a Community Choice program do after municipalization, that it cannot do as a Community Choice program?
3. In a rapidly transitioning California energy sector, how should CCAs adapt, and is municipalization an evolutionary pathway?

# Disclaimers and References

- Personal perspectives, not VCE board, staff or Community Advisory Committee
- The VCE CAC has been briefed and asked questions about VCE's recent decision to pursue acquisition of PG&E assets but has not discussed pros, cons and implementation scenarios.
- References include:
  - VCE website
  - Public domain information from prior municipalization evaluations

# Summary

Biggest Pro: Opportunity for closer and much improved long-term integration of local clean energy resources and local energy delivery

Biggest Con: Large public investments are required which will be at significant near-term risk of underperformance, potentially resulting in unstable business plans and limited internal organizational capacity to deliver better integration of local resources and local energy delivery

Expanding the Currently Limited CCA Role: With rights of municipal utilities come new responsibilities that require a well trained, well managed work force with deep experience in electricity distribution planning and operations. The work force exists and is unionized. Repositioning it may require state legislation.

Alternative, more incremental, strategies are available that can be foundational to better integration of local clean energy resources and local energy delivery without requiring major asset acquisitions.

# Municipalization

Historically, municipalization has required a long, costly and politically-fraught “condemnation” proceeding.

Current asset bids by CCA’s recognize the potential opportunity to exploit the bankruptcy process to minimize costs and time required to settle on an asset price based on a short timeline to decision and minimal political push back by the asset owner. Nevertheless, PG&E has responded as in the past.

- “Our assets aren’t for sale, and even if they were, your bid is too low.”

# Municipal Utilities

- Can be gas or electric. Same business model as IOUs, i.e. monopoly commodity energy provider
  - In California, Munis leverage tax free status, access low cost debt capital and cheap Federal hydropower
  - They have rate-setting authority, allowing more locally appropriate and equitable cost allocation.
- Options for local integration or specialization, e.g. distribution only
- Generally smaller geographic footprint than IOUs serving same population.
- Diverse. No cookie cutter – unique usage profiles, rates and and rate designs.

# Biggest Pros and Cons

- Biggest PRO: Opportunity for local control inherent in locally governed utilities. Local control can result in local goals being met.
  - In a CCA context, a first order local goal may be simply “lower and stable electricity rates”. Achieving this goal is a threshold condition on the path to other goals, e.g. timelier and more effective local climate action and smarter local infrastructure integration.
- Biggest CON: Incumbent asset owner is heavily advantaged. They have the necessary work force, and even with a streamlined asset acquisition process, securing assets is still a politically, economically and technically heavy lift. Plus, there is another even heavier lift required once assets are under ownership, i.e. “when the dog catches the bus”.



# Doing More

If assets were locally owned, the current power procurement functions of a CCA could be integrated with those of a locally accountable distribution system operator.

- One integrative vision is [Collaborative Local Renewable Integration](#), an urgent need for energy service providers to engage with communities and co-manage technology driven trends toward energy sector decentralization, decarbonization, democratization, demonopolization, and digitization.
- Municipal utilities are “distribution system operators” (DSOs). However, the future DSO role envisioned by Lorenzo Kristov and others would be more akin to transmission system operation than current distribution system operation –in other words a much more ambitious undertaking.
- Doing more means new Rights and Responsibilities.

# New Rights and Responsibilities

What could CCAs do after municipalization that they might want to do?

1. Operate the local electricity grid to expand reliance on local resources,...e.g. on-site solar and storage, and “community” renewables and storage.
2. “Modernize” the local electricity grid, e.g. make it smarter and capable of dealing with customers as potential prosumers vs. consumers.
3. Deploy community microgrids and accommodate customer microgrids.
4. More fully exercise their rate-setting authority.
5. Enable CCA member jurisdictions to take ownership of electricity distribution assets, either collectively or in their communities, thus creating more locally accountable municipal utilities.
6. Collaborate more actively with their member jurisdictions, e.g., deliver programs and achieve better local energy infrastructure integration.

# Discussion – Pros

- Biggest PRO: Opportunity for local control resulting in local goals being met.
  - For some CCAs the first order local goal has been “lower electricity rates”. This goal may still be a threshold condition on the path to other goals, e.g. climate action and smart infrastructure integration. Will it be realistically achievable in a municipalization context?
  - Cities are making substantial resilience investments in delivering non-energy services. Rates tend to go up as a result.
  - Would lower electricity rates come at the expense of accelerated decarbonization and smart infrastructure integration?
  - Existing CCAs, under competitive pressure regarding rates, have been slow to roll out robust portfolios of local programs. With competitive pressures removed through municipalization, will new municipal utilities be willing to raise rates to pay for infrastructure modernization and related programs? If not, what will have changed?
  - They will have rate-setting authority, but costs and benefits of accelerated vs. evolutionary local smart energy infrastructure integration are unknown, and they are not currently the subject of active state-funded inquiry.

# Other Pros

- Potential for Long Term Rate Minimization and Reliability Improvement
- Lower Barriers to:
  - Local Utility Service/Infrastructure Integration/Resilience
  - Local Emissions Reduction
- Option for Locally Appropriate Safety Standards and Risk Management
- CCAs might be motivated to lead and facilitate local government engagement in local energy collaboration and integration.

# Discussion – Cons

- **Biggest CON:** It's a politically, economically and technically heavy lift.
  - Historically, municipalization has required a long, costly and politically fraught “condemnation” proceeding.
  - If this CON has been mitigated by the bankruptcy process, what other cons need to be considered?
- **New Biggest CON:** Taking responsible control of electricity distribution planning and operations will be an organizationally, economically and technically heavy lift.  
Some questions:
  - Are current CCAs governed, staffed, planned and operated as a municipal utility would need to be? Generally, NO. So, the transition will require many major decisions and changes, i.e. a heavy lift with a significant public money at risk. To make matters worse, some California CCAs are minimally staffed with their primary business functions out-sourced, making the transition to local grid ownership and operation especially challenging.
  - Will it be possible to aggressively pursue an existing Joint Powers Agency's (JPA's) vision while also managing municipalization? This will be easier in some cases than others.

# Other Cons

- Uncharted territory. No recent municipalization in California.
- Bankruptcy proceedings are questionable venue for evaluation of energy service options. Limited outsourcing opportunities. Distribution system operations are typically not out-sourced.
- There is a risk that some JPA members may exit when municipalization details become clear and local constituencies weigh in.
- Degraded near term transparency and local accountability because of the need/choice to discuss litigation and contract negotiations in closed session

# Discussion – New Rights and Responsibilities

Are California municipal utilities already doing the things CCAs might like to do after municipalization? Generally, no, not yet.

1. Fully exercise rate-setting authority to offer consumer choice and drive local clean resource deployment.
2. Plan and operate the local electricity grid to expand reliance on local resources, e.g. on-site solar and storage, and “community” renewables and storage.
3. “Modernize” the local electricity grid, e.g. make it smarter and capable of dealing with customers as potential prosumers vs. consumers.
4. Deploy community microgrids and accommodate customer microgrids.
5. Collaborate more actively with city and county member jurisdictions to deliver programs and achieve better local energy infrastructure integration.

# Other New Rights, New Responsibilities

- Technical:
  - Service reliability
  - Infrastructure/service resilience
  - Evaluate/deploy new technologies
- Economic:
  - Recover costs through equitable rates
  - Minimize financial risk
  - Provide affordable electricity service to all customers
- Environmental:
  - Comply with state and Federal law
  - Help determine/implement energy elements of city and county climate action plans
- Political:
  - Earn public confidence
  - Protect public safety



# Alternatives Strategies for CCAs

- Learn by doing, e.g., lead/facilitate local microgrid development, and build capacity to lead local energy transition.
- Robust CCA implementation and local program and resource development in collaboration with:
  - Grid owners
  - Member jurisdictions
  - Local contractors and retailers
  - Solar customers
- Local Renewable Energy Cooperatives

# State Interest and Role

- Events may be creating “insurmountable opportunities” for CCAs. Is municipalization a viable evolutionary pathway for CCAs? It could be for the most visionary and integrative CCAs, provided the state clears a path forward.
- In this context, the state has an interest/role providing structure and analytical support regarding the on-going energy transition, including planning and operation of electricity distribution systems. CCA engagement and decision-making regarding municipalization may be costly and perhaps unnecessarily controversial in the absence of state empowerment and policy guidance.

# Summary

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**Expanding the Currently Limited CCA Role:** With rights of municipal utilities come responsibilities that require a well trained, well managed work force with deep experience in electricity distribution planning and operations. Such a work force of course already exists and is unionized. Repositioning it may require state legislation.

Alternative, more incremental, strategies are available. They can be foundational to better integration of local clean energy resources and local energy delivery. E.g., Collaborative Local Renewable Integration does not require major asset ownership changes.