THE CITY OF SAN DIEGO
OFFICE OF COUNCILMEMBER MONICA MONTGOMERY STEPPE

M E M O R A N D U M

DATE: March 12, 2021

TO: Honorable Mayor Todd Gloria

FROM: Councilmember Monica Montgomery Steppe, Council District 4

SUBJECT: Priorities for the Gas and Electric Franchise Agreements

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On December 30th, 2020, Council unanimously approved ordinances O-2021-81 and O2021-82 respectively granting an extension of both gas and electric franchises to San Diego Gas and Electric (SDG&E) through June 1st, 2021. With significant public comment calling for community engagement and input on the agreement, the ordinances received final Council approval on January 12th, 2021

Since the approval of the gas and electric franchise extensions, numerous community workshops on the franchise agreements have been held. Substantial public input has been collected regarding the recommended terms for the Invitations to Bid (ITB), with an expectation of continued public engagement in shaping the agreement. As the extension of the gas and electric franchise agreements are near the end of their terms, it is important for Council to propose terms in the best interests of their constituencies and the City as a whole.

Given the significant amount of input from both City Staff and the community, the new franchise agreements should incorporate their assessments in the final agreements. With that, I recommend the new franchise agreements should include, but not be limited to the following items:

Contract terms
The gas and electric franchise agreements should be no more than five-year terms. The gas and electric franchises such as Salt Lake City, California and Minneapolis, Minnesota have five-year contract terms, which support public input between the years of council district and administration changes and encourages dynamic analyses alongside audits. Long-term franchise contracts do not allow such opportunities for public input.

Minimum bid
The minimum bid should be 5% of the $1.6 billion net income opportunity of the franchises, or $80 million to be paid out of utility shareholders' funds and not charged to utility ratepayers. The JVJ Pacific Consulting's report to the City of San Diego concerning electric and gas distribution systems dated June 2020 states, *a grant of 20-year electricity and natural gas franchises by the City of San Diego is the grant to a profit-making, investor-owned utility the opportunity to make over $6.4 billion in profit. That $6.4 billion profit is net of all expenses, including franchise fees paid by the utility and is a persuasive*

indicator of the value of the franchises. When divided by four, the net income opportunity is potentially $1.6 billion for a five-year contract term.
The consultant report further notes that the City of San Diego is a large city similar to Long Beach, and its size is an example of why a bid increase is justified and states, *If the City were to use the Long Beach model, it would require an up-front fee of approximately $217.2 million for the electric franchise and an up-front fee of approximately $32.8 million for the natural gas franchise. The Long Beach experience is noteworthy because it involved a large city and a utility facing loss of a franchise*.

Right-to-purchase
The franchise agreements should include right-to-purchase and termination provisions regarding assets of the franchise. These provisions would be in addition to standard eminent domain provisions. The City should consider right-to-purchase provisions like the City of Stockton, which states *11.04.100 City's right to purchase. City does hereby reserve the right to purchase upon six (6) months' notice to grantee, the property of grantee used and useful in exercising the same, at a price to be determined by the Public Utilities Commission of the State or its successor, or on failure or refusal of such Commission or its successor to act, then by three (3) appraisers, one appointed by grantee, one by the City Council, and the third by the two (2) so appointed. The cost of such appraisal shall be borne equally by City and grantee. The price of the properties shall be fixed in accordance with the then existing rules of the Public Utilities Commission of the State, or its successors, but in no event shall the value of the franchise itself be included in said price, nor shall the value of any other franchise of grantee for the use of public roads and ways in jurisdictions outside of City be given any value for the purpose of determining the price of said remaining properties of grantee as the result of the purchase of the properties within City as herein provided.*

Annual fee payments
The annual franchise fee should not be charged to utility ratepayers. The franchisee's shareholders should fund the entire annual franchise fee.

Climate action
The basic positions of the City and its franchisee should be aligned on relevant clean energy goals and policies that are conducive to the City's Climate Action Plan goals. This includes establishing requirements restricting the franchisee from opposing customer owned solar as well as requiring cooperation from the franchisee to enable the City to establish large-scale energy efficiency programs and streamline installation and interconnection of distributed solar and batteries.

Performance Audits
According to the JVJ consultant's report, a comprehensive utility performance audit should be conducted by the City every four years for a twenty-year contract term. The results of the performance audit should be provided to the Council and publicly reported. As stated, t*his will provide the City with valuable information to determine whether the City should exercise its enhanced enforcement authority.* This audit should be conducted every two years in the event a five-year term agreement is enacted.

Worker Protections
The franchise agreement should include workers' benefits, protections, standards and wages, and the rights to remain unionized and to organize at least as protective as state law, including Public Utilities Code 854.2.

To achieve sustainability, the awarded franchisee under the direction of the City and its Council must use its capacity to address the stigmas and effects of environmental racism and discrimination through its programs and policies. Customers, especially those that are low and moderate income, should not have the majority of their earnings used as collateral due to insurmountable rates. As the eighth largest City in the United States, with a Community Choice Aggregation entity known as San Diego Community Power, the City must play a role in resolving the climate crisis through a collaborative franchise agreement focused on clean energy, transparency and equity.

MMS/eh

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