



City of Encinitas

Community Choice Energy Exploration

June 20, 2016

Agenda

- Enhancing CCE Financial Viability and Risk Management Practices
- Approaches to Community Self-Determination
 - ◆ Illinois Municipal Aggregation Example
 - ◆ California Public Power Example
- About Hanover Strategy Advisors

Enhancing CCE Financial Viability and Risk Management

- Realistic Assessment of Long-Term CCE Rate Competitiveness
 - ◆ Incumbent utilities and regulators still control the ratemaking process
 - ◆ Long-term ability of CCEs to produce savings vs. utility rates is uncertain
 - ◆ But CCEs believe they can remain viable even if they provide no savings
 - ◆ Potential risks to CCE from customer base erosion
- Match CCE Supply Portfolio to Customer Commitments
 - ◆ Customer commitment to continue buying power from CCE is uncertain
 - ◆ But CCEs are making significant long-term power purchase commitments
 - ◆ Potential risks to CCE in the event that customers switch to new suppliers and leave the CCE with stranded power supply commitments
- Active Portfolio Management
 - ◆ Historically, electric power is the market's most volatile commodity
 - ◆ But CCEs and their suppliers are not actively managing portfolio positions & risks, and recent unusual weakness and stability in power prices is uncertain
 - ◆ Potential risks to CCE from inadequate portfolio management

Community Self-Determination—Illinois Municipal Aggregation

Approaches we've seen to accommodate communities' renewable energy preferences, load/cost differences, rate savings vs. community benefits

■ Renewable Energy Commitment

- ◆ Communities may elect to increase renewable usage above legal minimum
- ◆ City officials decide on higher renewable percentage for entire community
- ◆ Customers decide on higher renewable percentage for themselves only

■ Pricing At Start-Up and When Adding New Members

- ◆ Single price for all members reflecting combined load/cost characteristics; pricing is adjusted for all members to account for new members
- ◆ Unique price for each member reflecting individual load/cost characteristics; pricing is maintained for original members, new members pay a new price

■ Deciding Between Customer Savings and Community Benefits

- ◆ Maximize discount to utility tariff rates; customers decide how to use
- ◆ Accept smaller discount to utility tariff rates (or potentially pay a premium); use the difference to fund community programs

Community Self-Determination—California Public Power

Approaches to accommodating communities' different long-term resource commitments and load/cost differences (in increasing order of complexity)

■ Typical CCE

- ◆ Long-Term Resource Commitments: all members share a single portfolio
- ◆ Short-Term Supply Management: all members share a common pool

■ Northern California Power Agency (NCPA)

- ◆ Long-Term Resource Commitments: each member has a unique portfolio
- ◆ Short-Term Supply Management: all members share a common pool

■ Southern California Public Power Authority (SCPPA)

- ◆ Long-Term Resource Commitments: each member has a unique portfolio
- ◆ Short-Term Supply Management: each member has a unique pool

About Hanover Strategy Advisors

- A partnership of highly accomplished professionals with extensive commercial business expertise focused in the energy space
- Trusted advisors to utilities, merchant generators, financial institutions and market participants on energy strategy, financial and market issues
 - ◆ **Business Strategy.** We provide strategic advice to help businesses position for growth and profitability in a complex and dynamic world.
 - ◆ **Commercial Advisory.** We leverage our 60+ years of commercial energy experience to help capture value in your operations and partnerships.
 - ◆ **Commodity Risk Management.** We enable you to achieve superior risk-adjusted returns on assets/portfolios using proven risk strategies and tools.
 - ◆ **Market Assessment.** We create actionable plans by tapping our market expertise and ability to identify key trends, implications and opportunities.

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Community Choice Energy

ENCINITAS CCE SUBCOMMITTEE

Pilot Power Group, Inc.

Denis Vermette, CFO

June 20, 2016



Pilot Power Group, Inc.

- California based company, founded in 2001, headquartered in San Diego
- Registered CAISO Scheduling Coordinator since 2004
- Provider of energy supply and energy management solutions to Direct Access customers
- Independent energy advisor, ensuring clients obtain the energy supply best suited to their requirements
- Access to multiple investment grade suppliers



Community Choice Energy

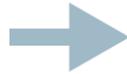


SOURCE



CCE

North County Energy



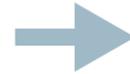
DELIVERY



UTILITY



A  Sempra Energy utility®



CUSTOMER



YOU

Residence and
Businesses of Encinitas

CCE Structure

- Joint Power Authority (JPA)
 - Shields individual cities from legal and financial risk
 - Restrictions on revenue
 - Longer start-up period
- Local Single City or County
 - Full autonomy
 - Localized program
 - Longer start-up period
 - Individual municipality bears legal and financial risk
- Public Private Partnership (P3)
 - Lower or no up-front costs
 - Faster start-up period
 - Can be transitioned to a JPA



CCE Benefits

- Provides the community the flexibility to obtain a higher percentage of cleaner and renewable energy
- Provides access to competitive pricing and lower cost energy
- Continued partnership with local utility
- Positive impact to the local community, support job growth, rate reductions and fostering local business build out.
- Local control over energy rates



CCE Risks

- Energy Rate – poorly defined hedging strategy can be negatively impacted by market volatility
- Customer Opt-out rate – greater number of customer elect to return to the utility
- Regulatory and Legal – changes at the CPUC and a the legislature
- Credit – margin requirements with counterparties and CAISO, counterparty default risk
- Cash Flow – lag between delivery to customers and payment received



THANK YOU





COMMUNITY CHOICE ENERGY CONSIDERATIONS

City of Encinitas

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#1: CCEs are Complex and Capital Intensive

- CCEs perform highly skilled and technical power resource procurement, grid interface, risk management, customer service, rate design, regulatory, and contracting tasks involving millions of dollars in annual expenditures,
but....
- Nationally, there are nearly 3,000 non-profit electric entities successfully serving over 30% of all U.S. electricity customers. In California, there are 54 “publics” including 4 CCEs.

#2: What's the Point?



California public power includes giants like LADWP with over \$3B annual revenues, and smaller entities like the City of Alameda, Shelter Cove and Kirkwood serving as few as 500 customers.

All of these entities successfully perform identical functions required of a CCE (and more) on a daily basis, many with the assistance of joint service organizations and specialized consultants.

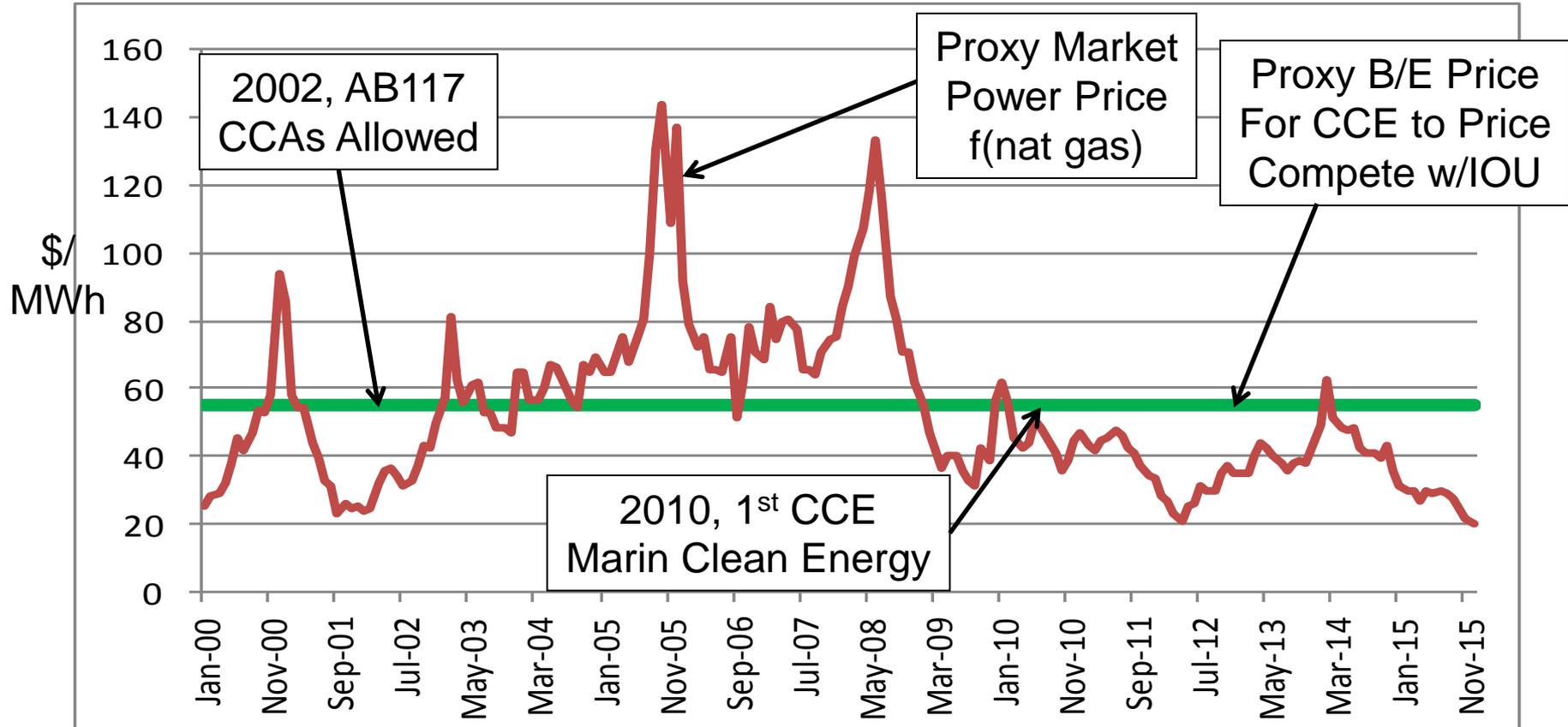
Thus there's "nothing new" about operating a CCE.

#3: CCE Success Requirements Include:

- Informed, responsible and nimble decision body to exercise LOCAL CONTROL
- Skillful and experienced array of legal, technical, financial, risk management, regulatory and customer support staff and services.
- Adept customer outreach and communications to assure community involvement and ongoing participation.
- “100 Year Vision”

#4: Is Timing Important?

CCEs most viable when “red line” below “green line”



#5: Closing Thoughts

- Establishing a local CCE involves the time, dedication and effort of community citizens, influential stakeholders, and elected representatives.
- CCEs provide an opportunity for local control and local choice of power supply sources and related programs, which can reduce GHGs, promote local renewable resources, and be rate competitive with IOUs.
- Establish a plan early-on to build financial reserves.
- There are 100's of public agencies successfully providing electricity to many millions of customers throughout the nation.
- Public power industry service organizations and consultants exist to augment and support CCE business operations
- CCE competitiveness will be very much affected by power market and IOU generation and PCIA rate conditions during its implementation and operation phases. Planning for uncertainty is critical.