

Memorandum

To: City of Chicago Franchise for Electricity Delivery RFI

From: Dan Aschenbach, President, AGVP Advisory 908-468-8806; danaschenbach@agvpadvisory.net

Subject: Submission for City of Chicago Franchise Electricity Delivery

Date: May 22, 2021

# (1) ELECTRICITY DELIVERY POTENTIAL FRANCHISE OVERVIEW-EXECUTIVE SUMMARY OF SUBMISSION by AGVP ADVISORY

The City of Chicago is using its franchise authority to find a solution to meet the challenges of climate change, affordability, accountability, and reliability of the electric system that serves the city. The benefits of this effort will be realized immediately with citizen recognition that the city is moving ahead to be more sustainable and transparent, and some of the actions will be felt for generations to come. This proposal is to offer to the City of Chicago my experience and insights about municipalization from outright acquisition by city, to franchise changes to clean energy aggregation. I would be the primary consultant on this and have the capability if needed to draw from a network of financial and electric industry leaders. Also I have the availability now to take on this assignment.

I have had a unique position to observe and analyze municipal ownership of enterprises as the lead public power credit analyst at Moody's Investors Service for many years. My firm AGVP Advisory now provides risk assessment, ESG (Environmental, Social and Governance) assessments and research on public sector enterprises.

I was credit analyst on the original credit estimates and rating on the municipalization of electric service on Long Island in 1996-98; lead credit analyst

on the municipalization financing of the Winter Park, Florida electric utility; reviewed proposed municipalizations from Memphis, Portland to Colorado Springs. Recently was lead analyst on several Community Choice Aggregators (CCAs) in California including Marin Clean Energy (MCE) and Peninsula Clean Energy (PCE). Both are operating CCAs providing clean energy acquisition with the IOU still providing the delivery of electricity.

The services I could perform to assist Chicago in its decision on it taking a more proactive role in electricity governance and operation include:

(1)\*Perform an evaluation of what a Chicago municipal electric utility would look like compared to ComEd using the(ESG) Environmental, Social and Governance lens. This comparative would show the value of more city presence in electric service versus the status quo of corporate ComEd. The four factors would be assessed in detail.

\*Environmental Factors: assess the environmental factors such as carbon reduction and strategies proposed for a Chicago electric utility compared to ComEd currently. Use of Chicago city data and US EPA and EIA data.

\*Social Factors: assess the location of power and distribution facilities from a social risk perspective; diversity of work force and management; affordability of electric service and utility support of low-income customers.

- \* Reliability Factors: evaluation of system reliability and strategies to improve.
- \*Governance Factors: assess transparency and accountability; citizen input processes; rate setting process and citizen input; cooperation with city and other entities; power resource planning factoring carbon reduction strategies.
- (2) \*Perform a credit estimate of "a" Chicago municipal electric utility incorporating the inaccuracies with the Next Gen assessment. (If the city would like another pair of eyes). This would be done to lay out a case why full municipalization would be economic and a more accountable approach than status quo or changes to franchise agreement. The analysis would draw on my own experience of how the Nation's largest municipal utilities have operated and how they are preparing for the future. There were several weaknesses in the NextGen study that failed to be incorporated. Such as no value was assigned to the fact that Chicago already operates a major enterprise-water-which has high marks for its strengths as an enterprise.

- (3) An evaluation of changing the franchise agreement so that it takes into consideration city goals. If the decision is to adjust the franchise agreement, this should not be done lightly. Under the expired franchise agreement, numerous issues exist which warrant changes to prepare for a changing environment. A more proactive city role could deliver better accountability, requirements for equity considerations, transition to climate change, electrification of vehicles and buildings, clean energy procurement and energy efficiency milestones. San Diego is a recent example of franchise agreement changes being made under the threat of a municipalization plan. There are several great ideas that should be considered.
- (4) An evaluation of adoption of a California CCA type change to the Chicago electric system. This would require legislation (through franchise change legislation and state choice legislation) but is a way to put Chicago in the driver's seat for many of the goals that are important. In the California model that San Francisco for example adopted, Chicago citizens would first vote to establish a Chicago Clean Energy enterprise. All generation customers of ComEd (within Chicago) are automatically Chicago Clean Energy customers and have 30 days to go back to ComED for their generation. While ComEd remains the electricity distributor and collects revenue and maintains distribution system, Chicago Clean Energy would be responsible for power resource planning; energy procurement; clean energy goals and energy efficiency programs. The charge for Chicago Clean Energy costs would appear on the ComEd customer bill. Other changes to the existing ComEd franchise such as low-income assistance could also be made. This approach would mitigate any new debt and major stranded cost issues with ComEd. Some of California CCAs have reached 60% clean energy as a percentage of total power procurement.
- 5. Should the City of Chicago seek to evaluate alternative providers as part of a formal bid process, I have done credit assessments on almost every municipal utility in the US for the past several decades and could lend support to provide external assessment of any alternative provider chosen.

#### 2.COMPANY OR ORGANIZATION INFORMATION AND PAST EXPERIENCE

\*Name of company: AGVP Advisory- agvpadvisory.com

\*Key Principal: Dan Aschenbach, President

\*Previous experience in electricity distribution/energy sector: I assigned credit ratings for Moody's Investors Service for 36 years on almost every municipal electric utility in US and, provincial utilities in Canada. This included a portfolio of the largest city-owned utilities from Los Angeles, Memphis, Seattle to San Antonio; Springfield, Illinois; formation of the Long Island Power Authority; evaluated the privatization attempts at several utilities such as JEA and Santee Cooper. Covered the many of the Nation's joint power agencies including Illinois Municipal Energy Agency. Additionally, authored credit outlooks and methodology assessments for Moody's for many years. Bio on AGVP Advisory website, link above.

In 2019, I decided to start my own firm, AGVP Advisory, which focuses on risk assessment; ESG evaluations and public sector policy assessments for a range of clients from San Antonio CPS Energy, The Energy Authority to Peninsula Clean Energy (a clean energy aggregator in California).

I am on the Board of Governors of the **National Federation of Municipal Analysts** (NFMA).

In addition, I served as Mayor of my own community 4 terms and have had 20 years of municipal government experience.

\*Summary description from recent experiences or projects: (1) As Moody's lead analyst on California CCAs, for Moody's I assigned the first credit rating on a CCA and developed the rating and risk methodology. Over 20 CCAs have been formed, including San Francisco Clean Energy. These entities are types of municipal electricity providers-they do not distribute the electricity but procure it. By contract I provide risk assessment for Peninsula Clean Energy, California (San Mateo County). (2) I am in an ongoing contract with San Antonio CPS Energy, the largest US municipal electric and gas utility, to provide risk assessment and Environmental, Social and Governance assessments.

- \*Approach to corporate compliance and ethics, including accountability to stakeholders such as ratepayers, regulators, and the general public. This question is directed at a firm that would be offering to become a franchise partner with Chicago. My role as a consultant certainty would adhere to city policies. Any agreement with a franchise partner needs to adhere to strict ethic and accountability to stakeholders and public.
- \*Approach to development of a diverse workforce and diverse supply chain: This question is directed at a firm that is interested in offering to become a franchise partner with Chicago. My role is to be a consultant. But I do believe any agreement has to ensure there are provisions for a diverse workforce, management and supply chain.
- 3. Narrative: Please provide a narrative description of your information submission or recommendations with sufficient detail on how the RFI Objectives and Goals will be addressed:

As an external consultant with significant experience in the electric industry including how cities have managed their electricity delivery in the past and what planning is needed for the future, I believe I can provide the City of Chicago perspectives and recommendations on meeting the goals of the RFI.

While the Chicago Mayor has a strong will and Chicago franchise authority provides the authority to make changes, the New Gen study abrupt conclusion left much on the side of the road. I can impart my experience evaluating US municipal electric utilities and offer recommendations on your next step and be around to help evaluate what could work.

## **SOME INITIAL RECOMMENDATIONS:**

**1-ESG** comparative and credit estimate would offer clear benefits of the need for change and the potential costs and benefits of a Chicago Clean Energy utility (municipalized or through franchise adjustments). Com Ed for example is 60% fossil fuel which is above average for a US utility. Besides the public ethical concerns, climate issues and affordability needs to be front and center. This presents an opening for change.

2-- If the direction of Chicago is to focus just on the franshise and move away from either full municipalization or a Chicago Clean Energy utility, then I would recommend a major assessment of the franchise agreement. I have begun a survey of franchise agreements throughout the US which will yield some constructive changes for Chicago to adjust the franchise for future challenges. Completing this task before a pre-qualification process makes the most sense.

## A few adjustments to Chicago-ComEd franchise agreement for example:

- \*An initial franchise term of 10 years but subject to reopen after 5 years based on Com-Ed meeting climate change progress metrics such as tons/carbon reduction or avoided.
- \*Chicago Clean Energy be given responsibility to procure energy from clean energy sources, with Com-Ed supplying must-run
- \*An initial payment by ComEd shareholders of \$250 million to fund establishment of Chicago Clean Energy (CCE). Funds used for liquidity for power procurement, administration and governance.
- \*Establishment of a distribution reliability improvement metric for annual audit and review
- \*Annual payment of in lieu of tax payments based on the valuation of the utility that was established by New Gen at \$9 billion.
- \*Include in Franchise agreement and city legislation the decision to shut off services be a City Council not ComEd decision.
- \*AGVP would focus on this exclusively and build a list of adjustments including from best practices in US.

### **4.PUBLIC BENEFITS**

Please detail non-financial public benefits to the City of Chicago and its residents, visitors, and/or business for a potential franchise with the Respondent or consideration of the information and/or recommendations submitted by Respondent.

The city would benefit from my 36 years plus experience in evaluating municipal enterprises including the several that were municipalized. My current practice has been focused on assisting utilities through the transition in the industry.

## **5.LESSONS LEARNED / NEXT STEPS**

Please provide any known examples of other cities or towns where Respondent has experience to achieve goals similar to those that the City expresses in this RFI.

\*I was lead credit analyst at beginning of LIPA and for about 10 years. Long Island Power Authority, faced with a political storm about the location of a nuclear plant that started operating on the island, which was then fueled by the President of LILCO's (the investor-owned utility) multi-million salary increase announced right after a major hurricane hit the island and many customers were still out of their homes. Citizens wouldn't let the LILCO corporation remain in business. Federal tax law was changed (1986 Tax Reform Act) to permit bonds issued to be tax-exempt. It took several years to municipalize governance. LIPA legislation permitted it to contract with private companies for T&D services while LIPA set rates and policies including power procurement. This may be a model for Chicago. LIPA is now evaluating fully municipalizing the service given performance issues with the current contracted service provider.

\*I was lead credit analyst on Winter Park, Florida. A small residential community near Orlando municipalized electric service. The driving force was the storm management failures of the investor-owned utility including destruction of street trees that the city was known for. Really. The City Council which included several bankers and financial experts had enough and the process took 2 years. If citizens are mad enough changes can be made.

\*I can provide you with numerous other examples of cities that tried to municipalize that failed and what the pitfalls were. But also from my credit experience assessing municipal utilities and their owners, I can offer a unique perspective on the strengths and weaknesses of these organizations. If I can't answer the question I know how to find the answer as I remain active in the investment and utility sectors .