

STAFF REPORT

City of Lancaster

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4/11/23
JC

Date: April 11, 2023

To: Mayor Parris and City Council Members

From: Jason Caudle, City Manager

Subject: **Adoption of a Resolution Authorizing the Execution of a Surety Bond to Meet the Financial Security Requirement For Lancaster Energy**

Recommendation:

Adopt **Resolution No. _____**, authorizing the execution of a Surety Bond to meet the Financial Security Requirement For Lancaster Energy.

Fiscal Impact:

The annual fee will be paid for by Lancaster Energy funds for a not-to-exceed amount of \$25,000 annually, with the fee for the current fiscal year at \$1470.00. Future appropriations will be budgeted accordingly in subsequent fiscal years.

Background:

The City's Community Choice Aggregation (CCA) Program, Lancaster Energy (LE), was established by the City Council through the adoption of Ordinance 997 on May 27, 2014. LE began serving customers in May 2015.

In 2018, the CPUC issued Decision 18-05-022 (Decision) which established reentry fees and financial security requirements for CCAs. The purpose of the Financial Security Requirement (FSR) instrument is to cover reentry fees borne by the Investor-Owned Utility (IOU) in the event of a mass involuntary return of CCA customers to the IOU, such as a decertification of a CCA or a CCA failure. The IOU may only withhold funds from the financial security instrument for unpaid administrative or procurement costs associated with the return of CCA customers to the IOU. Any withholding of those funds must first be approved by the CPUC.

The Decision required all CCAs, including LE, to submit an Advice Letter with the FSR instrument to the CPUC before serving customers in order to show compliance with the Decision. California Choice Energy Authority (CalChoice) worked with its legal team to draft the advice letter, which was submitted with a copy of an executed Letter of Credit, which was the instrument used to satisfy the FSR obligation. The FSR amount has been \$147,000 since the initial posting of the Letter of Credit. The Letter of Credit, issued by River City Bank (RCB), is collateralized by a cash deposit of \$147,000 in an account held with RCB in the City's name.

The methodology used to calculate the FSR amount for CCAs is under review at the CPUC to ensure that IOUs do not unreasonably bear costs associated with CCA customer returns to the IOU. In anticipation of a change to the methodology to calculate the FSR amount which may result in an increase in the FSR amount, staff is proposing replacing the current Letter of Credit, which requires dollar-for-dollar cash collateral, with a surety bond, which is more flexible and has a 1% annual fee. Because the methodology used to calculate the FSR includes benchmarks related to energy pricing, which can move up and down depending on market conditions, staff is requesting a not to exceed amount that contemplates future volatility in the energy market. Currently, the estimated fee for the first year is \$1470. When the current Letter of Credit expires later this calendar year, the \$147,000 cash collateral will be released to the City.

Based on the foregoing, staff recommends that City Council adopt Resolution No. XXXX authorizing the execution of a surety bond and related documents for the purpose of satisfying the Financial Security Requirement as required by the California Public Utilities Commission.

Attachments:

Resolution _____

Form of Surety Bond

Form of Commercial General Agreement of Indemnity