Good Energy is a Bad Deal

Why Good Energy, Inc. is a Bad Choice for Your Community Choice Energy Program

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Contents

Introduction

When a company calls itself "good" anything, beware.

In the case of Good Energy, Inc., ("A Smarter Way to Buy Energy")[1] there is not much good to say, at least not for California communities that recognize the climate crisis for what it is and want local clean energy along with the employment and other economic benefits that Community Choice energy programs can provide for their communities.

Community Choice, made possible by California's Community Choice Aggregation law, AB117,[2] allows municipalities and other jurisdictions to offer residents and businesses a public, not-for-profit electricity service provider alternative to the private, for-profit monopoly utilities.

Good Energy, Inc. is a multinational corporation headquartered in New York City. In 2015 reports began to emerge that representatives of Good Energy were contacting city council members and county supervisors in southern California about Community Choice. According to some of these elected officials, Good Energy claimed, among other things, that it is the only company offering support services to local governments pursuing Community Choice in California.

In late 2015 or early 2016, Good Energy approached elected leaders in Riverside County about their services. Riverside County hired Good Energy to produce an initial report about Community Choice.

[1] http://www.goodenergy.com/Community-Choice-Aggregation/california
[2] http://www.leginfo.ca.gov/pub/01-02/bill/asm/ab_0101-0150/ab_117_bill_20020924_chaptered.pdf

Good Energy presents to cities and counties a *fully outsourced model* of establishing and managing a Community Choice energy program. The company has generally approached jurisdictions that know relatively little about Community Choice energy programs and offers them what it claims is a low risk, comprehensive Community Choice management package with guaranteed revenue for their general funds. This is a value proposition that is very attractive to cash-starved jurisdictions.

Good Energy's attempts to secure contracts with municipalities and counties have garnered a great deal of concern among Community Choice advocates. This memo summarizes these concerns and is intended to be used by local governmental leaders and Community Choice advocates in Riverside County and elsewhere who want to educate their communities about the downsides of contracting services from Good Energy.

Concerns Regarding Good Energy, Inc.

1. Good Energy takes the "community" out of Community Choice.

Community Choice opens the way for public participation in the design and oversight of local energy programs. Community members can have ongoing input into the goals of the program, sources of electricity, rates, tradeoffs, and community benefits of local renewable energy.

As a not-for-profit, public service program, Community Choice can prioritize the public good, utilizing energy wealth for local economic benefits. Outsourcing control and management of a Community Choice energy program to a private, for-profit company undermines that fundamental premise.

Good Energy does not even pretend to include the community in its version of Community Choice. Its approach effectively takes the "community" out of Community Choice and re-privatizes the electricity sector just when Community Choice has been shown to be a viable public alternative to the monopoly corporate utilities' century-long stranglehold.

Though Good Energy claims that local governmental leaders make the big decisions, these decisions are constrained by contractual terms that reflect the financial interests of Good Energy, not the public good.

2. Good Energy promotes a "single purpose" (lower rates) model—a proven failure.

All of the existing Community Choice agencies in California have wisely adopted goals and purposes that include offering more consumer choice, reducing greenhouse gas emissions, boosting local economies, creating employment opportunities for local residents, reducing demand, and lowering rates. In the case of Good Energy, there is only one purpose: lower rates. This approach has proven to be a failure in several instances.

In 2007, the San Joaquin Valley Power Authority pursued a pioneering effort to launch the first Community Choice program in California. The Authority made the strategic mistake of promising a 5% discount over the incumbent utility rates as the sole purpose. When a number of economic factors, including the economic meltdown of 2008, combined to undermine that 5% discount goal, the Community Choice program's reason to exist evaporated and it ultimately folded.

Similarly, in Illinois, where municipalities were granted the opportunity in 2012 to establish Community Choice programs, many localities pursued programs based solely on the promise of lower rates from electricity generated by fracked natural gas. When that promise fell short due to suppliers' inability to procure wholesale power at a cost that would provide the discount, the efforts folded. Over three dozen aggregation agencies failed between 2014 and 2015.[3] (As an aside, the use of unbundled renewable energy certificates (RECs) to greenwash the natural gas sources of electricity also undermined the market for wind power, suppressing renewable energy production in the state.)

3. Good Energy presents a conflict of interest with the community.

One of the main benefits of a Community Choice energy program is that net electricity revenues can be reinvested in the program to provide benefits to the community, rather than siphoned off into corporate coffers. Under a private, for-profit energy aggregation model, private businesses such as Good Energy capture these net revenues, rather than returning them to the community.

In this way, Good Energy's financial interests as a marketer of electric power conflict with the community's interest in greenhouse gas reductions, quality energy efficiency services, and a renewable energy portfolio that prioritizes innovative local renewable energy resource development.

Another conflict arises from Good Energy's interest in structuring the program to front-load profits during the early years of a Community Choice program—that is, for the duration of Good Energy's contract. In contrast, the community has an interest in the program's long-term viability, which favors investment in the development of local clean energy resources that pay off over time.

Good Energy's decision to conduct the Community Choice "feasibility study," for Riverside County[4] provides another instance of the company promoting its own self-interest over the public good. For the same company to both conduct a feasibility study and then manage the resulting program violates good management practices, as well as the public's trust. Such a move is also a potential breach of the California Code that addresses such conflicts of interest.

4. Good Energy does not even give lip service to renewable energy.

One of the most powerful tools in the Community Choice toolkit is the ability to develop local renewable energy resources. A recently published paper, "Community Choice Energy: What is the Local Economic Impact?"[5] commissioned by the Sonoma County-based Center for Climate Protection found that the economic benefit of a Community Choice program is directly tied to local renewable energy investment. Comparing several scenarios for the City of San Jose, the report projects that with the highest level of local solar deployment, more than 12,000 job-years of employment will be created regionally from Community Choice activity, with an associated $1.25 billion of incremental economic activity over six years, from 2018 to 2023. San José itself could realize as much as $425 million of the total estimated economic benefits.

Good Energy states flatly in the "Initial Economic Analysis Report"[6] it presented to the Riverside County Board of Supervisors in June 2016 that "the economic analysis of renewable energies is not part of this feasibility study." It goes on to imply that it is good enough for a Community Choice program to simply comply with the State's Renewable Portfolio Standard requirements (33% renewable supply by 2020). All five existing Community Choice agencies and all emerging ones in California have rightly set goals that exceed these minimal standards.

In addition, Good Energy refers to unbundled RECs as a means "to meet local environmental goals," a claim disputed by Community Choice advocates throughout the state. For a more detailed explanation of

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[3] https://www.pluginillinois.org/MunicipalAggregationList.aspx

[4] Riverside County is engaged in an ongoing evaluation of Community Choice. For the most up to date information review Riverside County Board of Supervisors agendas and minutes: http://www.rivcocob.org/agendas-and-minutes/

[5] http://climateprotection.org/community-choice-energy-local-economic-impact/

[6] http://rivcocob.org/proceeds/2016/p2016_06_21_files/03-08001.pdf

unbundled RECs and their relevance to Community Choice procurement, see *What the Heck is a REC?*[7]. Good Energy's discussion of renewable energy on its website is narrowly focused on unbundled RECs as the "most popular product" available to meet renewable goals[8].

Good Energy makes no promise of playing a role in developing renewable generation capacity, something that every California Community Choice effort thus far is committed to. In fact, number one in the recently formed California Community Choice Association's list of best practices is to "serve community goals and local policy objectives, *including greenhouse gas reductions and increased renewable energy supply*." In that context, Good Energy represents bad Community Choice practice.

5. Good Energy does not provide demand reduction.

A major advantage of Community Choice programs is their potential to decrease electricity consumption through a combination of load management, peak pricing, demand reduction technologies, and energy efficiency products and retrofits.

However, reducing demand is not in Good Energy's interest as a for-profit marketer of electric power. In managing a Community Choice program, Good Energy has an interest in maximizing returns on electricity sales, which traditionally means higher volumes. The company has little incentive, for example, to promote energy efficiency or to incentivize local "behind-the-meter" rooftop solar. This is evident in Good Energy's listing of demand response and efficiency last in their promotional materials—an afterthought.

6. Good Energy: a case of déjà vu?

In late 2014, a California-based company called California Clean Power emerged with a fully outsourced, turnkey model for Community Choice program management. The California statewide Community Choice advocacy community was quick to identify and critique the many flaws of a model that essentially sells communities short, considering the enormous benefits that can accrue from a truly community run Community Choice program.[9]

By contracting with this kind of turnkey provider, a municipality would open itself up to several unnecessary risks, including the possibility of the provider failing to deliver or abruptly pulling out of the California market, as energy service providers have done in the past when things get rough. [10]

Based on such possibilities, San Mateo County conducted a risk analysis of California Clean Power's model of fully outsourcing Community Choice program management in June of 2015. [11] The analysis, completed by Pacific Energy Advisors, Inc., emphasized "diminished community benefits" and concluded that "the risks associated with such an approach substantially outweigh prospective benefits."

None of the five existing California Community Choice agencies have outsourced all program management. However, they do contract out certain functions where expertise is an issue, such as portions of the electricity procurement process. A Community Choice program can also contract directly with an energy supplier and cut out the middleman. Sonoma Clean Power, MCE Clean Energy, and Lancaster Choice Energy have all proven to be extremely capable of managing their programs.

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7 http://www.localcleanenergy.org/files/What%20the%20Heck%20is%20a%20REC.pdf
8 http://www.goodenergy.com/Energy-Commodities/renewable-energy
9 http://www.localcleanenergy.org/files/LCEA-California%20Clean%20Power%20Memo.pdf
10 http://www.ogj.com/articles/2001/02/green-mountain-pulls-out-of-most-california-markets.html
11 http://green.smcgov.org/sites/green.smcgov.org/files/CCP%20Assessment%20PEA%20_%20Final_6.24.15.pdf

7. Good Energy is risky business.

The California Clean Power experience offers some lessons for municipalities looking into contracting services from Good Energy, namely the importance of conducting due diligence to verify Good Energy's claims.

Good Energy has asserted that municipalities or counties will retain the ability to make decisions regarding their energy supplies, programs, and policies. Any contract must state this decision-making role explicitly. Contracts floated by California Clean Power included a clause expressly authorizing the company to act as a community's sole agent in performing and providing Community Choice services.

Good Energy guarantees rates in southern California below Southern California Edison's rates, but the ability to meet those guarantees, let alone to make payments into a municipality's general fund, would clearly depend on choices that Good Energy says municipalities will be free to make. For example, a choice about a program's renewable energy portfolio would have a huge affect on electricity rates and program revenues, likely undermining such "guarantees."

Good Energy claims that the money they pay to the participating city or county can be a new source of revenue for funding community programs or enhancing critical service budgets, implying that such payments would go into the jurisdiction's general fund. However, there are legal, ethical, and political questions about whether such a kickback to the general fund is advisable. This practice has, in fact, been challenged in court by ratepayers.

Aside from the legality, such a maneuver is likely to raise the ire of local ratepayers who don't want their electricity payments subsidizing their jurisdiction's general fund. This could engender hostility toward a Community Choice program before it even launches.

Though Good Energy claims that it reduces the legal risks facing municipalities that develop Community Choice programs, it is not clear that the general fund of a participating city or county would be protected if Good Energy fails to perform or pulls out of the California market, not to mention the potential impact on customers.

8. Good Energy doesn't seem to have a clue.

In its "Initial Economic Analysis Report"[12] prepared for Riverside County, Good Energy states that the "Power Cost Indifference Amount," (by which it means the Power Charge Indifference Adjustment—PCIA) is "expected to decline." This fee, charged to Community Choice programs to cover stranded contract costs, has been on the rise. In Pacific Gas & Electric (PG&E) service territory, for example, it unexpectedly doubled in December 2015.[13] Good Energy appears to be unaware of this reality.

In touting its fully outsourced model as the "national standard for operating CCA programs," Good Energy appears to be unaware of California's existing and quite successful Community Choice programs. It goes on to insult those agencies by saying that they have "employed community employees" (as though that were a bad thing) and a "basket of subcontractors" to operate their programs. Good Energy refers to Community Choice as a "cottage industry" that has "created a mini utility with all of the inefficiencies of the IOUs."

Good Energy seems unaware that Sonoma Clean Power, for example, has delivered $62 million in direct ratepayer savings since its launch in May 2014, offering a power mix that is 48% lower in greenhouse

[12] http://rivcocob.org/agenda/2016/06_21_16_files/03-08.pdf
[13] http://www.sfgate.com/bayarea/article/Customers-of-clean-energy-programs-hit-with-fee-6705978.php

gases than the incumbent utility.[14] The program has issued over $800,000 in cash payments to solar customers as the result of its superior net metering program, and is engaged in a variety of innovative programs to spur electric vehicles, deploy solar in unconventional places such as irrigation and wastewater storage ponds, and create online customer interface platforms that empower cutting edge demand response capabilities.

Overall, Good Energy's Riverside Report pales in comparison to the standard technical or feasibility studies that have been prepared for other local governments in California. It didn't mention Joint Powers Authorities, provided only cursory treatment of critical regulatory issues such as the PCIA, pointedly ignored renewables, and used dismissive language to describe operational Community Choice programs in California. California has a very different type of renewable energy market and different regulatory context than other states, and Good Energy's Report didn't address that at all.

9. Does Good Energy sound too good to be true? Ask some questions.

Here are some questions that any community should ask in considering a contract with Good Energy:

- What are the opportunities for community participation in decision-making in the fully outsourced model?
- Does Good Energy's model provide all the benefits that are made available under Community Choice law? Put another way, does the fully-outsourced model reap all the potential community benefits of a Community Choice program?
- What profit margin does Good Energy expect to make, and on what performance basis, and what margin would be required for Good Energy to stay in business in California?
- Will Good Energy provide a detailed budget? A pro forma?
- What kind of public oversight is there over Good Energy's handling of program finances?
- What are Good Energy's plans for a reserve fund or other hedges against market volatility?
- What happens to the municipality or county—and to ratepayers—if Good Energy fails or departs from the California market?
- How do decisions about renewable portfolio content affect electricity rates?
- How does Good Energy plan to engage in energy efficiency work?
- How does Good Energy plan to develop local renewable energy resources?

Buyers Beware

The concerns raised in this memo are sufficient to warn Riverside County and any community considering the fully outsourced Community Choice model offered by Good Energy to exercise caution.

A contract to provide electricity services to a municipality or other jurisdiction should be entered into only after consideration of multiple bids submitted pursuant to a Request for Proposal (RFP), as is required by many jurisdictions. Municipalities should take time for thorough due diligence concerning Good Energy's promises and expertise.

Finally, municipalities should engage local stakeholders, including businesses, organized labor, residents, academics, community and environmental groups in the process of defining program goals, deciding whether or not to outsource program management, and, if deemed desirable, selecting an appropriate firm to manage the program.

[14] http://sonomacleanpower.org