



POWERMATTERS

Electricity Industry-- Moving Past Recovery to Reconstruction

The continuing challenges within California's Electricity industry took center stage at ABAG POWER's Annual Board Meeting last October. Guest speaker Severin Borenstein, Director of the University of California Energy Institute, spoke about the energy challenges and efforts to move past recovery to reconstruction. His words and message resonated then and ring even truer in today's market. The following is a summary of his remarks.

Severin Borenstein explained how California's electricity crisis was an expensive mistake, and that California had only by 2002 started buying a lot of power on long-term contracts. Something, he said, that should have been done all along. "Although some contracts look pretty expensive by today's prices, some actually don't look too bad right now, especially the fixed priced contracts."

Borenstein emphasized that what we know today, contrary to previous perceptions, is that there is plenty of capacity. The critical issue is to find a way to finance new capacity. Many questions need answers and many choices have to be made through the legislative and bureaucratic process of the California Public Utility Commission (CPUC) and the state legislature--such as, "what will the structure of the industry be as it moves forward, how much deregulation will occur, how much will we return to the other extreme—the full vertical integrated utility model?" Borenstein criticized both the CPUC and the state legislature for their slow and ineffective decision-making regarding these questions, letting consumers sit in limbo.

Retail Choice

Borenstein went on record opposing Proposition 80 which was defeated in last November's election. However, one issue in Proposition 80, "Retail Choice," Borenstein supported. He stated there is a need to freeze retail choice, because there are real problems with the way it is being implemented. He thinks there can be a retail choice program, particularly in a sort of core, non-core set up where one can opt to be part of the regulated utility environment or one can opt-out. However, it needs to be retail choice *with responsibility*. "Responsibility means that if one goes out into the retail market and things don't work out so well, it is their problem and a proper utility is not going to be there to bail one out." He added, "if you

are not ready to really be responsible for your procurement decisions, then you are not ready for retail choice. We are moving towards a system in which the system as a whole procures, reserves, and makes sure that everybody has enough power through essentially a regulatory requirement where every retail provider must procure more power than is necessary."

He described two alternatives: "my favorite is deregulation, but deregulation with responsibility. We would want large industrial customers, not households, who originally pushed deregulation to opt out with



POWER Members and local government representatives at workshop on energy efficiency.

responsibility." But, if deregulation is not going to happen, he said, "I would argue then for improving on the old regulatory setting in two ways. One way is with competitive procurement. The second is by adding a lot more demand responsiveness. That would mean real time pricing, prices particularly for large industrial customers that vary hour to hour to give them an incentive to cut back usage.

Borenstein also commented on community choice aggregation (CCA). "If you are talking about moving towards CCA, do it with an understanding that it is a very risky endeavor. Energy markets are very complex and I would be very concerned about small entities and cities getting into this business without a lot of expertise. However, if you think your organization can do it better than PG&E and the CPUC, go ahead, but approach it with a lot of caution."

ABAG POWER

Natural Gas Sales and Aggregation Program on the Mark

ABAG Power's Natural Gas Sales and Aggregation Program saved members 11.5% for the fiscal year ending June 2005, and saved members 8% in 2004. The estimated rate for fiscal year 2005-2006 was \$1.35 per therm, but due in part to better than expected winter weather, costs projected were significantly lower. The program's creative gas purchasing methods have given members stable prices by purchasing gas up to three years in advance. In addition to natural gas savings, participants are directly involved with the Executive Committee, providing policy guidance and formulating future purchasing recommendations.

The ABAG POWER Core and Non-Core Aggregation programs are open to all local governments and special districts in the PG&E service territory. The program has been in operation for nine years and currently serves 38 local jurisdictions.

How It Works

ABAG POWER serves as the "Core Transport Agent" for the ABAG POWER Natural Gas Purchasing Program.

In that role, ABAG POWER:

- Purchases natural gas for all participants
- Provides PG&E with nominations
- Contracts and pays for interstate pipeline charges
- Provides gas balancing service
- Provides consolidated billing for natural gas, transportation and distribution
- Coordinates gas storage requirements
- Brokers excess gas and pipeline capacity.

The Core Aggregation Program allows customers to aggregate their small natural gas accounts (under 20,800 therm/month) together with others for the sake of purchasing natural gas in bulk from a third party supplier. Through a **Natural Gas Sales and Aggregation Agreement**, participants designate ABAG POWER as their exclusive agent in performing these functions and agree to pay ABAG POWER all natural gas charges, including operational and administrative costs. Members may alternatively join ABAG POWER's non-core program and take advantage of reduced transportation and distribution rates not available to PG&E customers.

Gas cont. pg. 3

Harnessing the Sun's Energy— Local Governments Lead the Way

Communities from Vallejo to San Francisco, San Carlos to Oakland and Alameda County, are harnessing the sun's energy to meet their needs. Local governments are showing the way with solar panels on municipal buildings all over the Bay Area. With the State's new solar energy program providing \$2.9 billion in incentives to business and residents, the Bay Area now can take solar energy production to the next level — your neighbors' roof.

Local Projects

The City of Oakland, the Port of Oakland, and the Oakland Coliseum have projects that will generate over 5 megawatts, including one-megawatt systems at the Coliseum and the Airport. **San Francisco's** new 20,000 square-foot solar array atop San Francisco Public Utility Commission's (SFPUC) Southeast Wastewater Treatment Plant joins other sites such as the large installation at Moscone Center, generating 925 kW of electrical power. Other projects will be located at Pier 96, Moscone Center West, the Northpoint Facility, Pier 50, San Francisco General Hospital, San Francisco Airport, and public libraries, health clinics, and schools.

The city of **Vallejo** was nationally recognized by the US Environmental Protection Agency as a 2005 Green Power Leader. Vallejo undertook an aggressive solar electric

generation program to supplement their electricity usage, installing four PV systems at city-owned facilities.

San Carlos put a 56 kW system in its Corporation Yard and **Livermore** completed a 75 kW system on the roof of its city hall in summer 2004.

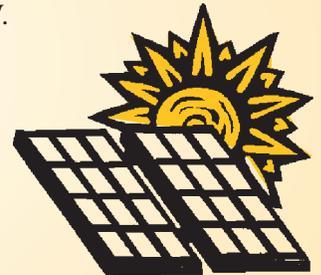
Alameda County also received a 2005 US EPA Green Power Leader Award for five rooftop arrays on County-owned facilities and two innovative, 250-kilowatt (kW) solar tracking carport systems. Alameda County is considered one of the nation's largest solar-powered local governments, generating 2.3 MW.

State Support

In January 2006, the California Public Utilities Commission approved the California Solar Initiative. This program is a 10-year, \$2.9 billion rebate program designed to increase the amount of installed solar capacity on rooftops in the state by 3,000 megawatts by 2017. The Initiative also encourages solar in new housing, commercial and industrial applications.

For more information on the California Solar Initiative, please visit the website at

http://www.cpuc.ca.gov/static/energy/051214_solarincentive.htm



ABAG POWER

ABAG Fuels Energy Efficiency in Local Jurisdictions

The “ABAG Energy Watch” program, formerly the Local Government Energy Partnership program (LGEP), was renewed for the 2006-08 period with PG&E. *ABAG Energy Watch*, a local government partnership program, will continue ABAG’s commitment to help local governments conserve energy, prevent pollution, and save money in public facilities and in local communities.

The LGEP Program began in March 2004 and initially targeted 35 local governments in ten Northern California counties, cities with population under 250,000, and special districts. It is one

of the first programs to offer such a comprehensive portfolio of energy efficiency services to local governments, and to take this cost-effective twofold approach, conserving energy in public facilities and providing public policy assistance to establish greater conservation within the community.

The program expects to develop energy efficiency projects with a total estimated annual earnings of 12,000,000 kWh for enrolled local government facilities. Program-recommended lighting retrofits, such as installing

occupancy sensors and upgraded lighting, are expected to reduce facility electricity costs by 10 to 40%. Heating, ventilation, and air conditioning improvements, such as installing programmable thermostats, can typically result

in 5 to 20% decrease in energy use. In addition, the program is generating energy savings and pollution prevention as derived from policy adoption assistance and community-wide programs. The end result includes a significant reduction in energy costs and increased environmental benefits.

The program has also sponsored six workshops throughout the



ABAG/Association of Monterey Bay Area Governments (AMBAG) region on energy efficiency topics specific to local governments. Even after implementation, conservation opportunities continue. For example: the nine Sonoma City governments and associated agencies with specific energy efficiency projects are now working with *ABAG Energy Watch* and with the Sonoma County Climate Protection Campaign and the California Local Energy Efficiency Program to help reduce greenhouse gas emissions.

Gas cont. pg. 3

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. This rate may be either fixed or variable (or a combination of the two) depending on the gas purchasing strategy approved by the Committee. Fees to cover the operational expenses of the program are also set annually by the Executive Committee and cover expenses such as: gas scheduling and management; billing services; legal services, and administration. Currently these fees represent approximately 3.8% of the program budget.



Reliability and Maintenance

Participation in ABAG POWER’s Program does not change the participant’s current service with Pacific Gas and Electric Company (PG&E), quality of natural gas, overall reliability of service, or performance of maintenance. PG&E will continue to provide meter reading, “on the ground” repair and maintenance, and emergency response to all participants.

Single Bill System

Participants receive a single monthly bill for gas service from ABAG POWER, even though the gas and the distribution services are provided by different companies. In addition, the ABAG POWER’s bill consolidates all your accounts into one summary bill.

As part of service, ABAG POWER closely follows the issues and regulatory actions to keep members informed.

POWER Management

Will Community Choice Aggregation Take Off?

The Local Government Commission in partnership with the League of California Cities and California State Association of Counties are conducting a Community Choice Aggregation (CCA) pilot project, ongoing through December 2006. This pilot project will assist three communities to implement CCA in a manner that doubles the required amount of renewable energy. Early findings indicate that public financing is the key to beating utility pricing. The project has shown that with public financing the cost of providing additional renewable energy use may be reduced by 20% to 40%. A template for determining economic feasibility has also been developed.

AB 117, signed into law in September 2002, gave cities and counties the ability to purchase or generate electricity for constituents. The concept is that community choice aggregation gives cities more local control over the type of generation used, leading the way to conscientious use of renewable generation versus conventional. Cities would also have more local control over costs and rates, while recognizing that this process is not easy and there are risks involved. The City and County of San Francisco continues to be a leader in efforts to implement CCA. The City has established a Task Force that is currently holding public meetings to investigate and provide recommendations on the implementation of CCA.

GAS PURCHASING POOL PARTICIPANTS

Cities/Towns

City of Alameda
City of Albany
City of Benicia
City of Cupertino
City of Fremont
City of Gonzales
City of Half Moon Bay
City of Hercules
City of Los Altos
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 Pleasanton
City of Richmond
City of Salinas
City of San Carlos
City of San Rafael
City of Santa Rosa
City of Saratoga
City of Union City

City of Vallejo
City of Watsonville
City of Winters
Town of Atherton
Town of Moraga

Counties

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

Special Districts

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

ABAG 2006 POWER EXECUTIVE COMMITTEE:

Mark Akaba, City of Vallejo
Ed Bounaccorsi, City of Santa Rosa
Terry Mann, County of Contra Costa

Jennifer Mennucci, Golden Gate Bridge,
Highway & Transportation District
Ron Popp, City of Millbrae
Steve Sprotee, City of Union City

Staff to the Committee:

Henry Gardner
Jerry Lahr
Ken Moy
Vina Majaraj

POWER MATTERS is published by the Association of Bay Area Governments for ABAG POWER.
Kathleen Cha, Editor/Writer; Leah Zippert, Writer; Vicki Rutherford, Production
ABAG POWER Program Manager, Jerry Lahr, 510/464-7908

 Association of Bay Area Governments
P.O. Box 2050 • Oakland, CA 94604-2050
website: <http://www.abag.ca.gov> • e-mail: info@abag.ca.gov

