Sempra Services Position Statement on Community Choice Aggregation

California has become a national leader in addressing the impacts of climate change, with the state legislature and cities across the state implementing plans for a transition to greater use of renewable energy.

In Southern California, San Diego began such an effort in 2015 with the City Council's passage of a landmark Climate Action Plan that established a path toward a cleaner future, while balancing the needs of the economy and local residents. Among the plan's many aspirational goals was a desire to meet 100 percent of the City's energy demand with renewable resources by 2035.

Numerous other cities within Southern California are also at various stages of climate action planning and implementation. Community Choice Aggregation (CCA) has been proposed as an implementation strategy for climate action plans, and would place government and local elected officials in charge of purchasing electricity for city residents and businesses.

Sempra Services supports CCA under the right conditions. Customer choice, specifically in the sources of energy that power the homes of hard-working families, is important to us. However, we believe there are three key objectives a government-controlled energy program must accomplish before being considered for implementation:

1. <u>It must be equitable for all of the region's electric customers</u>: Customers remaining with the utility should not have to subsidize CCA customers.

2. <u>It must provide real and additional environmental benefits:</u> Tangible environmental improvements, beyond what would otherwise occur or are already occurring, are necessary to justify the municipal risk.

3. <u>It must reduce greenhouse gas (GHG) emissions:</u> New renewable energy projects must be built to actually reduce GHG emissions. Claiming credit for emissions reductions that are already occurring from existing renewable energy resources fails to achieve this objective and fails to create new jobs.

1. It must be equitable for all of the region's electric customers.

Under state law, utility customers enrolled in a new CCA program pay a form of "exit fee," called the Power Charge Indifference Adjustment (PCIA). The PCIA is designed to cover the cost of power the utility purchased in long-term agreements still in force for customers who depart for service under a CCA program.[1] The 'Indifference Adjustment' moniker reflects the California State Legislature's 'indifference principle', which provides that customers in cities remaining with an electricity provider should be no worse off, or better off, as a result of other customers' decision to change providers.[2] The absence of an equitable exit fee structure results in unfair cost burdens on customers who remain with the utility. Energy bills in one city shouldn't rise because of a decision made by a neighboring city, but that's exactly what's occurring in today's energy market.

The true costs that energy customers and taxpayers may face as a consequence of implementing a CCA cannot currently be calculated until the CPUC completes its review of these exit fee structures, which is expected by the end of 2018, perhaps sooner.[3] Any change to the exit fees will substantially affect rates CCA customers pay and impact the financial viability of a new CCA. The City of San Diego recently released a draft

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[1] California Assembly Bill 117,
http://www.leginfo.ca.gov/pub/01-02/bill/asm/ab_0101-0150/ab_117_bill_20020924_chaptered.pdf

[2] California Assembly Bill 117, Public Utilities Code, Section Nos. 365.2, 366.1(d)(1), 366.2(a)(4), 366.2(c)(7), 366.2, 366.2(d), 366.3; CPUC Decision 08-09-012

[3] PV Magazine "California considers changes to community choice aggregation fees" June, 2017
https://pv-magazine-usa.com/2017/06/30/california-considers-changes-to-community-choice-aggregation-fees/

CCA feasibility report that showed when a 'high PCIA' (10 percent annual increase) is assumed, the CCA program would incur a net loss of $2.8 billion.[4] Conversely, a decreased exit fee could also mean higher rates for customers who remain with the local utility. For reference, exit fees for CCA customers within Pacific Gas & Electric's service area in Northern California have increased 400 percent since 2013. Until the exit fees have been determined, the costs of implementing a CCA are largely a wild guess.

2. It must provide real and additional environmental benefits.

A bill is currently moving through the California State Legislature that would set a statewide policy goal requiring all California utilities to provide 100-percent carbon-free energy by 2045. SB 100 (DeLeon) has already passed the State Senate and is currently being considered by the State Assembly. If passed and signed by the Governor, it would place the burden of achieving 100-percent carbon-free energy on utilities, relieving cities from assuming unnecessary risks associated with CCA.

The City of San Diego's draft CCA report outlined significant risks associated with operating a government-controlled energy program. It stated "the magnitude of this proposed venture could significantly impact operations and risk exposure in ways not yet experienced by other CCA programs."[5] The City would be taking on the risk of entering the unpredictable energy commodities market and managing the power supply portfolio for nearly 1.4 million people. Additionally, start-up and operations costs could negatively impact the City vis-à-vis core neighborhood services, and would significantly increase its liabilities. The revenue requirement necessary to operate a City of San Diego CCA could be as high as $961 million annually.[6] These risks are not unique to the City of San Diego, and present a strong warning for those cities considering such a program. These costs and risks could be avoided if SB 100 requires utilities to accomplish the same goal CCAs set out to achieve.

3. It must reduce greenhouse gas emissions.

Actually reducing GHG emissions in the cities they serve should be a cornerstone of a CCA, and to do so, cities must commit to energy programs that invest in long-term contracts for new renewable energy projects. It is a consensus among energy industry leaders and economists that long-term procurement is critical to new renewable development, which is in turn essential to incrementally reducing emissions from electricity generation.[7] Long-term contracts are critical to reducing emissions because outside of reducing electricity consumption, the only way to significantly reduce emissions from electricity generation is to increase the amount of renewable generation from solar, wind farms and related sources connected to the grid.

Studies have shown that long-term procurement contracts between electricity service providers — historically, the investor-owned utilities, such as SDG&E — and renewable project developers have been the key driver of new renewable project construction.[8] These contracts generally bind a utility to purchase power from the soon-to-be built renewable project over 10 to 20 years. The financial certainty provided by such a long-term commitment from a well-established company helps developers raise the capital necessary to cover the substantial start-up costs of a renewable energy generation facility. These projects, in turn, help increase the amount of renewable energy on the grid, decreasing the need for fossil fuel use, and subsequently incrementally increasing GHG emissions reductions.

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[4] City of San Diego Feasibility Study for a Community Choice Aggregate, July 2017, https://www.sandiego.gov/sites/default/files/san_diego_cca_feasibility_study_final_draft_main_report_7-11-17.pdf
[5] ibid
[6] ibid
[7] "The importance of long-term contracting for facilitating renewable energy project development" The Brattle Group, May 2013, http://www.brattle.com/system/publications/pdfs/000/004/927/original/The_Importance_of_Long-Term_Contracting_for_Facilitating_Renewable_Energy_Project_Development_Weiss_Sarro_May_7_2013.pdf?1380317003
[8] ibid

What Others are Saying

Numerous thought leaders have weighed in on the costs and benefits of government-controlled energy. Here is a sampling of what they are saying:

"If CCA power is being procured outside the state, I think it goes against our state's two goals that we have. To create jobs locally and the second, to build those projects that combat climate change that replace the ones that don't. And, as long as we're not pushing new projects, we're not going to be replacing the projects that are currently part of the problem.

"I am concerned that we are creating a system that is going to be ungovernable. Shifting responsibilities into agencies that can't sustain them and eventually seeing a domino effect of closures of these CCAs that could lead to a collapse of our system."

- CA State Senator Ben Hueso

"I think that the type of oversight that IOUs [investor-owned utilities] have to the PUC managing their operation should apply to the CCA. If it walks like a duck and quacks like a duck… You want (CCAs) to be everything that a utility is, other than report to the PUC? Those reporting obligations should apply to CCAs, as they do IOUs."

- CA State Senator Steven Bradford

"Hundreds of thousands of electric utility customers in California are paying more than they should to cover the cost of power purchased for other customers."

– Dave Rodriguez, President, California League of United Latin American Citizens (LULAC)

"We are concerned because there are too many questions that remain to be answered. We are very interested in coming up with an inclusive solution."

- Jose Perez, Chairman and CEO of Hispanics in Energy

"Energy choice can be a good thing, but not if it benefits some customers at the expense of others."

- Eric Harris, NAACP

"The CCAs are new entities -- they don't have a track record. They don't have credit ratings. They don't own much of anything…They don't actually have assets or capital structures and so it is difficult for them to be counter parties to big deals that require hundreds of millions, or billions of dollars of investment."

- Matt Freedman, Staff Attorney for The Utility Reform Network

"It's really easy to see the train wreck that will come. We will have a new PCIA, or a replacement, and the cost will be higher than it is now. These new CCAs will say 'Oh my god, this thing we planned for, it doesn't work anymore. The economics don't work.' Or their customers will get hit with big rate increases, or they will come running to the (state government) to bail them out… We can do something to prevent this train wreck. We should press the pause button. Let's give it a little time and let's figure out what the new cost allocation method is going to be. Let's figure out what the numbers are."

- Marc Joseph, Legal Counsel for California Coalition of Utility Employees

"The PCIA (exit fee) has not delivered on its goal. We understand that only about 65% of the costs that are appropriately born with customers when they leave utility service are actually taken with them. That leaves 35% behind and who pays for that? That's not paid for by utility shareholders. As it currently stands, it is paid for by customers who are left behind. It is paid for by customers who are in cities who either can't take advantage of CCAs or choose not to enter into the electric commodity business. For a typical customer in Bakersfield, that's about $100 to $150 a year more that they are paying because customers in Marin or San Francisco have chosen to go CCA. That is not a fair structure, it's not an equitable structure and we need to address it."

- Steve Malnight, Senior Vice President for Strategy and Policy, PG&E

"In the power business, size does matter. Large utilities have greater leverage to bargain and, more importantly, pledge their huge balance sheets to support the power-purchase agreements that allow large-scale and very expensive solar, wind and other renewable projects to be built in California, creating jobs and reducing emissions. CCAs must demonstrate they can generate more renewable projects. How could this happen without our city pledging its balance sheet in support of a 25-year power-purchase agreement?"

- Jim Waring, co-founder of CleanTech San Diego, and Bob Nelson, CleanTech board member who served on the City of San Diego Public Utilities Advisory Commission

"The city's Draft CCA Report demonstrates some positive and some negative scenarios, and the cost uncertainty is nearly $3 billion. In other words, we don't know if this would be a gain of $257 million or a loss of $2.77 billion, according to the draft report. It is absolutely reasonable to demand more certainty. All of us have seen what projection errors have meant for our regional transportation agency. We don't want to repeat the same mistake."

- Haney Hong, President and CEO of San Diego County Taxpayers Association