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Rules Committee, City of San Diego
c/o: SD City Clerk cityclerk@sandiego.gov; CouncilCommittee@sandiego.gov; SeanEloRivera@sandiego.gov
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202 C Street, Second Floor
San Diego, California 92101

RE: Submission of Ballot Proposals for Next Ballot – Formation of Non-Profit Electric Utility

Dear Honorable Rules Committee Members, City Council and Mayor:

Powers Engineering, a San Diego consultancy, submits this ballot proposal (“measure”) for the November 2024 ballot. This measure, in summary, enables the City to acquire the electric distribution grid in the City and provide electric power to City residents. The measure provides for an alternative to the private monopoly franchise model currently relied upon by the City to deliver electricity to City residents. The City’s July 11, 2023 Phase 1 Public Power Study indicates San Diegans would save about \$15 billion over 30 years if the City becomes a non-profit electric utility. San Diegans currently pay the highest electricity rates in the nation. These rates are increasing at more than 10 percent per year with no end in sight. This is the time for the City to form a non-profit electric utility.

The current electricity provider is San Diego Gas & Electric (SDGE), a private monopoly holding a 20-year franchise agreement with the City to provide electricity to City residents. The City has the authority, under Section 104 of the City Charter, to take over the function of electricity provision when the City determines it necessary to do so, irrespective of the existence of franchise agreements, and to acquire the SDGE electric distribution poles and wires through negotiation or condemnation.

The proposed non-profit utility would be a self-financed enterprise district funded by customer revenue with no exposure to the City’s General Fund, with a 5-member appointed Board of Directors.

The mission of the non-profit electric utility would be to reduce electric rates by maximizing local solar and battery development. This local power would not be subject to the high, onerous, and rising transmission access charges imposed by SDGE on all delivered retail power, making local solar and storage the lowest-cost power option for City residents. The proposed non-profit utility will commence operations in January 2027. The production cost of rooftop solar will be one-half of SDGE’s transmission charge in 2027, according to National Renewable Energy Laboratory production cost forecasts. Local power produced by the non-profit electric utility and its customers would not be subject to the exit fee (PCIA – Power Charge Indifference Adjustment) imposed on community choice energy customers, further reducing the cost of power supply to City residents.

A San Diego non-profit electric utility would not be regulated by the California Public Utilities Commission. That independent status will enable San Diegans to avoid paying for: 1) at least \$3 billion in future ill-conceived SDGE fire hardening projects in East County, 2) SDG&E’s proposed \$2.3 billion transmission line to import renewable power from Imperial County, and 3) tariffs designed to undermine rooftop and parking lot solar development. This ballot measure would define the mission of the non-profit electric utility as: develop local renewable power to lower rates, stimulate the local economy, and avoid the environmental impacts caused by regional renewable energy mega-projects and associated new transmission construction.

To encourage energy conservation and promote rooftop solar and battery deployment, there would be no counterproductive fixed charges in the non-profit electric utility’s rate structure. Customers would be incentivized to maximize deployment of solar and battery storage through favorable net-metering and wholesale power tariffs. The utility would be empowered to build, own, and operate power systems within the City limits. The undergrounding program, currently managed by SDGE, will become a department of the nonprofit utility.

The non-profit utility will be an enterprise district within the City. Utility operations will be funded by customer revenue. There will be no City financial exposure or financial obligation to the non-profit utility. The board of directors (5) will be appointed, with single staggered 5-year terms each. Director positions will have specific qualifications and will be filled through a competitive, open application process. Director positions will include: 1) bar-certified lawyer, 2) economist, 3) licensed medical doctor, 4) professional engineer (with demonstrated knowledge/experience in renewable energy power systems), and 5) environmental/equity representative. Board of director candidate selection will be conducted by the San Diego County Air Pollution Control Hearing Board. The initial set of directors will serve for 1-, 2-, 3-, 4-, and 5-year terms, respectively. The board will be responsible for filling the senior executive positions of the non-profit utility through a transparent and competitive process. SDGE operations staff will be encouraged to continue as staff of the non-profit utility. The unionization of staff will be encouraged. The terms of existing labor agreements will be honored.

The City's 2020 franchise agreement consultant JVJ determined that "The purchase price assumption (of SDGE's electric distribution assets) does not have significant effect on the cost customers would pay for electric distribution utility service." The annual debt service of the asset purchase price is a small portion of the total cost of electric service. JVJ determined in 2020 that the fair market value of SDGE's electric distribution assets in the City is less than \$3 billion. The July 2023 consultant report projects an all-in purchase cost of up to \$4 billion (at the Original Cost Less Depreciation – OCLD - valuation). City residents are already paying SDGE for these assets. A City buy-out, at lower municipal bond financing rates, would be the equivalent of a homeowner refinancing a home loan at a lower interest rate. At an asset value of \$4 billion, the impact on electric rates would be < \$0.04 per kilowatt-hour (kWh). In contrast, the average electric rate for most San Diego residential customers is nearly \$0.50/kWh.

The valuation of SDGE's electric distribution facilities within the City, if a value cannot be voluntarily agreed upon by the City and SDGE, will be established by a panel of appraisers. The appraisers will have specific qualifications. Two of the appraisers will be selected by the City and two by SDGE. The fifth appraiser will be selected by the other four appraisers. This panel of appraisers will determine the value of SDG&E's electric distribution assets in the City, and the severance costs, within eight months of voters approving the formation of a non-profit electric utility. The City Council would have the option, but not the obligation, to reconsider forming a non-profit electric utility if the impact on electric rates of the asset purchase plus severance costs would exceed \$0.10/kWh.

San Diego Community Power, a non-profit joint powers authority that includes the City, provides retail power supply to most City residents. SDGE delivers this power over its poles and wires. About 20 percent of the residential customer bill is power supply. About 80 percent is delivery and other charges collected by SDGE. SDCP will have the option to continue to provide power supply to the non-profit utility as wholesale power purchased by the non-profit utility for distribution to its customers.

The San Diego City Charter currently provides that the City "... may own and operate public utility systems, including the joint or sole operation and ownership of utilities for the purchase, development, and supply of water and electrical power for the use of the City and its inhabitants and others . ." [ARTICLE I CORPORATE POWERS Section 1: Incorporation and Corporate Powers]. The City Charter also provides that "... any franchise may be terminated by ordinance whenever the City shall determine to acquire by condemnation or otherwise the property of any utility necessary for the welfare of the City." [Section 104: Term and Plan of Purchase].

This ballot proposal directs the Mayor and Council to: 1) implement a non-profit public benefit electric utility to own and operate the existing electric distribution grid within the City's jurisdiction, and generate and distribute electricity to City residents.

Powers Engineering requests the opportunity to be noticed and heard concerning this ballot proposal.

Thank you for providing this opportunity.

Respectfully,

Bill Powers, Principal of Powers Engineering and Ballot Proposal Chair