Community Choice Aggregation and Retail Choice

Potential Benefits and Challenges

James Bushnell, UC Davis
Department of Economics and Davis Energy Economics Program
DEEP.UCDAVIS.EDU

CCA is a form of retail choice

• A very specific (and narrow) form
• CCA/Retail choice can provide beneficial aspects to markets.
  – But also raises new challenges for regulators and operators
• Specific regulatory infrastructure is necessary to support retail choice while preserving financial and physical stability of the electric system.
• Regulations need to be robust to stressed market conditions
  – Policies for retail choice, and the incentives provided to utilities played an important role in the CA electricity crisis.
Community Aggregation Nationwide

Potential Benefits of CCA/Retail Choice

- One approach to promoting competitive wholesale markets
  - Reduces the concentration of individual load serving entities
  - Can reduce reliance on regulatory procurement processes
- Provides a benchmark with which to compare utility procurement
  - If regulated procurement still plays a big role, other retails provide a comparison group to judge performance.
- One avenue for accommodating diverse customer preferences
  - More choices --> More options
    - Can these options be provided by a traditional utility?
  - More potential for innovation in retail services
  - How much scope for innovation in electricity retail is there?
Potential Issues with CCA/Retail Choice

• Migration risk
  – How to invest and plan for customers who might leave (or come back)?
  – Migration is strongest in periods of market upheaval.
  – Stable wholesale markets require long-term investment and financial contracts.
  – Eastern markets have developed complex mechanisms to deal with risks of regulated providers of last resort. CA has not.

• Stranded costs of incumbent utilities
  – Who should pay for costs of old contracts/plants?
  – Issue looms largest during large transitions (like 1998, and today?)
  – Are customers migrating primarily to avoid paying for stranded costs?
  – Or are they being prevented from migrating because of excessive exit fees?

Potential Issues with CCA/Retail Choice (2)

• Environmental issues
  – State climate policy has several complex aspects
    • Renewable “buckets”, Reshuffling, Caps
  – Does your average electricity customer understand them?
    • Do we need them to?
  – RPS rules vs. Organic food labelling.
  – Is it fair to rely upon some customer’s over-compliance with carbon goals?

• Coordination of planning and investment
  – Trade-off between integrated planning and more competition
    • LTTP has played a dominant role, may not in the future
  – Can require policies that set standards on retailers
    • Renewable energy policies; Resource adequacy policies; GHG import policies
  – Many of today’s policies in CA have not been tested under a setting with many retailers
    • Are these policies applied equitably to both CCA’s and utilities?
    • Potential loopholes that may become more of an issue with many LSEs
Critical Policy Issues with CCA/Retail Choice

• How to manage exit and possible return of customers?
  – How to set exit and return charges to protect remaining customers?
  – CCA context is unusual in that “default” provider is not the provider of last resort.
  – What should happen to customers if their CCA goes bankrupt?

• How to implement State policy with more and more diverse retail providers?
  – Renewable policy, reliability policy.
  – State policy coordination vs. customer choices
  – May need to rely more upon broadly applied, market-based instruments (e.g. cap and trade) and less upon planning.
    • Need to make sure those standards/caps are applied evenly to all retailers.