San Diego Energy Franchise Agreements

Let's get a better deal for San Diego's Clean Energy Future!

Fifty years ago, SDG&E made a sweetheart deal with the City of San Diego to distribute electricity and gas to residents. Despite this gift of a monopoly, SDG&E has repeatedly fought the city and undermined efforts to get to 100% renewable energy. SDG&E's rates are also among the very highest in the country.

SDG&E's franchise agreements with the City to distribute gas and electricity on the City's public right of way expire in January 2021. The City is required by its Charter to seek the next energy franchisees through a "free and open competition." In order to ensure the accountability and cooperation we need to work effectively for an equitable, 100% renewable, 21st century energy economy, the terms of the new agreements must be much shorter, the fees paid for by corporate shareholders rather than the customers – and require any franchisee to work in cooperation with the City to provide equitable access to local clean power.

What is a franchise agreement?

A franchise agreement is the authorization granted by a city to enable businesses to carry out specific commercial activities. In San Diego, the main franchises are cable companies, waste haulers, and SDG&E's franchises for gas and electric distribution. The franchisee pays the city to use public land. The City of San Diego projects that the gas and electric franchise fee revenues will be about $68 million in 2020. Most of that money goes to the General Fund to pay for public services such as parks and libraries. It is an important source of income to the city.

How will this affect me? Why is the agreement so important for reaching our clean energy and equity goals?

We want San Diego to be a leader in the equitable distribution of local clean energy. With more clean energy we will have a better climate and cleaner air. We'll be able to fight the worst impacts of climate change and climate injustice. San Diego will be more liveable and healthier for all our communities. SDG&E, the current franchisee, and its parent company Sempra Energy, have been a huge impediment to us moving in that direction. It has a history of fighting against clean energy and its business model is more about getting profits for its shareholders than about the health of our community. It has established inequitable rate structures and has disincentivized solar and energy conservation.

Very recently, SDG&E tried to get approval from the California Public Utilities Commission (CPUC) to impose a fixed rate of $10 on all customers and to raise the minimum bill by 400%. This move would have hurt those in low income communities of concern and also anyone with solar or contemplating purchasing a solar system. Thankfully the CPUC denied the request for now. Furthermore, Sempra Energy, the parent company of SDG&E, was the only utility in the state to establish a lobbying arm to work against community choice energy. It uses its excessive profits to fund political campaigns and buy influence in the community. Sempra energy has also doubled down on its gas production and exporting of fossil fuels to other countries. Fossil fuels are its business and promoting them is what it does.

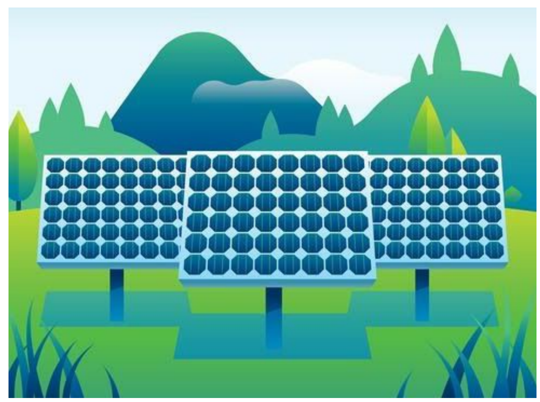
The current franchise agreements allow SDG&E to design and develop our local energy system and in doing so, how much consumers pay. SDG&E has the 10th highest electricity rates in the nation. Those high energy prices disproportionately impact vulnerable populations such as low-income communities and communities of concern. With high energy prices, families have less money to spend on necessities.

How does San Diego get its energy?

Currently the majority of electric energy and all natural gas is provided through the SDGE monopoly utility. Some commercial residential customers are able to generate or obtain their own power including from roof-top solar. Late last year the City of San Diego adopted Community Choice Energy, and along with four other cities in the region formed *San Diego Community Power* which will begin to procure electric power for San Diego residents in 2021. However, SDG&E - or the new franchisee(s) - will still be in charge of energy infrastructure, delivery of electricity and gas, and billing for both electricity and gas.

The adoption of Community Choice Energy was a huge win for clean energy and our ability to meet the goals in our Climate Action Plan. But we still need major changes. Many of those changes could be accomplished through new franchise agreements that make the system fair for utility customers and promote a Local Renewable Power Program to develop local solar, storage and EV charging systems for all communities in San Diego.

Will SDG&E continue to be the franchisee or are there other serious bidders?



The process is an open bidding process according to the city charter so any appropriate business can bid on the franchise agreements. As the current franchisee, SDG&E has an advantage since it also owns the delivery infrastructure. There are two other companies that have expressed interest in bidding on the franchises.

Is this a stepping stone to municipalization?

This is not about municipalization. Municipalization involves the transfer of ownership of utility assets to municipal ownership. This would be the case if the City of San Diego purchased SDG&E assets and became the distributor of energy for the City. New franchise agreements are about getting a better deal for the City of San Diego. We want agreements that benefit the community and support San Diego's leadership for our clean energy future in the region.

What is the process and the timeline for the franchise agreement?

The Mayor's Office has been working with a consultant to prepare new franchise agreement language and has solicited public input. Mayor Faulconer would like to get the agreements adopted this year while he is still in office. In June, City staff will present draft agreement terms for the City Council to review and to get public input. This will be an important meeting and an opportunity for the City Council to determine what the agreements should look like. After that meeting, the agreements will be released in July as an Invitation to Bid (ITB).

Once bids are received, the Mayor's staff will prepare a report and recommendation and present it to the City Council as an ordinance, probably in October or November. Any franchise agreement requires a ⅔ vote of approval from the City Council. That means that six council members will need to approve the franchise agreements. The CPUC must review and approve the final agreements between the City and the utility. It may approve or deny the agreements, and has the authority to extend the current agreements if the City is unable to reach a deal with the prospective utility(ies).

A new Mayor and several new City Council members will be sworn in in early December. If new franchise agreements are not approved before the current agreements expire, SDG&E has an "obligation to serve."

That means it can't turn the power off. SDG&E is required to continue to provide gas and electric services to the customers in the city. After an initial rejection of proposed franchise agreements, it would then be up to the new Mayor and City Council to approve alternative franchise agreements at some future point.

What would new franchise agreements look like? Why is this important?

The City of San Diego has one of the most progressive Climate Action Plans in the nation. Because the City has declared a Climate Emergency and needs this plan to be implemented, the city must continue to work toward it's clean energy goals. As residents and business owners in the City we need to call on the Mayor and City Council to ensure we get a better deal for that clean energy future. **We need franchise agreements that will:**

Meet Climate and Equity Goals

The current agreements were signed long before California established emission goals and the City adopted a Climate Action Plan.

- San Diegans pay some of the highest utility rates in the nation and much of our energy still comes from dirty fossil fuels. We can do better.
- The climate crisis affects each and every one of us. Wildfires will continue to plague our region as severe drought and intense heat accelerate. The way we distribute electricity to our homes doesn't have to be dangerous.
- We need a safe and efficient energy grid to protect our community and position us for a clean energy future. Let's get a greener franchise agreement to meet today's climate challenge.
- The new agreements must focus on meeting our legally-binding Climate Action Plan targets for 100% clean energy. They should complement our Community Choice Energy program by prioritizing local renewable energy as well as creating good-paying jobs and expanding the local economy.

A 5-Year Term Will Allow the City to Adapt

- In the fifty years since the current Agreements were signed, San Diego has more than doubled in population and is now the 8th largest city in the U.S. Solar energy, hardly known in 1970, is now installed on rooftops and parking lots all over San Diego and is vital to achieving our 100% renewables goal by 2035. None of this was foreseen when the current agreements were signed.
- SDG&E has done little to accommodate the changing landscape. Rather than embrace locally generated solar, SDG&E has put up roadblocks with proposed added fees that would greatly reduce the amount of locally installed solar and would unfairly burden low income residents and others who use little energy. Where is the plan for local renewable energy storage systems, an electric vehicle charging system and replacing natural gas with clean electricity?
- Fifty years is simply too long for *any* agreement to keep pace with the rapidly changing energy technology and energy markets. A longer term will limit our ability to adapt to future changes. Let's set a shorter, 5-year term.
- A five (5) year term makes sense. It will allow for updates to evaluate performance, adopt emerging technology and meet our clean energy goals. Let's join the 46 other jurisdictions that have terms of 5 years or less, including Los Angeles County, CA, and get a better deal for San Diego.

Ensure Accountability

According to the City, the terms of the existing agreements have been violated with no repercussion to the utility. The new agreements must hold the utility accountable. The Pure Water program illustrates the necessity of this. The existing franchises require the utility to relocate its equipment at the utility's expense when the city needs to place its own infrastructure along the same public right of way. But as the city proceeds with its $1 billion Pure Water piping network along selected utility corridors, SDG&E is balking at paying its contractual share for moving its equipment. The utility is insisting the City pay for relocating SDG&E's wires, an amount that could reach $100 million.

- The new agreement must hold the utility accountable: require regular performance evaluations, and levy daily penalties on corporate shareholders if terms are violated. We don't have to settle for the same terms. Let's get a better deal.

Local Investment

Under the current agreements, the franchise fees for use of the City's right of way get passed on to ratepayers - instead of being a cost borne by the investor-owned utility. This provision has cost consumers at least $1 billion to date.

- **The new agreements should *mandate* that the corporation that profits from the use of our public land pay for the right to use it.** SDG&E made $767 million in profit in 2019 alone, a 14% year over year increase -- it can afford to be a better partner in developing a safe and resilient clean energy system here, in San Diego.
- Investing in power from *local renewable* sources that support good local jobs and local economic development is consistent with Community Choice Energy and should be required in the new agreements. Additionally, the utility must commit to generating good jobs that meet or exceed current standards, wages, and rights to unionize.

We Need a Cooperative Partner to Support City Initiatives

SDGE has acted in bad faith against the best interests of the City, its businesses, and residents. Under the existing agreements, San Diegans are charged the highest rates in California and among the very highest in the country. The utility fought against community choice energy; attempted to charge ratepayers for SDGE's own negligence in causing devastating wildfires; and, lobbied and made campaign contributions to boost its bottom line. In fact, the City says the current franchise terms on relocating utility infrastructure to make way for City projects have been violated. Water is a scarce resource in San Diego, yet rather than help us get a reliable sustainable water supply, the current Franchisee is putting up barriers. At a cost to ratepayers of roughly 100 million dollars!

This adversarial relationship has to stop. The new agreements must have teeth in them to prevent violations and encourage cooperation.

Who supports this effort to get a better deal on our franchise agreements?
We are part of a coalition effort of organizations that support clean energy and better franchise agreements for San Diego so it can continue to be a leader in the region for our clean energy future.

What can I do to help, and where can I learn more?

To get the best deal for San Diego's clean energy future we need your help! **Sign and share our Petition** calling on the Mayor and City Council of San Diego to ensure our new franchise agreements will invest in our communities, meet our climate and equity goals and ensure utility accountability. Spread the word about getting a better deal on your social media pages. Advocate by writing letters, making phone calls or meeting with elected officials. Attend our Energy Agreements Workshop on Sunday, June 7th at 2 pm to learn more and get involved in the campaign. Explore more detailed franchise agreement policy recommendations by the San Diego based Protect Our Communities Foundation.
You can find more information about getting a better deal for our clean energy future here or contact Amanda Ruetten, SD350 Policy Organizer, at **amanda@sandiego350.org** with any questions.