

Public Utilities Commission Study of Community Choice Energy

Reps. Hooton and Boesenecker | Sen. Donovan

FAQ and questions raised during the 2020 House E&E committee hearing

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1. What is the impact of CCE on low-income ratepayers?

While consumer protections in general are already considered as one of the topics in the PUC investigatory docket that is authorized by the bill (topic #6), the following language was added in response to Energy Outreach Colorado to address this question more specifically (topic #19):

(XIX) THE IMPACT OF CCE ON LOW-INCOME CUSTOMERS, INCLUDING THE AVAILABILITY OF LOW-INCOME PROGRAMS OFFERED THROUGH THE INVESTOR-OWNED ELECTRIC UTILITY TO CCE CUSTOMERS AND THE ABILITY OF CCE AUTHORITIES TO ESTABLISH ADDITIONAL PROGRAMS TO ASSIST LOW-INCOME CUSTOMERS;

Furthermore, CCE cannot harm low-income customers, by design, because it is always an option for customers to opt out and purchase their power from the incumbent utility as they do now. In addition, CCE allows communities to institute their own locally-relevant energy programs, including low-income programs, which is the norm in California.

2. Will the investigatory docket overburden the PUC?

While the PUC does have a lot going on, we are certain that this bill will not overload them based on speaking directly with them. The bill provides 1.0 FTE to conduct the docket, and this level of resources is adequate because this estimate came directly from PUC staff. Also, much of what is

currently on their plate will be wrapped up or well along by the time this new docket would start in October 2021. The due date for the final report from the PUC to the legislature is Dec. 15, 2022.

3. Will CCE interfere with reaching state energy and emissions reduction goals?

We believe that CCE has the potential to accelerate reaching state energy and emissions reduction goals, in part because the original reason for contemplating CCE is to address the needs of many Colorado communities that want to move faster than state or utility timelines, including the 16 "Ready for 100" cities and the 38 "Colorado Communities for Climate Action" (CC4CA). Furthermore, these state energy goals are in state statute and are mandatory, not optional, so they must be met regardless of CCE or other factors. However, in response to concerns expressed by the Colorado Energy Office, Western Resource Advocates and others, the following additional topic was added to the PUC docket (topic #17):

(XVII) THE IMPACT OF ALLOWING CCE IN COLORADO ON THE ABILITY OF COLORADO TO REACH ITS CLEAN ENERGY AND GREENHOUSE GAS REDUCTION GOALS AND WHAT LEGISLATIVE AND REGULATORY REQUIREMENTS FOR CCE WOULD BE NEEDED TO FACILITATE REACHING THOSE GOALS;

If CCE-enabling legislation is drafted in the future, we and many others would advocate that CCE authorities be required to meet or exceed all renewable energy and emissions reduction requirements that apply to investor-owned utilities. Also, note that CCEs in California have thus far entered into long-term contracts for an astounding 6000 MW of new-build clean energy resources ([source](#)).

4. Is the study a burden on the Fixed Utility Fund?

The Fixed Utility Fund is a 0.25% charge on utility bills that funds the PUC and its activities, including the ongoing dockets that were required by SB19-236. The Fiscal Analyst has determined that the PUC docket is an appropriate use of this fund. The balance in the fund is projected to be \$500K at the end of this fiscal year, whereas this bill will require approximately \$112K spread over 2 years (\$56K/year). This is a one-time charge, not a sustained draw from the Fund. This bill does not require any appropriation from the General Fund.

5. What would CCE mean for coal plants and coal-fired electricity?

CCE does not specify energy sources. CCE would only open up an option for communities to choose their wholesale electricity suppliers. If CCE is enabled in the future, CCE authorities would almost certainly be subject to the same state-level energy and emissions related requirements as investor-owned utilities, so the transition to cleaner sources of energy would likely continue just as with the status quo. The transition might be faster than the status quo if communities choose cleaner energy sources. Furthermore, it is very likely that aspects of a Just Transition and many other factors that apply to IOUs, would also apply to CCEs.

6. Opt-out rates in some CCE states are high (NREL paper).

It is important to understand that the NREL paper looks broadly at CCE across the country, and all but one of the current CCE states are Eastern deregulated (or "retail choice") states, where individual customers can shop for their own electricity supplier from among dozens to hundreds of retail competitors. However, Colorado is a regulated monopoly state, and comparing the two is like

apples and oranges. Therefore, much of the NREL paper does not apply to this bill. The bill repeatedly clarifies that the PUC study concerns the "wholesale, opt-out model of CCE" (meaning the California model). Opt out rates are higher in the East, and there are other problems as well that relate to being a retail choice state, but this is not relevant to the CCE Study Bill. Opt out rates in California CCEs are typically 5-10%, so 90-95% participation ([source](#)). These high participation rates are what allow the financiers of new renewable energy development to feel comfortable financing renewable energy projects for CCEs, because the revenue stream is seen as stable and therefore the risk is low. This stability also allows communities to negotiate lower-cost, long-term contracts with power producers that would not be possible in the retail choice states due to the high "customer churn" rates.

7. Is automatically enrolling customers in CCE by default a problem?

The choice by a community to form a CCE is made by City Council, and it may or may not require a vote of the people. The "by ordinance or by vote" question is part of the PUC docket (topic #10). Either way, it is a transparent public process that would be widely discussed and debated and covered by the media as much as any significant decision by a city council, so it should not come as a surprise when the line item on a customer's utility bill for their electricity supply now reflects the name of the CCE rather than the name of the utility. The incumbent utility still delivers the electricity and manages the power lines and customer service and billing - only the vendor of the electricity itself changes. However, anyone who wants to still purchase their electricity from the utility, for any reason, can always do so because CCE is an opt out program - the customer simply needs to call a number or click on a website to change back to the utility's power supply. CCE-enabling legislation under consideration in Oregon provides specific guidance to new CCE authorities about the timing, frequency and content of direct notifications to ratepayers of the upcoming change. Similar legislative language could be used in Colorado if CCE-enabling legislation is introduced in the future.

8. Why not also study other options for addressing community energy goals?

I have no objection whatsoever to considering other options in parallel with CCE, but am very opposed to cramming all possible options into my bill, for several reasons:

- CCE is complicated and deserves to be considered in a focused way.
 - Studying CCE does not preclude any other energy legislation from advancing in parallel. Options for giving communities more choice and control over their electricity supply are not mutually exclusive.
 - The idea of "Community-Utility Partnerships" was put forth in HB18-1428, which did not pass. If an interested legislator wishes to improve and reintroduce that idea, nothing prevents that. I would recommend getting stakeholder input to improve that bill, but it does not belong shoehorned into my bill.
 - When powerful entities like monopoly utilities have strong vested interests in maintaining the status quo, there is a danger that a broad mandate such as "study all the options" is a tactic and a recipe for delay and/or hijacking of the process, as opposed to more focused investigations that lead to more objective, evidence-based results.
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9. How are CCE authorities governed?

There are two types of CCEs: 1) individual city CCE authorities, and 2) “Joint Powers Authorities” that consist of multiple cities and/or counties that combine their purchasing power and program administration. With individual cities, the board is generally the City Council, and therefore CCE governance is just as transparent as the city council, including public decision-making and sunshine laws. With JPAs, the board has representatives from each member city or county, and being a public agency has the same state transparency requirements as city councils. Both models are substantially more transparent and accessible to ratepayers than investor-owned utility decision-making processes.

10. Would CCE create additional safety risks for linemen?

Not at all. First, CCE pertains only to the procurement of electricity, not to the operation of the transmission and distribution grids, which remain the utility's responsibility. CCE authorities do not have, nor desire, the expertise to operate the grid. Second, during the committee hearing, the electrical workers union expressed concern about electricity flowing back into the grid from solar and other distributed energy resources during an outage. While CCE may or may not enable more local, distributed resources than an IOU would, all such resources have to abide by all relevant safety codes and standards, and the resources are interconnected under the direction of the utility, not the CCE authority. As an example, one such standard from the Institute of Electrical and Electronics Engineers (a standard-setting body for the electricity industry) requires that the control systems that form the interface between a renewable resource and the grid must terminate power flow from the resource within milliseconds of a power outage. Again, CCEs are only responsible for procuring the wholesale power supply, not for interconnection with the utility's grid infrastructure.

11. Is there evidence that CCE could reduce electricity rates?

We will learn a great deal about rates during the PUC investigatory docket authorized by the bill. Under CCE, a customer bill would have 3 line-items: 1) the electricity itself (which the CCE would procure); 2) the delivery cost (transmission + distribution charges by the utility); and 3) the “exit fee” which CCE customers would pay over some period of time to compensate the utility for “stranded costs” caused by the departing load of the CCE customers. Initially, bills for CCE customers would be lower than for utility customers only if the CCE could procure power at a lower cost than the utility by an amount that exceeds the additional exit fee. Over time, the exit fee would decrease and disappear as the stranded costs are paid off, in which case the bill comparison comes down to who can procure less expensive wholesale power. The observations below indicate that a CCE authority could procure less expensive wholesale power than an IOU:

- **Boulder’s Request for Indicative Pricing (RFIP).** Eleven wholesale suppliers responded to this solicitation, with the result that Boulder could have 89% renewable energy in 2024 at 2/3 the cost of power from Xcel, if they could choose their wholesale supplier ([source](#) - see table on page 2). Note: this refers to only the power supply line-item, not the total bill.
- **Two co-ops that left Tri-State.** After a battle, the Kit Carson and Delta-Montrose co-ops bought out their 40-year contract with Tri-State for a sizable exit fee, and they now procure their wholesale power from Denver-based Guzman Energy at an overall cost savings, including the exit fee which was financed by Guzman. Long term, their power will be much cheaper than power from Tri-State after the exit fee is paid off (which is just a few more years for Kit Carson).

- **Municipal utilities typically have the lowest-cost power.** Historically, public utilities across the nation have been able to offer rates that are 15-20% lower than investor-owned utilities ([source](#)). However, this is not all due to procuring cheaper power, as part may be due to more efficient operations, and/or lower costs of capital for infrastructure investments since municipal utilities also own and operate the “poles and wires”, unlike CCE.
- **Marin Clean Energy (MCE) rates compared to utility (PG&E) rates** ([here](#) - see table). The standard offer from MCE, a California CCE, provides 60% renewable energy at approximately the same total bill cost as the incumbent IOU which provides 29% renewable energy, because MCE’s cost of power is less than PG&E’s by an amount approximately equal to the exit fee (~12% of the bill). Over time, the exit fee will disappear and then MCE will realize a cost savings of about 12% (in the example of an average bill). Caveat: there are many reasons why electricity prices differ between California and Colorado, and we will get a better feeling for this during the PUC study because a key focus of the docket (topic #4) concerns determining the principles that should be used to calculate the exit fee.
- **Market forces and pressure.** On general principles, introducing competition into Colorado’s wholesale electricity sector should impose market discipline on the IOUs (Black Hills and Xcel) to prove to their customers that they can give communities what they want better than CCE could (whether it be lower costs, cleaner energy, more relevant local energy programs, local energy development and jobs, etc). We believe that even the threat of CCE represented by this study bill will motivate IOUs to better address customer concerns.

12. Hasn’t electricity decarbonization already been addressed by HB19-1261 and SB19-236?

While the 2019 legislation put us on a path toward cleaner energy and reduced greenhouse gas emissions, we are not on track to meeting the 2030 targets. Furthermore, there are no consequences for not meeting those targets. Dozens of Colorado communities want more rapid decarbonization than either their utility’s plans or current state targets, and the needs of those communities inspired running this bill. A recent GridLab/NRDC/Sierra Club modeling study analyzed scenarios to reach Colorado’s 2030 emissions reduction targets, and found that generating 98 to 99 percent of electricity with renewable resources by 2030 was the lowest-cost pathway ([PDE](#)). Furthermore, powering the electricity sector with this high level of renewable energy would make it much easier to reduce emissions when electrifying the transportation and buildings sectors.

CCE would make it easier to meet or exceed state emissions reduction targets by offering an additional, parallel path toward cleaner (and cheaper) energy – namely, a market-based approach to complement the regulatory approach. Rather than only an incremental regulatory approach that does not rock the boat, introducing market competition would apply pressure, which results in action – action by both utilities and by interested communities that would result in accelerated decarbonization of the electric grid in the most cost-effective way.

If conclusions of the CCE study look promising, I would likely run CCE-enabling legislation in 2023, and the first communities that wish to adopt CCE may be able to do so in 2025. The UCLA Luskin Center for Innovation reported that almost 50 California communities have already reached their 100% renewable energy goals, and the vast majority of them are CCEs ([source](#)).

13. Does CCE have implications for equity and environmental justice?

Yes. The GridLab/NRDC/Sierra Club study cited in question #12 not only showed that 98-99% renewable electricity by 2030 is the lowest-cost way to meet the emissions reduction obligations of HB19-1261, the study also showed that this more rapid and deeper decarbonization would address inequities caused by continuing to rely on fossil fuels. As one of the coauthors writes:

"The overwhelming majority of fossil fuel power plants in Colorado are located in communities with higher poverty rates, high percentages of the population that are people of color, or both. If the state instead chooses a more expensive pathway with a slower transition to clean power, then significant power plant air pollution will remain in these communities."

CCE holds much promise to accelerate the transition to renewable energy, as addressed in questions #12 and #3, and would thereby contribute to addressing environmental inequities in Colorado that arise from the continued use of fossil fuels.

14. How would CCE affect electric co-ops and municipal utilities?

If CCE is enabled in Colorado in the future, it would only be available to communities that are served by an investor-owned utility (Xcel or Black Hills). However, customers served by an electric cooperative or municipal utility, and their wholesale suppliers, may indirectly benefit from CCE.

By introducing more competition into the wholesale electricity sector, CCE would encourage a more vibrant wholesale electricity market in Colorado, from which many co-ops and municipal utilities purchase all or part of their electricity. Competition tends to put downward pressure on prices, as well as pressure to increase the renewable energy content in the energy mix. A more vibrant wholesale market would likely expand the number of Independent Power Producers and wholesale suppliers that are active in Colorado, leading to lower wholesale prices and more opportunities for all buyers, including co-ops and municipal utilities.

CCE would also add pressure to form or join a western Regional Transmission Organization (RTO), whose purpose is to unify and manage the high-voltage transmission grid over a large regional footprint. An RTO is strongly desired by many wholesale suppliers in order to reach their clean energy targets – these include Tri-State (and by extension, most distribution co-ops), Platte River Power Authority (which supplies 4 front range municipal utilities), and the independent co-ops Holy Cross Energy and Intermountain Rural Electric Association. An RTO would lower costs by expanding the footprint of energy trading in the West and by reducing the needed level of reserve capacity for any single utility, and an RTO would allow for greater integration of renewable energy and reduced curtailment (waste) of renewable energy.

CCE would still function well without organized wholesale markets or an RTO – like Colorado's 29 municipal utilities that successfully procure their wholesale electricity today – but CCE would nonetheless function more efficiently and cost-effectively with a vibrant wholesale market or an RTO in Colorado, as would municipal utilities and co-ops. Additional pressure from CCE for wholesale markets or an RTO in Colorado would therefore benefit co-ops and municipal utilities.

Finally, the majority of people in Colorado are served by an investor-owned utility, so giving them more choice and leverage to accelerate reaching their renewable energy and climate goals moves the whole state forward on addressing the global climate crisis. Most co-ops and municipal utilities already have the ability to choose or at least influence their wholesale suppliers to be responsive to community priorities.

15. The regulatory approach to reducing emissions is superior to a market-based approach.

This argument has arisen recently. Not only is the truth of it questionable, but it also presents a false choice. This is not an either/or choice, but rather, these are parallel paths to reducing emissions. If CCE is enabled in the future, it would be in addition to the current regulation-only approach, and the outcomes for emissions reduction would be additive. The market-based approach of CCE would provide communities that are not satisfied with the current incremental and slow progress of the regulation-only approach with the freedom to choose an alternative path that accelerates decarbonization, increases their options and local control, and may decrease costs as well, while the regulatory approach (such as HB19-1261 and SB19-236) remains intact. Future CCE-enabling legislation would almost certainly ensure that any environmental requirements that apply to investor-owned utilities would also apply to CCE.

Please also see question #12, which elaborates on both the shortcomings of the current regulation-only approach and the strengths of CCE and the market-based approach. We need both.