



Response to MRW's Peer Review of SDG&E's 100% Renewable Energy Proposal to the City of San Diego

MRW & Associates, LLC (MRW)'s Peer Review of SDG&E's Proposal to the City of San Diego (City)'s request for proposal (RFP) leaves out critical facts of importance and lacks material context. SDG&E provides the following clarification and responds to the questions posed in the Peer Review.

Background:

The City adopted a Climate Action Plan (CAP) in 2015, calling for reducing the citywide carbon footprint by half and achieving 100% renewable energy by 2035. In pursuit of implementing these goals, on September 23, 2016, the City issued a request for information (RFI) for the purposes of gathering information and planning; seeking recommendations for new or enhanced renewable energy projects or programs. In response, sixteen parties responded to the RFI. On June 22, 2017, the City issued a request for statement of qualifications (RFSQ) seeking qualified responses describing renewable energy opportunities to support the City's goal of providing electricity from entirely renewable generating sources by 2035. Fourteen respondents provided responses to the RFSQ. And on September 7, 2017, the City issued a RFP to only one respondent, SDG&E, soliciting additional information to assist the City in evaluating its options for moving towards 100% renewable electricity citywide. SDG&E's response to the RFP (Proposal) was sent to the City on October 31, 2017. SDG&E's Proposal provides a framework whereby the City would partner with SDG&E to collaboratively design a program to implement the City's renewable goal by leveraging local input. Other than the 100% renewable energy requirement, interim numerical targets, timing requirements, cost caps, relative priorities or other critical design objectives had not been provided by the City to SDG&E as of the date of our Proposal. As such, SDG&E's Proposal recommends a flexible procurement plan to give the City an attainable path to realizing its greenhouse gas reduction (GHG) goals, along with other stated priorities related to safety, reliability, local economic impact and affordability. In November 2017 the City addressed a memorandum to City Council which identified two potentially viable pathways to meet the City's renewable energy goal, with SDG&E's Proposal being one of these two pathways.

SDG&E statements:

SDG&E is subject to a Code of Conduct that governs what SDG&E communicates about Community Choice Aggregation (CCA). Because of the Code of Conduct, SDG&E is limiting its comments on the other peer review MRW conducted, and its comments to MRW's Peer Review of SDG&E's Proposal. MRW faults SDG&E for not making comparisons between its Proposal and the other pathway the City is evaluating; SDG&E's silence in comparing its Proposal to other alternatives is purposeful - to avoid the appearance of any Code of Conduct violations - and not due to overlooking or ignoring the alternative.

In advance of MRW's review of SDG&E's Proposal, SDG&E offered to meet with MRW to provide them a framework of the Proposal. This meeting was declined, and the Peer Review leaves out critical facts of importance and lacks material context, including recognition of the Code of Conduct. SDG&E's offer to meet with MRW to provide critical context of our proposal remains open.



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SDG&E's high-level comments and concerns to MRW's Peer Review:

- MRW believes SDG&E's Proposal is incomplete and cannot be meaningfully compared to other alternatives available to the City. The City only issued an RFP to SDG&E, therefore, SDG&E is the only provider to have submitted a formal business proposal to the City. In a commercial context, business proposals outline the concrete business terms that will be negotiated and serve as a basis for financial impacts on buyers and sellers. MRW fails to recognize limitations in comparing information provided in a formal business proposal prior to negotiation with information provided in industry studies.
- MRW has characterized SDG&E's Proposal as giving "little or no information about the approach, costs, or risks." SDG&E's Proposal provides a comprehensive, innovative, and flexible approach to developing an energy portfolio that provides the City with a means to achieve its 100 percent renewable goal by 2035. A robust discussion of current market intelligence is provided with reference to key findings and data from the Energy Information Administration, the InterContinental Exchange, the National Renewable Energy Laboratory, Lazard's Levelized Cost of Energy Study and the U.S. International Trade Commission. Material consideration was also given to risk assessment and mitigation with a specific Interim Decision Milestone proposed as part of the outlined implementation timeline.
- SDG&E provided illustrative and not binding information, to not mislead City residents to believe an accurate cost (or even accurate cost range) can be assigned to future commitments through 2035. Actual costs are subject to many cost drivers that are unknown today. SDG&E believes that City residents deserve a truthful and forthcoming presentation of the proposed program that recognizes what SDG&E as a procurement entity knows and does not know about future costs.
- MRW's report fails to reference SDG&E's extensive procurement experience serving 3.6 million customers and acting as scheduling coordinator for more than 4,400 MW of capacity and ***our previous success in securing geographic related offerings***, such as SDG&E and the City's franchise fee agreement and the SDG&E and San Diego Port energy management plan, pending before the CPUC. In addition, we believe an important and overlooked theme in our Proposal is the need for complementary actions in energy efficiency and clean transportation to meet the City's GHG reduction goals. As outlined in Appendix I to our Proposal, SDG&E aims to support the City in a comprehensive manner to foster a cleaner and more sustainable energy future.

Additional clarifications and SDG&E's responses to questions posited in MRW's Peer Review:

1) Section 1 on factors to determine current and future energy requirements

Future estimates for City load can be gleaned from California Energy Commission (CEC) load forecasts accessible in CEC docket 17-IEPR-03. SDG&E's load forecast in the Proposal is consistent with the CEC and additional information on SDG&E's current load profiles was provided in Appendix IV.

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2) Section 3 on GHG emissions

(1) *Question: Does SDG&E believe that its GHG intensity by 2035 would be equal to the CARB estimate? Is there a better estimate?* SDG&E does not forecast its GHG intensity to 2035 as key developments in the Integrated Resource Plan proceeding, Resource Adequacy Reform proceeding, and Energy Storage proceeding, among others, will have a material impact on SDG&E procurement. As SDG&E stated in section 2.9.7 of its Proposal, emissions reductions associated with renewable energy alone will be insufficient to reach the City's goal of a 50% GHG emissions reduction by 2035. SDG&E is qualified and stands ready to assist the City with other options to reduce GHG emissions in areas such as clean transportation and renewable natural gas, as transportation alone accounted for 55% of the City's GHG emissions in 2010.

3) Section 4 on consideration of factors for future rate projections

(1) *Question: What is SDG&E's estimate of the annual number of person-hours that the City would have to devote to this effort? Please provide a range based on lower and higher levels of City involvement in procurement.* (2) *Question: What is SDG&E's estimate of the annual number of person-hours and costs that SDG&E would incur related to development of the Proposal, obtaining approval for the Proposal, startup and ongoing administration of the Proposal?* (3) *Question: Does SDG&E anticipate allocating all regulatory costs associated with obtaining approval and future regulatory activities to the City? How does SDG&E propose to track and account for these costs?* SDG&E and the City are currently engaged in bilateral discussions to determine a mutually agreed-upon approach for administrative structure and division of responsibility. If SDG&E and the City agree to move forward with a program, SDG&E would account for costs in accordance with CPUC approved rules.

(4) *Question: Does SDG&E anticipate owning any of the new renewables that would be related to the Proposal?* SDG&E does not anticipate owning the renewables that would support the City's renewable portfolio.

4) Section 7 on potential economic benefits and challenges of supply scenarios

(1) *Question: Please explain how SDG&E's Scenario 2 would apply "Banked Resources" and how those Banked Resources would apply in Scenario 1. If SDG&E's assumption in Scenario 1 is that the City would not receive any benefit from Banked Resources, please so state.* In Scenario 1, "New Renewables Only", SDG&E assumes **only** additional new local resources would be used to reach 100% RPS by 2035. No renewable energy credits (RECs) are used in Scenario 1. In Scenario 2, "Incremental Ramping", SDG&E assumes the City's pro rata share of banked RECs would be used in the early years of the program to increase the City's RPS while new local resources are brought online.

(2) *Question: Please clarify the meaning of "...using Banked Resources now rather than holding onto them for a later date." Please provide details related to SDG&E's estimates of these "Banked Resources."* Banked Resources are excess RECs that can be used to meet RPS

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compliance obligations at a future time. By accelerating the use of Banked RECs into earlier periods, the City could reduce reliance on Banked RECs in later periods. To meet an RPS requirement in later periods, this strategy could lead to a greater reliance on new investment instead of Banked RECs at that time. SDG&E's estimates of banked resources are in SDG&E's publicly available 2017 RPS Compliance Report.

(3) *Question: Please provide the workpapers supporting the figures and tables related to the two Scenarios.* (4) *Question: Please clarify the reference to "1.C.6." in Tables 1 and 2.* Data used for each figure is summarized in the table below the figure and is further illustrated in Appendix IV. SDG&E is available to further explain these figures and tables with City staff. Reference to 1.C.6 is to SDG&E's Proposal submitted with the RFSQ, this section is also 2.9.6 in SDG&E's RFP.

5) Section 8 on assessment of job creation

MRW states they could not find support for SDG&E's assertion that 2,000 MW would or could be created by the program. SDG&E describes how 2,000 MW of resources could support the program within its Proposal based on current load growth and SDG&E's currently contracted portfolio. Further, SDG&E's Proposal describes that, based on the current interconnection queue, SDG&E could potentially site 2,000 MW in San Diego and Imperial Counties.

6) Section 9 on additional benefits and challenges

(1) *Question: If the program results in new "steel in the ground," would that exacerbate SDG&E's over-capacity situation? Please explain whether there will be any cost shifts to non-City customers as a result of the program (e.g., more Utility-Owned Generation (UOG) is used to serve non-City customers as a result of higher levels of renewables for City, resulting in a change of costs to serve those non-City customers).* SDG&E does not understand MRW's reference to "over capacity" as SDG&E does not have an over capacity problem. SDG&E complies with the CPUC's Resource Adequacy rules as adopted in Public Utilities Code section 380.

(2) *Question: Please explain whether there will be any sort of "customer indifference" charge related to the program. If so, how and where would it be determined?* Ensuring customer indifference is an important requirement for the proposed program. As clearly stated in our Proposal, City customers would not be subject to the current Power Charge Indifference Adjustment (PCIA) as they would remain bundled customers of SDG&E. The rate that City customers will pay for new procurement activities will need to include costs directly attributable to the program. SDG&E and the City are engaged in bilateral discussions on program design elements that will shape how these costs are recovered.

7) Section 13-15 on pertinent risk factors

Section 13 (1) *Question: Would SDG&E be able to provide the City with analyses of the risks associated with SDG&E's proposal? If so, how and when might SDG&E provide such*

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information to the City? Section 14 (1) *Question: Would SDG&E be able to provide the City with an assessment of the potential liabilities associated with a 100% renewable program? If so, how and when might SDG&E provide such information to the City?* SDG&E has provided significant information on risks in sections 2.9.5 and 2.9.8. Many of the risks discussed contribute to the uncertainty of future costs that must be recognized by the City. SDG&E's Proposal discusses risk mitigation measures for CPUC approval in these sections and activities to handle risks of electric procurement.

8) Section 16 on timeline

MRW states there is no timeline on implementation of SDG&E's proposal. The Proposal provides a timeline in Figure 3. In addition, Table 2 demonstrates how MWs could be added to meet 100% renewable energy by 2035.

(1) *Question: Has SDG&E discussed its proposed concept with CPUC?* (2) *Question: If so, when and what were the outcomes from those discussions?* and (3) *Question: Does SDG&E expect to discuss this proposal with the CPUC? Why or Why not?* Yes, SDG&E has introduced its proposed concept with certain CPUC employees. Preliminary and conceptual discussions with the CPUC are appropriate in advance of major regulatory filings. These preliminary discussions were productive. Of course, the CPUC does not prejudice applications that will come before it. SDG&E's goal is to develop a proposal that meets the City's needs, and to do so in a manner that fully supports state policy and the CPUC's goals. Given the procurement nature of the proposal, SDG&E has informed, and will continue to inform, interested non-market stakeholders within its Procurement Review Group (PRG). SDG&E's PRG meets monthly and consists of stakeholders that represent the CPUC and groups that represent customer interests, environmental interests and labor groups.

9) Section 18 on legal and regulatory viability of the proposed project

(1) *Question: Please describe in detail the steps necessary to obtain approval of SDG&E's Proposal as it relates to the proposed SDG&E/City enterprise. This discussion should supplement the discussion in the Proposal.* As described in section 2.9.5 of SDG&E's Proposal, to obtain approval of this program, an application containing program details would be filed with the CPUC.

(2) *Question: Please provide ranges of time estimates associated with each step of the timeline needed to obtain approval of the Proposal;* and (3) *Question: Please explain why SDG&E believes that its proposed timeline is reasonable.* Figure 3 provides an illustrative timeline of program implementation, from program design occurring in 2018, to procurement in 2021. There is no definitive timeline for CPUC action and SDG&E included a timeline of 18 to 30 months as a conservative approach for how long the regulatory process may take. SDG&E believes its proposed timeline is reasonable and notes that 18-30 months represents an illustrative range in which SDG&E believes CPUC approval of an application could occur.



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(4) *Question: Please explain SDG&E's approach to overcoming resistance to the Proposal at the CPUC by other intervenors.* As described in section 2.9.8 of SDG&E's Proposal, SDG&E has identified four key ways in which it could mitigate CPUC approval risk.

(5) *Question: Please provide relevant examples in California that demonstrate that the CPUC would be favorably inclined to accept the Proposal;* and (6) *Question: Please provide a legal opinion supporting the legality of SDG&E establishing a new geographic-specific tariff for SDG&E customers in the boundaries of the City of San Diego as discussed in the Response.* SDG&E accepts that its proposal to the City is novel. MRW seems to assume that because this type of program does not already exist, it by default has a greater risk of being disapproved. SDG&E disagrees. If a final arrangement is consummated with the City that meets its needs, supports state policy, and adheres to the fundamental regulatory principles SDG&E has already identified, such as non-participating customer indifference, then SDG&E will be able to file a proposal that is in the public interest and can be approved by the CPUC. SDG&E is an innovative utility and has already proven that "geographic" related offerings can be approved as evidenced by the SDG&E and City franchise fee surcharge. Additionally, pending before the Commission is the AB 628 Port application, in which the City and SDG&E will work hand in hand to "green" City Port operations through an innovative energy management plan. SDG&E will not submit a legal opinion on the legality of this approach, as there are specific instances where geographic related offerings exist.

(7) *Question: If SDG&E develops region-specific rates for the Proposal, how would SDG&E modify those rates in future rate cases? In order to ensure that there is no cost shifting as a result of the Proposal, would there be a need to perform specific cost of service studies for customers served by the Proposal and for all other customers? Would the City be prohibited from intervening in such rate proceedings?* SDG&E is proposing a City specific tariff that would not require a separate rate proceeding. The Green Tariff Shared Renewables (GTSR) proceeding is an example where SDG&E has created a customer specific tariff that supports a 100% renewable portfolio. SDG&E notes that there are many differences between the Proposal and the GTSR program, however the underlying tariff structure used in GTSR can be modeled here. In GTSR, the CPUC has determined that SDG&E's tracking of costs and expenses in balancing accounts, with recovery from participating customers through the green tariff, supports non-participant indifference. No cost of service studies would be necessary and there would be no separate rate proceeding; the City maintains the right to intervene in any proceeding before the CPUC in which it has an interest.

(8) *Question: Please explain what "consideration" SDG&E would receive in exchange for entering into an agreement for the Proposal within the City?* SDG&E interprets MRW's question to mean what financial benefit and/or profit will SDG&E earn by offering this program to the City. Our commodity services, which are at the heart of this Proposal, are provided to customers on a pass-through basis. Accordingly, the Proposal does not provide SDG&E any financial consideration or profit. Additionally, as stated earlier, SDG&E does not intend to own



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the renewable projects that may be procured under the Proposal. SDG&E supports the goals of the City’s Climate Action Plan, which are aligned with SDG&E’s position as a clean energy leader. SDG&E earns an authorized return on our capital investments, which are not part of the Proposal.

10) Section 19 on a path forward if SDG&E’s Proposal fails

(1) *Question: Can SDG&E provide alternative approaches to mitigate the risk to the City if the approach presented in the Response is rejected by the CPUC? If so, what are those alternatives?* SDG&E has already addressed strategies for securing CPUC approval. If the City chooses the alternative pathway at any time, SDG&E will support the City in that endeavor. SDG&E supports customer choice.

11) Section 20 on approach to pursue the program

(1) *Question: What is the structure of the “tariff” (as mentioned in the Executive Summary) associated with the proposed enterprise between SDG&E and the City? Please describe this in detail. Please refer to SDG&E’s response to section 18, number 7 above.*

(2) *Question: Would it be an “adder” that applies to customers served by the Proposal (in addition to SDG&E tariffs for bundled service for all SDG&E customers)?* (3) *Question: Would the “adder” vary by customer class? By tariff? By TOU period?* (4) *Question: If the “adder” does not vary by these factors, please explain in detail how SDG&E proposes to demonstrate ratepayer indifference associated with the Proposal. In particular, please explain how SDG&E intends to demonstrate the cost of service for all functions (generation, transmission, distribution and customer services) for all customers served by the Proposal are in fact the actual costs to serve those customers; and* (5) *Question: Does SDG&E intend to develop a specific set of rates for each tariff for customers served by the Proposal? What would be the basis of those rates?* The City specific tariff would consist of commodity, administrative, marketing and financial expenses, among others, that may be incurred to support the program. There is no additional “adder” beyond this tariff and there would only be one City specific tariff. The tariff would vary by customer class and will be based on customer usage. Customer classes have varying average use that impacts a customer’s bill, SDG&E illustrates this in Table 4 of its Proposal. The City specific tariff recovers the cost of the program as described in this section in (1) above, the other costs MRW lists: generation, transmission, distribution and customer services would be recovered through SDG&E’s existing bundled customer rate design process.

12) Section 21 on why the proposal is superior to other approaches

(1) *Question: Does SDG&E contend that the unbundled cost to serve customers in the City of San Diego (at levels of renewables comparable with the rest of the SDG&E system) are equal to the cost to serve customers outside of the City of San Diego? If so, please provide studies that demonstrate this. If not, please explain why not and provide studies that show the differences in the cost of service. (By “costs,” we mean generation, transmission, distribution*



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and customer services). (2) Question: Has SDG&E developed estimates of the total cost to serve customers in the City of San Diego (at levels of renewables comparable with the rest of the SDG&E system)? If so, please provide such an estimate. (3) Question: From SDG&E's perspective, what are the advantages and disadvantages to the citizens and businesses of the City of San Diego associated with SDG&E's Proposal? (4) Question: Please explain how the Proposal would reduce price volatility for customers? (5) Question: Please explain how the proposal would reduce supply uncertainty and improve air quality. (6) Question: Please explain how the Proposal would increase local control of energy procurement. (7) Question: Please explain how the Proposal would increase the amount of energy efficiency available to residents and businesses of the City. SDG&E is prohibited from addressing these questions fully in light of the CPUC's Code of Conduct. We will address here certain items that were not requirements in the RFP process:

1) SDG&E's Proposal could reduce price volatility by maintaining optionality in growing a renewable portfolio that can respond to regulatory, legislative and market changes.

2) SDG&E's Proposal entails increasing local incremental renewable resources which are inherently GHG free and improve air quality. SDG&E's Proposal estimates that the impact of procuring 2,000 MW of new local renewables would exceed the City's GHG emissions reduction goals for Strategy 2.1 of Clean and Renewable Energy, as stated in Table 3 of the City's Climate Action Plan. In addition, these resources would be the product of long-term agreements which reduce supply uncertainty.

3) SDG&E's Proposal is designed to provide local control to the City; by enabling the City to shape its priorities for energy procurement the City will have direct input into procurement criteria, such as timing and location of renewable resources.

4) SDG&E's Proposal, Appendix V, speaks to SDG&E's significant efforts to date in energy efficiency programs within the City. SDG&E will continue to partner with the City to increase energy efficiency measures available to City businesses and residents.