

Date: May 14, 2018

To: Mayor Kevin Faulconer  
Members of the Environment Committee of the City Council  
Members of the City Council  
City Staff Members Cody Hooven, Jack Clark, Aaron Lu

Subject: SDG&E Proposal for “100% Renewable Energy Program”

**Summary:**

**The Sustainable Energy Advisory Board (SEAB) for the City of San Diego finds the proposal for a 100% Renewable Energy Program incomplete at this time.**

We believe that the SDG&E proposal fails to directly respond to the City’s RFP and lacks sufficient detail for current and future energy demand, procurement costs, retail rates, and approach to regulatory approval. The illustrative cases that are included in the proposal use higher-than expected costs of renewables, and creates confusion on exit fees for program participation. As the City considers the SDG&E’s proposal as a complement—or alternate—to a Community Choice Energy program, there are many areas of potential risk to consider. There are schedule, financial, cost and economic risks associated with many factors of the proposal; including:

- Undefined partnership roles between the City and SDG&E,
- Unclear City staff commitment or expectations,
- No statement of program cost or cost-share commitment,
- No technical description of solutions,
- Program is unlikely to add new renewable energy capacity for many years,
- Uncertain future rates for program participants,
- Lack of competitive choice for constituents—the proposed program opt-out option results in customers reverting to SDG&E service,
- Lack of clarity of rate payer indifference,
- Potential loss of future revenue for the City,
- Potential loss of control of local investment for renewables or energy efficiency—the proposal defines local to include Imperial County; and,
- Uncertainty in CPUC approval and timeline.

Given the lack of detail in the proposal and overly simplified illustrative examples provided, it is SEAB’s opinion that SDG&E’s proposal for a 100% Renewable Energy Program should not be considered as equal to the Community Choice Energy program at this time.

Dialogue with SDG&E will be critical to successful attainment of the Climate Action Plan goals regardless of the option of Community Choice or other complementary programs. Therefore, we encourage the City to continue to work with SDG&E, but the progress to meet the Climate Action Plan goals should not be dependent on the SDG&E proposal or its proposed timeline.

## **Background:**

SEAB was established by the San Diego City Council to provide advice to the Mayor and City Council on energy policy and future energy needs for the metropolitan San Diego Area and assist the City's attainment of its energy independence and renewable energy goals. The duties are spelled out in Municipal Code Section 26.04. SEAB has provided recommendations to the Mayor and City Council for updating this section of the Municipal Code and providing advice on the implementation of energy related goals in the City's Climate Action Plan (CAP) adopted in December 2015.

The City Council Natural Resources and Culture Committee (renamed the Environment Committee) received a briefing at their October 16, 2013 meeting on Community Choice Aggregation (CCA) programs and potential applicability to the City's proposed energy related CAP Goals including achievement of 100% Renewable Energy by the year 2035. Committee members unanimously adopted a motion to "forward the issue of CCAs to the SEAB for stakeholder input and community feedback," and requested that "the Mayor's office investigate potential funding for a CCA feasibility study."

SEAB reviewed information on CCAs and received stakeholder and public input and forwarded a letter on June 16, 2014 to the Mayor and City Council providing "Priority Guiding Principles for the City of San Diego CCA Feasibility Study" (funding for which was included in the Mayor's FY 2015 proposed budget).

This letter was reviewed and the guiding principles were incorporated in an updated "Priority Guiding Principles" document that included "Minimum Performance Criteria" to evaluate the feasibility of a CCA in three key areas: Environmental, Financial and Economic. This updated document was included in the completed CCA Feasibility Study and feasibility in those areas was determined for all but two subcategories which were not included in the study scopes of work.

SEAB completed its review of the CCA Feasibility Study and forwarded support of the study recommendations for next steps in a November 27, 2017 letter to the Mayor and City Council. The SEAB evaluation noted that two of the Environmental sub categories related to "Local Distributed Generation (DG)" and "Energy Efficiency (EE) and Demand Response (DR) Deployment" were not evaluated for feasibility and recommended that they be further evaluated in the proposed Business Plan authorized by the Mayor in December 2017 and currently underway.

SEAB provided additional recommendations to staff and to the Mayor and City Council regarding the Climate Action Plan prior to its adoption in December 2015 and has included evaluation of the CAP energy goals in its formal annual Work Plans.

Since the CAP includes an assessment of CCA or another program to achieve the 100% Renewable Energy goal by 2035 and the City has accepted a response for a proposal from SDG&E to achieve that goal, SEAB has included a review of that proposal in its 2018 Work Plan. SEAB has received a presentation by SDG&E representatives and public input on that proposal.

## **Overview:**

The review and recommendations adopted herein addresses the three main "Minimum Performance Criteria" areas of environment, economics and finance. In addition, SEAB has reviewed the third-party, peer review reports provided by MRW on both the CCA Feasibility Study and the SDG&E proposal as well as subsequent responses to questions and communications provided by City staff.

It is important to note MRW's finding that "SDG&E's Response is not a complete proposal but... a conceptual proposal to begin discussions with the City...the Response gives little or no information about the approach, costs, or risk associated with its proposed joint City-SDG&E effort." Their review concludes that "it is not possible to perform any sort of meaningful comparison of the Response to other alternatives available to the City, such as pursuing a CCA."

Under those circumstances and since SDG&E has been aware of the SEAB recommended Guiding Principles and Minimum Performance Criteria for nearly three years, SEAB has attempted to evaluate the proposal through the lens of those Guiding Principles and the Minimum Performance Criteria "MPC" which are attached. SEAB is also relying on responses from SDG&E to written questions provided by SEAB members and their responses to queries on how the proposal may address the Guiding Principles.

With respect to the MPC, SDG&E stated at the March 8 SEAB meeting that "(they) are scheduling conversations with City Staff regarding (that) topic." As of the date of this correspondence, with the exception of a piecemeal memo, SDG&E has not been able to provide SEAB or City Staff with any direct responses regarding these concerns.

### **Summary of SDG&E Proposal Applicability to SEAB Guiding Principles**

**1. Launch program as an opt-out program.** SDG&E "suggests" that an opt out treatment be requested (in application to the CPUC), but it is not clear what the impacts are to remaining service territory customers. It creates no real option, since the opt out alternative will be to SDG&E remaining service territory-side programs subject to those unknown rates and costs.

**2. Consider information available in third party sponsored CCA feasibility study.** SDG&E claims this is not allowed by CPUC Code of Conduct restrictions.

**3. Evaluate economic development potential.** SDG&E claims their proposal "leverages JEDI model." It does not address the potential cost/benefits of the following applicable economic development factors included in this guiding principle with respect to San Diego City and County since the proposal includes Imperial County as a local resource area:

- Use of local labor with an emphasis on investment in under-resourced communities (within San Diego);
- Consideration for livable wage and benefits and training and certification requirements;
- Sourcing from local businesses and suppliers

The Peer Review notes that no support is offered that 2,000 MW of new renewables (within City or San Diego County) would or could be created by the proposed program."

SEAB notes that the economic impacts of investments and installations within San Diego City and County should be evaluated against those sited in Imperial County. There are methodologies which can be applied to show that the economic multiplier effect of investments and installations closer to the City will result in greater economic benefits to City of San Diego residents.

**4. Evaluate ability (of proposal) to achieve greenhouse gas (GHG) reduction targets.** Illustrative examples in the proposal use statewide marginal emission rate from CARB for estimate of 2,000 MWs of new "local" renewable capacity (references Section 2.9.7). The Peer Review provides clarifying questions

regarding this estimate. No response or specific analysis is provided. Instead the proposal encourages investment in “clean transportation and renewable natural gas” to achieve CAP GHG reduction goals.

**5. Evaluate a resource plan that follows the state loading order with an emphasis on local implementation.** “Proposal references complementary programs in EE and EV targeting local communities”. SDG&E “believe(s) that a flexible approach will deliver the greatest CAP success .... (and) stands ready to support ...energy efficiency, electric vehicles and other complementary GHG reducing programs.” (SDG&E Proposal Appendix I, 2.d)

There is no response provided to this Guiding Principle calling for a program to “encourage ....distributed generation renewable energy sources ... (to) promote and enhance consumers’ ability to meet their own energy needs through investment in building- and site-based renewable energy and energy storage on homes, businesses...integrated into the utility distribution system.”

See The Peer Review comments attached to Guiding Principle #6 below.

**6. Evaluate ability to achieve 100 percent local renewables by 2035.** Proposal does not address the specificity of this principle to “make San Diego a net (renewable) energy producer” such that “distributed generation, energy efficiency and compatible storage are heavily promoted to push electric energy up out of neighborhoods into the rest of the local grid, storage and eventually out of the City.”

The Peer Review notes that “SDG&E’s Response does not address future City geographic electrical energy requirements and does not provide any information regarding its expectations for future electric requirements in the City.” With respect to “enhanced or new community program potential such as distributed generation and demand side programs” the Peer Review notes that “the Response does not provide any assessment of the impact of such technologies.”

**7. Evaluate a business and implementation phase-in plan to achieve targets identified (in) the Recommended Minimum Performance Criteria (MPC)Table.**

This principle includes evaluation of “plans... that phase-in geographic areas, customers use groups and locally generated renewable energy resources to achieve the goal of producing all.... energy from renewables generated within and on developed land or land designated for urban development within the City of San Diego....” The MPC sets forth an objective to provide 50% of the renewables needed to reach the 100% goal from Distributed Generation (ie, local to San Diego City and County) these sources by 2035.

SDG&E proposal, while suggesting potential for phase in approach for their illustrative examples, does not address how to pursue this goal.

#### **Evaluation of SDG&E Proposal to RFP Objective and Specifications**

The Objective section of the RFP specifically requests “additional, more detailed information...regarding renewable energy opportunities, with a focus on cost information”. The RFP states that it is seeking “a specific, thorough proposal...to evaluate in a transparent manner...all of its options... in a cost competitive and feasible manner (emphasis added). Given the responses to SEAB questions and inquiries and SDG&E responses to those inquiries and the April 24 Memorandum from the City’s Chief Sustainability Officer, it is clear that SDG&E has not provided the information necessary to meet these objectives of the RFP.

The RFP lists eight key specifications necessary for the RFP to be deemed responsive. While some of the specifications can arguably be deemed met depending on the definition of what constitutes a “*detailed description*,” there are a number which are not sufficiently addressed. Examples of items which have not been addressed or not addressed sufficiently include:

- (3) “the potential to *maximize local distributed energy resources*”,
- (4) “ A detailed schedule/timeline of implementation ...(for) all customer classes”,
- (5) “ A detailed description of the estimated costs ...for all customer classes benchmarked to current renewable energy portfolio mix *including any and all potential exit fee impacts*”
- (8) “Specific and detailed additional benefits which may include: local job creation, business development, environmental benefits (beyond GHG reductions).”

SEAB has sought current electrical generation resource information and that request has only been partially addressed. Many of the 36 questions raised by the Peer Review have been addressed by referring to CPUC or CEC proceedings or SDG&E documents filed, stating that the desired information can be gleaned from these sources. This does not bode well for how a partnership would work with the City.

SEAB has been frustrated in its good faith evaluation of the SDG&E proposed program by the lack of information provided by SDG&E. Instead of a proposal that meets the objectives and specification laid out by the City, SDG&E has been engaged in “discussions with City Staff” since at least the submission of their RFP response – a period of over seven months.

The City Sustainability Officer’s April 24 Memorandum addressed to SDG&E’s Director of Public Affairs sets forth several very specific information requests for the City to be able to evaluate the need and efficacy of conducting an independent cost analysis and encourages them to provide “concrete and quantitative information ..in writing... (rather than “qualitative information or responses.”

### **Conclusion:**

As noted in the Peer Review, “the main challenge associated with SDG&E’s proposal is the requirement to obtain CPUC approval for any program...other challenges include how SDG&E would address potential cost shifts to non-City customers, and whether there would need to be something like a PCIA for participating customers in the City as a result of the program.”

Absent any clarification of these challenges and issues, the lack of specificity in addressing key environmental, economic and financial factors in the SEAB Guiding Principles and Minimum Performance Criteria, SDG&E lack of responsiveness on providing specific data and the uncertainties with what is an untested tariff approach requiring CPUC approval, the risks of not achieving the CAP 100% renewable energy goal by 2035 are too high and SEAB cannot recommend the enterprise partnership that SDG&E has proposed.

However, a partnership between the City and SDG&E is critically important for the City to meet the CAP mandates. SDG&E has noted its competencies and potential to contribute in the complementary areas of energy efficiency, electric vehicle support and continuing to operate the electrical distribution system within the City.

The City and SDG&E need to collaborate and cooperate in defining measures to integrate renewables generated within the City through an effective aggregation of distributed renewable sources from homes, businesses, municipal facilities or other providers.

The potential of a CCA to provide renewables from a variety of sources with a commitment to phasing in more localized generation and economic benefits will be better informed by the Business Plan currently in progress. A transition plan could involve assumption of resources currently contracted to SDG&E or collaborative development of additional resources.

SEAB is prepared to assist in developing a partnership strategy that will define what is necessary to achieve the renewable energy targets and the potential benefits of a community-based distributed renewable energy system.

Respectfully submitted,

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Vice Chair, Sustainable Energy Advisory Board

Attachments: *1. SEAB Guiding Principles and Recommended Minimum Performance Criteria*  
*2. List of documents reviewed (included by reference and located on City of San Diego Sustainability Website for Clean and Renewable Energy and SEAB Website "Documents" and "Board Actions").*

## **ATTACHMENT 1: Guiding Principles and Recommended Minimum Performance Criteria**

### **City of San Diego Community Choice Aggregation (CCA) Feasibility Study Adopted December 10, 2015 by the City of San Diego Sustainable Energy Advisory Board**

#### **Recommended Guiding Principles**

- 1. Model CCA launch as an opt-out program to optimize the purchasing power of the CCA.**
- 2. Consider available information including the third party sponsored CCA feasibility study funded by Protect Our Communities Foundation.** To the extent deemed necessary, consider findings of the current CCA feasibility study funded by a third party non profit regarding the cost-benefit relative to business as usual and other relevant consumer cost competitive factors such as effect of utility stranded costs on ratepayers.
- 3. Evaluate economic development potential of CCA.** The following economic development potential factors should be evaluated in the CCA feasibility study:
  - a) Use of local labor with an emphasis on investment in under-resourced communities;
  - b) Consideration for livable wage and benefits, and training and certification requirements;
  - c) Any impacts on current job market, and establishment of a jobs transition program for anyone negatively impacted by CCA establishment; and
  - d) Sourcing from local businesses and supplier contracting policy.Evaluative criteria for power purchasing and investment should include benefit of these factors.
- 4. Evaluate ability of CCA to achieve greenhouse gas emission reduction targets.** City of San Diego is setting forth goals to achieve state and federal requirements for greenhouse gas reductions. Achieving these goals is a critical benefit to citizens of San Diego.
- 5. Evaluate a resource plan that follows the state loading order with an emphasis on local implementation.** The CCA program should encourage local energy efficiency programs and distributed generation renewable energy sources. The CCA program should promote and enhance consumers' ability to meet their own energy needs through investment in building- and site-based renewable energy and energy storage on homes, businesses and integrated into the utility distribution system.
- 6. Evaluate ability to achieve 100 percent local renewables by 2035.** The CCA program should develop a strategy to make San Diego a net energy producer. The ideal is that distributed generation (rooftop and parking lot solar), energy efficiency, and compatible storage are heavily promoted to push electric energy up out of the neighborhoods into the rest of the local grid, storage, and eventually out of the City. Local energy use and generation goals will be set and data will be monitored by official community planning area and customer class to measure progress in achievement of goals and to ensure incentives and resources are provided equitably to all communities throughout the city.
- 7. Evaluate a business and implementation phase-in plan to achieve targets identified to the Recommended Minimum Performance Table (below).** Evaluate plans similar to "Sonoma Clean Power" CCA that phase-in geographic areas, customers use groups and locally generated renewable energy resources to achieve the goal of producing all CCA energy from renewables generated within and on developed land or land designated for urban development within the City of San Diego CCA boundary.

## Recommended Minimum Performance Criteria

The table below is an evaluative tool. It does not set up a rigid pass fail criteria, but rather establishes recommended minimum performance criteria. We propose that the table below can be used as a guidance document in defining potential CCA scenarios for evaluation. Each criterion shall be assessed for likelihood of feasibility and associated risk while showing compliance with state laws.

If the goals set forth in the table are not considered achievable at the benchmark points noted, then the feasibility study should indicate when or under what circumstances they would be able to be achieved in relation to the other goals. The primary function assigned the CCA in the CAP is to achieve 100% renewable energy by 2035. The Guiding Principles qualify the 100% renewables and greenhouse gas goal achievement with a number of additional economic and environmental goals.

**Recommended Minimum Performance Table**

<u>Category</u>	<u>Subcategory</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>5-10 Years</u>	<u>10+ Years</u>
<u>Environmental</u>	GHG Reductions		<u>Meet CAP thresholds</u>		<u>Meet CAP thresholds</u>
<u>Environmental</u>	<u>Renewables Percentage</u>	<u>Minimize Non-Local RECs</u>	<u>Minimize Non-Local RECs</u>	<u>Minimize Non-Local RECs. On-track to have no RECs by 2035</u>	<u>100% Renewable Energy by 2035 not from RECs</u>
<u>Environmental</u>	<u>Local DG</u>				<u>50% local DG by 2035</u>
<u>Environmental</u>	<u>Energy efficiency / DR deployment</u>			<u>Establish program(s) to meet CAP targets and the CA Long Term Energy Efficiency Strategic Plan</u>	
<u>Financial</u>	<u>Operating reserve</u>	<u>Sufficient to establish operations</u>	<u>Enough capital to invest in local projects/programs</u>		
<u>Financial</u>	<u>Cost of purchased energy (PCIA and electricity)</u>	<u>Not substantially different than IOU</u>	<u>Not substantially different than IOU</u>	<u>Not substantially different than IOU</u>	<u>Not substantially different than IOU</u>
<u>Economic</u>	<u>Impact on Markets and Jobs (labor, home builders, solar - big &amp; small, energy storage)</u>	<u>No negative effect on local jobs</u>	<u>Positive impact on local jobs</u>	<u>Substantial positive impact local jobs by 2035</u>	<u>Substantial positive impact local jobs by 2035</u>
<u>Economic</u>	<u>Rates to consumer (social cost)</u>	<u>Baseline offering not more than IOU</u>	<u>Baseline offering not more than IOU</u>	<u>Program should show high likelihood of reduced rates for baseline offering</u>	<u>Program should show high likelihood of reduced rates for baseline offering</u>

## ATTACHMENT 2

### Documents Reviewed for SEAB Assessment and Recommendation Regarding SDG&E Renewable Energy Proposal

1. SDG&E Renewable Energy Proposal, submitted October 2018 in response to City of San Diego RFP
2. SEAB Guiding Principles and Minimum Performance Criteria, July 2015
3. MRW Peer Review of SDG&E Renewable Energy Program Proposal
4. SDG&E "Response to MRW's Peer Review of SDG&E's 100% Renewable Energy Proposal" (circa April 22, 2018)
5. City of San Diego, Chief Sustainability Officer Memorandum to SDG&E "Peer review response and data request" April 24, 2018
6. SDG&E Renewable Resources Chart requested by SEAB Working Group Provided April 10, 2018
7. Public Testimony received at SEAB meetings February 2018-May 2018.
8. Information Posted to City of San Diego Sustainability Website including RFI and RFSQ documents and responses and RFP issued and public comments and letters on 100% Renewable Energy goal