Eugene "Mitch" Mitchell
Vice President
State Government Affairs & External Affairs
8330 Century Park Court, CP33B
San Diego, CA 92123
858.650.4075 -Tel

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Councilmember Jennifer Campbell, Chair, Environment Committee
Councilmember Vivian Moreno, Vice Chair, Environment Committee
Councilmember Barbara Bry, Environment Committee
Councilmember Scott Sherman, Environment Committee

RE Special Environment Committee Meeting, July 16, 2020 – Consultant Reports on City of San Diego Proposed Franchises for Gas & Electric Service

Dear Chair Campbell and Members of the Environment Committee:

On behalf of our more than 4,000 local employees, including more than 1350 men and women of the International Brotherhood of Electrical Workers, San Diego Gas & Electric Company ("*SDG&E"*) is pleased to take this opportunity to respond to the reports City Staff submitted to the Environment Committee for consideration at the July 16, 2020 special meeting. These reports include:

- The City Staff Report, dated June 22, 2020 ("*Staff Report*");
- The JVJ Pacific Consulting Report, dated June 22, 2020 ("*JVJ Report*"); and
- The NewGen Strategies & Solutions Report, dated April 22, 2020 (*"NewGen Report*").

We recently received these lengthy reports (on July 8th), and I hope you will appreciate that our response is preliminary and relatively brief because of the time constraints presented. After our initial review of the reports, we felt that it was necessary to provide an appropriate response and corrections to the most serious errors. It is our intent to provide the Environment Committee, and your City Council colleagues, with clear and accurate information about the franchise agreements before the City launches an Invitation to Bid (*"ITB"*).

The unprecedented, take-it or leave-it tone of the ITB proposed by the JVJ Report will not help achieve any of the City's energy or financial goals, and will substantially stifle competition in this process, which would be a violation of the City Charter. More importantly, as written, it will place at serious risk what the City currently enjoys – the most financially lucrative franchise agreements in California, currently generating approximately $130 million in fees for the city each year.

If no one submits a responsive bid to the City's non-negotiable ITB, the only alternative recommended by the City's out of town consultant would result in the termination of the City's energy procurement partnership with Chula Vista, Encinitas, Imperial Beach and La Mesa in San Diego Community Power (*"SDCP"*), and potentially saddle San Diego taxpayers with years of expensive litigation. The City could also potentially be burdened with billions of dollars in new financial obligations and place the risks associated with catastrophic wildfires on the backs of City taxpayers. The 8th largest City in the United States deserves to receive the best advice possible from the consultants enlisted to help with this process, and unfortunately an accurate picture of this situation has not been presented.

The Risks of Power Procurement and the Risks of Safely & Reliably Running an Energy Infrastructure Grid are Not "Similar"

Before responding to some of the specific terms of the unprecedented ITB recommendations contained in the JVJ Report, there is one specific major error that requires a direct response. This error strikes at the heart of the municipalization alternative recommended by the consultants if no party is willing to go along with the non-negotiable deal they seek to impose on potential bidders. On page 6 of the JVJ Report, this astonishing statement appears:

> *"The responsibilities of procuring an electric supply and the business risk are similar for SDCP and for a City-owned electric utility."*

As authored by Howard Golub, former General Counsel for Pacific Gas and Electric Company (*"PG&E"*), the irony of this misstatement is significant. PG&E did not declare bankruptcy in 2019 with $30+ billion in liabilities because it made a mistake in procuring electricity. It declared bankruptcy because its electric utility lines were found to have sparked multiple catastrophic wildfires, killing 84 people, and destroying billions of dollars in property. The Los Angeles Department of Water and Power also faces similar challenges due to recent fires. It is a gross mistake to summarily declare, without explanation or justification, that the City's participation in SDCP to procure certain types of power is pretty much the same as operating an electric utility. The irresponsible statements about the ease of operating an electric utility in California continues later in the report: "While it is critical that a distribution system be operated in a safe and reliable manner, it is a mature industry with well-established procedures and networks of suppliers." *JVJ Report at pp. 56-57*. The consultants appear to say that to run an electric utility, one need only follow the age-old procedures and buy from the right suppliers.[1]

We take great pride in our knowledge of this space and specifically our leadership in wildfire safety, as acknowledged by the Governor, the State Legislature, fire-fighting officials, and multiple independent and third-party industry groups. The San Diego region has been largely protected from the catastrophes that have engulfed our neighbors to the north because of our focus and execution of a wildfire mitigation plan that is discussed nationally and internationally – and is the result of our hard working and innovative employees. The hardening, strengthening and protection of our electric system has been and will continue to be expensive but necessary for the purpose of protecting the lives and property of the region's residents. To cite just one very visible example, the fire-fighting SDG&E Aircrane helicopter, made available to regional fire-fighting agencies including the City's Fire Department, is expensive. This cost for this valuable resource is included in SDG&E rates. The dollars we invested are part of the reason our rates are higher.[2] We believe the investments and the protection for our community are worth it and speak volumes about our focus on the safety of our region.

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[1] The JVJ Report similarly dismisses any risks of a municipally operated natural gas distribution utility: "As with an electric distribution system, it is critical that the natural gas system be operated in a safe and reliable manner, and here too, the industry is mature, with well established procedures and suppliers." *JVJ Report at p. 57*. The risks associated with the operation of a natural gas utility are well illustrated by another example from PG&E – the San Bruno incident on PG&E's system in 2010, where an exploding natural gas pipeline killed 8 people and destroyed 35 homes.

[2] SDG&E's early procurement of large-scale renewable projects at a time when renewable power was much more expensive is also a significant factor in our rates. SDG&E's clean energy leadership not only made SDG&E a leader in the percentage of renewable power made available to our customers, but also played a part in jump-starting the eventual decline in renewable prices that SDCP and other new entrants to the market are enjoying.

The Unprecedented, Take-it or Leave-it ITB

The City Charter requires an open and competitive process for awarding a franchise. It does not, however, require the City to issue a non-negotiable ITB that bidders must either accept without change or be deemed non-responsive.[3] That narrow path, recommended by the consultants, might work if the franchise agreement the City proposed was similar to franchise agreements executed by municipalities across California or throughout the United States. It will not work when the ITB described and recommended in the JVJ Report is filled with provisions that; (a) are unprecedented and are not found anywhere else in the country; (b) are inconsistent with California law, and; (c) are extremely unlikely to receive the necessary approvals of the current California Public Utilities Commission (*"CPUC"*).[4] Contracts between counterparties are a function of a meeting of the minds – not a set of issued terms like the back of a store receipt.

In the interests of brevity, the following comments highlight only the most critical errors made by the consultants. If we move forward in the process, SDG&E looks forward to participating in negotiations on every element of the ITB issued by the City, including any input from this Committee or the full City Council, and we fully expect to submit a bid that highlights the hard work of our employees, many of whom live within the City of San Diego. Our bid will have the appropriate exceptions, recommendations and redlines to ensure the safe, reliable and affordable delivery of the power SDCP procures on behalf of your constituents.

The Minimum Bid

The JVJ Report recommends the City demand the shareholders of any bidder be required to pay the City an upfront fee of $62 million – $54 million for the electric franchise agreement and $8 million for the gas franchise agreement. *JVJ Report at p. 27*. Let's be very clear – there is no precedent anywhere in the United States for this magnitude of upfront payment by shareholders, ratepayers, or anyone else for that matter. This has never happened with regard to any previous franchise negotiation in the country.[5] Yet, the consultant proposes that this unprecedented "demand provision" be non-negotiable. If a bidder is not willing to pay the exact amount conjured up by the consultant, the consultant recommends the City should immediately begin municipalization proceedings.[6] What is the supposed justification for this large up-front payment? The JVJ Report says the novel upfront payment is justified because SDG&E has the opportunity to make a profit by providing electricity and natural gas service to its customers, and the upfront payment is only a small percentage of what SDG&E might earn, although the purported earnings attributable to operations in the City outlined in the report are far from accurate.

California law allows SDG&E to: (1) charge its customers the reasonable costs of providing service; and (2) have the opportunity to earn from those customers a profit (a rate of return) on the investments it makes to provide the service. The CPUC has exclusive jurisdiction to determine the reasonableness of the costs of service and the reasonable rate of return which shareholders have the opportunity (but not a guarantee) to earn. The costs of service include things like the wires, pipes and other equipment that are

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[3] The inflexibility recommended by the JVJ Report is stark: "[I]f the franchises contained in the City's Invitation to Bid are not promptly accepted by a responsible bidder without material change, the City should proceed with the formation of both electric and natural gas utilities…" *JVJ Report, p. 8*.

[4] For purposes of this brief response, we have elected to forgo more arguments about whether the term should be 20 or 25 years. Even the JVJ Report acknowledges there is ample precedent for terms of 25 years or longer, and we strongly prefer a 25- or 30-year term. For example, completion of the City's ongoing undergrounding program with the special surcharge would merit a term of about 30 years.

[5] The consultant's attempt to claim Long Beach as an example is instructive, but not for the reasons the consultant would have the City believe. We'll discuss the odd Long Beach situation separately below.

[6] The consultants would of course continue to charge the City for consulting services during the municipalization process. Boulder Colorado's more than decade long municipalization saga, which is still ongoing, illustrates that lawyers and consultants are the sure winners with the plan recommended to the City by its consultants.

needed to safely and reliably deliver energy. Costs also include the salaries of our skilled, highly trained and in many cases licensed employees, and any fees and taxes imposed by government entities on the services we provide. Shareholders invest money in projects like new electric transmission poles that are stronger and more resistant to fire, and have an opportunity to earn a return or profit on their investment. Shareholders also face the risk that some or all of their investment may be lost if bad things happen (as in the current situation for PG&E shareholders). The California Supreme Court summed up California law as follows:

> *"The [C]PUC sets the rates of a publicly regulated utility to permit the utility to recover its costs and expenses in providing its service, and to receive a fair return on the value of the property it uses in providing its service. Among a utility's costs and expenses are government fees and taxes." Jacks v. City of Santa Barbara, 3 Cal. 5th 248, 266 (2017).*

Ignoring the law, the JVJ Report attempts to make the $62 million payment appear reasonable by using some creative math and new business logic. The JVJ Report suggests that an upfront shareholder payment of $1.1 billion for the electric franchise and $174 million for the gas franchise are also "reasonable." *JVJ Report at p. 30*. $62 million is a bargain when compared to $2.7 billion. So, despite the fact that no franchise in the country has ever garnered an upfront payment in this astronomical neighborhood or even close, the consultant recommends that the City adopt this novel approach, not as opening negotiating position in an attempt to get a more modest upfront payment, but as a non-negotiable demand. According to the JVJ Report, every other city in California (and the nation) are giving away valuable rights for a pittance. San Diego, which already has the most lucrative franchise agreement in California and among the highest in the entire Country, should insist on even more according to the consultants.

In the same case cited above, the California Supreme Court recognizes the CPUC's well-established procedure for ensuring that higher than average fees and taxes imposed by a city are borne solely by the customers within that city. Residents in La Mesa or Imperial Beach for example, should not have to pay for San Diego's insistence on higher than average franchise fees. The long-established 5.78% surcharge on City resident electric bills, and 1.03% surcharge on City resident gas bills fairly allocates the burden of additional money received by San Diego to the residents who presumably benefit from the revenue the City receives. Pushing the upfront payment to shareholders contravenes California law that allows a utility to recover government fees and taxes, and any other reasonable cost of providing service, from its customers.

Ironically the JVJ Report claims the minimum, non-negotiable upfront payment of a mere $62 million is part of an effort to ensure there is a healthy competition for the franchise agreements and not to "discourage competition." *JVJ Report at p. 34*. The report even speculates that bidders may offer to pay more than $62 million to the City, and the highest bidder should be awarded the franchise, which would suggest that qualifications for operating the grid should not matter. The City should not be misled into thinking that this unprecedented demand will generate bidding competition.

Long Beach is not a Precedent for San Diego

In an attempt to add credibility to the demand for a large up-front extorted payment, the JVJ Report cites the City of Long Beach and its deal with Southern California Edison (*"SCE"*). *JVJ Report at p. 32-33*. In 1999, with California about to embark on its attempt at energy de-regulation, Long Beach threatened to exercise a special termination and municipalization provision in its 60-year franchise agreement with SCE.[7] That special provision would have allowed Long Beach to use a special appraisal process to short-circuit California's condemnation law.

[7] There is no such term in the San Diego franchise agreements.

Enron was among the entities offering to help Long Beach take-over the electric system from SCE. They were drawn by the allure of acquiring the electric system and Long Beach's existing municipal gas utility, and promising riches for the city in the newly de-regulated California energy market. The California energy crisis and the fall of Enron followed shortly thereafter. SCE agreed to pay Long Beach $5 million and donate to Long Beach a vacant office building (purportedly worth $9 million). SCE also agreed to locate a "material supply company" in the city so that Long Beach and SCE could divide the sales tax revenue between themselves.[8] Long Beach agreed, as part of the deal, that it would not municipalize for at least 10 years. The JVJ Report, however, strategically fails to mention that Long Beach also agreed that at the end of the 10 years if it elected to municipalize, Long Beach would immediately have to pay SCE at least $10 million in cash, plus potentially millions more with compound interest dating back to 2000. And all of that would occur before actually paying for SCE's infrastructure serving Long Beach. The JVJ Report's characterization of the Long Beach deal is incomplete and inaccurate.

The upfront payment recommended by the consultants is a negotiating tactic and will not result in a bevy of responsive bids.

Eminent Domain replaced by Private Valuation

The City has now, and expectedly will always have, the right under California law to exercise the right of eminent domain and condemn SDG&E's property. To do so it must file a condemnation lawsuit in State court, follow the legal process for determining fair market value, and then pay SDG&E the legally determined fair market value for the property it condemns.[9] The City routinely exercises the power of eminent domain for public projects using this same process. The law also permits SDG&E to exercise the power of eminent domain when it needs property for utility purposes – and both entities have exercised this right. The City could start the municipalization process and exercise its rights under California eminent domain law one day after it signs a new 30-year franchise agreement, for example. SDG&E understands that and has no issue with the law in its current form. If merited, we are prepared to participate in a vigorous and open public debate about whether municipalization is the right decision for the City. Clearly, we do not believe that it is, but the City's ability to condemn SDG&E's property and start its own electric and gas utility does not require SDG&E's permission or agreement, and both parties would then embark on the process Courts have outlined over many years.

SDG&E, however, will not, as the JVJ Report recommends, surrender its rights under California eminent domain law. *JVJ Report at p. 45-46*. The report proposes a sort of shadowy, unproven, private panel of appraisers to decide the fair market value of SDG&E's property with no court involvement. The eminent domain process in a public court of law protects the City and SDG&E, and permits full public participation. There is no justification for throwing out eminent domain law and SDG&E will not agree to such a term.

SDG&E purchases subject to City Sales Tax

SDG&E is proud to have our headquarters in Kearny Mesa. Most of our equipment purchases are made from that location, and we pay the City sales tax according to law. We have no current plans to move our headquarters and do not have any plans to change the location of most of our purchases. However, by law SDG&E cannot agree that "all purchases by the utility should be made subject to the City's sales tax." *JVJ Report at p. 35*. We serve all of San Diego County and a portion of southern Orange County. We own a power plant in Nevada. If a purchase we make is subject to sales tax in Nevada, or Orange

[8] The JVJ Report fails to mention the important detail about a division of sales tax revenue between SCE and Long Beach.

[9] California law also provides an alternative procedure with a public hearing process at the CPUC, followed by state court appellate review if necessary. There is no private appraisal option in California law.

County, or another jurisdiction in San Diego County, we will follow the law and pay the sales tax to the government entity to which it is owed. Doing otherwise would be illegal.

SDG&E Poles and Property for City Use at no cost, and Right of First Refusal

Pursuant to CPUC rules, SDG&E must charge other utilities (e.g. telecom providers and others) that want to use SDG&E poles or other infrastructure for their own equipment. There are public proceedings at the CPUC that establish the rates for such use. The funds received by SDG&E from these companies benefit all customers by paying a portion of the cost of installing and maintaining the infrastructure that would otherwise have to be paid by SDG&E customers. The JVJ Report nevertheless insists that the ITB must demand free use by the City of utility poles and infrastructure. *JVJ Report at p. 35-36*. Changes to the current law would require CPUC approval, and we doubt the CPUC would agree.

The JVJ Report goes on to recommend that the ITB must demand that any utility real property with the City that is not being used be made available at no cost for City parks, gardens, parking lots or any other purpose decided by the City. *JVJ Report at p. 36*. This provision directly conflicts with California law (Public Utilities Code section 851). SDG&E (or any other franchisee or utility in the State of California), can't give away property, even temporarily, without following California law and the stringent process established by the CPUC to enforce that law. Given our experiences, we are extremely doubtful the CPUC would agree, or perhaps even has the power to agree, to skip that process and law just for the City, especially in the context of a franchise agreement.

The JVJ Report concludes its unrealistic and unlawful property related provisions with an insistence that the utility grant the City a right of first refusal on any utility property in the City. *JVJ Report a p. 36*. As the consultant surely knows, a right of first refusal is a property right, and is subject to Public Utilities Code section 851 and the CPUC process described above. Moreover, the CPUC has recently issued a decision that grants Native American tribes a right of first refusal for certain utility property. This is another proposed provision that conflicts with California law, would likely be a non-starter at the CPUC even if it was lawful, and therefore it would be foolish for the City to insist on this provision as a non-negotiable condition of any franchise agreement.

Public Purpose Program and EPIC Funds controlled by the City

With little explanation, the JVJ Report recommends the City insist on taking control of Electric Program Investment Charge (*"EPIC"*) money and natural gas public purpose program charges collected by the utility from customers. *JVJ Report at p. 40-41*. We clearly informed the City multiple times earlier that the current EPIC program is ending in 2020, the future of EPIC is subject to an ongoing CPUC proceeding which the City is free to participate in, and SDG&E doesn't have the authority to give the City control of EPIC funds. All public purpose programs, including the select few named in the JVJ Report, are governed by state or federal regulations. SDG&E follows the program rules and distributes the funds in accordance with those rules. SDG&E cannot agree to "give control" to the City and neither can any other potential bidder. Eligible City residents, and any eligible SDG&E customer not living in the City, can already benefit from the money and benefits available through these programs. "Empowering" the City to manage these programs is not power that SDG&E, or any other utility, has the authority to give.

Disputes about the Relocation of Utility Infrastructure

In the nearly 50-year term of the current franchise agreements, the JVJ Report cites two examples of lawsuits between the City and SDG&E over cost responsibility for relocation of SDG&E infrastructure. *JVJ Report at p. 43*. Keep in mind, SDG&E has never argued about whether it had to move its infrastructure at the City's request. The only dispute has been whether SDG&E customers or the City has to pay the costs of such relocation. That was true for the dispute about Petco Park in 2003 and it is true for the ongoing litigation about the City's Pure Water project.

In 2003, the City won the lawsuit against SDG&E. All SDG&E customers paid for the relocations required for Petco Park's construction. If the City ultimately prevails in the Pure Water lawsuit, all SDG&E customers will pay for the necessary relocations. SDG&E has an obligation, however, to protect all of its customers, including substantially more than half of its customers (that reside in other cities of our service territory) who won't receive any benefit from the City's Pure Water project. SDG&E's position, supported by California case law and language in the existing Manual for Administrative Practices between the City and SDG&E, is that the City must pay the costs of relocating SDG&E infrastructure for City water projects like Pure Water. A judge will decide whether SDG&E or the City is right. As we have stated publicly, we will abide by the legal decision in this dispute as we did in 2003. It is important to keep in mind that in neither case did SDG&E refuse to move its infrastructure. Until the Pure Water project was delayed for reasons completely unrelated to this dispute, SDG&E was actively working with the City to identify and reduce infrastructure conflicts and to plan and engineer the movement of SDG&E's facilities.

Undergrounding

Before turning to the NewGen Report and its massive and irresponsible undervaluation of SDG&E's infrastructure required to serve your constituents, we wanted to briefly address the JVJ Report's reference to the City's Utility Undergrounding Program. *JVJ Report at p. 44*. In June we responded to the City's concerns in two letters, one to Kris Michell and the other to Johnnie Perkins. We are confident that our administration of the program is sound and efficient, as it has been for more than 19 years, with several successful reviews and audits administered by the City. We look forward to cooperatively resolving any City concerns and receiving the money that SDG&E is owed for the work that has been completed.

The Economic Feasibility & Seamless Ease of Municipalization is Vastly and Irresponsibly Overstated

We conclude this letter by briefly discussing the NewGen Report. Although it is referred to as a "valuation study," the NewGen Report is not an appraisal or valuation; it merely offers "preliminary indicators of value" for SDG&E's electric and gas distribution assets within the City. Preliminary indicators of value must not be confused with the price the City would have to pay were it to choose to municipalize. The NewGen Report grossly undervalues SDG&E's assets and is not a proxy for the fair market value appraisal required by California law, and almost completely discounts the time and cost for separation to protect ratepayers in the 28 neighboring jurisdictions that SDG&E serves. Despite the limited, speculative nature of these findings, the JVJ Report heavily relies on the NewGen Report to conclude that municipalization is a great alternative if no bidder agrees to the non-negotiable, unfounded demands cooked up by the consultant.[10]

The analysis in the NewGen Report is seriously flawed. The report utilizes inapplicable and simplified methodologies to arrive at its conclusions. For example, the low end of the "Cost Approach" used throughout the report, called Original Cost Less Depreciation (*"OCLD"*), should not be considered at all, as this approach is typically used only when information is not readily available and does not reflect future growth, goodwill, or going concern value. The prevailing methodology for valuing utility assets is a Price to Earnings (*"P/E"*) multiple, which was not utilized in this analysis. The extremely low One-Year Franchise Assumption within the "Income Approach" is also inappropriate – the fact that the franchise is expiring soon has absolutely no relevance to the existing, significant, and ongoing value of SDG&E's system.

[10] As it advertised in its bid to win a bid from the City, NewGen Strategies & Solutions provided similar valuation services to Boulder, Colorado during its 10+ year ongoing municipalization debacle. Boulder has spent more than $21 million on NewGen and other consultants and lawyers, imposed a special "temporary" tax to pay for the consultants, and is now seriously considering dropping all of it to stay with the incumbent utility. See Boulder's special website: *https://bouldercolorado.gov/local-power*.

Additionally, certain key financial assumptions in the report are incomplete, or inconsistent and they should create serious doubts about the accuracy and validity of NewGen's analysis. Some examples include:

- For the "Market Approach", NewGen admits it made no attempt to adjust comparable utility transactions to correlate to SDG&E's asset characteristics, but still used these numbers to create a value range. *NewGen Report at p. 12-13*.
- The 2.1% Terminal Value earnings growth rate used in the "Income Approach" is based on overall GDP forecast rather than utility growth rate, causing it to be inappropriately conservative. *NewGen Report at p. 5*.
- The "Market Approach" underreports the Vectren/Centerpoint purchase multiple, one of the largest market-based gas transaction comparisons in the chart. *NewGen Report at p. 14*.
- NewGen allocated a 42% share to the City of San Diego based on electric distribution *meters* but used gas *revenue* to calculate the City's gas share because it produces a smaller share. *NewGen Report, p. 2 of Exhibit 1*.

If the City chooses to municipalize, in addition to paying the fair market value for SDG&E's assets in the City, the City would be required to pay significant additional capital costs to separate the City's acquired assets from SDG&E's remaining assets. The separation costs (also called severance costs) do not result in increased capacity, reliability or safety – they are costs that must be incurred to force the split of the systems and may not benefit either system.

The severance analysis included in the NewGen Report (provided by Advisian, yet another consultant) is intended to estimate these separation costs. However, Advisian's severance report, like NewGen's preliminary valuation, grossly underestimates these costs, and makes inaccurate assumptions using data from systems likely outside California.[11]

First, the severance cost summary fails to consider the actual costs of operating a modern gas and electric distribution and transmission system like SDG&E's. Advanced metering systems, power flow, protection infrastructure, site development, environmental mitigation measures, and cyber and physical security requirements are not adequately priced or addressed. It also ignores the cost and time impact of separating the bulk power systems, which will require significant, lengthy and costly federal and state regulatory review and approval. Again, the regional system SDG&E operates was not designed to serve only the residents of the City of San Diego, but City residents certainly benefit from our scale.

For the electric distribution severance costs, Advisian's cost estimates are derived using data from another undisclosed utility with a different distribution system and relative density of distribution infrastructure. This significantly undervalues cost assumptions in terms of quantities needed for sectionalizing switch installations, meter installations needed to track power flow between entities, and reconductoring needed to alleviate overloads caused by reconfiguring circuits. Moreover, about 60% of all of SDG&E's distribution lines are underground. It is even higher in the City of San Diego because of the City's undergrounding program. The Advisian estimate utilizes a flipped 2:1 ratio of <u>overhead to underground</u> lines installed. This inaccurate ratio causes the electric distribution cost estimate to be undervalued by a significant multiple.

In sum, the NewGen Report paints a false and rosy picture of the costs of municipalization. Whether the real cost is three, four or some higher multiple of these preliminary estimates isn't important at this stage

[11] Once again, Boulder's experience is instructive. The initial separation cost estimate given to Boulder by its consultants was $10 million. The most recent estimate is $100 million or more. Boulder is about a tenth of the size of San Diego.

of the City's decision-making. Just as the JVJ Report grossly underplays the difficulty and risks of operating a municipal gas and electric utility, the NewGen Report grossly underestimates the costs of municipalization.

Thank you for taking the time to read our response to the reports. We are proud of what our Company and highly trained workforce have delivered in the form of services we provide to City residents. We are enthusiastic about the opportunity to compare our record with any bidder that chooses to participate in the City's process.

Sincerely,

Eugene Mitchell

Eugene Mitchell
Vice President State Government & External Affairs
San Diego Gas & Electric Company

CC: Kevin L. Faulconer, Mayor of the City of San Diego
Mara W. Elliott, City Attorney, City of San Diego
Fritz Ortlieb, Deputy City Attorney, City of San Diego
Kris Michell, Chief Operating Officer, City of San Diego
Erik Caldwell, Chief Deputy Operating Officer, City of San Diego
Lee Friedman, Strategic Energy Initiatives Manager, City of San Diego
Diana Day, General Counsel, San Diego Gas & Electric Company
Jim Baker, Assistant General Counsel, San Diego Gas & Electric Company
Warren Ruis, Director, Regional Public Affairs, San Diego Gas & Electric Company