



The City of San Diego

Staff Report

DATE ISSUED: 8/18/2022

TO: City Council

FROM: Sustainability and Mobility Department

SUBJECT: Public Power Feasibility Study Consultant Contract Award to NewGen Strategies & Solutions LLC

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Council District(s): Citywide

OVERVIEW:

This is a three-year contract with the option of two one-year extension with a not-to-exceed value of \$3 million for the award of the Public Power Feasibility Study technical support contract to NewGen Strategies & Solutions LLC (NewGen). Under the direction of the Sustainability and Mobility Department, and in coordination with other departments as appropriate, NewGen will provide feasibility study reports to the Mayor's Office and City Council on the process, costs, risks, and opportunities that would be associated with transitioning from the current electric and/or gas franchise agreements with San Diego Gas & Electric to a public power entity.

PROPOSED ACTIONS:

- 1) The Mayor, or his designee, is authorized to execute a Contract with NewGen Strategies & Solutions LLC to serve as a technical consultant on a Public Power Feasibility Study in an amount not to exceed \$3 million over five years.
- 2) The Chief Financial Officer is authorized to expend an amount not to exceed \$3,000,000 from the General Fund (100000) or Energy Independence Fund (100018) for the purpose of executing this Agreement, contingent upon the adoption of the Appropriation Ordinance for the applicable fiscal years, and contingent upon the Chief Financial Officer furnishing a certificate certifying the funds necessary for expenditure are, or will be, on deposit with the City Treasurer.
- 3) A resolution declaring that the contract with NewGen Strategies & Solutions LLC is statutorily exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines

Section 15262 (Feasibility and Planning Studies) as the activity is a project involving only feasibility or planning studies for possible future actions which the agency, board, or commission has not approved, adopted or funded.

DISCUSSION OF ITEM:

In conjunction with the award of the gas and electric franchises to San Diego Gas & Electric in July 2021, a corollary action was identified to investigate the feasibility for an alternative to the provision of electric and gas services from an investor-owned utility (IOU) through some form of municipalization and establishment of a public power entity. The Energy Division of the Sustainability and Mobility Department was identified by the Chief Operating Officer as the most appropriate staff to develop such a study with the support of consultants with significant technical expertise in all areas and aspects of such a process.

Sustainability and Mobility staff developed a scope of work broad enough to cover the multiple facets of establishing a public power alternative to energy services within the City of San Diego. This scope included City-supporting services and reports on:

- I. The full process and timeline for municipalization of the energy system including: the monetary, regulatory, and other processes to purchase assets from SDG&E; the internal processes necessary to establish a municipal utility; timelines for decision point throughout both processes; any critical changes to the relationship with other load serving entities (Community Choice Aggregators, Direct Access providers, etc.);
- II. Fiscal and operational analyses including: upfront costs for the processes identified in (1); informed analysis of the value of SDG&E system prior to full system appraisal; debt financing methods / options to purchase, impacts of methods and options, borrowing capacity, impact on city's financial rating, etc.; financial and operational risk assessment/sensitivity analysis such as insurance requirements specific to California and necessary staffing actions; rate analysis & revenue;
- III. Analysis of City's ability to operate an electric utility, gas utility, or both including: analysis of like-sized municipalities that have explored municipalization in last 20 years including process, timing, outcomes, costs; analysis of combining gas and electric systems vs. municipalizing one and not the other;
- IV. Non-fiscal opportunities and risks for city operations and budget, energy consumers, historically underserved communities, and grid operators, taking account of multiple variables including, but not limited to, the electrification goals in buildings and transportation per the City's Climate Action Plan; the current electricity undergrounding program; changes in regulatory oversight structure; expansion of distributed energy technologies; wildfire safety responsibilities; physical and cyber security requirements, etc.; and
- V. Areas and items for more detailed investigation and analysis in subsequent phases based on both reports and analyses and on guidance from the Mayor's Office, City executives and

members of City Council, such as system appraisal(s), engineering studies, workforce impact studies, etc.

- VI. Development of adjunct materials such as report synopses, presentations for City Council and/or committee meetings, and any additional briefing materials as identified by City staff.

The Request for Proposal (RFP) 10089858-22-V, Public Power Feasibility Study, was issued on February 9, 2022, and closed on April 1, 2022. The City received three proposals in response to the RFP. NewGen Strategies & Solutions was selected as the top ranked proposer meeting all the requirements of the solicitation with the greatest experience, expertise, and past performance in providing the technical support necessary to successfully deliver a comprehensive and thorough feasibility assessment of pursuing public power as an alternative to the current franchise structure.

The Feasibility Study will be executed in phases, increasing in focus and detail in each phase, following review from staff, City leadership, any applicable advisory boards, and City Council. Staff will also work with NewGen to create easily accessible and equitable opportunities for public engagement and feedback throughout the process.

It is currently anticipated that the Phase 1 report will consist of:

- Process Map – The legal/regulatory/financial steps to municipalize
- Public Power Entity Options – Options for the structure of a Public Power entity with current examples (e.g. LADWP, SMUD, Anaheim, etc.) and pro/con analysis for each
- Initial financial determinations regarding SDG&E system
- Initial financial and operational options and needs for Public Power entity

Based on stakeholder feedback of the Phase 1 findings, the Phase 2 report could include (but not be limited to):

- Detailed analysis of identified preferred structure(s) for a Public Power entity and detailed process map of set up and handover of system management from SDG&E
- Further financial determinations regarding SDG&E system and financing options and opportunities available to the City to acquire the system
- More detailed financial and operational options for the Public Power entity, including changes in operations/management/labor agreements/rate structures/etc. from the current CPUC-regulated requirements on IOUs

City of San Diego Strategic Plan:

This action relates to the Strategic Plan operating principle of Trust and Transparency by providing a thorough assessment of the opportunities and risks of pursuing municipalization of the electric and/or gas system within the City of San Diego. Public Power would affect all aspects of the Strategic Plan, with the greatest impact on the Advance Mobility & Infrastructure and Champion Sustainability focus areas.

Fiscal Considerations:

The City shall pay NewGen for performance of all services rendered in accordance with this Contract in an amount not to exceed \$3,000,000. The City will fund this contract through the General Fund, fund number 100000 in FY23. Fiscal Year 2023 expenses are estimated to be \$400,000 which is included in the FY 2023 budget within the General Fund's Sustainability and Mobility Department.

Charter Section 225 Disclosure of Business Interests:

The following individuals have been identified as holding a greater than 10% stake in NewGen Strategies and Solutions LLC.

- Anthony Georgis, Managing Partner, Lakewood, CO;
- Christopher Ekrut, Chief Financial Officer, Richardson, TX;
- David Yanke, President & CEO, Austin, TX;
- Joseph Mancinelli, Partner & President Emeritus, Lakewood, CO;
- Mike Lane, Sales Director, Nashville, TN

Environmental Impact:

This activity is statutorily exempt from CEQA pursuant to CEQA Guidelines Section 15262 (Feasibility and Planning Studies) which exempts a project involving only feasibility or planning studies for possible future actions which the agency, board, or commission has not been approved, adopted or funded.

Climate Action Plan Implementation:

The Public Power Feasibility Study is not directly related to the Climate Action Plan. However, any changes to the delivery of energy services, specifically electricity, as a result of the study – either through the municipalization of the energy system or adjustments to the terms of the electricity and gas franchises – could have a significant impact on the success of the City in meeting its Climate Action Plan targets – specifically those identified in Strategy 1: Decarbonization of the Built Environment measures related to removing natural gas from new and current buildings; and Strategy 2: Access to Clean and Renewable Energy measures related to the increase of zero emissions vehicles.

Equal Opportunity Contracting Information:

This agreement is subject to the City's Equal Employment Opportunity Outreach Program (San Diego Ordinance No. 18173, Municipal Code Sections 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

Previous Council and/or Committee Actions:

This item will be heard at Environment Committee prior to Council.

Planning Commission Action:

N/A

Key Stakeholders and Community Outreach Efforts:

No specific stakeholder or outreach efforts were made in advance of the contract award but are anticipated as part of the effort under this contract.

Alyssa Muto

Department Director

Kris McFadden

Deputy Chief Operating Officer