THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: October 24, 2018

TO: Honorable Mayor, Kevin Faulconer

FROM: Cody Hooven, Chief Sustainability Officer, Sustainability Department
via Erik Caldwell, Interim Director, Sustainability Department

SUBJECT: Implementation recommendations related to 100% renewable energy

---

Background

The City's Climate Action Plan (CAP) establishes achieving 100% renewable energy city-wide by 2035 as a goal for our community. Achieving this goal is a significant action in the CAP and its successful implementation will impact the lives of every San Diegan. As such, you directed us to conduct substantial research and review of all reasonable options available to the City in pursuit of achieving the City's 100% renewable energy goal. As described by Action 2.1 of the City's Climate Action Plan, we thoroughly explored the feasibility of Community Choice Aggregation (CCA) and another program as pathways for the City to meet its 100% renewable energy goal. We engaged MRW & Associates (MRW, a firm with more than 20 years' experience advising the City of San Diego, other municipalities and utilities on issues related to energy rate forecasting, regulatory affairs, and resource planning) to provide technical support on this process. MRW's analysis and support included peer reviews of all reasonable pathways, development of the CCA Business Plan, and assisting the City in evaluation of alternatives to establishing a CCA.

During our evaluation, our team quantified the viability of potential pathways to meeting the City's 100% renewable energy goal in three ways:

1. The cost and risk exposure to the City's General Fund.
2. The ability of a particular approach to provide cost competitive rates to ratepayers.
3. The ability of a particular approach to meet the City's 100% renewable energy goal by 2035.

After evaluating the viability of a pathway with the criteria outlined above, other important items we considered were other local economic benefits, local energy generation, and local jobs. The importance of these factors was supported by input received from many stakeholders who engaged on this issue. In fact, we have engaged in more than 60 outreach discussions to share the results of our analyses and have posted all written comments on the City's website to ensure an open dialogue on this issue.

Evaluation of Community Choice Aggregation
In July 2017, the City shared a CCA feasibility study after undergoing extensive analysis and a 3rd party peer review. The study was completed over a seven-month period which included several rounds of staff review to ensure report clarity. The study's primary conclusions stated that the CCA program would be reliably solvent and financially feasible and that risks associated with many aspects of the CCA program would need to be evaluated and mitigation strategies further fleshed out. Recommendations of the study include engaging additional financial and energy professionals to further vet the results. We then engaged MRW to develop a CCA business plan which would provide this additional analysis.

The business plan incorporated feedback from stakeholders and peer review of the feasibility study into the assumptions used. The business plan was able to identify a pathway for a CCA to operate as a cost competitive program with the ability to achieve the other criteria of interest. Specifically, a CCA would have the ability to maintain approximately a 5% reduction from the SDG&E generation rate primarily through lower operational costs and by creating a rate stabilization fund to mitigate fluctuations in costs associated with energy purchases. The business plan underwent extensive analysis and a 3rd party peer review. The peer review of the business plan included reviews by both energy and finance professionals.

Exploration of Other Programs
In addition to exploring Community Choice Aggregation, the City issued a Request for Information (September 2016) and a Request for Statement of Qualifications (June 2017) in order to gather research from the energy sector on other programs available to the City to increase renewable energy. Many firms submitted concepts and programs for generating renewable energy for the City, yet all viable options required utilizing San Diego Gas & Electric's (SDG&E) grid as delivery mechanism. Based on this, the City issued a Request for Proposals (RFP) in September 2017. The response to the RFP presented a potentially viable program, with uncertain costs, potential risk exposure to the City's General Fund, and uncertainty as to whether the California Public Utilities Commission (CPUC) would approve such a proposal as a city-specific program operated by an investor owned utility. Peer review of this proposal by MRW supported these concerns.

Legislative and Regulatory Impacts
While the City evaluated potential pathways to achieving our 100% renewable goal, we also monitored several legislative and regulatory issues which could impact our efforts to move forward with any pathway towards 100% renewable energy.

SB100

SB100 accelerates the renewable portfolio standard (RPS) requirements so that all load serving entities must procure 60% of their power from renewable resources by 2030 and sets a state-wide policy goal of having 100% of the electric power met by renewable or carbon-free (e.g., large hydroelectric dams) by 2045. While we are supportive of this bill, it does falls short of the City's needs in two ways. One, it changes the statewide mandate for renewable energy from 50% to 60% and five years earlier than previous mandates; the remaining 40% is a planning target. Two, the target date is 10 years beyond the CAP target date.

Exit fees, or Power Charge Indifference Adjustment (PCIA)

The PCIA is a fee charged by SDG&E intended to prevent customers that remain with SDG&E bundled service from paying for energy generation procured on behalf of customers that have since switched to CCA service. More specifically, it pays for the above-market costs of SDG&E generation resources that were acquired, or which SDG&E committed to acquire, prior to the customer's departure to CCA. In the midst of our research on pathways to reach 100%, the CPUC initiated a proceeding to revise the PCIA calculation methodology. As this calculation is a significant consideration of either pathway we were exploring, we recommended waiting for the outcome of the proceeding prior to making a recommendation to the Mayor. The methodology in the decision as adopted by the CPUC on October 11, 2018 is used in the CCA business plan. While Phase 1 of this proceeding focused on cost shifting between utility and CCA customers, the CPUC also directed a Phase 2 of this proceeding that will focus on lowering costs.

Recommendation

After reviewing governance models that include a stand-alone city enterprise model, we recommend moving forward with the formation of a Joint Powers Authority (JPA) chartered to establish a regional CCA program, capable of meeting our 100% renewable energy goal by 2035, in a manner which delivers reduced rates to participating residents and businesses. Our recommendation to move forward with a CCA is based on the results of the feasibility study and business plan which both indicate rate competitiveness and financial stability can be achieved. Additionally, a CCA is the only pathway which allows for a clear path to achieving the goal of 100% renewable electricity by 2035. Finally, by launching a CCA through a JPA, the City has an opportunity to remove the general fund from the financial risks associated with entering into long-term energy contracts and continued operations of a CCA.

Several other cities in the region are currently exploring the feasibility of a CCA including Chula Vista, La Mesa, Del Mar, Encinitas, Carlsbad, and Oceanside. Other public agencies such as the Port, the Airport, and the County Water Authority may also have an interest in participating as either a large customer of the CCA or as a JPA member. We believe ratepayers would benefit more from this regional approach to a CCA as the CCA would have greater negotiating and buying power, be able to attract highly qualified staff to run the CCA, and find other efficiencies in operation and service. In addition to a Board of Directors appointed by the members of the JPA, we also recommend creation of an advisory board made up of energy and finance experts who can advise the Board on rate-setting matters as well as potential customer incentive programs in which to invest revenue.

Next Steps

In order to proceed, we recommend seeking City Council support for the approach and timeline outlined in this memorandum. After receiving Council support we recommend opening formal discussions with potential partners in the region on development of a JPA with the goal of having the new entity established by the end of 2019. After formation of the JPA, and appointment of its board of directors, the JPA would hire its executive leadership team, including a CEO and CFO, who would guide the JPA board of directors through the remainder of the CCA formation process.

Timeline

There are several steps the City and ultimately a regional JPA would need to complete to establish a CCA. Additionally, any timeline established today will evolve over time as details are agreed upon by the JPA partners and information related to financial and regulatory issues are monitored and adjusted as needed. There are opportunities in this process that we recommend as key check-in points where the City and JPA should re-confirm its commitment to moving forward after evaluating future developments. Outlined below is our currently anticipated timeline:

- 2018
  - December - resolution available for docketing to Committee and/or Council
- 2019
  - First Quarter
    - Begin formal meetings with potential founding members of a JPA to negotiate a structure and guiding principles
    - Engage in CPUC PCIA Phase 2 proceeding
  - Third Quarter
    - City Council acts to officially form the new JPA
    - Develop budget needs for FY20
      - Requests will include regulatory and legal support, portion of startup costs
  - Fourth Quarter
    - CCA is now stand-alone organization
      - Actions include hiring staff, determining consulting services needed, updating energy load forecasts, issuing RFO for energy procurement, developing and implementing customer engagement program
      - Expand CCA Implementation Plan (required filing to CPUC) to reflect JPA structure
      - Adopt CCA Ordinance and file CCA Implementation for a Q1 2021 launch
      - Hire CEO and CFO for CCA
- 2020
  - JPA continues to hire staff, update energy load forecasts, review RFOs for energy procurement, developing and implementing customer engagement program
- 2021
  - CCA begins service to customers - phased in by customer class

We appreciate the magnitude of this decision for you and the impact for all San Diegans. Overall, the recommendation and next steps we propose here allows us to stay on track to achieve the ambitious climate goals you and the Council have set for the City as well as pursue a viable pathway in a deliberate and thoughtful manner.

Sincerely,

Cody Hooven
Chief Sustainability Officer, Sustainability Department

EC/ch