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October 17, 2017

The Honorable Kevin Faulconer
Mayor of the City of San Diego
City Administration Building
202 C Street, 11th Floor
San Diego, CA 92101

Re: Comments of Sempra Services on Draft CCA Feasibility Study

Dear Mayor Faulconer:

Sempra Services hereby submits the following comments on the City of San Diego's Draft CCA Feasibility Study. Thank you for the opportunity to submit these comments.

I. Introduction

Sempra Services supports CCA under the right conditions. Customer choice, specifically in the sources of energy that power the homes of hard-working San Diego families, is important to us. However, a government-controlled energy program must be designed to accomplish three key objectives:

1. It must be equitable for all of the region's electric customers: Utility customers should not have to subsidize CCA customers.
2. It must provide real and additional environmental benefits: Tangible environmental improvements, beyond what would otherwise occur or are already occurring as a result of governmental action or investments by others are necessary to justify the municipal risk.
3. It must reduce greenhouse gas (GHG) emissions: New renewable energy projects must be built to reduce GHG emissions and meet the City's goal of 100-percent renewable energy by 2035. Claiming credit for emissions reductions that are already occurring from existing renewable energy resources fails to achieve this objective and fails to create new jobs.

For the reasons set forth in the following comments, Sempra Services submits that the City's draft CCA Feasibility Study must be updated so it is able to demonstrate whether a government controlled energy program that meets the forgoing objectives is feasible in San Diego.

The draft Study must be updated to ensure:

- It makes reasonable assumptions for CCA and utility generation rates that is consistent with how energy markets work as well as more recent analysis by the consultants who authored the draft Study.
- It makes more reliable assumptions based on the best available information regarding the likelihood of a nearly $3 billion dollar shortfall (a CPUC decision that will be issued in the near future could have substantial bearing on the likelihood of this threat).
- The scenarios are updated so they will achieve the City's Climate Action Plan objective of meeting 100% of the City's electricity demand with renewable energy.
- The business plan is updated to achieve real and additional GHG emission reductions and comply with existing state requirements for procurement of renewable energy.
- The assumptions on environmental benefits are updated to incorporate the outcome of California's 2018 legislative year, in which an increased RPS and a 100% zero carbon electricity planning standard are likely to be considered.

Until the forgoing has occurred, it will be premature to vote on whether to pursue a government controlled energy program in the City of San Diego. A decision of this potential magnitude should only be considered on the basis of accurate and reliable analysis. The bases for these recommendations are set forth in greater detail below.

II. The Generation Rate Assumptions are Unreasonable and Inconsistent with Other Analyses That Have Been Published More Recently by Authors of the Draft Study

A. The Assumption that SDG&E's Rates Will Escalate While CCA Rates Remain Flat Is Unreasonable and Inconsistent with More Recent Analysis by the Draft Study's Authors

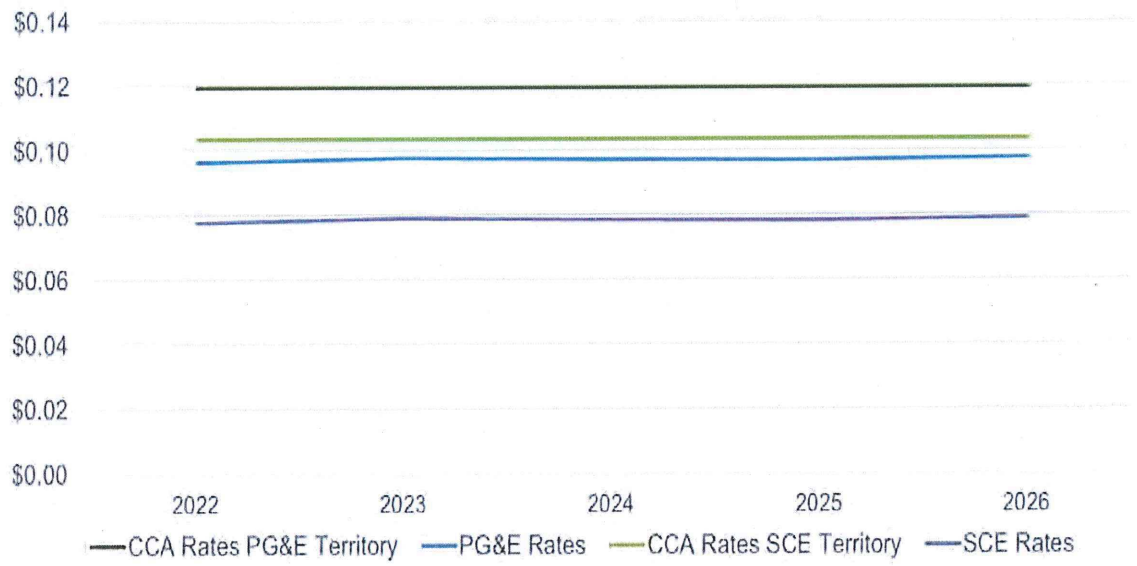
The consultants who performed the Draft CCA Feasibility Study for the City of San Diego (Willdan Financial Services and EnerNex) have also completed a more recent CCA Feasibility Study for the Central Coast Region (hereinafter referred to as "Santa Barbara").[1] In their Santa Barbara Study, the consultants found that CCA was not feasible.

In both the Santa Barbara and City of San Diego studies, the primary driver for feasibility findings is a comparison of assumed generation future rates for the utility and the CCA provider. However, the two studies make dramatically different assumptions on this subject. In the Santa Barbara Study, the consultants found that the generation rates for

[1] See, https://santabarbara.legistar.com/LegislationDetail.aspx?ID=3165236&GUID=92F2004E-A1FE-4401-B751-AABCAD1779D1&Options=&Search=

both a CCA provider and for the incumbent utility would escalate at about the same rate. This is depicted below.

Figure 55 Generation Rate Comparisons for PG&E, SCE, and CCA, AWG Jurisdictions RPS Equivalent Renewable Energy Content Scenario (2022-2026)



[2]

Because rates would reflect similar escalation rates and incumbent utility rates are lower than CCA rates in the first year, the Santa Barbara Feasibility study concludes that CCA is not feasible in the Central Region.[3] In order for CCA to be feasible in Santa Barbara, the study pointed out, one of two things would have to happen:

1. *Power procurement costs for a CCA provider decrease by a total of 40% over the Study forecast; or*
2. *The incumbent utility's rates escalate by an additional 4.0% per year above the Study forecast.*[4]

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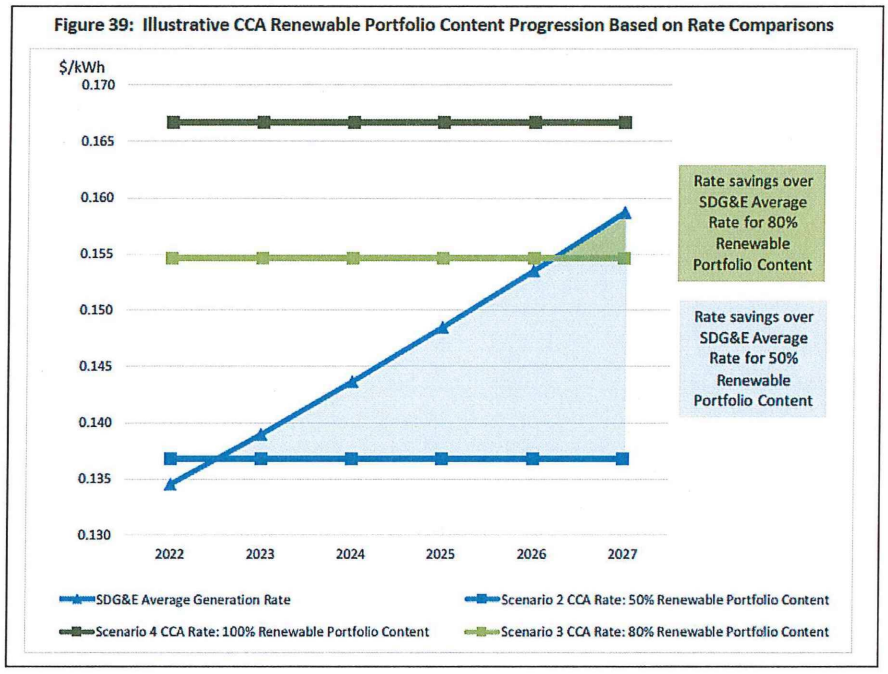
[2] See, https://santabarbara.legistar.com/View.ashx?M=F&ID=5450949&GUID=A231A9D3-F08D-42DA-85DF-F2604A791AB6, at p. ES-23.
[3] See, https://santabarbara.legistar.com/View.ashx?M=F&ID=5450949&GUID=A231A9D3-F08D-42DA-85DF-F2604A791AB6, at p. II-88.
[4] See, https://santabarbara.legistar.com/View.ashx?M=F&ID=5450949&GUID=A231A9D3-F08D-42DA-85DF-F2604A791AB6, at p. ES-23..

When these same consultants drafted the draft Study for the City of San Diego, however, they made dramatically different assumptions. In the draft San Diego CCA Feasibility Study the consultants erroneously, and without any basis in fact, assumed that utility commodity costs would escalate by an average rate of over 2.8% every year throughout the study period. By contrast, the draft San Diego Study assumes that CCA generation rates would remain flat over the same period.[5] In both the Santa Barbara and San Diego studies, utility rates are below CCA rates in the first year. It is only because SDG&E's rated are assumed to escalate over time (unlike the utility rates analyzed in the Santa Barbara Study) that the report is able to reach the conclusion that CCA generation rates will become less expensive than SDG&E's rates in the future and that CCA may be feasible. This assumption is the only reason that the draft Study finds CCA to be feasible for the City of San Diego under any scenario. If the study were updated to make assumptions similar to those set forth in the Santa Barbara Study, CCA would not be able to achieve any savings under any scenario.

The unrealistic generation rate assumptions that have been made in the City of San Diego's draft Study are depicted below.[6]



It is not reasonable to assume that two entities, buying the same product from the same market, would pay such dramatically different prices. The consultants that authored the San Diego Study seem to have acknowledged this fact in their more recent study for Santa Barbara.

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[5] See, Draft Study, at p. 65.

[6] See, Draft Report, at p. 67. It appears that the claimed savings depicted in Figure 39 ignore the impact of the PCIA.

Dr. Lynn Reaser of the Point Loma Nazarene Fermanian Business and Economic Institute has conducted an independent review of the City of San Diego's draft CCA Feasibility Study.[7] In her analysis, Dr. Reaser reaches a similar conclusion:

> *The Study shows that the CCA utility rates necessary to cover expenses would initially be higher than those available from SDG&E. It then assumes that SDG&E rates will rise by about 3% over the rest of the 10-year period through 2035 while assuming that CCA rates would remain flat or even decline. The SDG&E projections have no sound basis and the assumption that the two competing utility entities would face different pricing in the same energy commodity market is without merit.*[8]

Moreover, while the Study purports to assume 2.8% in annual escalation to SDG&E's generation rates, it actually only makes a 2.8% escalation assumption only for the year 2018. In the other years through 2026, SDG&E's electric generation rates are actually assumed to escalate by 3.3%. Dr. Reaser points this out in her analysis:

> *. . . the Study shows SDG&E rates rising about 3.3% on average over the 2022-26 period. This projection is based on the commodity cost adjustments contained in the EcoChoice rate projections filed by SDG&E with the California Public Utilities Commission (CPUC). These EcoChoice rates only include part of SDG&E's energy portfolio. Moreover, the CPUC document explicitly says that the estimates for 20 years or even 5 or 10 years are unlikely to be accurate. The Study states that the projections are based on the average increase shown in the CPUC schedule for the five years 2018-22 and then uses that same escalation factor for the 2023-26 period.*[9]

The assumption that SDG&E's electric generation rate will escalate while CCA rates remain flat has no basis in fact. As is discussed in greater detail below, all customers - both CCA and utility - are required to pay their share of above-market costs from legacy above-market utility contracts. As a result, the impact of legacy above-market contracts could not drive a conclusion that utility rates will escalate while CCA rates remain flat. If legacy contracts lead to rate escalation, that escalation should be reflected in the bills of both CCA and utility customers.

The draft Study also assumes that market prices for prices not dictated by above-market legacy contracts will decline by .9% a year.[10] If electricity is purchased by either a CCA provider or SDG&E in a market in which prices are declining, either would enjoy lower costs

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[7] See, https://daks2k3a4ib2z.cloudfront.net/5963f5d0271b2e52833d0f86/59c29294fba0910001093cee_CCA%20Analysis%209.20.17%20Final.pdf; this study was funded by Sempra Services, but conducted on an independent basis to reflect the independent conclusions of Dr. Reaser..

[8] Ibid., at p. 2.

[9] Ibid, at p. 9 (footnotes omitted).

[10] Ibid., at p. 8.

as a result of these price reductions. It is not reasonable to assume that purchases by SDG&E from a market in which prices decline by .9% per year will result in rates that increase by around 3% per year while a CCA provider is able to maintain flat rates purchasing the same product from the same market.

B. The Study Understates Likely CCA Rates

In addition to the forgoing, the draft Study underestimates likely future CCA generation rates. This is because the revenues that form the basis for these rate assumptions are not adequate for the CCA to meet its debt service obligations and avoid incurring losses. Dr. Reaser points to this deficiency below:

> *The Study then estimates the revenues and resulting rates necessary based on the average estimated expenses for the first three years in which the CCA program would be fully operating. These revenues and rates should have been higher to enable the CCA to meet its debt service obligations and not incur losses. The rates used at the launch of the program do not enable the CCA to be profitable until 2026. Debt service is also not adequately covered (with a financially sound minimum typically defined at 1.4) until 2026.*[11]

As is discussed below, even with an overstated utility rate and an understated CCA rate, the draft study finds that CCA would have a negative Net Present Value (NPV) in the majority of cases that have been studied.

C. Even with Unreasonable Generation Rate Assumptions, the Study Shows CCA Would Have a Negative Net Present Value in 9 Out of 11 Cases Studied

Even with the correcting for the flawed generation cost assumptions discussed above, the City's draft Study shows a negative Net Present Value (NPV) in 9 out of the 11 cases that have been analyzed. As Dr. Reaser points out:

> *The Study shows that the CCA would post negative net present values (NPVs) in all but two of the eleven cases investigated. One of these cases, involving a high Procurement Cost Indifference Adjustment (PCIA) shows a negative NPV of $2.8 billion. The Study uses a discount rate of 4%. Given the large financial and other risks, a discount rate of 5% is probably more appropriate which makes most of the NPVs presented even more negative.*[12]

While the study points to a 10% annual increase in the PCIA as a worst-case scenario, generation rates that fail to reflect actual future market conditions for both SDG&E and a CCA provider may represent an even worse scenario. These erroneous assumptions should be corrected before policymakers vote on whether to pursue CCA. As is discussed below,

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[11] Ibid, at p. 8.
[12] Ibid, at p. 3.

even without correcting for these significant flaws, the draft Study shows that the potential financial risk to taxpayers if CCA is implemented could be significant.

III. Likely Increases to the PCIA Would Result in a $2.8 Billion Taxpayer Risk and There is Substantial Uncertainty Regarding the Exit Fee That Would Apply to a CCA Provider

The Draft Study sets forth a number of pro forma operating results under different scenarios and under different sensitivities. One of those sensitivities is "Sensitivity 3 – High PCIA." The PCIA is a utility exit fee that is intended to ensure that all customers pay for their share of above-market costs that were incurred on their behalf, largely to help create the renewable generation market that is now serving California. Above-market costs change every year because they include above-market contract costs in addition to market prices, which change every year. The PCIA may also soon change for another reason: the methodology for calculating the PCIA is being reconsidered by the CPUC, and any changes could necessitate substantial updates to the draft Study.

The study assumes that a "high PCIA" would exist if the PCIA increases at an annual rate of 10%. This scenario would create significant concern for taxpayers because the draft Study finds that an annual 10% increase in the PCIA would lead to a $2.8 billion financial shortfall for taxpayers.

What is the likelihood of an annual 10% increase in the PCIA? The Draft Report finds that an increase to the PCIA is actually a likely event:

> *Should the CCA program go forward, the PCIA would likely increase, perhaps materially.*[13]

Nevertheless, the draft Study does not appear to weigh this likelihood in its finding of feasibility.

By how much is the PCIA likely to increase? Recent experience for PG&E, the only utility in California with several years of experience with CCA, serves as a useful guide. The PCIA for PG&E in 2013 was .6 cents/kWh. Today, it is 2.977 cents/kWh. This represents an increase of about 400%. In fact, the annual increase to PG&E's PCIA has only been *as low as* 10% in one year since 2013.

Annual adjustments to reflect current market conditions are not the only uncertainty that exists regarding the future PCIA. The California Public Utilities Commission has recently opened a new proceeding to reconsider how the PCIA should be calculated.[14] In this

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[13] See, Draft Report, at p. 103.

[14] See, CPUC Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment, R. 17-06-026,

proceeding, the Commission will consider proposals from various parties including the state's investor-owned utilities, who have argued that the current PCIA is far too low to ensure that non-CCA customers are not harmed when CCA is implemented.

SDG&E has publicly stated that the existing PCIA only recovers about 75% of the above-market costs that have been incurred on behalf of customers who stop taking bundled utility services:

> *Under current regulations, customers that choose another provider would pay only about 75 percent of the cost of the energy purchased on their behalf, leaving a large portion of costs to be picked up by customers that remain with their energy provider.*[15]

If SDG&E is correct that the PCIA only recovers 75% of its above-market costs, without a change in the methodology for calculating the PCIA, rates to non-CCA customers would increase if CCA is implemented. However, this outcome would violate current law, which provides:

> *Bundled retail customers of an electrical corporation shall not experience any cost increase as a result of the implementation of a community choice aggregator program.*[16]

This is why one of the overall goals of the CPUC's recently initiated PCIA proceeding is to:

> *. . . ensure that bundled retail customers of an electrical corporation shall not experience any cost increases as a result of either (1) retail customers of an electrical corporation electing to receive service from other providers or (2) the implementation of a community choice aggregator program.*[17]

In light of the forgoing, it would be premature to make any decision on whether to move forward with a government controlled energy program until the changes in PCIA methodology that will soon be made by the CPUC can be considered and analyzed. Once the CPUC has issued a decision, the City's draft CCA Feasibility Study should be updated to reflect changes to the PCIA, adopt a worst-case PCIA scenario that reflects that updated

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[15] See, http://sdgenews.com/clean/sdge-proposes-solution-aimed-supporting-state%E2%80%99s-clean-energy-goals-and-protecting-customer.

[16] See, California Public Utilities Code, Section 366.3.

[17] See, CPUC Order Instituting Rulemaking to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment, R. 17-06-026, SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER, dated 9/25/2017, at p. 13.

methodology as well as the recent actual experience with annual PCIA adjustments, and to update the generation rate assumptions that have been made in the draft Study.

IV. The Draft Study Should be Updated to Make Assumptions That Would Achieve the City's Climate Action Plan Goals for the Energy Sector

The goal of the City's Climate Action Plan is to:

> *Achieve 100% renewable energy city-wide by 2035.*[18]

However, none of the CCA programs considered in the draft Study would achieve this goal.

The City's Draft CCA Feasibility Study analyzes several CCA scenarios. The Base Case Scenario would offer electricity consisting of 50% renewable energy with 2% of customers opting up to a 100% renewable energy option. Clearly, this would not achieve 100% renewable energy for all electricity consumption in San Diego. Another scenario would offer a default service of 80% renewable energy with 2% of customers opting up to a 100% renewable energy option. This too could not mathematically achieve 100% renewable energy consumption in San Diego. Another scenario would offer a 100% renewable energy default service. However, the draft Study finds that the rate for this service is expected to be more expensive than SDG&E's rates for a 100% renewable electricity option, so this CCA option would also not be able to achieve 100% renewable consumption for all electricity demand in the city.

Dr. Reaser summarizes this concern in her analysis:

> *The Feasibility Study considered a Base Case and four other scenarios, with the following results in terms of the percentage of utility demand that would be met by renewable sources. These percentages were assumed to be achieved in the first year of the CCA's launch (2020) and to be held constant throughout the study period through 2035.*
>
> > *Base Case: 51% (derived from 50% renewable for 98% of CCA customers, with 2% opting for 100% renewable sources)*
> > *Scenario 2: 50% renewable*
> > *Scenario 3: 80% renewable*
> > *Scenario 4: 100% renewable*
> > *Scenario 5: 80.4% renewable (derived from 80% renewable for 98% of CCA customers, with 2% opting for 100% renewable sources)*

[18] See, San Diego Climate Action Plan, https://www.sandiego.gov/sites/default/files/final_july_2016_cap.pdf, at p. 35.

> *Of these five scenarios, only Scenario 4 would meet the City's CAP goal of securing 100% of its energy from renewable resources.*[19]

Would many customers take CCA service under Scenario 4? This is highly unlikely. If few customers opt for this service, it would impose additional costs and risks on taxpayers but it would not help achieve the City's Climate Action Plan goals.

The Draft Study finds that CCA rates for a 100% renewable option would be higher on average compared to the SDG&E 100% renewable option ("EcoChoice") for all five years of the study period from 2022 to 2026. In the first year of operation, the CCA rate would be 28.6% higher than the utility rate, and the CCA rate would still be 13.38% above the alternative utility rate in 2026.[20] In fact, as is illustrated in the following table from the draft Study, the Study finds that SDG&E's 100% local renewable energy option would be less expensive in all years and under all scenarios with the exception of an arbitrarily assumed "High SDG&E Rates" scenario.[21]

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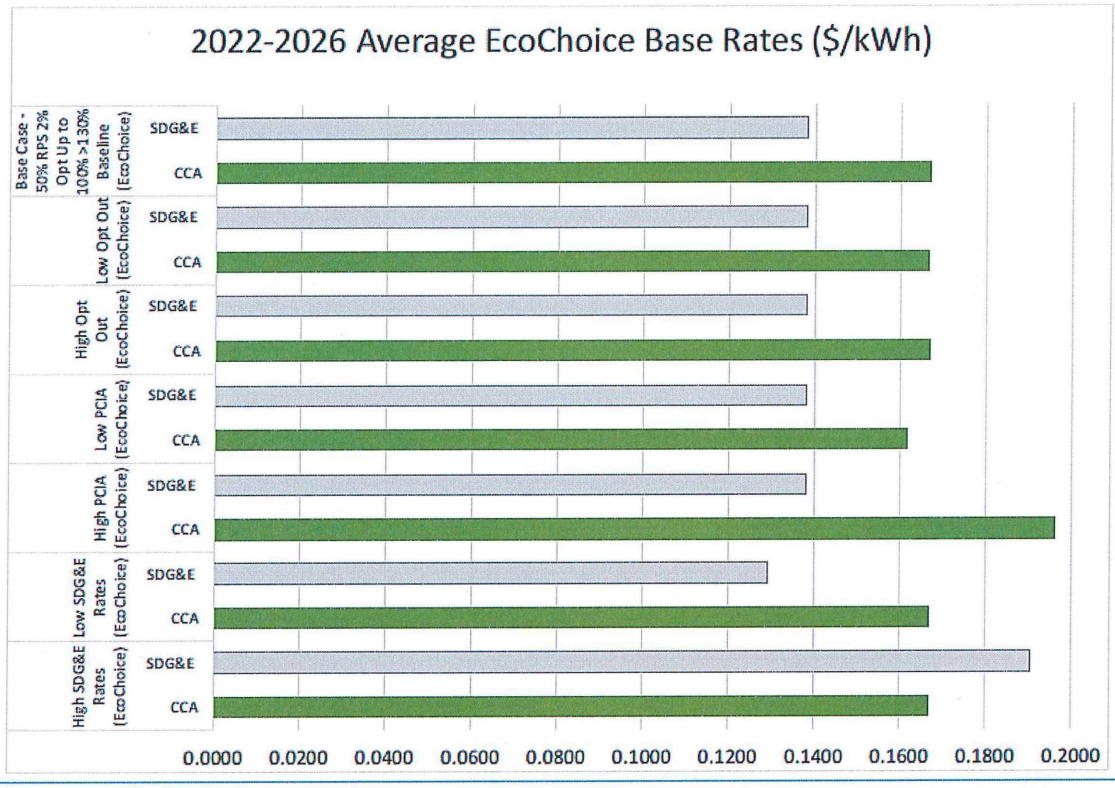
[19] See, https://daks2k3a4ib2z.cloudfront.net/5963f5d0271b2e52833d0f86/59c29294fba0910001093cee_CCA%20Analysis%209.20.17%20Final.pdf, at p. 5.
[20] See, Draft Report, at pp. 68-69.
[21] See, Draft Report, at p. 72.

Figure 41: Rate Comparison Summary for Base Case Scenario and All Sensitivities (100% RPC)



While the Draft Study assumes the CCA rate would be more expensive than the comparable SDG&E rate, it does not attempt to explain why customers would pay a CCA provider a higher rate for 100% renewable energy that is generated with existing resources rather than paying a lower rate to SDG&E for local renewable power that leads to additional local renewable generation development and actual GHG emissions reductions or to obtain service at SDG&E's default generation rate. The Draft Study also fails to explain why it would be good public policy for the City to promote a more expensive and risky Government Controlled 100% Renewable Energy Option than a lower priced utility option that creates no financial risk for taxpayers.

V. The Draft Study Is Based on a CCA Structure That Would Not Achieve Any Material Level of Real and Additional GHG Emission Reductions

The Draft Study is based on a CCA business plan that would not result in additional renewable generation development for at least its first 5-7 years of operation:

> *Although not during the initial five to seven-year period, it is feasible that the CCA program could eventually generate enough net margins to make substantial investments in high priority energy initiatives, such as increasing local DG as well as*

> *EE, demand response (DR), and other DSM related initiatives. While very limited, such reinvestments could offset some portion of projected economic impacts based on disposable income.*[22]

The assumption that it is feasible that a government controlled energy provider might have a limited budget to make some limited longer-term renewable investments after 5-7 years of operation is based on the erroneous SDG&E and CCA generation rate assumptions that are discussed in Section II above.

In reaching the conclusion that a government controlled energy program could result in GHG emission reductions, the Draft Report relies on the assumption that renewable market demand, without any long-term financial commitments, would be adequate to lead to economic development in the form of renewable energy development.[23] This is not a reasonable assumption. As Appendix E of the Draft Report explains:

> *Typically, independent power producers will enter contractual agreements for approximately 80% of their capacity to cover their operations and maintenance cost and then trade in the CAISO market to achieve their profit margin.*
>
> *In California, purchasing of energy is typically implemented with long-term PPAs.*[24]

While this is the traditional procurement practice of IOUs, and is necessary for development of new and additional renewable generation capacity, it is not what is assumed in the government controlled energy provider business plan analyzed in the Draft Report.

a. <u>The Draft Report Assumes Short-Term Procurement That Would Not Comply with State Law</u>

The draft Study appears to assume that procurement is conducted through short-term purchases of energy. For this reason, it is able to project declining procurement costs when wholesale market prices decline:

> *After full enrollment in year 2021, a general downward trend in the total cost of power is evident for each scenario over the Study period. This downward trend is driven by the projected decrease in the costs of natural gas generation, renewable generation, RA, and storage. The increase in total power costs related to increased levels of renewable generation in the portfolio is also evident by comparing results across scenarios for a*

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[22] See, Draft Report Executive Summary, at p. ES-20.
[23] See, Draft Report, at p. 84.
[24] See, Draft Report, Appendix E, at p. E-5.

given year. For each scenario, the MCSM range of power costs (maximum, minimum, average, and 95% CI) is provided in Figure 33.[25]

An entity procuring electricity is only able to take advantage of declining wholesale prices by buying energy at the declining price. If the entity locked in prices under a long-term contract when prices are higher, it would not be able to take advantage of these price declines. However, beginning in 2021, CCA providers are required by law to meet 65% of their RPS requirements under contracts of 10-years or longer in duration:

Beginning January 1, 2021, at least 65 percent of the procurement a retail seller counts toward the renewables portfolio standard requirement of each compliance period shall be from its contracts of 10 years or more in duration or in its ownership or ownership agreements for eligible renewable energy resources.[26]

The draft Study must be updated to clearly assume compliance with this provision of Section 399.13 in order to accurately reflect the costs and risks associated with CCA because entering into long-term contracts in a declining price market would likely saddle the CCA with long-term obligations that require it to pay above-market costs to suppliers for years.

b. Real and Additional Emission Reductions Can Only be Achieved by Reducing Energy Demand or Generating More Power with Lower Emitting Resources

A government controlled energy program, by itself, does not result in any emission reductions. In the energy industry, emission reductions come from reducing demand or by replacing dirtier energy with cleaner energy generating resources. This can be done through CCA, DA, or utility procurement. What matters is what is procured, not who procures the energy.

The only way renewable procurement (whether by a CCA provider, utility, or any other entity) will result in additional GHG reductions is if that procurement actually leads to additional renewable generation construction. Any CCA program that relies on short-term contracts with existing resources or RECs will not result in additional GHG reductions. To the extent it moves demand that would have been served by a utility under long-term contract to a provider that will rely on short-term contracts, it may even result in reduced emission reductions.

Under the existing CAISO market structure, renewable resources will generate electricity whenever the renewable resource is available (i.e., solar generation generates electricity whenever it is sunny, wind generation generates electricity whenever it is windy). This is because the CAISO runs on the basis of security constrained least cost economic dispatch, which basically means that the resource with the lowest cost that can be physically

[25] See, draft Study, at p. 43.
[26] See, California Public Utilities Code Section 399.13(b).

dispatched to load will run. The sun and wind are free, while the input fuel for a natural gas plant has a cost. Put another way, they have a variable cost of zero.

As the United States Department of Energy has explained to Congress, renewable resources have a very low marginal cost and are run whenever they can be physically dispatched to load:

> *Generally, system operators accept as much electricity as possible from renewable resources, regardless of whether it is utility or non-utility generation, because of its low cost and only curtail reliance on these sources when forced to by limits on transmission availability or reliability considerations. Most wind and solar generation units are not dispatchable in the traditional sense (i.e., cannot be precisely controlled by the grid operator), but their output is accepted as must-run or must-take production.*[27]

Because the renewable generation will generally run whenever it can be delivered to load, it will run whether it has a contract with a utility or a government controlled energy program provider. For this reason, when a government controlled energy provider purchases electricity from an existing renewable generator rather than from a developer that will build additional renewable generation to serve that demand, it is not investing in or creating any real or additional emission reductions. Instead, it is paying so it can claim credit for emission reductions that are already occurring.

The only way to materially increase renewable energy production is to increase the amount of renewable generation that exists. New renewable generation will only be constructed with adequate assurance of investment recovery/return, which generally requires a long-term output contract. As a result, if the goal of a CCA proposal is to achieve real and additional GHG emission reductions, the draft Study should be revised to assume all renewable procurement is pursued through long-term contracts that will lead to additional renewable generation construction and additional emission reductions.

b. <u>The Draft Report's Assumption That CCA Would Result in Additional Renewable Construction is Inconsistent with Experience in California to Date</u>

An analysis of the procurement practices of CCA providers in California to date supports an assumption that a government controlled energy program for the City of San Diego would procure energy primarily from out of state resources and on a short-term basis. The chart set forth below illustrates where CCA providers in California have obtained their energy to date. The following shows that only a very small amount of renewable energy has been procured from new renewables that were developed to serve CCA demand.

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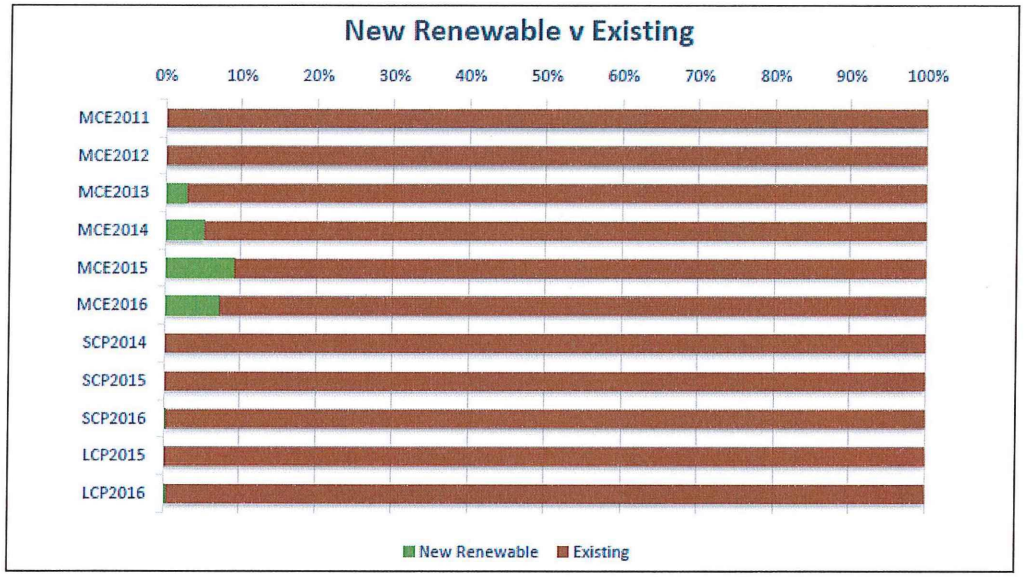
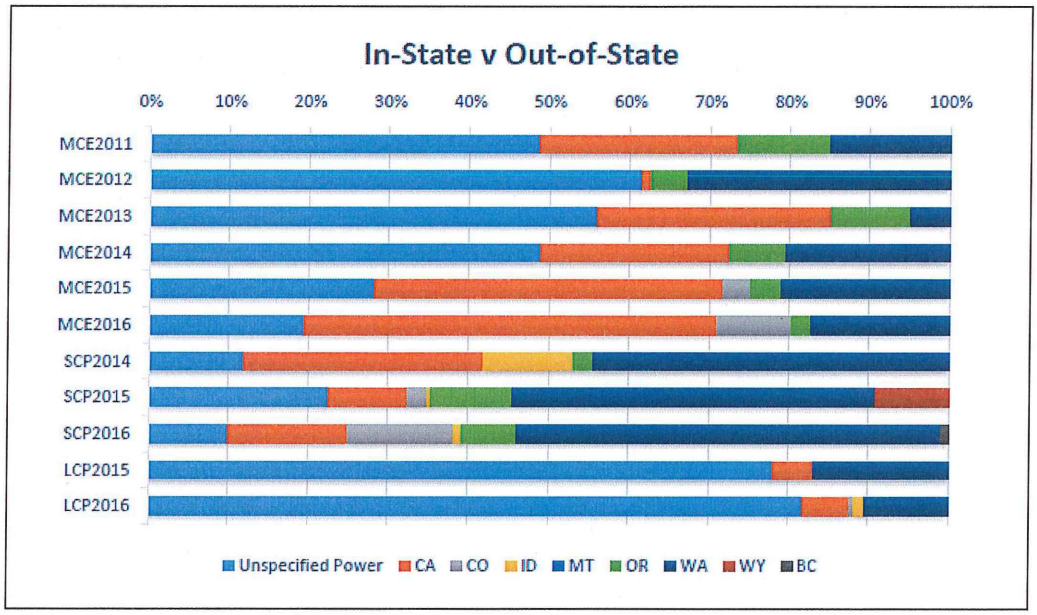
[27] See, U.S. Department of Energy, 2011/2012 Economic Dispatch and Technological Change, Report to Congress, September 2012, at p. 4, https://energy.gov/sites/prod/files/2014/12/f19/2011-2012-EconomicDispatch-TechChange-RptCongress.pdf.

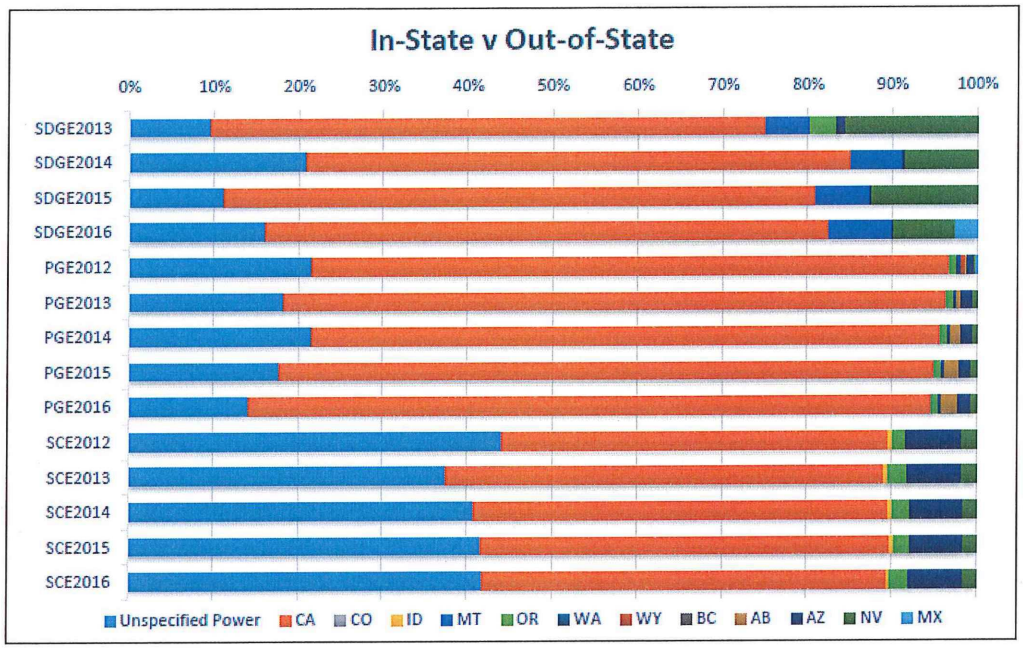


The next chart shows how past performance would lead to the conclusion that when CCA providers purchase energy from existing resources, most of those resources are not even in California.



By contrast, most of the energy procured that by SDG&E and other utilities is from California.

Sempra Services Corporation is not the same company as the California utilities, San Diego Gas & Electric Company (SDG&E) or Southern California Gas Company (SoCalGas), and Sempra Services Corporation is not regulated by the California Public Utilities Commission.



VI. State Legislation Could Result in Statewide Criteria That Eliminates Any Potential Incremental Environmental Benefits That Could be Achieved Through CCA

This year, the California legislature considered SB100, which would have increased the state Renewable Portfolio Standard from 50% to 60% and would have added new state planning criteria with a goal of ensuring that the remaining 40% is carbon free by 2045. SB100 passed the California Senate but failed to pass the state Assembly in the last hours of the 2017 legislative year. But, there is good reason to believe that these proposals will be considered again in 2018. For example, in a letter describing the fate of SB100, Assemblymember Chris Holden wrote:

> *I believe the ambitious goals laid out in SB 100 are a critical part of our clean energy future and that's why I voted for it when it was first heard in the Utilities and Energy Committee earlier this summer. However, there was late and very vocal opposition that arose only in the last week of the legislative year. Due to the late hour, and the new constitutional requirement that prohibits amendments to legislation in the closing days of session, there was not sufficient time to vet those concerns and consider how they could be addressed.*

The good news is that we are in the middle of a two-year session. When the Legislature reconvenes in January 2018, we will resolve those issues and move this important legislation forward.[28]

If the electricity portfolio serving the entire state of California were to become carbon free, a 100% renewable portfolio offered by the City of San Diego could not create any additional emission reductions to those that would otherwise occur. It would only create unnecessary taxpayer risk.

VII. Conclusion

Sempra Services applauds the City for its efforts to reduce GHG emissions. We assume that the City shares our desire of ensuring that GHG emission reduction measures that are implemented as part of the City's Climate Action Plan are designed to achieve real and additional GHG emission reductions, do not impose unnecessary risk on the City or its taxpayers, and is only pursued on the basis of a feasibility study that relies on reasonable assumptions and the best available information. In this way, the City will be empowered to make a decision that minimizes uncertainty and risk while maximizing GHG emission reductions in a cost-effective manner.

For the forgoing reasons, Sempra Services submits that the City should decide whether or not to implement a government controlled energy program only after it has obtained an updated Feasibility Study modified to incorporate the following:

- Reasonable assumptions for both CCA and SDG&E generation rates;
- PCIA assumptions updated to reflect the outcome of the CPUC's rulemaking to reconsider the methodology for calculating the PCIA;
- A design that would achieve the City's Climate Action Plan goal of 100% renewable energy consumption city-wide by 2035;
- Better information with which to predict future emission reductions that will result from state governmental mandates with or without CCA; and,
- Updated assumptions that are based on a business plan that would produce real and additional emission reductions.

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[28] See, letter from Assemblymember Chris Holden, 41st Assembly District to Erica Martinez, California Policy Advocate,
EarthJustice, dated September 20, 2017,
https://earthjustice.org/sites/default/files/EarthJustice%20Letter%20from%20Holden%20on%20SB100.pdf, ;
https://earthjustice.org/blog/2017-september/landmark-clean-energy-bill-headed-for-round-two.

I appreciate the opportunity to submit the forgoing comments.

Respectfully yours,

Frank Urtasun
Sempra Services

cc: The Honorable Myrtle Cole, Council President, 4th District
The Honorable Barbara Bry, 1st District
The Honorable Lorie Zapf, 2nd District
The Honorable Chris Ward, 3rd District
The Honorable Mark Kersey, 5th District
The Honorable Chris Cate, 6th District
The Honorable Scott Sherman, 7th District
The Honorable David Alvarez, 8th District
The Honorable Georgette Gomez, 9th District