



## **Energy Franchise Agreements – Questions and Answers**

### **What is a franchise agreement?**

Through franchise agreements, the City of San Diego grants a single entity the exclusive right to use the public right-of-way to install and maintain the pipes, poles and wires it takes to provide San Diego residents and businesses with gas and electricity services.

San Diego Gas & Electric (SDG&E) has held these rights since 1920. The current agreements have been in place since 1970 and are set to expire on June 1, 2021.

### **What is an Invitation to Bid?**

When it's time to award new energy franchises, the City of San Diego releases Invitations to Bid (ITB), which formally invite bids on the franchises and set forth a list of the City's terms and conditions for the new franchises.

### **What is the minimum bid?**

The minimum bids in the City's ITBs is \$70 million for the electricity franchise and \$10 million for the gas franchise.

### **When would the new franchise agreements expire?**

The City is granting initial 10-year agreements with an automatic 10-year renewal if the franchisee continues to be a good partner and complies with all terms and conditions.

### **Why 10+10 years? Why not shorter?**

The City believes 10-year agreements plus renewal fosters investment required to maintain and modernize a safe and reliable grid and provide for additional benefits including the minimum bids and support of the Climate Equity Fund. This term length will also incentivize competition.

By comparison, the current franchise agreements are for 50 years, and the aborted ITBs released late last year by the previous mayoral administration recommended a 20-year term but did not include additional penalties if the franchisee is not a good partner. The ITBs now include these penalties.

A 10+10 term provides accountability and protects the franchisee's investment while allowing the City and the franchisee to adapt to economic, technological and environmental changes in the energy market, including continued investments in modernizing the grid and climate resiliency.

Furthermore, should the city choose to municipalize, this process could take a decade or more. A 10+10 term provides for ratepayer certainty during that time and continued investments towards our climate goals.

### **How will the City reach its 100% renewable goals?**

The recent launch of San Diego Community Power, the region's first Community Choice Energy Provider, is key to ensuring San Diego meets its climate mandates. SDCEP is committed to providing clean, renewable energy at competitive rates and investing in innovative programs to benefit the environment and the economy in our communities. SDCEP will source cleaner electricity for approximately 770,000 customer accounts.

Additionally, this year the City will be updating its Climate Action Plan to further align with national and global goals for creating a more sustainable future for all through elevating equity, renewable energy and economic opportunity.

### **What if the City wants to create its own municipal energy authority?**

The City may terminate the franchises and municipalize at any time, using its power of eminent domain.

If the City wishes to pursue municipalization, the process to create a new authority would likely take years, if not decades. With that said, the City conducted a preliminary analysis and valuation of the assets. In the meantime, the City must have franchise agreements in place to maintain uninterrupted gas and electricity services for San Diego residents and businesses and continue to receive franchise fees from the franchisee.

## **Has the public been involved in this process?**

Yes. In partnership with all nine members of the City Council, Mayor Gloria launched a robust public engagement campaign to educate residents about the franchises and solicit opinions on San Diego's energy future.

This included 13 virtual community forums that drew hundreds of attendees, an online survey that netted nearly 1,400 responses and several public hearings at the City Council's Environment Committee. This process helped inform and improve the invitation to bid.

The results of the survey showed that City of San Diego residents value environmental protection, including reducing pollution and combatting climate change.

## **Why are these new ITBs important?**

When it comes to creating an environmentally sustainable San Diego, awarding exclusive energy franchises is one of the most critical decisions the City will make.

The new ITBs set San Diego on a path to a greener future, and they have the teeth to ensure accountability.

These ITBs will ensure franchise agreements that meet the needs of residents, make financial sense for the City, advance our climate goals, and provide equitable access to environmental benefits for all our communities.

To win the exclusive right to use the taxpayers' land to provide energy to San Diegans, the holder of the new franchises will have to be a good partner in the City's effort to create a city that works for all residents.

## **Besides the 10+10 feature, how are these new ITBs an improvement over the aborted ITBs crafted by the previous administration?**

They include:

- A cooperative agreement containing 14 different desired terms and commitments that, among other things:
  - support the City's climate-action efforts,
  - advance climate equity,
  - make San Diego more resilient to the impacts of climate change,
  - modernize the local energy grid,
  - and boost clean-energy resources.

- A requirement that the franchisee support the City's new Climate Equity Fund.
- The franchisees must have extensive experience in renewable-energy integration and smart-grid innovation.
- An explicit reference to the state law that allows the City to create a municipal energy utility.
- The creation of a Citizens' Review Committee to provide oversight of the franchisee's compliance with the terms of the franchise.

### **How are they better than the existing agreements reached in 1970?**

They include:

- Strong worker-protection and -retention language.
- A tiered dispute resolution process allowing for mediation between the City and the franchisee to avoid costly litigation.
- Increased disclosure requirements to ensure transparency of the public's business.
- Prevention of passing the costs of the minimum bid onto the ratepayers.
- And strong remedies such as a \$30-million performance bond to protect the City from contract breaches.

### **Tell me more about the cooperative agreement in the new ITBs.**

Among other things, the City's desired terms and commitments include to:

- Work collaboratively with San Diego Community Power, the community-choice alliance under which San Diego and four other cities purchase energy on the open market to reach the City's renewable goals.
- Climate-proof the energy grid, including implementing new fire-protection and -prevention measures.
- Help San Diego move toward to a green economy by transitioning away from natural gas and training gas workers for green-energy jobs, as well as taking steps to create a more diverse workforce.
- Provide opportunities for low- and moderate-income residents to reduce their bills through energy efficiency.
- Provide ratepayer relief during the pandemic.
- Conduct a thorough review of customer service in underserved communities and create a plan to improve service in those areas.

### **Should we be requesting higher minimum bids?**

The minimum bid of a combined \$80 million total for both franchises is based on a valuation of the franchises and has the potential to provide much needed resources to the City. We are not aware of any other City that has received an upfront payment of this magnitude. The minimum bid is in addition to the requirement to support the City's Climate Equity Fund and the ongoing 3% franchise fee revenue that helps pay for core city services.

### **How do these franchises protect rate payers?**

These franchises provide transparency and accountability for how ratepayer dollars are spent on undergrounding and how work is conducted. These franchises also require a Citizens Oversight Committee to interface with ratepayers and provide oversight.

### **What happens next?**

All bids for the gas and electric franchises will be opened on April 16. The City will then finalize the franchises with the highest bidder. A vote by the City Council on the new franchises is expected to take place in May.