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

Re: Comments on SEAB Recommendations Regarding Draft CCA Feasibility Study

Dear Mayor Faulconer:

Sempra Services has reviewed a letter sent by SEAB regarding the City's draft CCA Feasibility Study. Unfortunately, the SEAB letter fails to point out a number of questions that must be answered before a well-founded recommendation on CCA feasibility can be made. However, once these questions have been answered, the City will be in a far better position from which to consider the potential feasibility and advisability of CCA. Sempra Services offers the following comments on SEAB's recommendation:

- SEAB recommends "engaging with SDG&E and CPUC and other stakeholders to reduce uncertainty regarding allocation of costs, especially the Power Charge Indifference Adjustment (PCIA)." Sempra Services supports engagement and discussion. However, in this instance, the CPUC has initiated a rulemaking proceeding that will reconsider how the PCIA is calculated. Once the Commission has acted, there will be greater certainty regarding the PCIA that would apply to a CCA provider. For this reason, a more appropriate recommendation would be that the results of the CPUC's decision in that proceeding be incorporated into the Feasibility Analysis.

- The SEAB letter recommends that the City, "consider joining CalCCA, an association of CCA's in the state to represent their interests in the legislature and relevant regulatory agencies." The CAP proposes moving electricity demand to 100% renewables through CCA or other means. CalCCA is a CCA advocate and membership would predetermine the City's decision between CCA and other alternatives; under these circumstances, CalCCA membership would be inappropriate unless or until a decision to implement CCA has been made.

- SEAB supports real and additional emission reductions as well as job creation. In order to accomplish these objectives, the Feasibility Study should be updated to assume renewable needs are met through long-term contracts and newly constructed renewables to ensure additional emission reductions and job creation result. The SEAB letter incorrectly says, "Environmental benefits can be derived through higher renewable energy content." If this renewable content comes from existing renewable resources, no additional GHG emission reductions will occur because any existing renewables will have been already generating renewable energy and reducing emissions before CCA is even created. The SEAB letter goes on to say, "Established CCA's in California have already begun to invest in new capacity which is often in closer proximity to the CCA's service area than sources of the affiliated IOU." In fact, existing CCAs have made few investments in new renewable generation capacity, have primarily procured energy from out of state resources, and through 2016, only one CCA in California had obtained any energy from any newly constructed renewable resources. Neither emission reductions nor job creation can result from short-term contracts and a short-term procurement strategy.

- On financial issues, the Feasibility Study concludes that CCA could result in a $2.74 billion loss; in light of the magnitude of this potential impact, it is critical that the study be updated to assess the probability of such an outcome.

- On "Rates and Impact on Ratepayers-to date," the SEAB letter states, "[e]stimates used in the feasibility study for San Diego are conservative." This statement is not correct. It is unreasonably optimistic to assume, as the draft Study does, that SDG&E's generation rates will escalate by 2.8% per year while CCA costs for procuring the same product from the same market will remain flat. In fact, the authors of the Feasibility Study have reached a completely different conclusion in a study they have conducted on the Feasibility of CCA in Santa Barbara, where they concluded that CCA and utility rates will escalate at about the same level over time. The San Diego Study must be updated to reflect escalation assumptions consistent with those the authors have made in the Santa Barbra Study so the potential rates and ratepayer impacts over time can be better understood.

- SEAB proposes doing an NPV analysis over a 30-35 year period of time. This would result in a study based on pure speculation. It is simply not possible to forecast market conditions 30-35 years into the future.

- The SEAB letter concludes that, "SEAB is in general agreement with the study's conclusion that it is feasible to accomplish these goals with a CCA and that the recommendations summarized in attachment 3 are appropriate next steps." Without updates to reflect a reasonable PCIA assumption, long-term contracting, and reasonable rate escalation levels, it is premature to make any decisions as to whether CCA should or should not be supported.

We appreciate the opportunity to offer the forgoing comments.

Very truly yours,

Frank Urtasun

cc: Honorable Myrtle Cole
Honorable Barbara Bry
Honorable Lorie Zapf
Honorable Chris Ward
Honorable Mark Kersey
Honorable Chris Cate
Honorable Scott Sherman
Honorable David Alvarez
Honorable Georgette Gomez
Honorable Mara Elliott
Andrea Tevlin
Eric Caldwell
Jack Straw