Date: May 23, 2008 **Item No. 3**

LOCAL AGENCY FORMATION COMMISSION

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Completed by: Linda Wong **Date:** 5/20/08

***This list reflects the explanatory documents provided**

DRAFT REPORT

**COMMUNITY CHOICE AGGREGATION –
SUGGESTED IMPLEMENTATION PLAN, REQUEST FOR QUALIFICATIONS, AND REQUEST FOR PROPOSAL MODIFICATIONS**

**SAN FRANCISCO LOCAL AGENCY FORMATION COMMISSION
May 23, 2008**

EXECUTIVE SUMMARY

On April 17, 2008 Michael Bell Management Consulting, Inc. (MBMC) was engaged by the San Francisco Local Agency Formation Commission (SFLAFCO) to review the November 13, 2007 City and County of San Francisco (CCSF) Initiative Request For Information (RFI) responses for possible changes to the September 13, 2007 CCSF Draft Implementation Plan (IP), and identify potential revisions to Request For Qualifications (RFQ) and Request For Proposal (RFP) to be issued by CCSF for Community Choice Aggregation (CCA).

The structure of this Draft Report uses the responses to the RFI as a starting point since these were valuable thought provoking suggestions that could potentially impact the direction of the RFQ, RFP and Draft Implementation Plan. The RFI responses raised certain questions, suggestions and thoughts that are worthy of further consideration and discussion. In addition, MBMC provides thoughts, input, and suggestions for SFLAFCO consideration as it considers potential changes to these key project documents. These items are addressed in the Potential Changes to the RFQ and RFP Section of this report. Depending upon SFLAFCO decisions on the items raised in the RFI process there could be changes to the Draft Implementation Plan. Further comment and recommendations are provided in the Potential Changes to the Draft Implementation Plan section of this Report.

Documents Reviewed

A number of documents were reviewed in order to produce this Draft Report:

- Ordinance 86-04 Establishing a Community Choice Aggregation Program to allow San Francisco to aggregate the electrical load so San Francisco electricity consumers and to accelerate renewable energy, conservation and energy efficiency
- Ordinance 146-07 adopting Community Choice Aggregation Governance Structure
- Ordinance 147-7 Adopting Community Choice Aggregation Draft Implementation Plan and Adopting Further Implementation Measures

- Community Choice Aggregation Program Description and Revenue Bond Action Plan and Draft Implementation Plan
- Request for Information and Comment, San Francisco Community Choice Aggregation Initiative
- Questions and Answers on San Francisco's CCA RFI
- Responses to the CCA RFI including:
    - Citigroup Global Markets (Citigroup)
    - Northern California Power Agency (NCPA)
    - Constellation New Energy (Constellation)
    - Energy Services Group (ESG)
    - Shell Energy of North America (Shell)
    - Dr. Cicchetti of Pacific Economics Group and the University of Southern California
- Summary & Digest of Responses to CCA RFI/C

Based upon this review a number of discussion points are presented in this Report. Potential changes to the RFQ/RFP/IP which are contained in this Report include the following topics:

- Single Service Provider
- Staged Energy Supply Procurement
- Staged Customer Roll-Out
- Opt-Out Provisions
- Exit Fees
- Rates
- Rate Ready – Bill Ready Billing Alternatives
- Direct Access
- Customer Data Ownership
- Green Power Options

Each of these items could potentially result in changes to the IP. In addition to these items there is a general discussion of additional items that could impact the IP including management and budget, plans and reports, engineering and technical considerations, financial considerations, and legal considerations.

Throughout the Draft Report there are a number of recommendations. These recommendations are summarized in Appendix A. The ones that could potentially have the greatest impact on the RFQ/RFP/IP are summarized in Table 1, Summary of Major RFI Discussion Points.

Table 1
Summary of Major RFI Discussion Points

Topic	Discussion Point	Recommendation
Single Service Provider	Whether to have more than one Energy Supply Provider	Retain Single Supplier Model
Staged Energy Supply Procurement	Supplier ability to stage commodity and generation resource procurement	Allow for staged approach in RFP
Staged Customer Roll-Out	Have staged customer entry into the CCA Program	Allow bidders to propose, but indicate the preference is for entry all at once
Rates	Beat PG&E Rates	Rates should be under PG&E with the possible exception of the Green Options
	Future Rate Setting Process	Needs to be addressed in RFP
Direct Access	Supplier in potential competition with CCA for DA customers	Prohibit Supplier from competing for future DA customers

The structure of the IP is dynamic and is designed to allow the flexibility to change direction as new information becomes available. The value of this approach is confirmed by the RFI experience. It allowed potential bidders and other interested parties to present their thoughts and suggestions regarding a wide range of issues. Having the flexibility to make additional changes to the IP as the process progresses through the RFQ, RFP and implementation stages will improve the end product. Implementation of CCA is a massive undertaking with many moving parts and a number of variables. Having the ability to adapt during this process will greatly improve the opportunity for successful implementation.

RESPONSES TO REQUEST FOR INFORMATION

Responses to the CCSF Request for Information were received from the following:

- Citigroup Global Markets
- Northern California Power Agency
- Constellation New Energy
- Energy Services Group
- Shell Energy of North America
- Dr. Cicchetti of Pacific Economics Group and the University of Southern California

Each of these responses was reviewed with consideration to potential changes to the Draft Implementation Plan, RFQ, and RFP.

The RFI process was envisioned to be a means for prospective bidders and other interested parties to submit information and suggestions that would hopefully lead to a more complete RFQ and RFP. The Draft Implementation Plan clearly states, "*In light of the complexity of the CCA Program, there will be an interactive process to communicate critical program information to the potential bidders. Complex projects are generally more successful if bidders are more involved in the bid process from the outset, and are requested to provide constructive feedback on the RFP documents. To that end, once this plan is adopted by the Board of Supervisors, the LAFCO and SFPUC will conduct a Request for Information (RFI) process that will incorporate questions regarding the qualifications required of CCA supplier. While the RFQ, RFP and other project documents are the primary forms of information exchange, this additional RFI effort on the part of the CCA Program is likely to result in better quality bids.*"[1]

Although there were only a limited number of responses to the RFI the value of the feedback and suggestions are substantial. Consideration of this feedback will likely result in a better RFQ and RFP than if this step had not occurred.

"The CCA program represents a complex and dynamic undertaking – one that will undoubtedly evolve over time. Market redesign, integration of renewables, resource adequacy and evolving customer and load profiles will all impact the program as it is implemented. The best "partner" for SFPUC is one that not only understands these dynamics, but one that will also work to continually optimize the plan and business model as circumstances and demands change. From our perspective, we do not see this program as a simple power contract. We see the need to constantly look at the "big picture" and calibrate different strategies so that SFPUC can meet its program objectives of reliability, stability, accountability and green power. It is this understanding and this partnership mentality that will increase the likelihood of success." [2]

The implementation of CCA in San Francisco is a complicated undertaking that will require the coordination and cooperation of numerous governmental and private sector interests. In order to meet the requirements of lower rates, increased reliability and greater emphasis on green resources unique and new programs, resources, legal and financial structures will need to be employed. To the extent that the IP allows for the flexibility to adjust over time to meet these needs the IP will better serve CCSF.

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[1] CCA Draft Implementation Plan, page 121

[2] Citigroup Global Markets Inc., Electricity Community Choice Aggregation: Volume 2 – Proposal Overview, page 1

POTENTIAL CHANGES TO THE RFQ/RFP

This section of the Draft Report contains a discussion of key comments that were provided by RFI respondents, an analysis of the comments, and the author's recommendations as it relates to the RFQ/RFP and IP. It is important to note that there are not necessarily right or wrong responses to many of these positions. The overall CCA objectives can be met via a variety of means. The suggestions offered here in the author's opinion will result in a more manageable process for both the CCSF and the potential respondents to the RFQ/RFP.

SFPUC was consulted for its opinion on many of these issues, but given the short time frame for completion of this Draft Report they have not had the opportunity to review this material. It would be appropriate for SFPUC to advise SFLAFCO if they disagree with any of the recommendations contained herein. With their role as both the manager of implementation and the ultimate day to day operator of CCA it is important that they weigh in on these items.

Topics that were addressed in the RFI that could result in changes to the RFQ/RFP or IP include the single service provider provision, staging of the implementation of supply options, staging of services to potential CCA customers, opt-out provisions, exit fees, rates, rate ready/bill ready billing, direct access, customer data ownership, and green power options. Each of these items is discussed on the following pages, and recommendations are provided as appropriate for SFLAFCO consideration.

SINGLE SERVICE PROVIDER

The Draft Implementation Plan anticipates a single service provider, "*Because of the bundled nature of the services to be performed under this contract, which include buying electricity on the wholesale market and implementing the 360 MW roll-out, and providing operations and maintenance services for the infrastructure once established, it expected that proposers will form consortia with different members providing different elements of the required services under the DBOM Contract*".[3]

It was suggested in the Constellation response to the RFI that CCSF should be responsible for procurement of resources. Constellation suggested, "*For the "Commodity Procurement" portion of the CCA Program, CCSF should procure via a Request for Proposals, wholesale full requirements power for the retail customers making up the CCA.*"[4]

By approaching the power supply component in this manner it transfers the responsibility of power procurement, aside from the 360 MW roll-out, back to CCSF. While there may be valid arguments to such an approach, it would greatly complicate the CCSF role in the process.

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[3] CCA Draft Implementation Plan, page 121

[4] Constellation New Energy, Executive Summary, page 3

It is recommended that CCSF retain the single supplier model for the RFQ and RFP phases of development. Once the chosen supplier has sufficient CCA subscriber and load information they can procure the power supply needed to meet that load. For all intents and purposes they could then contact multiple suppliers and relieve CCSF of this responsibility. The timing of the integration of City resources will of course be important to the supplier. The interaction between CCSF and the chosen supplier will necessarily be that of a partnership in order to efficiently and costs effectively merge these resources including DSM into the overall portfolio.

STAGED ENERGY SUPPLY PROCUREMENT

In the Draft Implementation Plan CCSF identifies 3 tracks that proceed in parallel. The first track is Basic Service Given the complexity of adding 360 MW of new resources and conservation measures including 72 MW of distributed generation; 31 MW solar; 150 MW wind, and 107 MW of efficiency and conservation measures.

Both Citigroup and Constellation expressed an interest in a multi-staged approach to energy supply procurement.

Citigroup indicates that it would provide "*Full Requirements Electric Supply... (including energy to meet the renewable portfolio standards), capacity, planning reserves/resource adequacy requirements, ancillary services, load following, load balancing and scheduling coordination required to deliver electricity to meet the needs of participating end use customers.*" [5]

Constellation proposes a three stage procurement process which includes "Commodity Procurement", "Generation Procurement", and "Customer and Administrative Services". Constellation describes the commodity and generation procurement stages as Pre-Generation On-line Date and Post-Generation On-line Date. The Constellation RFI was somewhat ambiguous on this point. Under procurement Constellation stated, "*Full Requirements power, along with all forecasting and scheduling services, would be provided by the wholesale supplier.*" [6] In the discussion of Pre-Generation Online Date Constellation states, "*For the Pre-Generation Online Date service term, CCSF would purchase power for a term ending prior to the expected online date of the proposed Renewable Generation Facilities.*" [7]

One of Dr. Cicchetti's suggestions also addressed staging procurement, "*Encourage potential bidders in your RFP to initially consider using wholesale spot electricity markets and firm long-term purchase contracts in their supply portfolio to satisfy San Francisco's CCA requirements. They could do this in the short-term, and over time, they*

[5] Citigroup Global Markets Inc., Electricity Community Choice Aggregation: Volume 2 – Proposal Overview, page 2

[6] Constellation New Energy, Executive Summary, page 2

[7] Constellation New Energy, Executive Summary, page 3

could propose a phase-in plan for energy efficiency, demand-side management, and renewables." [8]

ESG states that, "*ESG is also prepared to offer wholesale energy acquisition services, scheduling/settlement services and call center services."*[9] "*ESG provides EDI, CIS and other energy transaction services that would be an excellent fit with any supplier chosen by the City."* [10]

Flexibility in terms of the timing and implementation of resources will be critical to the successful supplier and to the overall CCA success. As discussed in Financial and Legal Considerations in the IP Section of this Draft Report, potential suppliers will need latitude in their response in order to meet the objective of having rates less than PG&E. Therefore, it is recommended that the RFP be structured to permit the staged roll out of both resources and contracts as needed to match CCA objectives with operational considerations.

STAGED CUSTOMER ROLL-OUT

The RFI response from Citigroup suggested the possibility of rolling out CCA service to different customer classes over time as opposed to all at once. The Citigroup RFI response suggests a four phase approach based upon its experience in the King's River CCA. The first three phases of the Citigroup approach relate to conversion of customers to CCA service. Phase 1 includes City owned accounts; Phase 2 adds medium and large commercial accounts; Phase 3 adds residential, small commercial and agricultural accounts.

The CCSF has a long history of providing electric service to municipal accounts, and does have extensive water and waste water service experience. Ideally, the complete conversion of all accounts at one time is desirable. However, it is prudent at this stage to allow for the flexibility to stage the roll-out of CCA service given the uncertainty of future events. It is recommended that the RFP be structured such that CCSF states that it prefers to provide universal service upon start up, but allow the respondents to offer roll-out options if they deem them necessary to the smooth implementation and operation of CCA Program.

OPT OUT PROVISIONS

Citigroup and Constellation provided comments on the opt-out provisions in response to the RFI.

Citigroup recommends that the opt-out opportunities be given at the earliest point possible in order to minimize disruption with the energy supply contract. They

[8] Dr. Charles Cicchetti, Pacific Economics Group LLC, letter dated September 21, 2007
[9] Energy Services Group, Inc., Prospect-to-Cash CIS & Billing Services, Volume 2, page 6
[10] Energy Services Group, Inc., Prospect-to-Cash CIS & Billing Services, Volume 3, page 26

acknowledge the fact that the last opt-out opportunity could occur after service begins, and suggest that an exit fee may be required in this case.

Constellation states in its response to the RFI, *"During these two windows, customers that choose to opt-out of the CCA program should not be charged any fees or penalties for exercising their rights to not participate in the CCA. After the CCA is implemented and the second window closes, individual customers shall not be restricted from leaving and returning to/from the CCA, providing the following costs and obligations are honored:…"*[11]

Given the size of the commercial/industrial load (1 percent of potential customers, but 64 percent of potential revenues) it may make sense to stager the opt-out notices between customer classes. This would also make sense if there is a staged customer roll-out of CCA Services. It is recommended that the option be kept open to have staggered opt-out notices by customer class consistent with the recommendation indicating the preference for universal service all at once as expressed in the Staged Customer Roll-Out Section. This will allow the RFP respondents the flexibility of offering such a plan should they deem it necessary for CCA Program success. It is further recommended that all four of the opt-out opportunities be available to potential customers at no cost consistent with the provisions of AB117.

EXIT FEES

With the many risks that CCSF proposes to place upon the supplier exit fees become one of the most important protections for the supplier, and for that matter the CCSF. Once power contracts and resources are acquired any loss of customer base could drive up costs to remaining customers. Therefore, an important protection to the supplier and the CCSF will be a fair and thoughtfully designed exit fee.

Constellation proposes not to restrict customers from leaving or returning to the system provided there is protection against stranded generation and wholesale hedge costs. Constellation also proposes that customers added to the CCA would be added at prices that reflect market conditions at the time of their entry. This could create a complicated rate structure that would potentially require numerous rate schedules based upon time of entry. Common ratemaking practice is to charge all like customers the same rates. Generally, the addition of a customer will theoretically provide the opportunity to reduce the average cost of service since it provides the chance to spread costs over a larger base. Should incremental costs increase it is conceivable that the average cost would be increased. At this point Constellations approach is worthy of consideration.

It is recommended that an exit fee be established that would apply to customers who leave the CCA after the conclusion of the opt-out opportunities. This fee should be based upon the cost incurred by the supplier/CCSF.

[11] Constellation New Energy, CCA Volume 3 – Answers to RFI/C Questions, page 9

It is further recommended that RFQ/RFP respondents be allowed to submit alternative ratemaking options for evaluation subject to the approval of CCSF. It would be appropriate to have the SFPUC Rate Fairness Board provide input on this matter.

RATES

Citigroup recognizes four key factors in optimal rate setting. These include cost recovery of both power supply and incremental costs of operations, financial covenants including a margin of rate coverage, operating flexibility including reserves and contingencies, and affordability. Citigroup goes on to state, "*The optimal rate-setting process will be the process that best meets these multiple rate-setting objectives. This process will necessarily combine the pass-through of initial generation rates established by contract with the energy supplier, and administrative authority to impose such additional costs as are supportive of the SFPUC's independent financial needs and objectives.*" [12]

Constellation takes a much different approach which suggests that it will not be possible to provide rates lower than PG&E in the short run. "*Constellation does not believe that the goal of the CCSF CCA program should be to compete with PG&E energy rates in the short term.*"[13] Constellation adds, "*Over time, customers will have the benefit of the long-term view a CCA Program can take, enjoy lower rates, and significantly reduce the environmental impact of their energy consumption.*" [14]

Constellation indicates that CCSF should set rates in order to fully recover the cost of constructed generation, full requirements power, and administrative services. In addition, Constellation states that. "*...CCSF must maintain a balancing account to cover any short-term excess or short fall in cost recovery.*" [15]

Several important points are raised regarding rates and the rate setting process that should be considered as CCSF proceeds with the issuance of the RFQ/RFP and considers potential changes to the Implementation Plan. These include the question raised by Constellation regarding the ability to beat PG&E's rate from the outset, their statement about the need for a balancing account, and the all important consideration of how rates will be determined in the future. Each of these could have a significant impact on the responses to the RFQ/RFP and the direction of the Implementation Plan.

The RFI respondents were rightfully cautious regarding their ability to provide all in service at rates below PG&E. There still are too many unknown variables for them to make such a prediction at this time. Citigroup addressed this point by stating, "*The final ability to do this will be dependent on market conditions at the time of execution and the entire financial framework of the program.*" [16] Constellation was less optimistic in

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[12] Citigroup Global Markets Inc., Electricity Community Choice Aggregation: Volume 3 – Answers to RFI/C Questions, page 6
[13] Constellation New Energy, Executive Summary, page 1
[14] Constellation New Energy, Executive Summary, page 2
[15] Constellation New Energy, CCA Volume 3 – Answers to RFI/C Questions, page 12
[16] Citigroup Global Markets Inc., Electricity Community Choice Aggregation: Volume 2 – Proposal Overview, page 2

stating, "*Constellation does not believe that the goal of the CCSF CCA program should be to compete with PG&E rates in the short term.*" [17]

It is recommended that CCSF continue to expect the respondents to the RFQ/RFP to come up with a structure that will provide for lower rates than PG&E from the outset. Constellation is correct in stating that this is no easy task. Citigroup is accurate in identifying the fact that it is likely going to be a combination of energy markets at the time of execution along with the accompanying "financial framework" that would likely produce this result. This is perhaps the strongest argument for having a single CCA supplier. If this goal is to be achieved it will most likely be done by a supplier that can pull together multivariate resources including supply acquisition and innovative or unique financing methods that will help reduce cost in the short term. This also argues for a relatively long term agreement. Given the degree of difficulty with regard to this goal it is unlikely that a supplier could be kept whole with an agreement of less than 25-30 years. For this reason, it is recommended that RFQ/RFP respondents be permitted to suggest long-term contracts that could be as long as 30 – 45 years.

Both Constellation and Citigroup offer valuable comments regarding the need for reserves and contingencies, and provide extensive comments regarding tax exempt finance options and public/private ownership options that could improve project economics. These arrangements will undoubtedly be complicated and take time to structure in order to avoid running afoul of tax and ownership regulations. To that end, reserve accounts and coverage margins provide additional cost in the long run, but also provide a measure of safety that would benefit the project over time. As time passes, and overall risk is reduced these reserves could also be reduced correspondingly. A balancing account as suggested by Constellation would provide greater flexibility, and would certainly be looked upon positively by bond rating agencies, but it is not necessarily a must. It is recommended that the RFP respondents have the flexibility to propose reserves, contingencies and accounts that they need in place in order to execute their CCA model. CCSF can evaluate these terms as part of the RFP review process.

Finally, the question of how rates will be determined after the initial contract is executed is an important one. RFP respondents will need to know the framework for rate change consideration. The Draft Implementation Plan states, "*While it is clear that the initial rate established by a CCA supplier shall be required to meet or beat PG&E's generation rates the mechanism to change rates thereafter has not been established.*" [18] Ordinance 86-04 [19] provides that the IP should include supplier bids that cover the entire cost (i.e. all in rate to consumers), and that the supplier include proposals for CCA rate design. It is recommended that CCSF consider providing bidders with some direction regarding future rate changes. Potential suppliers need some reasonable assurance that they will be able to recover cost on a reasonable basis into the future.

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[17] Constellation New Energy, Submitted with Constellation Comments in Response to the RFI/C, Executive Summary, page 1

[18] CCA Draft Implementation Plan, page 99

[19] Ordinance 86-04. Section 3 (1)(III), page 5.

RATE READY – BILL READY BILLING ALTERNATIVES

Billing coordination with PG&E must work smoothly in order to avoid billing problems. Technically either the rate ready or bill ready approach will work, however the rate ready option is probably the easier to implement.

Constellation states that they can support either rate ready or bill ready billing through PG&E.

Citigroup recommends using the rate ready approach in their RFI response, "*We would suggest the rate ready billing options provides the most seamless and efficient manner in which to work directly with PG&E in their billing capacity as part of the CCA program*" [20]

ESG identifies that there are pros and cons with either approach and take a slightly different position on this issue. "*Ideally SFPUC would have available both options and could select as appropriate, For instance, it may be best to utilize bill ready for larger customers who want more advanced price plans and rate ready for all of the residential customers.*" [21] This is a flexible approach that provides CCSF with options into the future.

It is recommended that CCSF require suppliers provide rate ready billing since it is the easiest and most likely billing option to be used with PG&E. RFP respondents should be permitted to make bill ready billing an added option. This will allow CCSF greater flexibility in the future.

DIRECT ACCESS

The likelihood of the eventual return of direct access coupled with the large potential revenue generated from commercial/industrial customers in San Francisco makes this an important consideration for CCSF. The responses to the RFI were diametrically opposed to each other on this matter.

Citigroup took the following position, "*...we would recommend the winning bidder be prevented from either having or initiating any direct assess agreements with customers within the CCA's service area.*" [22]

Constellation takes a much different approach which is to be expected given the fact that they likely serve grandfathered direct access customers in San Francisco. "*CCA wholesale suppliers or their affiliates should not be required to terminate existing Direct*

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[20] Citigroup Global Markets Inc., Electricity Community Choice Aggregation: Volume 3 – Answers to RFI/C Questions, page 7

[21] Energy Services Group, Inc., Prospect-to-Cash CIS & Billing Services, Volume 3, page 25

[22] Citigroup Global Markets Inc., Electricity Community Choice Aggregation: Volume 3 – Answers to RFI/C Questions, page 9

Access accounts upon an award of CCA wholesale supply. The extent to which can leave the CCA after the statutory opt-outs, either to return to the utility or take electric service from a third party, including an affiliate of the wholesale supplier, depends on how theca program is structured to impose exist fees on departing customers." [23]

Given the fact that consumers in San Francisco have voluntarily selected suppliers under Direct Access regulations open to them at the time it is not advisable for CCSF to require the winning supplier to terminate those relationships. It could potentially alienate a potential CCA customer and drive them to explore other options. At the same time, once CCSF selects a supplier it is completely reasonable for CCSF to expect that the supplier or its affiliates would not be in direct competition with CCSF for customers.

It is recommended that the RFP allow existing grandfathered direct access accounts to continue, but prohibit the winning bidder from competing for any direct access customers that may occur in the future.

CUSTOMER DATA OWNERSHIP

Ownership of customer data is an important consideration for CCSF. Customers typically view their usage data as private, particularly commercial and industrial customers who do not want competitors to have access to this data.

It is recommended that CCSF retain ownership of customer data. It will need to be provided to the supplier for them to fulfill their commitments, but CCSF should retain the ultimate ownership of such information. Sale of customer data or marketing of non-CCA services to customers is not recommended.

GREEN POWER OPTIONS

There was much interest among RFI respondents regarding green power options and alternatives.

Constellation has developed an array of 100 percent Green Renewable Products including:

- NewMix – wind, solar, hydro, biomass, landfill gas and/or other sources
- NewMix Premium – wind and/or solar
- NewMix Super – wind, solar hydro, biomass and/or landfill gas
- NewSource – carbon offsets

Constellation does propose that, *"Any residential renewables program, however, should require customers to be aggregated into blocks for minimum periods of time (i.e. quarters), and have a minimum contract duration (i.e. 18 months)."* [24]

[23] Constellation New Energy, CCA Volume 3 – Answers to RFI/C Questions, page 16
[24] Constellation New Energy, CCA Volume 3 – Answers to RFI/C Questions, page 19

Citigroup also finds value in the ability to offer green power products, *"We support the establishment of both a premium green power product and the development of a voluntary renewable energy resource development fund. Both these programs will increase the level of customer responsiveness and are likely to be popular programs given community objectives. We see potential benefit in offering these programs to all customers including large customers."* [25]

Given this high level of interest in the provision of green programs, it is recommended that alternatives be included in the RFQ/RFI process for potential suppliers to offer a complete green power supply and accompanying rate to potential CCA subscribers. There appears to be both consumer demand and supplier interest in supplying such a service. This alternative will likely exceed PG&E's existing rate since the cost of these resources likely exceed PG&E's embedded cost, but typically the subscribers of these services are motivated by more than price. It is recommended that the requirement to be below PG&E's rate not apply to the green power component.

POTENTIAL CHANGES TO THE DRAFT IMPLEMENTATION PLAN

The Draft Implementation Plan was purposely designed to be an evolutionary document. The first step in the process was the RFI. Responses to the RFI confirm that this built in flexibility is in the long-term best interest of the CCA program. The ability to react and adjust to the thoughts of potential bidders will undoubtedly benefit the implementation process. It will provide bidders with greater detail regarding CCSF desires, yet also allow for some measure of flexibility in terms of the responses to the RFQ/RFP.

All of the items discussed in the Potential Changes to the RFQ/RFP have the potential of impacting the IP over time. Therefore, it is appropriate to periodically review the IP in light of these developments. It is recommended that the IP be reviewed again after responses to the RFQ are received, and after the selection of a supplier emerges from the RFP process. It will undoubtedly need review as implementation progresses.

Several considerations are included in this Draft Report including thoughts with regard to management and budget, plans and reports, single supplier, engineering and technical considerations, financial considerations and legal considerations.

MANAGEMENT AND BUDGET

In order to effectively implement the myriad of components of the IP, SFPUC will need to have adequate staff, budget, and time to work through the many IP processes. Based upon discussion with SFPUC staff, it is the author's understanding that adequate resources both in terms of staffing and budget have thus far been allotted to the IP.

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[25] Citigroup Global Markets Inc., Electricity Community Choice Aggregation: Volume 3 – Answers to RFI/C Questions, page 10

SFPUC faces the same problem that many utilities have these days attracting highly qualified talent. There may well be some delays filling all of the positions that they have been authorized to hire. It may be necessary for SFPUC to have access to additional consulting assistance as an option should the acquisition of staff present a longer-term problem. SFPUC is presently in the midst of its second solicitation for consulting assistance for the implementation of CCA. Even acquiring qualified consultants can be a difficult time consuming process given the limited number of firms with experience in this field.

The coordination of activities within CCSF should not be underestimated in the CCA implementation process. The success of the IP will largely depend upon the ability of City staff to coordinate across Departments so the CCA objectives are met. The IP does a good job of identifying the key stakeholders and outlining both their roles and responsibilities. Major Boards, Commissions and City Office Holders identified in the IP include:

- Board of Supervisors
    - Local Agency Formation Commission
    - Budget & Finance Committee
- Office of the Mayor
- SFPUC
    - Commissioners
    - Rate Fairness Board
- Office of the City Attorney
- CCA Advisory Board
- Rate Setting Advisory Board

In addition, in order to fulfill their assigned responsibilities the SFPUC and SFLAFCO will likely need to coordinate with other City Departments including the Departments of Environment, Planning, Public Works, Real Estate, and likely others particularly as it relates to the locating distributed generation and green resources within the City.

It also will be important for SFPUC to have an effective working relationship with PG&E in order for the implementation of CCA to avoid creating confusion for customers. Fortunately the CPUC has structured a process that will need to be followed, and has compelled PG&E to assist CCSF with its implementation. It is also in PG&E's interest to make sure that customers that chose to participate in CCA are handled well since they will continue to be transmission and distribution.

It is recommended that the intergovernmental coordination contained in the IP include a mechanism for CCSF Departments and other governmental agencies to provide feedback to the SFLAFCO if they foresee obstacles to the implementation of their objectives.

PLANS AND REPORTS

There are a multitude of plans and reports that are identified in the IP that are part of the implementation process. Some of the major IP documents and plans include:

- Request For Information
- Request For Qualifications
- Request For Proposals
- Program Basis Report
- Project Management Plan
- Construction Management Plan
- PG&E Interface Plan
- Communications Plan

Some of these such as the RFI, RFQ, and RFP are sequential. The timing of drafting portions of the plans will likely be affected by responses to the RFQ and RFP. Work can likely be accomplished on much of the Program Basis Report and plans, but some latitude will be needed to adjust the plans accordingly as more is learned from the RFQ and RFP processes.

It is recommended that the development of these Plans provide the flexibility to adjust them as implementation proceeds. The general framework and contents may be fairly well established as they are developed, but given the potential for altered incorporation of supply contracts and resource additions it is highly likely that these Plans will need to be adjusted as CCA implementation proceeds.

ENGINEERING AND TECHNICAL CONSIDERATIONS

Potential engineering and technical considerations could present obstacles which are not known at this time. Considering the aggressive 360 MW roll-out expectations in terms of Distributed Generation and local renewable resources there could be engineering and operational impacts to the local distribution system. These impacts could be either positive or negative depending upon the engineering of the PG&E transmission and distribution system. SFPUC staff will need to have access to and cooperation from PG&E regarding the placement of facilities within the City.

CCSF has aggressive plans to implement its 360 MW plan which includes 71 MW of distributed generation, 31 MW of solar, 150 MW of wind, and 107 of Efficiency and Conservation Measures. The addition of such a substantial amount of resources if primarily located in the City will likely have impacts on the existing distribution system. To the extent that these impacts can present positive results to the operation of the distribution system it should be encouraged. Such impacts are beneficial to both CCSF and PG&E. PG&E should be motivated to encourage resource development that CCSF proposes as it will alleviate constraints on the distribution system, improve performance, and reduce PG&E cost.

It is recommended that the SFPUC attempt to work with PG&E in order to implement the aggressive Distributed Generation, wind, solar and efficiency and conservation measures. The effort to site resources within the City should be a cooperative effort with PG&E so as to share the benefits of placing these assets strategically within the City.

FINANCIAL CONSIDERATIONS

The financial considerations related to the IP may be the most significant piece in terms of the long run success of the Plan. Considering the desire by CCSF to establish rates below PG&E's, and the need for performance bonds/financial guarantees, this is probably the most significant hurdle for any respondent to the RFP.

There is substantial discussion in the CCA Program Description, Revenue Bond Action Plan, and Draft Implementation Plan to the benefits of tax-exempt financing and public private partnerships. Responses to the RFI included references to financial structures including outside equity, potential public/private partnership arrangements, tax equity, and the use of tax exempt debt. One of Dr. Ciccetti's suggestions was, *"The City has favorable financing in terms of all debt, length of loans, amortization, etc. These should be made available to prospective bidders as public/private partnership options."* [26] It is likely that the only way respondents to the RFQ/RFP process will be able to meet the objective of rates lower than PG&E will be through a complex mix of structured financial and tax arrangements.

It is recommended that respondents to the RFQ/RFP be permitted the latitude to use their creative powers to structure the mixture of supply contracts along with financial structures that will thereby enable them to fulfill the rate objective. Such latitude may also be needed in order to structure the performance bonding and financial guarantees that CCSF seeks.

LEGAL CONSIDERATIONS

Given the extensive discussion of alternative finance methods in the IP, the response to the RFI which included complex financial transaction including public/private partnerships and the use of tax breaks it is highly likely that the legal considerations will be unique for CCA implementation in CCSF. It is likely that there will be certain legal issues that arise during the process that may require specialized legal work. A good example is the question of ownership of CCA customer data and how that data may be viewed in terms of the City's Sunshine Laws.

It is likely that the RFP will responses will contain unique ideas in terms of contracts and financial structure. In order for CCSF to evaluate the responses the SFPUC and SFLAFCO may need access to specialized legal services. It is also envisioned that the actual implementation will require a variety of attorneys who will need to reach

[26] Dr. Charles Cicchetti, Pacific Economics Group LLC, letter dated September 21, 2007

consensus as to the methods and means of implementation. Some examples of specialized legal services that most likely will be required include:

- City Attorney
- Bond Council
- Underwriters Council
- Tax Council
- Disclosure Council

These efforts will need to be closely coordinated in order for the potential supplier to structure a plan that will deliver the desired results.

APPENDIX A
SUMMARY OF RECOMMENDATIONS

1. It is recommended that CCSF retain the single supplier model for the RFQ and RFP phases of development.
2. It is recommended that the RFP be structured to permit the staged roll out of both resources and contracts as needed to match CCA objectives with operational considerations.
3. It is recommended that the RFP be structured such that CCSF states that it prefers to provide universal service upon start up, but allow the respondents to offer roll-out options if they deem them necessary to the smooth operation of CCA Program.
4. It is recommended that the option be kept open to have staggered opt-out notices by customer class consistent with the recommendation indicating the preference for universal service all at once as expressed in the Staged Customer Roll-Out Section above.
5. It is recommended that all four of the opt-out opportunities be available to potential customers at no cost consistent with the provisions of AB117.
6. It is recommended that an exit fee be established that would apply to customers who leave the CCA after the conclusion of the opt-out opportunities. This fee should be based upon the cost incurred by the supplier/CCSF.
7. It is recommended that RFQ/RFP respondents be allowed to submit alternative ratemaking options for evaluation subject to the approval of CCA. It would be appropriate to have the SFPUC Rate Fairness Board provide input on this matter.
8. It is recommended that CCSF continue to expect the respondents to the RFQ/RFP to come up with a structure that will provide for lower rates than PG&E from the outset.
9. It is recommended that RFQ/RFP respondents be permitted to suggest long-term contracts that could be as long as 30 – 45 years.
10. It is recommended that the RFP respondents have the flexibility to propose reserves, contingencies and accounts that they need in place in order to execute their CCA model.
11. It is recommended that CCSF consider providing bidders with some direction regarding future rate changes. Potential suppliers need some reasonable assurance that they will be able to recover cost on a reasonable basis into the future.
12. It is recommended that CCSF require suppliers provide rate ready billing since it is the easiest and most likely billing option to be used with PG&E. RFP respondents should be permitted to make bill ready billing an added option.
13. It is recommended that the RFP allow existing grandfathered direct access accounts to continue, but prohibit the winning bidder from competing for any direct access customers that may occur in the future.
14. It is recommended that CCSF retain ownership of customer data.
15. Sale of customer data or marketing of non-CCA services to customers is not recommended.

16. It is recommended that alternatives be included in the RFQ/RFI process for potential suppliers to offer a complete green power supply and accompanying rate to potential CCA subscribers.
17. It is recommended that the requirement to be below PG&E's rate not apply to the green power component.
18. It is recommended that the IP be reviewed again after responses to the RFQ are received, and after the selection of a supplier emerges from the RFP process.
19. It is recommended that the development of these Plans provide the flexibility to adjust them as implementation proceeds.
20. It is recommended that the SFPUC attempt to work with PG&E in order to implement the aggressive Distributed Generation, wind, solar and efficiency and conservation measures.
21. It is recommended that respondents to the RFQ/RFP be permitted the latitude to use their creative powers to structure the mixture of supply contracts along with financial structures that will thereby enable them to fulfill the rate objective.

San Francisco LAFCO
Community Choice Aggregation
RFQ/RFP/IP Suggestions

Michael Bell
MBMC, Inc.

May 23, 2008

Presentation Outline

- General Comments and Observations
- Request For Qualifications/
  Request For Proposal/
  Draft Implementation Plan Discussion
- Other Draft Implementation Plan Considerations

General Comments and Observations

- The Draft Implementation Plan (IP) is a living changing document
  - The RFI process succeeded in prompting discussion of issues of importance to potential suppliers
  - There will be other opportunities to adjust the IP as the process moves forward
- Responses to the PRP are likely to be complicated

RFQ/RFP/IP Discussion

- Single Service Provider
- Staged Energy Supply Procurement
- Staged Customer Roll-Out
- Opt-Out Provisions
- Exit Fees
- Rates
- Rate-Ready – Bill Ready Billing Alternatives
- Direct Access
- Customer Data Ownership
- Green Power Options

Single Service Provider

- Should CCSF have more than one Energy Supplier?

- No, stay with Single Supplier plan
  - Performance is bidder responsibility
  - Easier to enforce bonds/guarantees
  - Complex transaction better executed by one party

Staged Energy Supply Procurement

- Should bidders be permitted to phase in energy supply resources?

- Yes, it provides ability to match supply needs with available resources
  - Particularly as it relates to 360 MW roll-out
  - Gives bidders ability to hedge short and long term

Staged Customer Roll-Out

- Should bidders be able to phase in CCA service over time?

- Yes, if they think it is necessary for successful implementation
  - CCSF express preference for one time conversion
  - Permit phase in if bidder thinks it is necessary

Opt-Out Provisions

- At what point does customer incur cost for Opting-Out?

- After the two mandatory windows (4 notices)
  - Opportunity for Supplier to quantify loads
  - Should correspond with Suppliers obligations

Exit Fees

- Should there be an Exit Fee after the Opt-Out period?

- Yes, in order to protect Supplier/CCSF from risk
  - Protect revenue stream should customers leave
  - Base upon cost

Rates

- Should bidders be required to meet or beat PG&E's rates?

- Yes, per Ordinance 86-04
  - Bidder responsibility to generate mix of resources and financial structure to do this
  - Best way to generate critical customer mass
  - Major reason for implementing CCA

Rates (Cont.)

- How should reserves and contingencies be structured?

- Allow bidders to develop
  - To meet rate goals unique contract, partnering, and financial arrangements will likely be needed
  - Bidders can structure the approach which best fulfills CCSF objectives within their plan
  - RFP to require bonding - guarantees

Rates (Cont.)

- What will be the process for rate changes in the future?

- This is important for bidders to know as it may affect how they structure their proposal
  - Thought should be given to this prior to issuing the RFP
  - Have the Rate Setting Advisory Board or Rate Fairness Board consider options?

Billing Alternatives

- Should Rate-Ready or Bill-Ready billing be employed?

- Rate Ready billing should be a requirement of the RFP
- Bill Ready billing may be offered by the respondent as an alternative

Direct Access

- Should Supplier be able to compete for Direct Access Customers in the future?

- No, this would be a conflict of interest
  - Existing relationships should be grandfathered
  - New relationships should be prohibited in the RFP

Customer Data Ownership

- Who should own data? Should data be sold for non-CCA services?

- CCSF should retain ownership
  - Need to make certain that customer privacy is assured
- Data should not be used for non-CCA purposes

Green Power Options

- Great interest in Green Power Options by RFI respondents

- Encourage development of this idea
  - 100 percent green rate?
  - Waive PG&E rate test for this segment

Other IP Considerations

- Management and Budget
- Plans and Reports
- Engineering and Technical Considerations
- Financial Considerations
- Legal Considerations

Management and Budget

- Adequate Staff at SFPUC
- Adequate Budget
- Good Communication among Boards, Commissions and Staff
- Coordination with other City Departments
  - Feedback process?
- Coordination with outside Agencies
- Cooperation of PG&E

Plans and Reports

- Request for Information
- Request for Qualifications
- Request for Proposals
- Program Basis Report
- Project Management Plan
- Construction Management Plan
- PG&E Interface Plan
- Communications Plan

Engineering and Technical Considerations

- Impact of adding substantial resources and demand side management in City
  - May have positive or negative impacts on transmission and distribution systems
  - Can't evaluate without PG&E assistance
  - Could have positive benefit for PG&E

Financial Considerations

- Allow RFP Respondents to structure proposals to include
  - Rates below PG&E
  - Performance Bonds and Guarantees
  - Public/Private Partnerships
  - Structure to use Tax Advantages
  - Structure to employ Tax Exempt Financing
  - Long-Term Contract Options

Legal Considerations

- RFP responses are likely to be complicated and will likely require substantial legal review. Examples include -
  - Public/Private Contracts
  - Ownership Options to take advantage of tax breaks
  - Tax Exempt Financing
  - Data Ownership