Local Power.

To: Barbara Hale, Michael Campbell

SFPUC CC: Ed Harrington

From: Paul Fenn, Local Power Inc.

Date: January 17, 2012

RE: CS-920R-B, Task 3, Subtask A, Advising on Wholesale Procurement: Customer Phasing and Shell Wholesale Strategy Analysis and Modification

Summary

This memo summarizes Local Power's current understanding of the design of the current SFPUC strategy for CleanPowerSF enrollment, the likely adverse impacts of this strategy, and discussions with SFPUC staff to date on anticipating and mitigating these concerns. LPI will submit a report on the customer phase-in schedule in the next deliverable.

The current SFPUC strategy for CleanPowerSF Phase 1 is to offer 230,000 residential customers (out of 340,000 eligible residential customers) opt-out notifications for an initial 100% renewable power CCA service that would increase the rates they pay for electricity above PG&E rates.

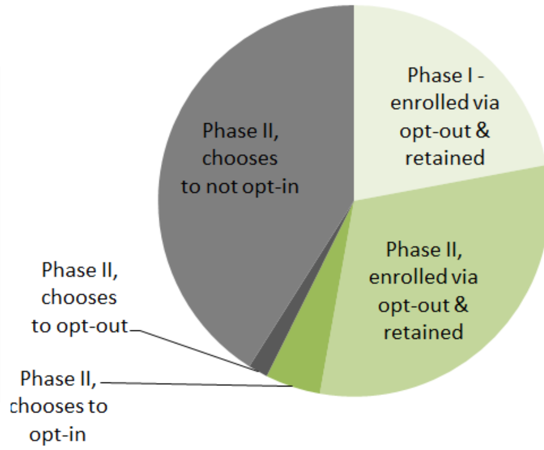
With this higher rate premium, the SFPUC staff indicated that a 30-40% range of customers is forecasted to participate (an opt-out rate of 60%-70% is expected).[1] SFPUC anticipates that 155,000 customers will opt-out, leaving only 75,000 customers among this group being enrolled at the end of the four-month statutory notification process.[2]

The current strategy will eliminate nearly half of the city's residents from being eligible to receive CCA service under the opt-out structure. Under current CPUC regulations, these customers would have to affirmatively *opt-in* in order to participate in the Phase II offering of 51% renewable and demand-side supplied power by 2017, which is anticipated to offer prices competitive with PG&E's service (renewable power content currently at 15.9%).

Under an opt-in approach, experience indicates that 90%-95% of customers would not likely opt-in to the program. Staff agreed that that customers who opt-out of a Phase I premium product may not be offered opt-out service again for a Phase II non-premium product, and indicated that that Phase II hasn't been planned out. If implemented as planned, only 110,000 Phase II customers will remain in the City who are eligible to participate in the subsequent opt-out program. The 'high level' eventual likely residential enrollment is depicted in the chart and graph below:

[1] LPI December 13 interview with B. Hale and M. Campbell.
[2] San Francisco Public Utilities Commission Meeting Minutes, July 26, 2011, p. 9.

		Residential Customers	Percentage
Phase I	Opt-out, accepted	75000	22%
Phase II	Opt-out, accepted	104500	31%
	Opt-out, lost	5500	2%
	Chooses to opt-in	15500	5%
	Chooses not to opt-in	139500	41%
	Total enrolled	195000	57%
	Total lost	145000	43%
	Total	340000	100%



[3]

The use of an opt-out structure is essential for the ability of CleanPowerSF to capture citywide participation. The attraction and preservation of a high percentage of potential CleanPowerSF CCA customers is of foundational importance for the success of both the wholesale and renewable elements of the program. Alternate approaches that would help accomplish these results are described in the 'Recommendations' section below.

Analysis

CPUC Regulations. Interviews and review of AB117 and SB790 indicated that under the current California Public Utilities Commission (CPUC) CCA rules, once a potential CleanPowerSF customer has been offered service with the ability to opt-out, and they have then elected to opt-out, they cannot be offered a second service offering with the option to opt-out. Instead, CleanPowerSF must offer them opt-in service and they must actively select the second offering.[4] While efforts could be made to have the CPUC allow a second opt-out offering,[5] it would likely require a specific determination on this issue by the CPUC. The need for a CPUC determination could be avoided if the enrollment strategy seeks to maximize initial participation choices by customers.

The Relative Success of Opt-Out vs. Opt-In. Experience with opt-in electricity marketing programs during Direct Access have demonstrated the need for the opt-out approach in order for price-competitive retail electricity programs to succeed. Wholesale power aggregation studies of deregulated markets during the early years of deregulation in the

[3] Graph assumes that 10% of residential customers offered opt-in service would enroll, and 5% of residential customers enrolled in opt-out service would elect to leave. See "Community Choice Aggregation: An Update," by John Farrell, New Rules Project, Institute for Local Self-Reliance, June, 2009. Also see "Results of Direct Access Pilots," *Group Buying Power: Meaningful Choices for Energy Consumers*, by Kay Guinane, Environmental Action Foundation, 1997, pp. 11-19.
[4] Interview with Carlos Velasquez, California Public Utilities Commission, January 13.
[5] LPI has requested clarification of this question from CPUC staff – see Interview Notes with Carlos Velasquez, January 13, p.2.

late 1990's have shown that opt-in "Consumer Choice" aggregation is extremely limited in achieving successful uptake of electricity customers compared to opt-out "Community Choice" aggregation. To illustrate the difference between opt-out and opt-in, in comparative terms, offering the 235,000 customers a competitive rate with 51% plus green power by 2017 would typically result in 75-90% of citywide business and residential demand, an opt-in program offering the same discount price would likely result in approximately 5-10% engagement. Relying on "opt-in" offerings for subsequent phases of customers would seriously diminish a CCA's likelihood of serving the majority of residents and businesses within a municipality.[6]

Core of Problem: Losing 155,000 Customers Harms the Economics of CCA. A simple underlying premise is true for any CCA: the more customers the CCA serves, the better rates and services it can offer. From both the wholesale, renewable, and demand management perspectives, a larger customer base enables the CCA to provide lower rates using economics of scale. Under the proposed strategy to initiate service under the Shell NA contract agreements, customers opting out of the premium 100% renewable service would cause a substantial shrinking of CleanPowerSF participating load. The opportunity to achieve scale and realize the program goals defined in the CCA Ordinances 86-04 (2004) and CCA and H Bond Program Design Ordinance 147-07 (2007) would be negatively impacted by this strategy.

Negative Press. Another critical factor for the early success of a CCA program is positive press coverage. Recent press on the program by the San Francisco *Examiner* has labeled CleanPowerSF as being "deceptive," by pitching opt-out rate increases to 230,000 customers while understanding that a majority will opt-out."[7] As media coverage tends toward the more attention grabbing, sensational element of a situation, subtleties are often not communicated effectively. As such – instead of a more thorough explanation of the various phased service offerings, and the 100% renewable nature of the initial Phase I offering, we would likely see simplified stories with headlines along the lines of 'Many Customers Opt-out of the Government-Run CleanPowerSF Program Because it Would have Raised their Rates."

Recommendations

LPI is scoped to identify opportunities for local renewables and demand side development, including a poll to assess interest among potential customers. To date, staff report that SFPUC has not developed a list of target customers nor developed a strategy or criteria for selecting the customers who will be offered service this year. LPI discussed with SFPUC how this poll could provide the basis for a more intelligent

[6] See "Community Choice Aggregation: An Update," by John Farrell, New Rules Project, Institute for Local Self-Reliance, June, 2009. Also see "Results of Direct Access Pilots," *Group Buying Power: Meaningful Choices for Energy Consumers*, by Kay Guinane, Environmental Action Foundation, 1997, pp. 11-19.

[7] "With CleanPowerSF, the dirty truth is in the details," *San Francisco Examiner* editorial, January 16, 2012.

targeting of “early adopter” customers wanting to participate in Phase I enrollment, and that this expansion may require additional budget to identify a sufficient number of customers.

CleanPowerSF should consider defining Phase I customers as customers who wish to participate as owners of newly-built local assets. Customers would receive Shell NA power temporarily while the In-City sites are being developed. Under this approach, customers indicating an interest in paying a premium to own shares or purchase services from new local green power installed in local neighborhoods, would receive Shell NA power while awaiting their local In-City facility, which would provide all or part of their power once installed, based on design specifications. This approach would likely result in a much higher customer retention rate.

In order to pursue the “own don’t rent” approach to Phase I customers, CleanPowerSF could then delay the date of sending out opt-out notifications, and LPI’s citywide survey and poll for the “own your power” products - Community Solar, neighborhood renewables, deep retrofits and and onsite green power – provide the target list of customers to pre-solicit interest in owning prior to any offering of service.

In order to effectuate this arrangement, CleanPowerSF could renegotiate the terms of substitution with Shell and/or plan to roll that load into Phase II service. CleanPowerSF could negotiate to be allowed without penalty to fold the 30 MW of Shell capacity to serve Phase II customers. LPI has requested from SFPUC, but has not to date received permission, to interview with Shell and Noble in order to discuss options relative to these and other related issues.

The benefit of such an approach would likely be to substantially reduce the opt-out rate of Phase I customers. LPI would provide SFPUC with a higher quality list that would already have been surveyed for utility bill economics and polled for customer expressions of interest in participation. In addition, potential negative press covering the opt-out premium could be neutralized by good press on the “Own don’t rent” approach. Early adopters would receive not only 100% green power for their premium, but the economic benefits of ownership once facilities are built. In return, these customers would provide CleanPowerSF with a foundation upon which to establish loyalty and trust with residents and businesses of the City.