SDGE Inflates Grid Asset Value as Much as Rates – hides behind out-of-state consultant's name in attempt to undermine values in City's municipalization study

Bill Powers, P.E., March 18, 2024

Summary

San Diego Gas & Electric (SDGE) attempts to undermine the valuations in the City's ongoing $3 million dollar municipalization study – which it formerly embraced – by "laundering" its inflated and unsupported cost estimates through an out-of-state consultant. The consultant, Concentric Energy Advisors (CEA), makes clear in its footnotes and attributions that most of the substantive values in the CEA assessment came directly from SDGE with no input or analysis by CEA. The CEA assessment should be dismissed as a deceptive attempt by SDGE to misinform the San Diego community about the cost of municipalization.

Introduction

SDGE publicly released a short letter assessment prepared by CEA (Marlborough, MA) on March 12th that projects much higher costs for the City of San Diego to municipalize the electric grid than the costs prepared by the City's municipalization consultant, NewGen Strategies and Solutions (NewGen) in its July 2023 Phase 1 municipalization report. The CEA assessment, dated February 16, 2024 and alternatively identified as an "Executive Summary" and the "Phase 1 Analysis", is seven pages long. There is no more to the assessment. No author is identified. The CEA letter estimates four categories of costs: 1) asset value, 2) separation and reintegration, 3) startup, and 4) foregone City revenues.

Three detailed municipalization studies have been conducted by or for the City of San Diego in the last six years.[1] These three studies are in relatively close agreement on the costs of: 1) asset value, 2) separation and reintegration, and 3) startup. None of these studies address "foregone City revenues." The Power San Diego ballot initiative includes "payments in lieu of taxes" to offset foregone City revenues (at §74.0113).[2] As a result, no City revenues will be foregone by converting from SDGE to a municipal electric distribution utility. Therefore, Cost Item 4 in the CEA assessment can be ignored.

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[1] NewGen Strategies and Solutions, *City of San Diego Public Power Feasibility Study – Phase 1 Report*, prepared for City of San Diego, July 11, 2023; NewGen Strategies and Solutions/Advisian/MRW, *City of San Diego Electric and Gas Franchise Agreements Consultant Report*, prepared for City of San Diego, April 22, 2020; PowerServices, Inc., *City of San Diego Preliminary Municipalization Feasibility Study*, prepared for California Local Energy Advancing Renewables, July 2017.

[2] Power San Diego ballot initiative, webpage accessed March 17, 2024: https://wearepowersandiego.com/wp-content/uploads/2023/11/ThePowerSanDiegoBallotInitiative.pdf

The most recent municipalization study, awarded to NewGen in 2022, has a total budget authorization of $3 million.[3] NewGen issued its 126-page Phase 1 report under this authorization in July 2023. A comparison of the projected costs by NewGen and CEA of: 1) asset value, 2) separation and reintegration, and 3) startup is shown in Table 1.

Table 1. NewGen and CEA projected costs of electric municipalization ($ million)

Assessment	Asset Value	Separation and Reintegration	Startup
NewGen	2,040 – 2,550	254	300
CEA	3,950 – 4,370	3,160 – 4,160	300 - 800

The following sections examine the reasons for the differences in the NewGen and CEA cost estimates.

Asset Value

NewGen identifies the source of its $1.7 billion Net Book Value (NBV) estimate, otherwise known as the Original Cost Less Depreciation (OCLD), as its own independent assessment based on numerous sources of information.[4,5] NewGen then identifies an expected final sale price at a multiple of 1.2x to 1.5x of the OCLD.[6] This range translates into a sale price of $2.04 to $2.55 billion.

CEA simply states that its NBV estimate is "based on SDGE internal estimates."[7] SDGE's internal estimate is $2.33 billion. SDGE is an interested party that to date has invested $560,000 in a SDGE political action committee (PAC), "Responsible Energy San Diego," with the sole purpose of opposing the Power San Diego ballot initiative. No independent corroboration of SDGE's internal asset value estimate was done by CEA. The fact that CEA relied exclusively on SDGE's internal asset value estimate without independent corroboration undermines the validity of any assertions by CEA on the value of SDGE's electric distribution assets in the City.

CEA then includes two items not previously included in any City municipalization feasibility study, "asset growth through December 2025" and "construction work in progress." These two items add $650 million to the asset value. The only basis CEA provides for including these

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[3] City of San Diego, *Contract Resulting from the Request for Proposal Number 10089858-22-V, Public Power Feasibility Study*, October 19, 2022, p. 2. "3.1 Amount of Compensation. City shall pay Contractor for performance of all Services rendered in accordance with this Contract in an amount not to exceed $3,000,000.00."
[4]NewGen 2023, pp. 5-11 to 5-15: https://www.sandiego.gov/sites/default/files/cosd-public-power-feasibility-report.pdf.
[5] NewGen/Advisian/MRW 2020, Table 1, p. 3. City of San Diego electric distribution grid OCLD = $1,585,378,000.
[6] Page 8-4. "OCLD is the lower cost and most advantageous to the purchaser. It is equally reasonable to assume that a prudent seller would not accept OCLD in isolation and would likely look for a multiple of OCLD, such as 1.2x to 1.5x."
[7] CEA, *City of San Diego Preliminary Municipalization Assessment – Executive Summary, prepared for SDG&E*, February 16, 2024, p. 3.

future costs is a presumed sale transaction date of January 1, 2026. Prior City municipalization studies have assessed the asset value in the year(s) the study was being prepared.[8] No “asset growth through December 2025” or “construction work in progress” costs should have been included in the CEA asset value estimate.

The multipliers that CEA applies to the NBV value, 1.33x to 1.47x, are similar to the multipliers of 1.2x to 1.5x applied by NewGen. The multipliers are based on a large number (46) of actual utility sales,[9] as are the NewGen multipliers, and appear to be legitimate.

Separation and Reintegration Costs

CEA allows itself to be used as a vehicle to channel SDGE’s highly inflated separation and reintegration cost estimate, stating “*Separation of the transmission and distribution system, and the distribution system along the City of San Diego boundary, is estimated by the* <u>*Company*</u> *(aka SDGE) to require . . .*”[10]

SDGE asserts under CEA’s cover that these highly inflated separation costs respond to proposed separation boundaries in the Power San Diego ballot initiative for which no previous economic analyses or cost estimates have been completed.[11]

Not so. The definition of the proposed separation boundaries in the Power San Diego ballot initiative is the same as the definition used in the NewGen Phase 1 study for the electric distribution grid in the City.[12] On the basis of that definition, NewGen conservatively estimates a separation and reintegration cost of $254 million.[13] The base separation and reintegration cost estimate is $169.1 million. NewGen then adds a 25 percent contingency of $42.3 million and a 20 percent “Owner’s Cost” of $42.3 million to reach $254 million.

The NewGen Phase 1 study separation and reintegration plan involves “rearranging” distribution circuits at 306 jurisdictional boundary crossings around the periphery of the City. No new distribution substations will be built, and no reconfiguring of transmission and distribution substations will be necessary.

Two prior municipalization studies for the City projected similar separation and reintegration costs for a municipal electric distribution utility. PowerServices, Inc. projected an electric distribution utility separation and reintegration cost of $393 million.[14] NewGen, in the 2020 municipalization study it prepared for the City as input to the SDGE franchise agreement

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[8] NewGen 2023, Table 5-11 Distribution Value Summary 2022 ($M), p. 5-15.
[9] Ibid, p. 2.
[10] Ibid, p. 3.
[11] Ibid, p. 4.
[12] NewGen 2023, p. 5-1.
[13] NewGen 2023, p. 6-2 an p. 6-3.
[14] PowerServices, Inc. 2017, Exhibit C – San Diego Municipalization Model – exemplars, p. C-1. San Diego Municipalization Project, Distribution Only at HW, separation costs = $392.977 million.

negotiations, estimated a separation and reintegration cost of $190 million for the scenario that does not involve construction of new distribution substations.[15]

SDGE, under the guise of third party assessment by CEA, has simply created a much more elaborate separation and reintegration scheme out of whole cloth that is 12x to 16x more costly than the NewGen Phase 1 study cost. SDGE includes "reconfiguring and rebuilding of 41 transmission and distribution substations" as a basis for its huge separation cost estimate. No separation of the transmission and distribution system will occur. As stated in the ballot initiative, ". . . *the distribution system starts at the (T&D) transformers at the transmission ("T") to distribution ("D") substations, and consists of all poles, wires, appurtenances, and distribution substation hardware* ***downstream*** *of these T&D substations*."

CEA references a separation and reintegration cost estimate from a 2020 Chicago municipalization feasibility study to support the extreme cost estimate in the CEA assessment. The separation and reintegration cost estimate used in the Chicago study was actually prepared by the private monopoly utility serving Chicago, ComEd, that was opposing municipalization.[16]

Chicago has two times the number of customers and three times the demand as the City of San Diego.[17,18] Numerous costs besides separation and reintegration of the distribution grid were included by ComEd in the cost estimate. However, the cost estimate specifically for separation and reintegration of the Chicago electric distribution grid was $702 million.[19] Scaled to the population of the City of San Diego, that reduces to approximately $350 million. $350 million is only incrementally higher than the NewGen Phase 1 study estimate of $254 million.

SDGE's extreme separation and reintegration cost estimate is inapplicable to the electric distribution utility described in the Power San Diego ballot initiative. It should be given no weight. The $254 million separation and integration cost estimate prepared by NewGen is both applicable and conservative.

Startup Costs

CEA references the NewGen Phase 1 study as the basis for asserting a low-end startup cost of $300 million for a City of San Diego electric distribution utility. That is the same cost referenced

[15] NewGen/Advisian/MRW 2020, pdf pp. 94-95. "We developed a low-cost case assuming only the use of meters and protection equipment to sever the (distribution grid) systems."
[16] NewGen Strategies and Solutions, *City of Chicago Preliminary Municipal Utility Feasibility Study*, August 2020, p. 1-5. "For this Study, an estimate of severance costs was provided by ComEd . . ."
[17] Ibid, p. 1-7. "ComEd served approximately 1.3 million customers in the City in 2019.Total annual energy consumption for 2019 was approximately 23.4 billion kilowatt hours (kWh)."
[18] NewGen 2023, Figures 7-1 to 7-4, pp. 7-2 to 7-4. Total sales in the City of San Diego = ~7.5 billion kWh; p. 8-9. "The Financial Capacity Analysis assumes that there are approximately 700,000 customers within the City, or 45% to 50% of the existing SDG&E customers."
[19] NewGen (City of Chicago) 2020, Table 1-2, p. 1-6. Substation/Distribution (Severance) Work Needed within City Grid (of Chicago) = $702 million.

by Power San Diego for startup costs. This is the appropriate startup cost to use for San Diego as it was developed specifically for San Diego by the City's municipalization consultant.

CEA then references the $800 million startup cost in the 2020 municipalization feasibility study prepared for Chicago as the high-end startup cost. Chicago has twice the number of customers and three times the demand of the City of San Diego, as previously noted. The startup cost projected for Chicago is irrelevant to the startup cost in much smaller San Diego.

SDGE's Price Inflation Strategy

SDGE's inflated price estimates are meant to befuddle and confuse decisionmakers and the public, following the private monopoly utility playbook for derailing municipalization attempts.

SDGE is a major contributor to Edison Electric Institute (EEI), the lobbying arm of the U.S. private monopoly utility industry. SDGE gave EEI more than $2 million in the 2020-2022 period.[20] EEI produced the 2013 handbook for members titled "New Public Power Takeovers – Strategic Resources for Defeating Municipalization." EEI's de facto counsel to private utilities fighting municipalization – make it up as you go along. The EEI recommendation: "*Even if you don't conduct a feasibility study of your own, it is important to criticize and point out the shortcomings of the proponent's studies*."[21] EEI's new CEO, Dan Brouillette, was a senior Sempra Energy executive through December 2023.[22] SDGE can likely anticipate ample ongoing support from EEI in the City of San Diego municipalization fight.

In the case of CEA, SDGE created the illusion that a third party had done an independent assessment, when in fact CEA simply presented SDGE's data and assumptions under a CEA cover sheet.

Why didn't SDGE challenge the cost estimates in the NewGen Phase 1 report when it was issued in July 2023? The City instructed NewGen to look at only a T&D utility scenario in the Phase 1 municipalization study. The T&D utility scenario has a very long implementation timeline of almost twelve years, principally because it involves Local Agency Formation Commission (LAFCO) review. NewGen projects that LAFCO review will last six years, the condemnation proceeding to determine asset value will last 3+ years, and the startup phase will last two years.[23] This implementation timeline is far too long, and by itself will dissipate enthusiasm for public power in the San Diego community.

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[20] California Public Utilities Commission, *Reports on Utility Costs*, webpage accessed March 28, 2024 (scroll down to "Executive Compensation and Outside Donations", SDG&E, 2020, 2021, 2022, search for "Edison Electric Institute"): https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/reports-on-utility-costs.
[21] Edison Electric Institute, *New Public Power Takeovers – Strategic Resources for Defeating Municipalization*, 2013.
[22] EEI, *EEI Board Names Dan Brouillette President and Chief Executive Officer Elect*, August 16, 2023, https://www.eei.org/en/news/news/all/eei-board-names-dan-brouillette-president-and-chief-executive-officer-elect.
[23] NewGen 2023, Figure 10-2. Public Power Process (Process Map), p. 10-7.

SDGE was promoting the City's ongoing municipalization study as the definitive word on municipalization feasibility for months after it was published in July 2023. One of the officers of SDGE's PAC opposing municipalization, Brittany Syz, urged the City Council's Environment Committee in September 2023 – when it was reviewing a public power ballot measure for potential inclusion on the November 2024 ballot – to wait for the completion of the next phase of the NewGen study before taking any position on municipalization.[24]

The City did not have NewGen evaluate in the Phase 1 study the electric distribution utility scenario that NewGen had evaluated in 2020. No LAFCO review will occur if the City pursues an electric distribution utility, as the distribution utilities' physical assets would be entirely within the City's own boundaries.[25] This would reduce the municipalization timeline to 5+ years.

The Power San Diego ballot initiative eliminates six years of LAFCO review by proposing an electric distribution utility, making municipalization a near-term possibility. SDGE apparently now finds it necessary – indirectly through CEA – to attack the cost estimates in the NewGen Phase 1 study. If SDGE does not attack those values and the Power San Diego ballot initiative passes, SDGE will enter the condemnation phase of the municipalization process relying on the same NewGen Phase 1 study asset value assumptions as Power San Diego.[26]

Conclusion

SDGE attempts to undermine the valuations in the City's ongoing $3 million dollar municipalization study by passing off its inflated and unsupported cost estimates as the work of an ostensibly independent out-of-state consultant. The consultant CEA is clear in its footnotes and attributions that most of the substantive values in the CEA assessment came straight from SDGE with no input from CEA. The CEA assessment should be dismissed as a deceptive effort by SDGE to misinform the San Diego community about the cost of municipalization.

Bill Powers is a professional engineer, expert witness in California Public Utility Commission proceedings, and Chair of the Power San Diego public power ballot initiative campaign (https://wearepowersandiego.com/).

[24] City of San Diego, Environment Committee Hearing, September 14, 2023, minute 02:29:00 – 02:31:00: https://sandiego.granicus.com/player/clip/8745?view_id=51&redirect=true.

[25] JVJ Pacific Consulting LLC, *Report to the City of San Diego Concerning Electric and Gas Distribution Systems*, June 22, 2020, p. 50. "Approval by the San Diego County Local Agency Formation Commission (LAFCO) is not required for the formation of an (electric distribution) utility to serve within the City."

[26] NewGen 2023, p. 10-14. "The first step in the condemnation process is for the City to make an offer to SDG&E for its assets. If SDG&E accepts the offer, the City can move forward with the purchase. However, it is anticipated that SDG&E would not accept the offer, and the City would be expected to either negotiate with SDG&E on the value or file its case in condemnation court . . . The legal condemnation process would be expected to occur in a litigated case . . ."