



POWERMATTERS

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ABAG POWER AT CROSSROADS

After three years of operation, ABAG POWER suspended its Electrical Aggregation Program in June 2001. This decision was made because of the dramatic increase in California Independent System Operator Charges, uncertainty over proposed rate increases to direct access end users, price volatility for both long term and short term power, and Pacific Gas and Electric Company's nonpayment of over \$20 million in Competitive Transition Charge credits owed to ABAG POWER.

ABAG's Electrical Aggregation Program was one of the largest power aggregators in California, providing energy service for 56 government agencies located throughout northern California. The program's commitment to price stability and "green" energy was demonstrated by providing members with over 90 percent renewable geothermal electric energy at a fixed price.

ABAG POWER also participated in the California Energy Commission's Renewable Energy Program that paid members a combined total of \$1.9 million in the three years of the program for their use of renewable energy.

In announcing the program's closure, ABAG POWER Chairman Robert Fugle, Deputy Auditor-Controller of the Golden Gate Bridge, Highway and Transportation District, stated "During its operation, the program provided lower energy costs, price stability, and renewable energy to local governments. However, because of the volatile times of 2000-2001, the program was no longer viable and cost effective."

Moving Beyond Supply and Demand to Energy Management Programs

Even though the electrical program was suspended, ABAG's Natural Gas Program continues to offer natural gas aggregation to local governments. ABAG POWER is also working on plans to continue to expand energy conservation services to local jurisdictions through implementation of energy management programs and services.

Local governments in California spend more than \$2 billion to light, heat, and cool the buildings that house essential public services. If energy consumption could be reduced by 15 percent, per the Governor's challenge on June 22, 2001, local governments would realize savings of \$300 million per year that could then be spent on other public services.

ABAG has brought together a team headed by Energy Solutions, an energy management and marketing company based in Oakland, to develop a proposal for an Energy Efficiency Assistance Program for local government agencies throughout Northern California in the continuing effort to reduce energy use. The proposal will be submitted to the California Public Utilities Commission by the end of January 2002.

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The goal of the program will be to distribute equitably the benefits of Public Goods Funding to local governments and to address peak energy reduction as well as energy

savings. In addition to aiding local governments with energy efficiency projects, the program will help local governments identify other utility or state-run energy program resources, including financial assistance.

Review of the Energy Efficiency Assistance Program proposal is expected to be completed in February 2002. If approved, the program will operate for two years and include Energy Management Training, Energy Plan Development, and Energy Plan Implementation. The **Energy Management Training** component of the program will be geared toward local government agencies undertaking energy projects. **Energy Plan Development** grants up to \$15,000 in value will be distributed to help evaluate local government energy use and to develop a prioritized list of strategic energy actions to reduce energy use in government facilities. Another component of the program, **Energy Plan Implementation** will distribute technical support grants up to \$35,000 per recipient. These grants will support actual implementation of energy efficiency initiatives in local government facilities and in the wider community.

Petition on Behalf of Direct Access Customers

In June 2001, ABAG Electrical Aggregation members were returned to PG&E service. In March 2001 utilities were granted the authority to increase rates by three cents per kilowatt-hour. However, the rate increase did not take effect until June 1, 2001, after a subsequent ruling was made on the rate increase. The utilities imposed a procurement surcharge for March 2001 through June 1, 2001, to be paid out from May 2001 to May 2002. ABAG POWER has filed a petition with the California Public Utilities Commission on behalf of its direct access electrical program members. The petition requests that ABAG POWER Members who received direct access service between March 27, 2001, and June 1, 2001, not be subject to the 12-month procurement surcharge, since they were direct access customers during the interim period. The petition was filed on July 13, 2001, and a decision is still pending on this issue.

POWER AUTHORITY TO REPLENISH ENERGY

The California Consumer Power and Conservation Financing Authority (the Power Authority) was authorized by Senate Bill 6 (Burton) in May 2001 to develop renewable energy sources, finance energy-saving conservation efforts, and build energy generation facilities to support existing demand as well as provide energy reserves for maintenance, emergency requirements, and unforeseen demand. The Power Authority is made up of a five-member board, appointed by Governor Gray Davis, with the ability to issue up to \$5 billion in revenue bonds for new energy sources and projects. The Power Authority is currently identifying qualifying projects and is expected to begin issuing revenue bonds in the first quarter of 2002.

The Power Authority has its work cut out for it, having been charged with restoring 15 percent energy reserves in California and ensuring that 17 percent of the state's energy is supplied by renewable energy sources by 2006. Over the next five years California will need to add approximately 3000MW of "clean power" to bring the state up to 17 percent renewable energy use. The Power Authority's goal is to sign contracts to acquire 1000MW of renewable energy by summer 2002 through the use of geothermal, wind, solar, biofuel, and other alternative renewable technologies.

Sunne W. McPeak, a Power Authority Board Member, President of the Bay Area Council, and former Contra Costa County Supervisor, recently stated,

"We want to send a clear message that the California Power Authority is committed to working towards cleaner and more efficient ways to power homes, businesses, and schools in this State at a cost that is less to the consumer."



Approximately six percent of California's generating facilities are more than 30 years old and past their expected life. As part of the Power Authority's charter these facilities will be replaced with newer, cleaner burning plants.

The Power Authority is working in cooperation with the California Energy Commission, the California Public Utilities Commission, and the California Independent System Operator to develop the Energy Resource Investment Plan. The Power Authority will also seek input from state resource agencies and the public.

The Energy Revenue Investment Plan will look at overall power needs in California and the Power Authority's role in power development. The plan will take into account California's anticipated energy service needs for both electricity and natural gas for the next decade and determine the investments that will satisfy those needs. The plan is scheduled to be submitted to the Governor, the Joint Legislative Budget Committee, and the chairs of the Assembly and Senate energy policy committees by February 15, 2002.

GAS PROGRAM REVISITS GOALS AND PRIORITIES

The goal of ABAG POWER's Natural Gas Program has evolved over the years from a strict requirement for cost savings to a more balanced desire for both cost savings and price stability. "In the dynamic power market, it is important to try to create and manage opportunities that will allow the program to maximize benefits to members," stated Jerry Lahr, ABAG POWER Manager. He added, "ABAG POWER's natural gas agreement comes up for renewal in July 2002 and as a result we are now completing a review of the program to better understand our opportunities and challenges, as well as setting a gas purchasing strategy for the next several years."

In an effort to stabilize natural gas rates to members the ABAG POWER Executive Board has secured a one-year contract with TXU Energy Services that locks in 75 percent of the load needed by program members at a fixed rate. The contract is effective from July 2001 through June 2002. Price stability has allowed program members to lock in their gas costs for annual budgeting purposes. The fixed rate also insulates members from the significant price fluctuations currently experienced in the monthly natural gas market. ABAG POWER members will almost certainly pay less for natural gas in 2001-2002 than they did during the volatile 2000-2001 fiscal year.

Price Factors Faced in 2000-2001

Although the natural gas program did not achieve member savings in comparison to PG&E in 2000-2001, the program has resulted in savings during the overall life of the program. According to Program Manager Lahr, the program has resulted in an average of four percent, or \$126,759 net savings in its five years of operations.

In 2000-2001 extremely unstable market conditions and related factors caused the total cost for the natural gas program to increase from \$3.4 million to \$9.5 million reflecting the skyrocketing rise in natural gas prices that had occurred during this program year. The reasons that have been attributed to high natural gas prices include the large demand for gas from electrical generators, market power of a few energy companies, limitations and restrictions in gas line capacity, and an unbalanced supply and demand.

Regulatory Issues

ABAG POWER like other natural gas core aggregation program providers were disadvantaged last year by PG&E's ability to secure lower cost gas through its rights on Canadian gas lines. Core aggregation program providers such as ABAG POWER are currently precluded from receiving rights to this favorably priced gas line capacity. To remedy this situation, ABAG POWER and the School Project for Utility Rate Reduction (SPURR) filed a joint application with the California Public Utility Commission to enable core aggregation providers to have access to this Canadian Transmission Capacity. A decision on this matter is expected shortly.

Gas Pool Program Overview

The ABAG POWER Gas Program is open to all local governments and special districts in the PG&E territory. The program allows members to aggregate their small natural gas accounts (under 250,000 therm/year) with others for the sake of purchasing natural gas in bulk from a third party supplier. In order to participate in ABAG's Core Aggregation Program, members must sign up with ABAG as the core transport agent.

In this role ABAG POWER:

- 1) Purchases natural gas for all participants.
- 2) Provides PG&E with gas nominations.
- 3) Contracts and pays for interstate pipeline charges.
- 4) Provides gas balancing service.
- 5) Provides consolidated billing for natural gas, transportation and distribution.
- 6) Coordinates gas storage requirements.
- 7) Rebrokers excess pipeline capacity.

Through a Natural Gas Sales and Aggregation Agreement, participants designate ABAG POWER as their exclusive agent in performing these functions.

Gas Pool Program Overview (cont. on page 4)

POWER Management

Gas Pool Program Overview (cont. from page 3)

ABAG POWER's Natural Gas Rate

ABAG POWER's natural gas rate is set periodically by an Executive Committee made up of members of the purchasing pool. In setting this rate, ABAG POWER strives to balance the goals of members to achieve both price stability and cost savings.

ABAG POWER's Fees

Fees to cover the operational expenses of the

program are set annually by the Executive Committee. These fees cover expenses including gas scheduling and management, billing services, legal services, and administration.

If your agency is interested in joining or finding out more about the program, please contact Jerry Lahr, Program Manager, at 510/464-7908 or e-mail jerryl@abag.ca.gov.

ABAG POWER POOL MEMBERS as of January 2002

CITY/TOWN

City of Alameda
City of Albany
City of Belmont
City of Benicia
City of Cupertino
City of Daly City
City of Foster City
City of Fremont
City of Gonzales
City of Half Moon Bay
City of Hercules
City of Los Altos
City of Menlo Park
City of Mill Valley
City of Millbrae
City of Milpitas
City of Monte Sereno
City of Oakland
City of Orinda
City of Pacifica

City of Petaluma
City of Pinole
City of Pleasanton
City of Richmond
City of Salinas
City of San Carlos
City of San Mateo
City of San Rafael
City of Santa Rosa
City of Saratoga
City of Sebastopol
City of Union City
City of Vacaville
City of Vallejo
City of Watsonville
City of Winters
Town of Atherton
Town of Hillsborough
Town of Moraga

COUNTY

County of Contra Costa
County of Napa
County of San Mateo
County of Santa Clara

SPECIAL DISTRICTS/OTHER AGENCIES

Eastside Union High School District
Golden Gate Bridge, Highway & Transportation District
Regional Administration Facility Corporation
Vallejo Sanitary & Flood Control District

ABAG POWER 2002 EXECUTIVE COMMITTEE

Jeff Kolin (Chairman)
City Manager
City of Santa Rosa

Michael Garvey
City Manager
City of San Carlos

Alan Nadritch (Vice-Chair)
Finance Director
City of Benicia

John Lisenko
Public Works Director
City of Foster City

Natasha Merkuloff Nichols
Administrative Manager
Department of Public Works
County of Napa

Terry Mann
Fiscal Officer
General Services Department
County of Contra Costa

Steve Sprotte
Management Analyst
City of Union City

Staff to the Committee:

Eugene Leong
Jerry Lahr
Ken Moy
Vina Maharaj

Wayne Green
Assistant to City Manager
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POWERMATTERS is published by the Association of Bay Area Governments for ABAG POWER.

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