

San Francisco
Local Agency
Formation Commission

ITEM NO. 2

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689
Tel. 415.554.7702
Fax. 415.554.5163

MINUTES

Special Meeting
Friday, February 22, 2002, 9:30 a.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez
Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chair Gonzalez at 9:30 a.m.

Members Present: Chairperson Gonzalez, Vice-Chairperson McGoldrick, Commissioners Ammiano (noted present at 11:54 a.m.), Schmeltzer, Fellman, and Hall (noted present at 1:15 p.m.)

Members Absent: None

2. San Francisco Local Agency Formation Commission (SFLAFCo) Public Hearing on Public Power.

Chairperson Gonzalez stated that the San Francisco Local Agency Formation Commission is sponsoring the first of several public information hearings that will investigate the options of providing electricity service to the City and County of San Francisco. The first information hearing will focus on various public power options, and that we look forward to hearing from a number of prominent public power managers in the morning session. There will also be an afternoon session

beginning at 1:00 p.m. with additional speakers. In a few weeks, the San Francisco Local Agency Formation Commission will sponsor another public information hearing which will focus on options of continuing to receive electric service from PG&E, and we hope to have appropriate speakers from both Pacific Gas and Electric Company and the Public Utilities Commission to share with us information regarding this option. A date for that hearing will be scheduled in the near future, and there may be additional information hearings as the need arises to gather more information on any particular subject.

The SFLAFCo was established in August of 2000 as a result of an initiative petition to create a Municipal Utility District or MUD for the City and County of San Francisco and the City of Brisbane. California law necessitated that the City and County of San Francisco form a LAFCo to review the proposed formation of a district. In addition, the Cortese-Knox-Hertzberg Act authorized the LAFCo to perform studies and to obtain and furnish information that would contribute to the logical and reasonable development of local agencies for specific purposes. Most of you are aware that there was a recent election in San Francisco regarding the creation of a MUD. The result of the election revealed that there is public support in San Francisco for the consideration of public power.

Following the November election, the San Francisco LAFCo discussed whether there was a continuing need for this LAFCo Commission. After some discussion, the Commission unanimously concluded that there was indeed a public need and strong public support for the thoughtful investigation of public power options for San Francisco. LAFCo therefore decided to continue its work. The Commission felt it was the best vehicle for embarking upon a deliberate and open process of gathering information. By LAFCo establishing a broad information base on this complicated subject, San Francisco would be in a position to make a knowledgeable decision on whether to pursue the matter of public power either as a Municipal Utility District, a Municipal Utility, or in some other form or hybrid. These public discussions may very well lead to another ballot proposition in the future. The purpose of these workshops is to provide an opportunity to gather as much information as is reasonably possible to assist the members of the public and the Commission in our future thinking about how we move forward. The City and County of San Francisco and LAFCo will hopefully be able to assess the information we receive, explore the various options we have, and hopefully make the best decision for San Francisco.

Gloria L. Young, Executive Officer stated this is the first informational hearing to focus on public power options. I will take a few minutes to introduce each of the panelists. All have extensive bios, so I will briefly introduce them.

First, we are delighted to welcome Ms. Laura Doll. Ms. Doll is the first Chief Executive Officer (CEO) of the California Consumer Power and Conservation Financing Authority, a state agency established in response to the California 2001 energy crisis. Ms. Doll has had over twenty years of experience in formulating and administering corporate level strategic energy initiatives. She served as the Chief

Administrative Officer of Austin, Texas, a municipally owned electric utility for over fourteen years. Ms. Doll has graciously stepped in to replace Mr. David Freeman who unfortunately could not be present.

Ms. Linda Davis is a member of the Board of Directors for the Sacramento Municipal Utility District. She was elected in 1992 and reelected in 1996 and 2000. She was the President of the Board of Directors in 1999 and also served as Vice-President for two years. She is currently the Chair of the Finance Committee.

Ms. Mary Tucker is a Supervising Environmental Services Specialist for the city of San Jose and has played a major role in planning and managing energy and environmental programs on local, state, and national levels for more than twenty years. She has been with the city since 1989. Ms. Tucker is the immediate past president of the American Solar Energy Society.

Mr. Tom Habashi is a director of Roseville Electric. Mr. Habashi has spent over the last twenty-one years working for community-owned utilities. His public service includes the cities of Burbank and Palo Alto.

Please join me in welcoming our panelists. I would now like to introduce Donald Maynor, Esquire our legal counsel for SF LAFCo, who will facilitate this session. Mr. Maynor has extensive experience in the area of municipal utilities.

Donald Maynor, Esquire stated, I would like to introduce my co-counsel, Nancy Miller, Esquire. If it pleases the Commission, I would like to suggest some informal rules for conducting a hearing this morning. I would suggest that the speakers keep their comments within the 15-20 minute range so that we would have an opportunity for the Commissioners, panelists, and members of the staff to ask questions. We also will provide an opportunity for the members of the public to ask questions. There's a form that we put together in the kiosk, and if the public has any questions or comments, they could fill out the form and give it to Ms. Fish, the Clerk. If we have time at the end of all of the presentations, we will ask the questions of the panelists based on the written questionnaire. We do encourage you to ask questions and submit your comments. At the end of the afternoon session, there will be an opportunity for public comment as well.

Morning Panel 9:30 – 12:00 p.m.

Laura Doll, Chief Executive Officer, State of California Consumer Power and Conservation Financing Authority stated I do want to extend David Freeman's apologies. This is an issue that's absolutely near and dear to his heart, so he is very interested in what will happen here. I am sure he would be happy to come and talk to you at some point in the future. It's an important issue that you are embarking on this morning, and I think you are doing exactly the right thing by starting to talk to people. I have as I come to you today a relatively narrow professional perspective right now on behalf of

the California Power Authority, but I do have a lot of experience in the municipal utility side of things so would be happy to talk about that. Let me talk a little bit about this new kid on the energy block in Sacramento, the California Power Authority. Our official name is the California Consumer Power and Conservation Financing Authority. Each of those words are fairly important, but a key emphasis is on financing. This agency is about six months old and as mentioned was born out of last year's energy crisis. The legislature had in mind that the state of California should have some control over energy reserves to avoid both blackouts and also to provide price stability in the market.

As our first assignment, we were directed by the legislature to produce an Energy Resource Investment Plan. I've left a copy of this plan, which was just delivered last Friday to the legislature and to the governor at each of your places, and there are a few extra copies. The plan is also available on our web site, which is capowerauthority.ca.gov. The point of this plan is to help establish more clearly what the role of the Power Authority might be.

We were given authorization to issue up to five-billion dollars in revenue bonds to help with reserves, conservation, renewables, and so forth. That doesn't mean that we have that money in hand right now, but we do have the opportunity to go to the market and get it for appropriate projects. What we've tried to outline in this plan is a vision of what we're calling a clean energy future for California.

I think what is most significant to the work that you are undertaking is that should you elect to get into the electricity supply business, the Power Authority is a ready, willing, and able partner to help provide the resources that would enable you to do that. Those resources, in our view, can all be through clean energy options. We are in the clean energy and clean energy financing business. That distinguishes us from the other state agencies. We are not in the regulatory business, so we are not the PUC just across the street. We are not in the planning and siting business, so we are not the California Energy Commission. Our focus is really rather much more narrow than that. It is to fill some gaps in the marketplace working in concert with the private sector as well as the other state agencies to provide some measure of reliability and security in the state. We are non-profit. We are meant to be self-supporting. We are not there yet, only six months old. Anything we do will be priced on that basis, which is to say non-profit and cost-based pricing.

In the Plan, a couple of the things that we tried to outline more specifically include local examples as follows. There is, as you are well aware, a transmission reliability problem in San Francisco. We believe working with the California Independent System Operator (ISO) as well as the Energy Commission and the PUC, that this is a very serious need to be addressed as quickly as possible. One of the things that we have outlined and considering

is financing a small peaker project in the area of the San Francisco Airport. Another specific local reliability program that we are considering would focus on businesses in the San Jose to San Francisco corridor and provide financing for special efficiency improvements and renewable energy projects in this area. Basically, we can help provide capacity. If you elect not to get into the electric utility business at a retail level, a key component of our Plan is something we're calling, greening public buildings.

We are very excited about the opportunity to help levels of state and local government, and we have recently had an inquiry from the federal government as well. In other words, to reach out to public facilities throughout California and help provide financing for energy efficiency improvements and again for renewable energy projects like photovoltaics. Now, San Francisco, of course, has clearly demonstrated an interest in renewables. We think that working with Sacramento Municipal Utility District, which has a very active program, Los Angeles Department of Water and Power, San Francisco, and the Power Authority, that we are going to have significant buying power to help influence the photovoltaic market in California and to move photovoltaics farther along than anyplace else in the country.

We think we've laid out in our plan something that you already believe and demonstrated that you believe is that clean energy works, that it is not only technically feasible, it can be cost effective as well. In our plan, we compare a clean energy future to a business as usual future, one in which for example 8,000 megawatts of capacity between now and 2006 is met by natural gas versus one that is met by clean energy conservation renewables and efficiency improvements.

One of the things that you may want to take a look at is the estimates of positive economic development impacts. Clean energy provides decent paying jobs and more jobs than conventional generation. These aren't our numbers. These are our numbers that several respected institutions have worked on. I would think that is something that you would want to consider as you go forward.

Something else you'll want to consider that again ties in with what San Francisco has already seen is the whole issue of public preference. While I don't have copies of this for you, I wanted to make sure that you are aware of a new energy poll that came out this week that was conducted by the Hewlett Foundation. The results of it were publicized by the Energy Foundation. Their web site is ef.org downloads. This is the first California-specific energy related survey since last summer. A couple of things I will just highlight for you that was done throughout California. A very significant point is that nearly two-thirds of Californians think the energy crisis is far from over. Sixty-two percent said that they think that blackouts and shortages could still occur and that energy rates would continue to spike up and be unstable. Another thing I

think is of particular interest is that nearly three quarters of Californians, 73 percent believe that energy conservation, efficiency, and new technology programs will help the economy. More than eight out of ten support doubling the state's renewable energy supplies by 2010. Again, no surprise here in San Francisco. The public preference issue is an important one. I think I would just close with my California Power Authority hat.

If I could put on my veteran of the Municipal Utility industry hat for a moment. As you think through this, you will hear from a lot of experts today. Going forward, there will be a tendency to focus on important issues like financing, and engineering issues, and what happens if we take over this sort of thing. I would just encourage you to try to visualize what it would mean for San Francisco to be in this business. It's a tuff business. Part of the visualization process needs to include as follows. What does it look like when there are difficult transmission facility siting decisions that have to be made? What happens when rates have to go up or when there are controversies about inter-class rate allocations, and you have multiple economists before you? Not to mention, really basic customer service issues. When do you cut off customers and how are you going to handle those public need issues? That's the tuff side. At the same time, there is a very rewarding side. That is the opportunity to shape the energy future of a community and to shape energy policy according to local values and preferences.

San Franciscans have spoken to local preference issues loud and clear. When I was with the city of Austin, we had a management turning point. You are going to hear from one of those people this afternoon, Ed Aghjayan, who came to Austin from Palo Alto and really took the town by storm. The year was 1983. Austin was in the midst of a major crisis because we were at that time participating in a nuclear power plant. Even though we had only a 16 percent share, we were sending to that nuclear power plant a million dollars a week. In 1983, that was a lot of money. We embarked on a conservation program at the urging of Mr. Aghjayan that was the equivalent of a power plant. It was over 550 megawatts at the time. That push, which reflected community values in Austin is still underway. It provided the underpinnings for everything that Austin is still doing today. It was a dramatic and radical shift. It mobilized the community.

I would just end by saying as you are listening to experts and technical experts, you may want to stay in touch with the question, whatever decision you make, is it ecological? How does it fit into the system of this community, the culture, the resources that you have available?

Chairperson Gonzalez stated you made reference to polls and public preferences. To play the devil's advocate, what do you say to somebody who says, listen to the extent that you are going to rely on public opinion polls to pursue a public power agenda--in San Francisco, we actually took a measure

to the ballot and it was defeated. My impression of what took place there is that while there was a lot of interest in the public power question, there appeared to be a lot of concern about whether or not the issue had been studied sufficiently. How relevant really are the polls? If the polls had been the other way that you were describing and there was a sense out there that a municipality can't run energy, should we not move forward because of that?

The work as I understand at the California Power Authority would appear to be in direct response to the deregulation crisis that we had. It seems that to the extent that you are working on an energy resource investment plan or control over reserves, that that's something that would benefit a municipality that was not engaged in a municipal utility concept, as well as one that perhaps was. What do you say to the argument that says, what is the need to start messing around with municipalized energy when the state is taking steps to try to make sure the crisis we just went through doesn't happen again?

Ms. Doll stated let me start with the second question first. The issue of reserves is obviously critical to our core mission. The municipal utilities represented on this side of the table are going to talk to you about the fact that they were in quite good shape during the crisis so they weren't hit in the same way that the rest of the state was in some cases. There may not be a specific role for the Power Authority in providing reserves to municipal utilities. However, the opportunity for the Power Authority because it has this bond financing capability, if we partner with other public institutions, those bonds can be tax-exempt. If those bonds are used for renewable resources, it can make a significant difference in lowering the cost of those resources to the consumers. A possible vision for the Power Authority is as a broker and developer of renewable resources throughout the state that could be available to public entities, cities, or municipally-owned utilities. Our vision is really to try to lower the cost of renewables in California.

To go to your first question about polls. I'm not a polling expert. This poll that was just done this week didn't specifically ask the question about public power as such. I don't know what polls on that issue would look like in San Francisco.

Chairperson Gonzalez stated my comments related to that are largely irrelevant. I think your comments related to that are irrelevant too. The reason I want them to be irrelevant is because if I take a different approach, then shouldn't what the voters did at the polls dictate what it is that we do? Rather than a public poll, we should just go look at the ballot result.

Ms. Doll stated ultimately, you're right. It's what happens at the polls and then it is the issue to the extent of which you've been able to get the story out there and lay out the pros and cons of this issue. That is part of what you are doing here.

Chairperson Gonzalez stated I appreciate what the California Power Authority is doing. It sounds like there are going to be great opportunities for renewable energy, but they don't seem to be tied to the question of whether a City has municipal power or not. I would be interested in hearing whether we as a City would have an advantage if we had some kind of municipalized electricity in terms of our ability to partner with the California Power Authority. I would be curious in hearing If the City of San Francisco goes into the area of public power, what should our local power authority look like? How do we need to change the Public Utilities Commission that we already have? What power does this local power authority need to have as it relates to bond financing, etc.?

Ms. Doll stated the advantage in partnering with the Power Authority is the ability of the Power Authority to provide resources from around the state that would be of interest coupled with tax exempt financing to lower the cost. It would be a public partnership.

Chairperson Gonzalez asked if we have a local power authority, how do we need to change our current PUC to accommodate or to best partner with the California Power Authority?

Ms. Doll stated I don't know enough about your current PUC, but I would venture to say that the issue of governance will be a critical one, and that the issues are both complex and time consuming enough that governance would need to be done as pretty much a full-time job for whatever Board you put in place.

Commissioner Fellman asked Ms. Doll if the California Power Authority had started coordinating with the City on the peaker project at the Airport and projects in the San Francisco to San Jose corridor.

Ms. Doll stated we have, and I think Mr. Smeloff will be here this afternoon and his office has been involved in those. The San Jose to San Francisco projects are not very well developed at this point, but certainly on the Airport project.

Commissioner Fellman asked does that extend also to the public building greening project?

Ms. Doll stated yes, there are several local government groups that have been meeting on these issues, and the city of San Francisco has been involved as well.

Vice-Chairperson McGoldrick asked how big is that peaker plant at the Airport?

Ms. Doll stated about 50 megawatts.

Vice-Chairperson McGoldrick asked what do you think was the heart of our recent energy crisis, and how might that crisis have been averted had we been a municipalized power system in San Francisco?

Ms. Doll stated the experience of most of the municipal utilities in California was that they had control over their power supply, and they had procured their own reserves. In California, with the investor owned utilities, that historic relationship had been split apart so the power supply was no longer controlled by the retail electric provider, the investor-owned utilities. There were a number of other factors including low hydro and high gas prices and some transmission constraints. From a municipal prospective, the Muni's did better because they never split the pieces apart. They kept them as a vertically integrated system.

Vice-Chairperson McGoldrick asked do you want to explain the splitting apart issue because there is a public that listens to this?

Ms. Doll stated the splitting apart was pulling generation out from the business and selling off most of those assets, putting transmission in a separate business and leaving distribution, which is what most customers experience in a third silo.

Donald Maynor, Esquire asked could you give specific examples of how the city of San Francisco could benefit from the Power Authority without being a municipal utility?

Ms. Doll stated generally, two things--the greening of public buildings. To the extent that we can in a more global sense provide low cost financing and have a pool of money that is set up to allow any level of government to participate. A key to this would be keeping the bureaucratic red tape down. I know we still have some battles ahead. Everything you can do to make your own facilities as efficient as possible is a clear benefit. The other side would be working jointly on solar or bulk procurement of other energy efficient technologies, fuel cells, and perhaps combined heat and power systems.

Mr. Maynor asked, so that would be for municipal use as an end user?

Ms. Doll stated, yes.

Vice-Chairperson McGoldrick stated that he had one other question as it relates to labor concerns that arose last year that in fact may have contributed significantly to some of the difficulties that we had at the ballot box on this issue. Some of the unions were concerned that there might be demerit

of their conditions of work and benefits and so on. Have you had experience in that area?

Ms. Doll stated it is an interesting question and something that as we put our investment plan together, we had not only a lot of public input and had meetings around the state, but we had specific stakeholder meetings with many of the unions involved. There are two issues. Certainly, they have a concern about private development of resources that might be outside organized labor. We speak to that in our plan by saying that anything that the Power Authority develops will adhere to the State Labor Guidelines. The more significant issue is what kinds of jobs really can be associated with clean energy, efficiency, and renewables. What sort of training can organized labor be involved with to help open up job opportunities and facilitate more jobs, not fewer jobs. Jobs that aren't just with the original construction of a plant, but jobs which continue forward. Those are issues still to be worked out. We think there is a real potential for a win-win from the labor standpoint. So far, our plan has been received well by organized labor.

Commissioner Schmeltzer stated you talked about the questions we might have to think about here as far as how a public utility would be structured in the City. Could you talk a little bit about how it was structured in Austin?

Ms. Doll stated in Austin, the ultimate decision making was with the City Council. But, the City Council set up a Citizen's Advisory Group, a nine-member Electric Utility Commission that met regularly and provided recommendations to the Counsel for the kinds of investment decisions, rate decisions, and bond decisions that remained in the Council's purview.

Chairperson Gonzalez asked how many Council members are there? Is the Mayor elected at large? Could the Mayor veto what the Council did as it related to those issues?

Ms. Doll stated, seven Council members. The Mayor is elected at large and the Mayor could not veto. That was a majority vote of the Council.

Chairperson Gonzalez asked, did the Citizen's Advisory Commission, let's say on a bond question, would make a recommendation to the City Council, and by majority vote the City Council could issue what kind of bonds?

Ms. Doll stated actually, there were some dollar limitations, but in general in Austin, the Council insisted on votes of the general population to approve revenue bonds. For the electric utility, it was always revenue bond finance or Certificates of Obligation.

Chairperson Gonzalez asked by majority vote?

Ms. Doll stated of the citizens, yes.

Vice-Chairperson McGoldrick asked if you were sitting over here, what crucial information would you need and what steps would you need to take to be able to make an informed decision on this matter?

Ms. Doll stated I think you are definitely headed down the right path from what I hear about your process. Maybe the question of looking inward among the Board of Supervisors, how you think decisions could be made going forward. I don't know that there are any specific facts that you ought to have that you aren't already on a path to have. I would just emphasize this notion of you have a full plate already. So what does that look like if you add on a Municipal Utility, and how best do you structure it so that decisions can be made by people who have enough time to focus on it?

Vice-Chairperson McGoldrick stated I think that is a governance issue.

Ms. Doll stated, yes.

Commissioner Schmeltzer asked, you mentioned the decision that Austin made to get out of nuclear power?

Ms. Doll stated and they still haven't been able to get out of it. There never was a buyer out there.

Commissioner Schmeltzer asked, how did they end up getting in?

Ms. Doll stated it was both national and state energy policy that prohibited more natural gas burning generation. It was the late 70's so the world looked very different then. Austin partnered with the city of San Antonio and with what was called Houston Light and Power at the time (now it's called Reliant) and with Central and Southwest which also has another name. There were four partners, two privately owned and two municipally-owned utilities that got into the project.

Commissioner Schmeltzer asked but Austin's public utility was already a public utility then?

Ms. Doll stated Austin became a public utility in 1895 long before nuclear power.

Mr. Maynor thanked Ms. Doll for attending the public hearing. He stated as a point of order, if the public has any questions to ask, place them on the podium and we'll pick them up. I did get a series of tuff questions from a member of the audience. Perhaps we could send you an e-mail and get

some answers to these questions if we don't have time to answer them this morning.

As most of you know, SMUD stands for Sacramento Municipal Utility District and we are pleased to have with us this morning Linda Davis, who is a District Board Member.

Linda Davis, Sacramento Municipal Utility District Board of Directors stated I appreciate the opportunity to speak to you today about public power. I have a list of public power pros and cons to talk about. But first, I wanted to tell you about myself and how I selected public power. I was a student and I had to make the big decision. I graduated from a university here in California and had to decide whether to go to work for PG&E or for my locally-owned utility. Just going through the job interview process led me to a commitment to public power. In my career as an engineer, I worked temporarily at SMUD as a student and returned a few years later to become President of the Board. When I speak to you, I'm not speaking to you as a member of the public who inadvertently became a Board member because of love of politics or my desire to become President. I'm here because I am committed to public power. The commitment goes far beyond commitment to an organization. The commitment to public power is a commitment to people. As I worked through the years in the industry, you realize there are two groups of people, the public power people and then those who work for investors. They really are a different group of people. Let me go onto the advantages of a public power system, having your very own Municipal Utility District, your ownership pride.

The first thing is in Sacramento and generally throughout the state, you have lower rates for municipal power companies. In Sacramento our rates are more than thirty percent lower than PG&E's. We have had a lot of failures at SMUD. As you know, we had a nuclear power plant, a great investment, more investment than everything else in Sacramento. It was closed by the voters. It's an exceptional expense. But, that was what the people wanted to do with their money. They wanted to pay to close their nuclear power plant and so they did. Even with that terrible mistake behind us, our rates are still thirty percent lower, and the reason is the commitment of our people and the pride of ownership, plus we have local control.

I heard Commissioner Matt Gonzalez ask the question--now that there is a California Power Authority, isn't the state going to make sure there will be no power crisis? I will tell you, no. The state is not going to insure that the lights aren't going to go out here in this City in a very devastating heat wave. But, nobody here is going to be accountable for that. When the trolley is not running and people were stuck in elevators, no one here in this room is going to be responsible for that because you're not a public power agency and you're not in control. If this is how your citizens voted then you still have no

local control, that's just your problem because you have no one to come down and complain to. The people who you pay your bills to, the people who you've trusted are out of town. Decisions made by electing representatives-- the meetings are held in public. You can come and speak to your publicly elected representatives and complain to them. When you complain to your elected representatives, they can go themselves and get a key and look wherever you said there was a problem. Right now that can't happen. You can't ask somebody at PG&E to check their facility. They are not going to tell you what's in there. Last week, I wanted to take a tour of the nuclear power plant to make sure with my own eyes that we were being protected from terrorists. If that plant belonged to PG&E, we have to be trusting somebody who is not our neighbor. I trust myself and my neighbors trust me. They voted to elect me and I go and I check on that plant. I wasn't satisfied, but I never will be. AB 1890 which brought us the deregulation recognized the independence of public power and gave us more latitude in decision making. Because we own our own Municipal Utility District, we can own our own power plants.

I mentioned to you that as a student I worked for SMUD. I also spent a great number of years as a transmission engineer over at the Energy Commission. I have worked on most of the major power lines in the state. I also worked on siting a number of facilities. One of the projects I worked on gave me a great deal of insight into the public process, and that was your very own Hunter's Point. That plant was never built and that was because of your public influence here. You have even greater control over what happens in your community and where your power facilities are sited. There is no doubt that these are obnoxious facilities, but we require them. Somebody is going to be somewhat harmed by the facilities. A Municipal Utility gives you the chance to go in further detail and speak in farther detail than an investor-owned utility will do.

I remember the rumors that investor-owned utilities actually paid people to come over and speak to the powers that be during that period. Municipal Utility Districts will never do that. They are not going to work against the public because your representative is the public. Furthermore, as I mentioned to you when we close 1000 megawatts of nuclear power plant down, because we were the municipal utility, we were not going to do the easy thing and go out and find a piece of property, move people off, such that happens with the Calpine projects in San Jose or other places. We looked at the overall public benefit to replacing the power. We didn't go the easy way. We found places that needed to be cleaned up where there was an additional public benefit to the cleanup, and where there was an additional public benefit to making jobs in that specific locality. I'm not saying that the public welcomed us with open arms when we cleaned up the emissions from Campbell Soup and became partners with the Campbell Soup Company in our community to help them stay in our community. When we supported local

business through our public power efforts to provide energy for our citizens, all of a sudden everything changes and the dollars that you are spending on your energy bill stay in your community and help to clean up all the messes that have happened in the past.

You can pursue your community values. It is true renewables are nice. Now you might be surprised to learn that in Sacramento because we were a municipal utility, we put out a lot of public surveys and we found that people were overwhelmingly in support of renewable energy. Even though it sometimes cost twenty percent or more.

The SMUD Directors decided though despite public power polls, often when it comes down to putting your money somewhere, the people really don't want to pay. So instead of instilling a renewable energy program mixed in with our other bill, we said we will invite people to join the renewable energy program and they may pay a little more. You would be surprised how many people don't put their money where their mouth is. We thought we would have 20,000 people, and a huge percentage of our customers want to pay for our renewable power. A lot of people don't want to pay.

As a municipal, you can still make the appropriate decisions and let people have even more input into the process by this. You are not all grouped in with a huge group of ratepayers through this enormous state that you have, and trying to communicate to an investor-owned utility in the interest of making money what your values are. The disadvantage is you have to take the time to listen to the people. It is true the public process is slow and time consuming. However, once the decisions are made, the people buy on to it even more. Then they take civic pride in the action that was taken.

The most important issues for the next twenty years is going to be bridging from fossil fuels to renewable energy. Giving the people a choice now helps bolster the renewable energy field and make them more user friendly, bringing down the price. They make these products real for us. However, the public is never going to pay more for these products. So, your municipality once again has got to be there. I want to tell you the most important function of the municipal utility is to bridge this transition.

Now, you remember in school, many of you I know are administrators, college-educated. So are the managers and the decision-makers at PG&E. Now, how many of you really studied routinely every day and made a few steps towards getting your degree every day? How many of you waited until the last minute, and you were cramming to get all of that information in? Maybe you went out and spent some extra money on those study guides. Let me tell you it's human behavior to wait until the last minute and scurry around. But when you are talking about your electricity at the last minute, people are going to be hurt because when that power goes out, people are hurt. Your

economy will be shot. You will be unable to serve your people through the transit system, through your health care. Everything is going to depend on the price of electricity. The most sure thing that is going to happen to us is that we will lose to the transition if we wait for profiteers to do our planning for us. No, the state is not going to save you from an energy crisis. PG&E and some out-of-state investors are not going to save you from an energy crisis. The only thing that is going to save the city of San Francisco is for you to take charge, own your own resources, and serve your people. After September 11, a lot of nights I couldn't sleep. It's a big responsibility keeping the lights on for one million people, but we take that responsibility and we know who we are.

The money the customers save through lower rates, SMUD's rates, are thirty percent lower. They're not just good for the local community. They are a major injection. We use our local university to study the value of dollars spent, both the dollars saved and the dollars that we spend in our community, because we have hired local contractors and employ a lot of people in the community. In general, it's a 1.1 money multiplier. That means for every dollar that the people pay in rates in Sacramento, they get \$1.10. I want to make you think. What other services can you invest in that is going to pay you back ten percent like that? There is nothing.

Furthermore, if you look at the value of our energy efficiency programs, we spent money. We spent \$130 million dollars on our community, and the people were happy about it. Their rugs were fixed. They had their windows fixed. We came to their homes and talked to them. We checked their ducts for them. We gave them new thermostat controls. For this amount of money, we figured this all translated into 185 million and increased local economic activity. Where will the city of San Francisco get an additional 60 million dollars of injection into your economy? It's a stretch for you to find something.

So how do your rates compare to the IOU's in your area? At SMUD, we kept our rates low and didn't have a rate increase for ten years, but we sat back and watched and PG&E raised and raised their rates. Public power was about 12 to 14 cents cheaper than the IOU's. Maybe this is one reason why deregulation came about. When you look at the national averages, public power brings the average way down, but you can keep being victimized if you like. We don't have to pay a dividend to our shareholders either. We pay the dividends back to the public. In public power when revenues exceed our expenditures, we either put them back into the electric system or we find ways to reduce the cost. At SMUD, we put that money in the bank and we save it for a power crisis. We didn't have to have a big bump of rates at SMUD because through the many years, we saved for this inevitability. We know that something bad is going to happen. We would think it would be a flood. We didn't think it would be a market situation created by free market forces. But now, we are going to save money in the bank for that too. PG&E

is not saving their money in the bank for the city of San Francisco, no more than they are locating services for you here which you can trust. If you don't want to be unplugged, you have to stand up for yourself now and instill your own values and instill your own resources here in your own town.

It's geographically impractical what is happening here. There is nowhere in the whole world except maybe Hawaii that's stuck out here electrically like you are electrically. But, PG&E has never cared about this because they get more money to transport the power to you over these long power lines. Then you can play the victim and say that's complex, we don't know how it works, we might get electrocuted, we might not do this ourselves. I want to tell you what. Their IBW workers were very pleased to come to work for the city of San Francisco and tell you exactly what you have and exactly what's going on here. Especially, after they have lost a lot of their retirement money, and they know they will be on public retirement systems. They will no longer be playing a cat and mouse game working for PG&E and supposedly serving the public. They will be serving the public and they will be earning a trustworthy retirement.

We're the advantage to owning your own generation. You can control the costs. You don't have to be totally dependent on this roller coaster market. Your system will be more reliable and you can make choices. But the important thing is when you flip that light switch, you won't suspect there may be some really mean people at the other end who don't identify with you or your lifestyles and who can very easily deny you the very means to your survival and put you into a power crisis, exorbitant cost, or maybe deny you power altogether. Your opponents will always raise the issue of costs. But, don't let that stop you. You are paying the price now for not being able to make your own decisions. In fact, you are ignorant. You are absolutely ignorant of your power system. You owe it to yourselves to get out there and own it so you'll know what's going on. I can't imagine being responsible for this number of people and not knowing my power system. The most expensive and vulnerable thing that you can do is to decide to not act as soon as practical to gain control of your power system.

Vice-Chairperson McGoldrick asked, in 2001, we had these so called market distortions, public language for very high market rates—did you have to raise your rates to accommodate increases in your supply during the campaign against public power here last year by anti-public power forces? There was campaign literature that went out that claimed that SMUD had to have record high percentage increases. I wonder if you caught wind of any of that, and whether or not you can explain why they thought that SMUD was a perfect example of public power that was somehow not fulfilling it's public power mandate and then distributed this literature widely during the campaign?

Ms. Davis stated it is absolutely true. We did have to have a rate increase, and some people were a little more hurt than others. Maybe some people got up to a twenty-percent or higher rate. We're far lower. What happened was due to the change in the market rate, we have always saved money for a drought at SMUD. We did save \$100,000,000 dollars in the bank. We did over-recover. If we had saved \$200,000,000, maybe we would have given everybody back some money. But here along came the "robber bears" and stole our money. As far as I am concerned, it was stolen. After that, we had put an item on our bill, now more of an energy charge. We're using that because we are afraid of a drought, and we lost our drought money. So we are trying to rebuild our stabilization fund and get our drought money back and additional money for the market force risk. Overall, no we did quite well, and we would never be hurt as bad as an investor-owned utility.

Vice-Chairperson McGoldrick asked did you have to raise your rates a higher percentage than others because your rates were already lower, and to what extent were you dependent upon for transmission-generated sources over which you didn't have control? How much control do you have over your generated sources and your transmission?

Ms. Davis stated we have an immense amount of control over our transmission and generation. Like your Hetch-Hetchy, we own a hydro system that we are very proud of. We did leave ourselves open because although we owned a lot, we didn't lock in a lot of resources. The fashion is of course if you form your own Municipal Utility District, you may own part of your system and you may lease some; however, your mix works out for you. The market prices is what knocked us into the rate increase situation. Otherwise, we shouldn't have trusted the market. We will never do that again.

Now what my recommendation is and what we are working towards--we pulled out the hydro surcharge. Now in the future I am trying to talk my other directors into leaving that surcharge on there because it is obvious now we are going to have huge fluctuations in the spot market where you buy power so we have got to keep a bigger reserve. But also, we don't want the public to think that we are doing a bad job. So, in the event you form a municipal utility district, the public will be able to see it. You can break it out in your bill where here's our job, and here's what is left of market forces so the public won't be confused. They will be able to keep your scorecard straight. They will still be able to tell whether you are jacking up rates because you are doing a bad job as a municipal utility, or if it is just market forces.

Vice-Chairperson McGoldrick asked what percentage of your generated energy do you actually produce and control and what amount do you have to buy from the market?

Ms. Davis stated we generate around two-thirds and then say a third was left. But, this year I think we are only leaving a sixth open to market forces. We really didn't appreciate shopping for electricity when the prices were spiking wildly, and so we're already trying to do a little bit more long term shopping at a reasonable rate. But, we'll never be that vulnerable again.

Commissioner Fellman asked with respect to the conservation investment or the energy efficient investment, and I think SMUD has a solar program?

Ms. Davis stated yes, we have the leading solar-program.

Commissioner Fellman asked is that investment made exclusively by SMUD or does the city of San Francisco participate at all or any of the other local governments that are within your utility district?

Ms. Davis stated the financing comes 100% through SMUD.

Commissioner Fellman asked that's based on the rates that you collect from all of your customers? You said you had special renewable customers. Does that include your solar customers as well?

Ms. Davis stated we put our solar customers on special rates as well.

Commissioner Fellman asked and what about your energy efficiency customers?

Ms. Davis stated our energy efficiency customers are on a special rate. If they are investing in our products, they stay down in the cheapest tier.

Commissioner Fellman asked do the customers pay for the products?

Ms. Davis stated yes. When you have a municipal utility, you are able to loan people money to fix up their houses. For instance, if they have a bill right now for \$150, the municipal utility may come over and visit their house and say, if you spent a few thousand dollars and fixed up your house, your bill would be reduced by \$70, so you can loan the money, send them a bill, and they can fix up their homes. All of the money they saved on their bill they can pay their other bill to you for a few years, and then when they pay that off, they still have the energy savings. PG&E obviously now has some of these programs, but they are far more effective when they come from the local utility district.

Chairperson Gonzalez stated a lot of the remarks you are making relate to the Municipal Utility District as opposed to the consideration that we had locally of a power authority. Rather than having a more independent MUD, there's been many here in San Francisco who are talking about a power authority that would really be our own PUC where we make some kind of City charter

change to how a member of the local PUC is selected, perhaps elected or appointed and maybe change some of the authority that the PUC has. To what extent do you think the benefits your community has had are directly related to it being a Municipal Utility District as opposed to some other form of municipalized power?

Ms. Davis stated I feel our community has greatly benefited by being a separate Municipal Utility District versus an electric department such as Los Angeles or Roseville. The major thing is that your coffers are totally separate. It would be really a bad fall to me as the Electric Director to put that \$100,000,000 in the bank and to see it tapped for some other civic purpose. Things are much more separate when you have your MUD. Honestly, I personally believe for a city this size you should have a separate MUD because it really is going to require a lot of attention. It shouldn't be a subset of all of the responsibilities you already have in your City or your County.

Chairperson Gonzalez asked you are making an assumption that a PUC locally formed elected by the people would not be able to give the same degree of attention that your Board is able to?

Ms. Davis stated we are separately elected by the people.

Chairperson Gonzalez asked what is there about that distinction between a MUD and a Power Authority? Is it your belief that a MUD is elected and a Power Authority is or isn't? Is it that the Power Authority has a closer relationship to City government? Is it that the City Council might be able to make the ultimate decision rather than the PUC?

Ms. Davis stated yes, I think the last thing you said was the greatest difference. It is really better to keep it separated. When you go through the process of repairing the system or siting new facilities, having a separate Municipal Utility governance body, that is where the responsibility belongs. So when you then make the decision and then give another track at the City Council level, it is really too divided. But, it works fine for some cities.

Chairperson Gonzalez stated it seems you are placing great weight on this whole idea of direct participation, direct democracy component of the public being able to elect people dealing with these issues. How negative is it if the public gets to elect folks working on this issue and their elected representatives, their legislature likewise participates in that decision making? Why wouldn't that be seen as a positive as opposed to something that should be seen as a negative?

Ms. Davis stated I don't see it as a positive or a negative. I believe that I did actually make the statement that the public process can be slow and time consuming. Decisions really have to be made in the power area. You have

to make a decision and move on; otherwise, things aren't going to work for you. That would be the only concern. I don't favor a certain type of governance. I mostly favor getting the job done.

Chairperson Gonzalez stated let me ask you a different type of question. If we took the question of the difference in rates out of consideration that public ownership has a lower rate, and let's say we concluded that the rates were equal to one other. Would the primary argument that's left be greater public participation through public hearings? Would you still be as strong an advocate for public power?

Ms. Davis stated if I were coming here today to tell you that SMUD had higher rates, I would still tell you that the pride of ownership and the reflection of community values and the local control far outweigh any dollar amount. I fully believe that people should want to pay more to know that they can drive down the street, and they know that their local government are the people they are dealing with for their energy services rather than investors. I have always felt that commitment. I don't want to give away that trust. In fact, I would much prefer to live in a public power town where I could as an electrical engineer go and talk to my public power agent, get the documents from them, and see how they're planning because I have somewhere to complain to. If they're doing a bad job, I can bring that up to an effective force.

Chairperson Gonzalez stated I am trying to ask questions from a devil's advocate point of view. I appreciate you made the remarks early on about the terrible mistake behind us, this idea of the whole nuclear power thing. I assume you supported the will of the voters in eliminating the nuclear plant.

Ms. Davis stated yes, I have been working on the decommissioning.

Chairperson Gonzalez stated the reason I asked that is after you told us about the vote you said that the terrible mistake behind us related to having the power plant, not to the vote to eliminate it. What do you say to somebody that says take a look at Austin. The public speaks, the public for some reason continues to maintain a nuclear power plant. If the vote in your community had been different and the community had continued to support a power plant, what do you say about that? Obviously, that is opposed to your own ethics around public power or energy practices. Would you still be as enthusiastic about a Municipal Utility District if that were a decision?

Ms. Davis stated yes, I would because that reflected the values of the community. If the community had reflected the values to keep the nuclear power plant operating, I would certainly have worked in the best interests of the community to keep the reliability of that unit high and the maintenance costs as reasonable as practical. That would be the public's choice and that

would be what they had spoken to me and therefore, they had made that decision.

Chairperson Gonzales asked would it be better if in the creation of a Municipal Utility District that we consider if there are certain public policy or a constitutional bill of rights, certain matters that we wouldn't want a Power Authority or a Municipal Utility District to be able to consider? Do you have an opinion about that? What if as a legislative body, at the time we presented to the voters, if we did so, a consideration of a Power Authority or a Municipal Utility District that we tried to include in that that there could not be certain considerations such as nuclear power or the expansion of reliance of natural gas, etc.?

Ms. Davis stated that is quite a statement because I definitely believe there is a huge element out there probably far more in Sacramento than you have here who go for cheap power, and they don't care how messy it is or who it's hurting. It would be a problem but as a Director I would have to implement the direction that the public voted. Obviously, if people wanted a nuclear power plant, wanted more pollution, they probably wouldn't have voted for me. If I were going against the public, I would be out of office and somebody new would be there. You don't have that opportunity with investor-owned utilities. If the public wants desires that are not matching the investor-owned utility—too bad, the investor-owned utility will proceed down its own path. The only way that you could feel effective as a citizen is through the public power system.

Chairperson Gonzalez asked what do you say to somebody that says the private corporation then becomes subject to regulatory rules, a whole set of rules related to the siting of new plants, etc.? Deregulation is not an example of the industry going bad as much as lawmakers failing to do their part in regulating the industry.

Ms. Davis stated I have wonderful news for you. If you form your own Municipal Utility District, you will be able to evade a lot of that regulation because you are not under PUC regulation. Furthermore, as a municipal utility, SMUD right now is pursuing its very own control area. We don't even want to be part of the ISO game. We believe it's our right as our own district under the MUD Act to not play a lot of these games. You will definitely find yourself in a whole different position. It takes a lot of work, but you can be far more successful in local control versus remote regulation. You could be much more effective.

Chairperson Gonzalez stated obviously in public ownership, the public is much closer to the decision making. In the regulatory scheme, they have to rely on legislators who often don't have information or sufficient knowledge of

the areas they are legislating in to protect them from these market catastrophes.

Ms. Davis stated it is such a long route for the investor-owned customers. They have got to elect a governor. The governor appoints the commissioners or they have got to elect their legislators. The legislators have got a Senate and Energy Committee. All of these people. You have to travel to Sacramento and stand in a long line. No, if you have your Municipal Utility District, you are the neighbor of the people you are serving. They will be knocking on your door, I guarantee it.

Mr. Maynor asked Ms. Davis if it would be possible for her to get some materials that would describe SMUD's various programs on economic development, renewable resources, and conservation?

Ms. Davis stated yes, we would be happy to give you any information you would like, and our staff would be happy to come and provide you with more information. Please invite our Economic Development Director to directly meet with each of you individually so I can be sure that you are fully informed.

Mr. Maynor introduced Mr. Tom Habashi, Utility General Manager with the City of Roseville.

Tom Habashi, Director of the City of Roseville Electric stated it is a pleasure for me to be here today. Just for the media, we do have slides. This is an introduction about the city of Roseville. You usually travel by us on your way to Lake Tahoe, about fifteen miles east of Sacramento. The city owned its own electric utility since 1911. We are a department of the City. The city of Roseville is the largest in Placer County and for those of you who do not know where Placer County is, it's split somewhere between the east of Sacramento all the way to Lake Tahoe Lake. The city has been growing at about six to seven percent for the past ten years. There are about 89,000 people in the City and 41,000 electric customers, 35,000 are residential customers and the rest are commercial and industrial. The largest two customers that we have are Hewlett Packard and NEC.

I know that you have got quite a few questions and you have listed them all. They are very good questions so I am going to try to address them one at a time. I will start with the question of what are the differences between Roseville and PG&E? I will actually start about talking about the differences between a community-owned utility and an investor-owned utility in general. Then I will start to specifically talk about the differences between Roseville and PG&E.

To begin with is the governance issue. On the surface, it looks like we have the same type of forum. However, in reality we are very different. The people

that put our City Councils into their seats are the people who vote, the residents of Roseville, and generally the people that support the elections or the businesses of Roseville. The City Council governs us. They tell us what to do. They also look over our shoulders so they regulate us as well. Those are the same people that I do serve, the residents and the businesses of the city of Roseville. All I need to do is make them happy and I pretty much have my job done.

On the other hand, PG&E has the Board of Directors who has to look out over the interest of the shareholders. They have got FERC who is somewhere in Washington D.C. Every now and then they probably do something that is good for us. They have got the CPUC here in California who are busy doing the business of regulating the utility business up and down the state along with a number of other businesses. Sometimes they are appointed and sometimes they have Republican or Democratic tendencies depending on who is the governor at the time. Then of course, the California Energy Commission (CEC) that regulates and sites power plants. All of these different entities that regulate and tell PG&E what to do aren't really for the most part the residents and the businesses of San Francisco. I don't envy PG&E employees at all because they are pulled in so many different directions trying to make everybody happy. In the process, what they end up doing is making a lot of people miserable.

In terms of financing, investor-owned utilities have to issue taxable bonds, and they have to pay taxes on the assets they buy. They are also a for-profit organization. These are things that you are aware of. In our case, we issue tax-exempt bonds. We are not for profit, but we do make a transfer to the General Fund in the amount of four percent.

The next I believe is a very important difference which is who has the obligation to serve? In our case, we do have the obligation. We never let go of that. It stayed with us throughout the energy crisis and before and will stay with us after. We did offer our customers the right to choose their own supplier if they wish to do so. After two years of that experiment, we didn't have a single customer signing with anybody else, so we closed shop and said there's no sense of maintaining that program. In the case of PG&E quite frankly, I have no idea who has the obligation to serve the residents and businesses in San Francisco anymore.. PG&E made it clear quite often that they have the obligation and the right to deliver power, but not to generate that power or to go out and buy it. They will do so as the default provider if they must, but they will do that with complete indifferences as far as the monetary obligation or the risks that comes with building and acquiring supplies.

That takes us into the next slide. What kind of supply portfolio do we have versus what PG&E has? We generally have a portfolio of generating

resources and short and long-term contracts that help us minimize and stabilize the cost of power. Right now, one third of our power is met with generating facilities that we have part ownership in, and two-thirds are met through contracts. PG&E used to do something similar to what we are doing in the past, but since deregulation, they have sold all of their power facilities except for the hydro and the nuclear. You are well aware that they are trying to transfer those facilities over to their other non-regulated subsidiary, and they are having a tuff time doing so. Their portfolio has a bunch of contracts that DWR entered into under duress and pressure blackouts.

Next slide please. Profits and transfers we discussed before. We have a four percent in-lieu franchise fee. We also take care of the operation and the maintenance of the traffic lights in the City and the streetlights in the city of Roseville. We also make direct transfers to the City to pay them for the services they provide for us, human resources, finance, and others. PG&E pays the taxes, the profits to the shareholders. In some cities, they have franchise fees. In some other cities, they have utility users tax. Going more specifically to the differences between the city of Roseville and PG&E, how do we deal with conservation? We put five percent of our revenue aside to help build renewable portfolio and to also spend on efficiency measures in town. That number went up quite a bit last year. But next year it will probably be brought down to normal. We also administer our own programs. We are the ones to spend the total amount of money that we budget for that program. In PG&E's case, they are obligated to fund the public benefit program to the tune of about three percent of their revenue. To their credit, they have been doing a lot in that area for the past ten years or so. They are quite conscientious about their effort towards conservation. Nowadays, I believe CEC is the one that administers the programs for the most part.

Getting a little bit more specific to the question of differences. If I am a PG&E employee, I am going to get down to the last slide and say, so what are the differences between us? Really, the real difference comes down to what we believe we do for a living, which is do we provide reliable energy and do we provide it at a reasonable cost at a competitive price? This is pretty much what we breathe day in and day out. Are we more reliable? Are we more efficient? That gets us to how we measure reliability. There are three ways to measure reliability that are well known in the industry. The three indices that we use. One is the duration of outages. How long does an outage last per customer per year? The second would be frequency of outages. The third would be frequency of momentary outages. Those are the outages that you don't feel, but are the cause of all the clocks in your household appliances to blink and drive you crazy in the process.

If you look at the first, this is how we compare with PG&E. We've been doing very well in the last four years. The last year as far as duration of outages, we were somewhere around twenty percent that of PG&E. Next is the

frequency of outages. Still doing very well. It's gone up a little last year. It is something we have taken notice of, and we have put a lot of money in the budget for next year to deal with a lot of aging equipment that we have to bring that number down quite a bit. Third, is the momentary outage and again, you could see the picture for yourself. Last, in terms of comparison rates, as you can see we're on the average. By the way, the number to the vertical axis is cents per kilowatt hour on the average. We looked at it for home, office, restaurant or industrial customers, and as you can see we're somewhere around fifty percent. Maybe 55 percent of that is PG&E.

Now to deal with some of your other questions. One of the questions was, what do you think the trends that will take place in the industry in California in the next few years will be? I will just address three areas—trends in the supply area, trends in the transmission, and trends in the distribution area. These are the type of things you need to do in order to eventually bring power to your homes and businesses.

In terms of supply and availability, we're going to go through the boom and bust. When there are shortages, there will be lots of power plants coming online. When prices get to be too cheap, some of those power plants will be kind of shoved aside or delayed until better times. That's exactly what happened in the last couple of years by the way. Supply prices, I believe are going to be stable over the next few years. I know some of you may wonder why if you have boom and bust and availability, why the supply is going to be stable. Because the DWR entered into contracts that take it to seven, eight, and nine years into the future. Those who entered into those contracts on the other end need to make sure that those supplies will be there. They will make sure that either they build it or they contract for it. Somehow, they are going to bring the supplies in. Since DWR already paid premium for that power, most likely market price will be reasonable and stable over the next few years.

Transmission is going to be an issue almost guaranteed. Those who would like power like folks in the Bay Area, don't have a lot of land to build generation in. Even if they do, it's probably about a 5,000 square foot lot that you could build a house on, and that's about the extent that you have available. You don't have a lot of land to build power generation. The places where they have land, they don't have customers. Some how you have to figure out a way to get the power from where you build it to where people will consume it and that requires transmission. Transmission is unsightly things that occupy quite a bit of land and cause quite a lot of headaches to a lot of people and take a long time to build. I think transmission is going to be our next headache. I know right now that all we can think of is the generation side. But, in the future, I think transmission is what we need to concentrate on.

Distribution—just an improvement in technology that will help us go from 12KV primary to 25KV primary, so it's more of a way to reduce losses in the system. That would be the trend as I see it. If I'm starting a utility from scratch, how would it look like? I guarantee you that whatever we have on this slide is not going to be what will end up happening in California because we have already plenty of interests that are in place, and you can't get there from here without a lot of pain. If I am starting this whole thing from scratch, I would privatize the supply industry and have it be market-driven. However, in order to make sure that we don't face the situation that we faced last year, you need to have reserves, and those reserves I believe ought to be owned by the state or by an entity like the California Power Authority.

In terms of transmission, I would completely separate ownership of the transmission from operation of the transmission and planning for that. That has to happen otherwise the conflict of interest would be happening continuously for the utility you are trying to operate, own, maintain and run the system at the same time. I would have the transmission ownership be completely separated from the planning and operation. Transmission owner will only build and collect money for the investments that they are making absolutely without regard to what they are required to build. They are told what to build, and they are told by a regional transmission organization that looks at the entire region and makes sure they put the transmission at the right place at the right time.

Finally, if I would have it my way I would have every community own its own distribution system. Going on to the next question. The next question was would you consider municipalization? I think in any action that you take and any decision that you make has to be governed by three things. One, time. Is it the right time to do it? Place. Are we in the right place to do this? Do you have the appropriate set of circumstances in order to make that decision? That is pretty much what needs to govern any decision in my mind.

Looking at what's going on in San Francisco. Four years ago you were told that four years from now specifically by April 1st of 2002 you will have a system that is twenty percent cheaper than what you had before, and you will be able to buy power from whoever you want to buy power from. Here we are now you are paying forty percent more than you what you paid four years ago. You don't have any rights to go buy from anybody you want because of the DWR contracts. You have an organization that is providing you with electric utility that is bankrupt and torn by a lot of other circumstances that are happening around them. I do not know what would be a better time, a better place, and a better set of circumstances for you to at least if not jump right away into at least and investigate it seriously. My advice is yes, continue with what you are doing. This is definitely the right place and time and circumstances for it.

The question that Vice-Chairperson McGoldrick brought up earlier was well, if you were in my place, what information would I need in order to make this decision? The steps to investigate municipalization are well known. I have got them and would be glad to provide them to Gloria and Don. That's nothing new. They have milestones where you have to come in and make certain decisions whether you want to go this way or that way and so on. Really, the decision that you need to make is whether you want to take on this fight. It is a fight and it will be. If you think it is going to be an easy one, think again. It took SMUD twenty years to go through the process before they managed to municipalize. That is how long of a fight they had to put up with PG&E in order to have self-control.

This is not something that you take on to advance your careers quite frankly. It will not be an easy ride. You will be fought every step of the way and you will be fought by an organization that knows how to fight these things very well. If you think that they fought it along in small communities all over California, all over Northern California, think of what they will do if the City and County of San Francisco will make an attempt to municipalize. You are the bread and butter without a doubt. This is the cash cow PG&E and they are not going to let go of it easily. My advice is get ready for the fight of your life and do not hesitate for a second to hit below the belt.

Mr. Maynor stated Mary Tucker is with the city of San Jose and specializes in conservation activities.

Mary Tucker, Supervising Environmental Services Specialist, City of San Jose stated I appreciate the opportunity to participate in this hearing and also to learn from what you are doing. Within the city of San Jose, I am responsible for coordinating a large number of the energy activities within the city within the Environmental Services Department. Our primary partner in this action is our General Services Department, who is responsible for instituting a large number of the energy efficiency and energy supply opportunities within the city. We also have a very active and enthusiastic inter-department energy team which brings together all of the departments, Library, Fire, Police, Recreation, the Parks to learn and to talk about what they are facing and what is going on.

We are not a Municipal Electric Utility. PG&E supplies the bulk of our energy needs, so I do bring a different perspective than the other members of the panel here. We have kept informed regarding the feasibility and the potential for establishing a Municipal Utility or other sort of entity, but at this time we are not undertaking any formal feasibility studies nor do we have any direction from our citizens or elected officials to start down that path. We do look with interest on your undertaking and those of other entities within the Bay Area such as East Bay Municipal Utility District as you explore these opportunities.

When the energy crisis hit California, San Jose was well prepared and able to respond on the end use side. We have had an active and progressive energy program for more than twenty years and also very strong energy policies that have guided our activities, and more recently, in the beginnings of last year, council adopted a Smart Energy Plan. The foundations for our policies are the city's Sustainable City Policy. This is an expression of our desire to be an environmentally and economically viable city insuring that the actions that we take today in all areas would not jeopardize the resources or the ability of future generations to determine their own future. With sustainability as our foundation, we have three key goals as regarding energy to insure that we as a city use energy as efficiently as possible. In all aspects of our city government, our buildings, our vehicles, our transportation, and our land use planning to explore options for expanding our own supply with renewable energy sources and to develop strong partnerships within our community and our region.

On energy efficiency, we have had tremendous success lately with our own facilities reducing our energy expenditures since April of 2001 by more than two million dollars just through a strong partnership with our city departments and employees in identifying primarily low-cost and behavioral ways to save money and beginning to identify the most cost-effective areas for increased efficiency opportunities in our buildings and operations.

We have also adopted the U.S. Green Building Council's lead or leadership and energy and environmental design rating system. For all of our new facilities starting in July of this year, all new city facilities and retrofits over 10,000 square feet shall meet a lead certified rating, which is the base level rating within that organization. The U.S. Green Building Council is a national organization of more than 1,000 members representing architects, builders, developers, manufacturers, state and local governments, and a wide range of folks. This will help to insure that all of our future city facilities will be as green and as energy efficient as possible.

We have also worked within the Bay Area here, other local governments, and the state government on these issues and have formed a virtual network of sorts, the California Green Building Collaborative, where we are able to come together and share what's going on within each of our jurisdictions and how we are moving toward insuring that all of our own city facilities are as green as possible. In particular, working with the California Integrated Waste Management Board, who has taken on that leadership role for green building for the state facilities. I am also very honored that just recently, in January, I was elected to the Board of Directors for the U.S. Green Building Council representing state and local governments so we will be able to bring that voice to this organization as we work locally, state, and nationally on a lot of these issues.

Within the city, we have a proven track record of using co-generation systems, especially at our wastewater treatment plant and our convention center. We are currently actively exploring and analyzing the solar electric or the photovoltaic opportunities on numerous city facilities. Many of our existing city facilities and also making sure that we design it into the future city facilities incorporating even the potential for some of the newer solar technologies such as solar glass building integrated photovoltaics.

We are looking at our parking structures. We believe they offer a very unique opportunity for solar and looking at some of our lands and areas. One of the major concerns that we have as we started down this path is the ability to provide resources that would involve our Public Works Department and staff in this entire process. As I said, we are not an electric utility and any of the energy work that we do is primarily funded through general funds or through grants. We do not have a revenue source for these activities so we need to involve our Public Works Department in this activity. Because of the need to develop the bid documents, it's been determined that solar installations are major public works process and therefore subject to our City Charter and Code Rules regarding bids and processes.

We believe we have identified a source of funds over two million dollars that we have now saved as a result of energy expenditures and to be able to initiate these activities and start down that path. We will also be working with the Department of Energy, the National Renewable Energy Lab through the Million Solar Roofs Partnership that we are part of to be able to obtain technical assistance from the National Renewable Energy Lab in helping us to design this. We too have the potential within financing these projects ourselves through tax-exempt bonds and other resources that would be available through the California Power Authority.

On a related issue to green power, it's great to be able to have it on our own facilities. We were a little dismayed and concerned about our loss of direct access in being able to purchase green power. We had started down that path. We were going to release a request for proposals for green power when the energy crisis hit, and it was determined that direct access was no longer available. We are continuing to work with the League of California Cities to look at, is there a possibility to change that or to insure that there is the level of green power available for cities to purchase.

We have strong working relationships within our region to insure that our land use and neighborhoods are protected, and that energy generation facilities are built in the most appropriate places and meet all the regulations required of them and hopefully, in some cases go beyond that in order to protect the neighborhoods. We have worked diligently within our community to provide our businesses and residents with the information and the resources they need to make sound decisions regarding energy needs, energy education,

energy fairs, such as you held in this very building. We held ours at our Sports Arena and a variety of workshops that had just been overwhelming through our green building program. Our solar workshops to provide information to the citizens are standing room only. We partnered with PG&E on a Cool Roofs Program similar to the statewide Cool Roofs Program, where we offered the rebates for the commercial sector to be able to install energy star cool roof technologies on their facilities and reducing their energy use especially during those summer months of peak demand. We are hopeful with the CPUC's current program where they have opened up the public goods money, we too have applied to be able to provide a small business program of energy efficiency, audits, and also rebates to be able to run that program ourselves within the city of San Jose.

We have also set up a special program that use city funds to assist the low-income community within the San Jose area going beyond some of the state and federal programs that were available. We are providing utility bill assistance along with weatherization installations. One of the unique aspects of this weatherization program is the ability that we have given and written into the contract with our non-profit organization that is providing this service for us to install non-traditional energy efficiency techniques that are not currently included in some of the state and federal guidelines such as awnings, especially on the west side of many of the citizen's homes and buildings. You would be amazed what a west-spacing awning would do during the summer as far as reducing the cooling needs that you would have within that. We are also excited about a pilot project that we will be doing with this organization to explore the installation of solar domestic hot water systems on many of the group homes for senior citizens within San Jose.

In the next few months, we will explore other energy policies and potential programs that we can undertake. We are initiating a community-wide stakeholder process to update our energy policies and look at a different energy action plan of sorts where we have a little bit of breathing room right now after the energy crisis, but really to solicit ideas and explore other opportunities within the city. We have actively engaged in discussions and networking with our counterparts in the Bay Area, here within the city of San Francisco, your Department of Environment and other groups within Oakland and other Bay Area communities where we shared ideas, strategies, resources, lessons learned, and looking at the potential for partnerships particularly in that area that you talked about bulk purchases. There are opportunities particularly right within the Bay Area that we could do that among our various city entities.

Energy will continue to be a key issue for San Jose. We will work locally, statewide, and nationally to insure that the goals for our city and citizens can be met and look forward to working with you and learning from you as you start down the path and research your public power options.

Ms. Tucker stated she just participated in an Advisory Panel for Alcatraz Island, which is in itself an entity onto its own, but they are looking for water. There is a new technology that captures fog, the water from the fog.

Ms. Fellman asked Ms. Tucker a question, but there were microphone problems.

Ms. Tucker stated I think the issue of local control would be the strongest benefit that we would look at with the city of San Jose and to start down that. We do understand that it is a long fight, and I need to read the report that came out for East Bay MUD. We do have a Municipal Water Utility. I know we will probably be looking to explore expanding that, but at this point it's just some initial research in looking at that that will probably come up in this energy policy process and looking at the options and if we get the direction from our counsel to go down that path and learn from what you have been learning.

Chairperson Gonzalez stated, I wanted to ask Mr. Habashi a question. I was out of the Chamber when you finished your remarks. Can you tell me how large the City Council is in Roseville and whether the Mayor is elected at large?

Mr. Habashi stated it is a five-Council member. John Lee, the Mayor, is the person that received the highest vote in the election before. The Mayor serves for two years. After the two years, the person who received the highest vote in the previous election becomes the Mayor.

Chairperson Gonzalez asked if Roseville was a Municipal Utility District?

Mr. Habashi stated it is not a separate district from the city. It is a department of the city.

Chairperson Gonzalez stated the questions I was asking before related to the question of whether or not the benefits or disadvantages that perhaps your City has considered in terms of having a closer relationship.

Mr. Habashi stated I would assume a part of it had to do with the community expecting certain returns by investing in its own utility. I think that is a very reasonable expectation on behalf of the city and the people who live in the community to get some return. That relationship has to be very well established and perhaps put in place in the Charter so you don't have misconceptions later on as to what the utility needs to provide in terms of return to the city. Right now, our return to the city is four percent of our total cost every year, and that percent is established in the Charter. Our funds are separate from all the other funds on the city. We're not just a line item on the

budget so to speak. We have separate funds as they do. Once you make that relationship clear and solid from the beginning, then it doesn't matter to me whether it becomes a district or you have a department of the city.

Chairperson Gonzalez welcomed Commissioner Ammiano back to the meeting. He stated you mentioned it was an appointed Advisory Commission that gives advice to the Council in Roseville?

Mr. Habashi stated yes, on utility matters the City Council has appointed a five-member Advisory Commission. We meet with them once a month and talk to them about issues more of a technical nature that the Council more likely doesn't want to hear back because they have other businesses to worry about. That Commission gives us guidance and advice to the Council. They are not the final decision-maker in the city. They are an advisory to the Council.

Chairperson Gonzalez asked what kind of bond capacity do the City Council members have? Do they put the bonds before the voters?

Mr. Habashi stated, no. Anything that has to do with the utilities is handled through revenue bonds.

Chairperson Gonzalez asked what kind of vote, four out of five, three out of five?

Mr. Habashi stated majority vote.

Commissioner Fellman asked, what is the percentage of electricity that you generate versus how much you purchase?

Mr. Habashi stated about one-third is generated by facilities that we have part ownership in. We have a hydro-facility, which is about 250 megawatts, a geothermal facility that is a little over 200-megawatts, and a number of combustion turbine facilities that are about a total of 175-megawatts. We are part owners in all of those facilities and two-thirds are purchased on contracts. Half of the transactions that we have are with the Western Area Power Administration (WAPA). That is the entity that markets all of the federal hydropower up and down the Central Valley. Then, the other half of the contracts are with marketers.

Vice-Chairperson McGoldrick asked on the fiscal issues, has the City Council ever sought to use or borrow any of the funds that you have kept aside as your utility funds?

Mr. Habashi stated so far, we have borrowed about 27 million dollars to build a distribution system. Our total assets are somewhere around 175 million dollars. We have a debt to asset ratio of somewhere around fifteen percent.

Vice-Chairperson McGoldrick asked do you have a wall of separation between your funds and the general fund for the City?

Mr. Habashi stated yes.

Vice-Chairperson McGoldrick asked has the city ever sought to use your funds for general fund purposes?

Mr. Habashi asked to issue revenue bonds in order to do something that is city related?

Vice-Chairperson McGoldrick asked my question is a little bit along the lines of what the SMUD Board member pointed out that they kept a rainy-day fund, but actually it was a non-rainy day fund is what they originally thought for droughts. They had about a hundred million dollars there. When the market distortion hit last year, they had to deplete that fund. Do you keep a rainy day fund?

Mr. Habashi stated yes, we do. We have a rate-stabilization fund and today, the balance in that fund is somewhere around 120 percent of our total power purchase in this coming year. It's a fat fund.

Vice-Chairperson McGoldrick asked were you subjected to the same sort of market problems that SMUD had, and did you have to deplete those funds down?

Mr. Habashi stated we did not. We did though last year ask for a rate increase to a total of 5 percent for residential customers and 7/12 percent for all other classes. That is the only rate increase we have had since 1993 or 1994.

Vice-Chairperson McGoldrick asked since 1993 or 1994, the only rate increases you have had are what you just stated?

Mr. Habashi stated yes. Actually, since 1993, we have had a number of rate decreases for both commercial and residential customers. We try to keep our eyes on the bottom line making sure the reliability is there and the cost is managed.

Mr. Maynor stated the city of Austin, Roseville and SMUD have been successful in attracting the computer industry. I wonder if you could briefly comment to what extent your electric utility was a factor?

Ms. Davis stated we work with our Chamber of Commerce and provide economic development rates to a lot of the computer industry that wanted to locate in our town. They were going to employ more people. We could develop a better rate for them because they are base load users. What they really liked about the SMUD area is our reliability. Because we are a municipal utility, we can understand that our city values these customers so we have actually provided them with a little extra reliability. However, I have to admit we weren't all that friendly towards the last server farm that wanted to come to our city because they are very intensive on the load. They use as much as quite a number of homes, and after the energy crisis. Once again it is a county policy and we implemented it. So if they're saying no, we need the jobs, we need the computer industry here, then we can be flexible and design a rate specifically for this type of function, and then when the plate is full, we can close the door on it too. There is a lot of benefit and control towards helping economic development in your community through the Municipal Utility District.

Ms. Doll stated rates were certainly a factor in Austin, but with the high tech industry one of the critical things was ties to reliability. In many cases, a dedicated substation made the difference.

Mr. Habashi stated I am going to repeat what SMUD and Austin pretty much are doing. What we do with economic development is we go and share with those prospective customers the reliability and rate figures that I have shared with you today. If that is the issue that they are looking for, then it is sufficiently enough. My experience with high-tech industry is that is not enough. They normally look for other things besides electricity, reliability, and rates. They look for proximity to Stanford University, for example, and places of that nature. Most of the industries that have high consumption tend to look at Municipal Utilities first.

Chairperson Gonzalez asked if we could accommodate public comment at this time?

Mr. Maynor stated we have one question and it's a long series of questions having to do with peaking plants and your review authority. It may be the type of question that we could get answers to by e-mail. I have the address here of Jackie Williams. Mr. Maynor asked for Ms. Williams e-mail address in order to get her answers to her inquiry.

Ms. Williams stated she would not be here this afternoon.

Mr. Maynor stated that it was time for the lunchtime break.

Gloria Young, Executive Officer stated public comment would be after all of the presenters at the end of the meeting. We are taking all of the questions as Mr. Maynor indicated. In addition, before the close of this morning's session, I would like to take this opportunity to really thank each and every one of you. I recognize and appreciate that you have had or have other commitments and took the time to be here. We are very pleased to have you here and have this information to help the Commission as they move forward in their decision-making processes. I cannot let this morning go without specifically pointing out Mr. Habashi and thanking him. I have worked with him for fourteen years and if I didn't take this time to acknowledge that, I would be in trouble after this meeting.

Chairperson Gonzalez stated I would likewise join Ms. Young in thanking the speakers for coming forward. I am sure you will hear more from us, and we will in all likelihood take advantage of some of the overtures to get more information.

Vice-Chairperson McGoldrick stated I hope there are at least two-credit units for this in some graduate seminar. There is a great deal of educational-communication occurring here, and I really appreciate it.

The morning session adjourned at 12:05 p.m.

Afternoon Panel – 1:00 – 3:00 P.M.

The afternoon session reconvened at 1:15 p.m.

Members Present: Chairperson Gonzalez; Vice-Chairperson McGoldrick (was noted present at 1:49 p.m.); Commissioners Ammiano, Hall, and Fellman.

Members Absent: Commissioner Schmeltzer

Gloria L. Young, Executive Officer stated Don Dame is the Assistant General Manager of power management for the Northern California Power Agency (NCPA). Mr. Dame has over twenty-five years of electric experience including the California Department of Water Resources, Pacifcor, Bonneville Power Administration and the Colorado Interstate Gas Company.

Ed Aghjayan recently retired from public service after more than ten years as the Public Utilities General Manager for the city of Anaheim. Mr. Aghjayan also served as the Deputy City Manager of the city of Pasadena and the Director of Utilities for the cities of Palo Alto and Austin, Texas. I would like to thank you again for coming and I need to also indicate that I have worked for several years with Mr. Aghjayan in the city of Palo Alto. Mr. Maynor will continue to facilitate this process.

Mr. Maynor asked the speakers to limit their comments to fifteen to twenty minutes to give ample time for questions.

Ed Smeloff, Assistant General Manager for Power Policy, Planning and Resource Development, San Francisco Public Utilities Commission stated for me this has been a little bit like old home week to be able to see a number of my colleagues and friends from the public power movement and particularly Linda Davis from the Sacramento Municipal Utility District, where I served for eleven years. You heard some impassioned arguments for the advantage of local control of the electric system and what has occurred in other cities and in California.

I wanted to speak to some of the specifics of our vulnerabilities in San Francisco and why it's so important at this point in time to increase our local control over the electric system. San Francisco, given its geography is uniquely vulnerable to power disruptions. All of our imported electricity comes through one substation at the county boundary between San Mateo and San Francisco counties, the Martin Substation. There are five overhead transmission lines and one underground transmission line that bring power into that substation. The imported power capability for San Francisco is insufficient to meet the peak demands of the City. So, we have to have in San Francisco in-city generation to meet demand when we are using electricity during peak periods.

The infrastructure in the City I think you all know is quite old. The Hunter's Point Power Plant is 44 years old. The plant at Unit 3 at Potrero is 38 years old. These plants are relatively inefficient. If you look at the key pollutants, the oxides of nitrogen and small particulates, the amount that they emit compared to a new power plant is eight to ten times the quantity on a per kilowatt hour basis. The plants are vulnerable to breakdown because of their age.

So San Francisco because of its peninsula nature, the age of its infrastructure has three particular vulnerabilities. One is for power disruptions. The second is for the environmental impact because we have to generate in the City and the plants in the City are relatively polluting. The third is very important and is the potential for market power by the owners of generation within the City. Right now, there are two owners of electric generation, PG&E and Merant, which owns the Potrero Plant. The goal of the Mayor and the Board of Supervisors in the City is to shut down the Hunter's Point Plant as soon as we can do so without jeopardizing reliability. To do that, we would need in my judgement about 250 megawatts of new generating capacity or load reductions in the City by the year 2005. There is a proposal now that is before the California Energy Commission to build a new 540 megawatt facility at the existing Potrero site which would also be owned by Merant. If that facility were to be licensed and Merant were to construct that facility, they would own within the city limits of San Francisco 900 megawatts of generation, and they would have virtual monopoly power over

generation during those hours when we cannot import all of the needs for San Francisco.

Now, historically or recently the way that market power has been addressed is through the independent system operation, which requires that the plant operate at times when it is needed for reliability and makes certain payments to the operator that allows them to recover some of their capital costs for having located in San Francisco and then limits them on to what they can receive for their variable cost. This is really the only control we have over what the prices are that are being charged for generation within the City.

Currently, PG&E takes the costs that occur in San Francisco and melds those in Northern California-wide. But there is a movement afoot at the ISO, and this is a system that has been put in place in the East Coast to move to what's called zonal pricing where the cost of the system are applied to the areas in which those costs are created. So San Francisco because it is a load pocket, because it is an area which requires more generation in it that has to be operated for local reliability reasons could end up being impacted by that new system of zonal pricing.

The Merant plant's current design is a two combustion turbine one steam turbine design, and the way it is put together is a single failure will trip off the entire plant, which means you lose all 540 megawatts of power-generating capacity. You have to have in San Francisco sufficient backup capacity so that you are still able to maintain reliability when the plant trips off. What that means because it is a single unit we are going to have to depend on the existing Unit 3 at Potrero as backup generation for years to come. That will continue to give Merant a significant market power in San Francisco.

There are alternatives to building this plant. There are a number of opportunities that exist right now in San Francisco to develop more efficient co-generation power. There is an opportunity to take the downtown heating loop and use the co-generation plant to provide both the steam and electricity for San Francisco. There is an opportunity out at Mission Bay and the new UCSF Campus to develop a power plant out there. The question right now is who is going to make the decision as to which plants get developed in San Francisco. Under the current regulatory regime, the decisions about which plants are built are those of the developers and the investors in those power plants. Right now, Merant has a head start in terms of the process that they are going through with the California Energy Commission. If that plant were built because its capacity is so large, it would crowd out opportunities to develop other resources in the City that could be more efficient.

I think this is a strong argument for local control. The argument is about who is going to take responsibility for planning for power and for procuring those resources. One of the problems that we have is that under the current regulatory

structure, PG&E, which used to have responsibility for procurement no longer has that. They are in bankruptcy and they are not creditworthy so they cannot purchase power on behalf of the customers. The state has stepped in on an interim basis to perform that role of power procurement, but they only on a limited fashion as you heard through the California Power Authority are doing any new resource development. Decisions about what new resources are being developed are left to private developers. That was the thinking when we deregulated the industry that private investors and private capital would best determine and take the risks about new development.

What's occurred since the collapse of Enron is we've seen a retreat from a willingness to invest in new power plants at the risk of the developers. We're seeing very little interest in unbalanced sheet financing and more of a movement back towards a requirement that any new power plant be backed up by a long-term power purchase agreement. We're at a point in San Francisco that if we decide we are going to rely on Merant to build the additional capacity for San Francisco, it still may not come to pass because of Merant's potential difficulties in raising capital in the current markets to finance this without a power purchase agreement.

In San Francisco, we already have an agency that has some responsibilities for the delivery of electricity. The Public Utilities Commission through the Hetch Hetchy system provides electricity to all of the municipal facilities in San Francisco and operates 400 megawatts of capacity up on the Toulumne River and not only provides electricity to San Francisco but to the Modesto and Turlock Irrigation Districts. It seems to me that you have an opportunity if you are going to move towards a broader public power agency in San Francisco and exercise more local control over power development to build on the resources that are already available through the Public Utilities Commission. To go and start up a new utility district would require a formation of a brand new agency and raises the question about the initial funding for that agency.

In the case of Sacramento, when SMUD was originally formed, the city of Sacramento issued general obligation bonds to be able to fund the initial development work at SMUD before it took over the PG&E distribution system and before it had any source of revenue to do revenue bond financing. Under the current limitations of Proposition 13, the ability to issue general obligation bonds, it seems to me it would be difficult to find a funding source sufficient enough to allow for the startup of an independent agency like a Municipal Utility District.

On the other hand, you do have the existing San Francisco Public Utilities Commission, which has infrastructure, which has talented staff that you could begin the process of expanding the control over local sources of power. I would like to make the point that when we think about what we can do in San Francisco to think of it in terms of staging, how we gain some additional control. It's not necessarily in my judgement to gain control over the wires and pulls and the

transformers as a first stage to having more energy independence and having more local control. The City could take on the responsibility for portfolio management for planning and procuring electricity supplies without necessarily owning the wires. But it would require a change either in state law or in state regulation.

As you heard from previous speakers, direct access which allowed people to select their supplier of electricity has been closed down by the California Public Utilities Commission to protect the contracts that the state has entered into for the net open position in supply. There is a bill that Assemblywoman Migden is carrying this year and she carried it last year AB117, which was vetoed by Governor Davis last year I believe on technical grounds, but which is going to be carried again this year which would give municipalities the authority to aggregate load within their jurisdiction and to serve their customers by procuring supplies either by building their own generation or entering into contracts with other generators to sell power to their customers. This sort of community aggregation, direct access would allow the City to expand its role without having to initially condemn the distribution system. It is sort of a quicker path to local control. If the City were to do that would allow the City to exercise some decisions about where new generation is sited, what types of new generation is chosen, and allows the City to promote cleaner technologies as well such as solar and fuel cells.

If you do want to go the second step in condemning the distribution system and taking over ownership, there is a significant hurdle in state law, which is usually referred to as rebuttable presumption that is you as the three supervisors have the authority to exercise eminent domain and condemn PG&E's property, but PG&E has a right under state law to rebut that finding and to take you to court and challenge you in court as to whether or not there was a public necessity in the condemnation. That can tie things up for years to go through that. Last year, Senator Burton and Senator Nelsoto introduced a bill to delete the rebuttable presumption clause in state law. It's only been there since 1992. SMUD and others that exercised eminent domain did not have this barrier. It didn't make it through the Assembly Committee last year, and this would be another hurdle over the long term. If you want to make it easier to move to a full municipal agency, eliminate the rebuttable presumption clause of state law.

Once you're through that it is still going to be a formidable challenge to take over the system. I think one of the key issues and an issue that needs to be further investigated is what is the appropriate value for the distribution system and other assets that you would take over from PG&E if you were to operate a municipal utility. There have been a number of different methodologies that have been used in the past, but they usually boil down to one or two. One being replacement value of the distribution system minus the depreciation. The other being book value minus depreciation. Which methodology is eventually decided upon will have a major impact on whether or not in the short term electric rates

will be any lower in San Francisco than they would be if service was continued to be provided by PG&E. Over the long term, rates will be lower because you will be able to use lower cost of capital to improve the infrastructure and over time that is significant enough that that will allow for lower rates in San Francisco. In the short term, what will determine whether rates are lower or not under a public power alternative is the price that will be paid for the PG&E distribution system.

Commissioner Hall asked, Mr. Smeloff six or seven months ago I sponsored a resolution that was unanimously approved by this Board to establish a Department of Public Power, and you alluded to that in your presentation. I think you said there is a law change required. If we were to establish a Department of Public Power within the existing PUC or a separate department, what is exactly required—a law change?

Mr. Smeloff stated you have the power as the Board of Supervisors to provide direction to the administration on the organization of City departments. It is my belief that the intent of the Mayor in appointing me as Assistant General Manager for Power Policy Planning and Resource Development, and the staff that we have now assembled really constitutes the beginnings of an Office of Public Power in the Public Utilities Commission. What I was referring to was the law change that the City would need to have in order to be able to sell power beyond just municipal agencies and sell power to retail customers. Right now, direct access, which was in place in the past had been ended. So the City could not under current state rules sell power to a business or retail customer. That is what would have to be changed either by the CPUC or the state legislature and that is what Assemblywoman Migden's bill is about.

Commissioner Hall stated we could go ahead and set up a Department of Public Power within the existing PUC whose function it would be to buy, sell or aggregate power, not do the distribution at this point. Is that correct?

Mr. Smeloff stated you could set that up. You could buy power and we do buy power on the day to day market and contracts for the municipal load. What we can't do under the current law is sell power beyond the current set of customers-- to retail customers.

Commissioner Hall asked if we could sell to wholesale customers.

Mr. Smeloff stated we do sell wholesale power right now as the Hetchy Hetchy Water and Power System to SMUD, Modesto, and others. We can't sell retail in San Francisco.

Commissioner Hall asked is that what you are defining as distribution? Are you defining as distribution as part of that the ability to sell to retail?

Mr. Smeloff stated no, it's possible and it was done earlier. You can sell electricity over PG&E's wires without having any responsibility for the distribution system. That is a possibility. That's what would be allowed under AB 117. We have the ability to wheel over PG&E's lines and sell to end users.

Commissioner Hall asked if we were to set up, what would you recommend as far as setting up a Department of Public Power? Would you set it up within the PUC? Would you make it a separate entity, a separate department? With your experience, how do you see it best being set up?

Mr. Smeloff stated the Hetch Hetchy water and power system is a multi-purpose system. But, its primary responsibility is to assure that there is a water supply for San Francisco and the Bay Area. To try to pull the power function out of the current PUC would be difficult to do because the Hetch Hetchy is so central to the power delivery infrastructure. Not only do we own seven power facilities in the Sierras, we also own about 110 miles of transmission lines to Newark within the Public Utilities Commission. It is my recommendation to build on what you have through the existing Public Utilities Commission structure.

Commissioner Hall asked but to set up a separate division, a separate Department as in my original resolution, a Department of Public Power that would do everything short of distribution.

Mr. Smeloff stated that is correct to set up an enterprise that would have responsibility for managing the power functions within the Public Utilities Commission which would set rates and bill customers. A key reform that needs to happen in my judgement is delegate to the PUC the authority to issue revenue bonds to be able to develop new resources, not only on the power side, but water and sewer services as well.

Commissioner Hall stated that could be set up everything short of distribution setting that aside right now to aggregate, to develop resources, to procure generation, etc. That can all be done within an existing Department of Public Power structured within the PUC.

Mr. Smeloff stated that is correct.

Chairperson Gonzalez asked the law change that you were discussing initially relates to the long-term arrangements that the state has made with certain power generators--is that true?

Mr. Smeloff stated the reason that the state has cut off direct access is because the state has entered into a number of contracts with power generators over a fairly long term at prices that are now above market rates. If they were to allow customers to opt out of being served by the state then those contracts could be in part stranded, and those costs would then be imposed on the remaining rate

payers who are taking service through those contracts. That's the reason for the prohibition. Any direct access would have to take that into account.

Chairperson Gonzalez stated the reason for that is if you allowed certain municipalities to engage in the sale to retailers, you would essentially be circumventing the contracts, and those contracts have guaranteed amounts of energy that are going to be purchased. True?

Mr. Smeloff stated that is correct. Many of those are take or pay contracts with fixed amounts that have to be delivered so the state would have an obligation to pay for power that it would not have fewer customers to deliver it to.

Chairperson Gonzalez stated I know these are long-term contracts. Any purpose in discussing whether or not there is a sunset provision on the direct access law?

Mr. Smeloff stated the CPUC has by order eliminated direct access and could reinstitute it by a future order. There's no date in which that could be done. If it is to be opened up, all of these issues related to stranded costs are going to have to be dealt with. There are several of them. PG&E has costs that were incurred during the time of price volatility when the markets went haywire that they still have not recurred. Those costs would be amortized over time. Those costs would probably be assigned to any group of rate payers if its through municipal aggregation or other direct access. Those costs would be assigned to them as well. The state has not fully recovered all of its costs when it was in the short term market buying power at very high prices. Those probably would also be assigned to any group of customers that got direct access. The third is the long-term power contracts that the state has an obligation. It is possible to put together a direct access program or community aggregation program, but it's going to have to take into account these obligations that have been previously incurred.

Commissioner Hall asked Mr. Smeloff to define the difference between retail and wholesale customers.

Mr. Smeloff stated a retail customer is a end use customer who takes power from a retail utility usually at a lower voltage level, although the voltage levels can vary. The wholesale customer is a electric utility or an independent power producer who is not directly regulated by the state and which transactions between wholesale entities are regulated by the federal government.

Commissioner Hall asked then the law that Commissioner Gonzalez is referring to applies to both retail and wholesale or just retail?

Mr. Smeloff stated the direct access law applies just to the sale of power to retail customers.

Commissioner Hall asked then we could engage in sale or trading of power, aggregating and trading, to wholesale?

Mr. Smeloff stated and we do do that. That doesn't allow us to sell electricity to any San Francisco business or retail customer. We could sell it to SMUD or we could sell it to Modesto if we have surplus power, and sometimes we do.

Commissioner Hall asked is that process formalized, or is that a process that can be much improved on at present in the City in your opinion?

Mr. Smeloff stated yes. In fact, we are beginning to institute some reforms in San Francisco on the way we look at anything more than short-term power purchases. I don't want to get into this, but I am sure the Supervisors are well aware that the City got into a long-term with Calpine which now is significantly above market rates. In my view as we look back on this, the structure for making that decision at the PUC was not wholly adequate.

Commissioner Gonzalez stated to Commissioner Hall, I want to clarify two things. I think that the discussion versus wholesale versus retail when we are talking about the San Francisco market has to be placed within the context of what you referred to Ed, related to the Hetch Hetchy system really already providing energy to certain users. They just happen to be essentially City users. So in a way, we are wholesalers, but we are also retailers at the same time. Is that a fair characterization?

Mr. Smeloff stated that is a fair characterization. We have an agreement with PG&E called an interconnection agreement where they agree to provide distribution services for municipal load in San Francisco. This agreement goes through 2015, so we currently are able to use their lines since we don't own any transmission lines this side of Newark to deliver that power to the municipal customers like the Airport, City Hall, and the Water Department.

Chairperson Gonzalez stated the whole question of whether or not the City can be a wholesaler and the likely advantages of that need, direct access law affects whether or not there is a demand for wholesale market and activity. Is that fair to say?

Mr. Smeloff stated certainly. There is a limited number of trading partners right now under the current structure because things have been frozen. Many customers who were buying power from alternative suppliers have defaulted back to their current utility. So there are a limited number of counter-parties to trade wholesale power with. Furthermore, the City is even more limited. Under the Raker Act, we can only sell power that is generated at Hetch Hetchy to other public power entities. We are prohibited under federal law from selling wholesale power to PG&E or any other investor-owned utility for resale.

Chairperson Gonzalez welcomed Commissioner McGoldrick to the hearing.

Commissioner Hall stated I wanted Mr. Smeloff to illustrate the advantages or the disadvantages of a takeover of the PG&E distribution system right now. What would be the advantages to the City assuming law was in order, everything was in order? What would be the disadvantages?

Mr. Smeloff stated in my judgement the principal advantage to owning the distribution system would be the ability to plan for small-scale generation like solar and fuel cells and to target the implementation of energy efficiency and load management to the parts of the system that are congested, to the parts of the system that would require new investments. If you look at the distribution system in an integrated fashion, you can in my judgement lower the cost if you are planning for new generation and upgrades in the distribution system in a comprehensive fashion. Where we are going in the utility business is for smaller-scale generation, cleaner generation, generation that is located closer to load so you end up losing less electricity in the transmission, and you are able to optimally use the distribution resources that are in place.

Commissioner Hall asked if this planning is the necessary ingredient, could this be worked out in place with PG&E operating as they are today?

Mr. Smeloff stated theoretically, you could have a cooperative relationship with PG&E where you jointly did planning for the addition of new resources. Theoretically, it could work if PG&E were willing to cooperate. There is an institutional barrier that PG&E has. PG&E is driven by its rate of return and making transfer payments to its parent corporation. To the extent that they may lose revenues on their distribution service through the implementation of solar or other distributed generation technologies on the customer's side of the meter, they will put obstacles to having that happen. They make money by having more power flow over their wires, so the incentive is to put obstacles in the way of these systems that lessen the amount of electrons flowing over their wires.

Commissioner Hall asked what would be the cost of taking such a system over?

Mr. Smeloff stated that I think is the next step that the Board of Supervisors would need to look at. If you were seriously wanting to explore this, you need to do a very detailed inventory of PG&E's assets within San Francisco. You need to know how many lines of wire, what the condition of it is, where the transformers are to come up with an evaluation of their value. Then, you need to look at the different ways the courts have treated compensation to companies like PG&E when you condemn and take over those. The big difference will be whether its replacement value minus depreciation or book value minus depreciation. If it's book value minus depreciation, it's going to be a lot less.

Commissioner Gonzalez stated Commissioner Hall just so you know, Mr. Maynor has prepared future public hearings on the financing question alone in this particular area that you are going.

Commissioner Hall stated it seems to me that if the City were to pick up the PG&E distribution system in the best sizable amount of money and from what I understand it's quite dated, and if we were to invest in that system to bring it up to date, we'd be in the same position as PG&E not wanting to lessen the amount of electricity running through those wires. We would probably want to protect that system. It doesn't matter what my position is. Your assumption that PG&E would be fighting any alternative to that system, I think the City would probably be in the same frame of mind after we've once invested in it. That's why I was asking the question about working in conjunction with them regulating a planning process that results in new generation that we have control over the regulation, but not giving up the ability to control the situation.

Mr. Smeloff stated let me respond to two points. The first is that I think you are correct in characterizing the system as old and in need of improvements. The future cost to ratepayers would be the cost of making those improvements. A municipality can do it with tax-exempt financing. PG&E will have to do it with taxable financing. There is a difference there. It will be less costly for the City to make the improvements.

Commissioner Hall stated it would be less costly but probably more costly in the fact that we don't have the expertise that they've had in doing this in the past. One offsets the other.

Mr. Smeloff stated the other point is that if the City makes those improvements, it will have a fixed cost of the system and it need to recover those fixed costs. The City will then have to balance policy goals of enabling clean distributed generation versus setting rates at a level sufficient to recover the fixed costs in the system. PG&E could do the same. As a result of diminished load through energy efficiency and distributed generation, go back to the PUC and apply for a rate increase. One reform at the state level is to create a state incentive structure so any lost revenues as a result of energy efficiency and distributed generation could be recovered by automatic increases in rates through PG&E. There are ways of doing it of incenting a system for PG&E that could produce the same results.

Commissioner Gonzalez stated Commissioner Hall I think you are raising some good questions. My thoughts in listening to Ed really the planning point that you raised seems very compelling to me, which is when you have the private corporation that has profit incentive the likelihood that they are going to work with a municipality towards things like energy efficiency and conservation and these alternatives that are going to bring down essentially the flow that they rely on, I think the logic is that it's not going to be high on their priority list. The other point

that you raised that I think is something we have to confront is I believe you said 1992 change as it related to our ability to condemn a distribution system and engage in that whole process of trying to acquire it which is what Supervisor Hall raises. It sounds to me that because of the law change the burden has changed, and it could be much harder for a Municipal Utility District or a Power Authority or a PUC to even get to that place.

Mr. Smeloff stated the burden of proof is the finding and the public necessity for public condemnation does not serve a higher public purpose. You have as Supervisors for other property that is non-utility your exercise of eminent domain is conclusive. It's not final. There's no additional review, but PG&E can tie things up in court for a number of years. That is why I tried to make the first point. I don't want to lose the larger point which is one that I think that Supervisor Hall was also trying to make which is that we have this opportunity of making some real important decisions in the next three to five years about what major new sources of power are going to be located in San Francisco whether there's going to be a large generator at Potrero, or whether we are going to do some smaller scale but still significant size generation in different parts of the City. The City has more ability to do that if it has more local control. It doesn't need to own the distribution system to make the impact on those decisions. If you make it a precondition to own the distribution system, PG&E will tie this up, the attempt to condemn the distribution system for a very long time.

Commissioner Hall asked Mr. Smeloff, you say if we make an attempt to get involved in the distribution system, you think it will be tied up legally regardless of our efforts to increase generation or supply?

Mr. Smeloff stated I am saying that the critical issue facing San Francisco right now is developing newer cleaner sources of generation and that is where we should put our focus. By trying to get this community aggregation bill passed and getting the authority to sell to retail customers as the City of San Francisco you then become a creditworthy buyer of electricity, and you can finance new power plants or enter into power purchase contracts with others like the California Power Authority, who could finance these plants and then you could impact the type of technology and the location of technology. My point is that's where we should focus our attention immediately, and then the issue of the distribution system is one that the Supervisors can look over the longer term.

Commissioner Hall asked or the PUC or the Power Authority or a MUD or whoever?

Mr. Smeloff concurred.

Commissioner Fellman asked with respect to your last point, Mr. Smeloff, right now without any further change in law, couldn't the City and County of San Francisco encourage having green technologies or green buildings and energy

efficiency go forward as a planning principle rather than an energy-purchasing principle?

Mr. Smeloff stated yes, we can. The Mayor appropriated in this year's budget fifteen million dollars under the Mayor's energy conservation account for energy efficiency in public buildings. The Department of Environment has obtained some of the public goods funds that are collected by PG&E under the current rate structure for doing energy efficiency in commercial buildings. The voters passed bond authority to do solar and other renewables in San Francisco so those things can go forward under the current structure. You heard from the city of San Jose. They are doing a number of other things that we should look closely at that we could do here in San Francisco given the current structure and situation.

Commissioner Fellman stated she had another question on barriers to retail sales by San Francisco. Suppose in the absence of creating a Public Utility District of some sort or a Municipal Water District or Power District, whatever we decide to do, we just said we are going to sell at retail. Is it the franchise that PG&E has within the geographic boundaries of San Francisco that would prohibit retail sales even if whatever entity the Supervisors decided to set up would be willing to be regulated as a public utility?

Mr. Smeloff stated no, it's not. The franchise does not give PG&E the right to have a monopoly over the sale of commodity into San Francisco provides the franchise the wheel to distribute power into San Francisco. With direct access, there were other providers selling electricity into San Francisco prior to July of last year so if you could get over the hurdle of the prohibition on direct access, then the City could sell under the current franchise to retail customers. That's not a barrier.

Commissioner Fellman stated even without direct access being open, is there a window of possibility where retail sales could occur, but they would have to be regulated by the California Public Utilities Commission?

Mr. Maynor stated I am not aware of it. I think your point on the aggregation bill was the one that would allow you to do that. There may be some understanding about aggregation. That's a retail term so that would be the way to accomplish what Mr. Smeloff was talking about. That would be in the absence of condemning a system. The other thing to keep in mind is you don't have to condemn a whole system. Cleveland, Ohio for example, part of the city is served by an investor-owned utility, part of it by a Municipal Utility. So there are options there.

Mr. Smeloff stated that's a good point. Once you do this inventory, you may decide that there are some parts of the system that are so old you don't want to buy that. That it would be better for the City, particularly if the policy of the City is

to buy underground service, to go directly to providing new hookups or new service in that part of the City.

Commissioner Fellman asked how much of the City's own load or its tenant's loads are provided by City power today?

Mr. Smeloff stated let me give you the numbers that I know about. PG&E's peak demand in 2000 was 950 megawatts. I will explain why this is not apples to apples. The City load that we sell through the Hetch Hetchy Water & Power System peak demands 120 megawatts, but that includes the Airport, which is our biggest customer, and it includes other load outside of San Francisco, a lot of pumping stations and pumping load of the water systems outside of San Francisco. I don't have the precise figure, but I think we can drill down and get that, to know what portion of the load served by Hetch Hetchy is actually physically within the City of San Francisco.

Vice-Chairperson McGoldrick asked are there advantages and disadvantages that we would go into the public power business by a vote of the Board of Supervisors as opposed to the vote of an electorate?

Mr. Smeloff stated I think there is a couple of reforms in the City Charter that would be very valuable for a Public Power Agency. I think the most important one is delegating the authority to issue revenue bonds. Absent the authority to issue revenue bonds, it is very difficult in a timely way to develop the infrastructure that you need. There also needs to be reform of the rate structure. Currently, the Hetch Hetchy Water & Power System sells power to some customers at below cost and in the last couple of years made significant transfer payments to the City General Fund. In the future, if those were to continue long term, it would be difficult to get a credit rating for the public power agency and to issue debt. There is nothing wrong with subsidizing some customers, and most public power agencies do that, but there needs to be some quantification to make that an explicit policy on how those subsidies occur. There is nothing that would prohibit a regular transfer of funds, but it needs to be a predictable amount based on some formula so that when you project your future revenues, you will be able to show to the bond holders and to the credit rating agencies that you have a predictable supply of revenue.

Don Dame, Assistant General Manager of Power Management for the Northern California Power Agency (NCPA) stated that he has a brief slide show. Northern California Power Agency was formed in 1968. We're currently headquartered in Roseville. The point of the slide is that we currently have twenty-one public agency members. We go as far north as the City of Redding and as far south as the City of Santa Barbara. We have some diverse members. Bay Area Rapid Transit is a member of NCPA, and we do the dispatching and scheduling of power for BART. We are essentially what I would like to characterize is a wholesale side supermarket. Most of our members that are in

the power business are retail distribution entities. They actually do the final distribution of the power and send the bills to the end users. We do the building, operating, and financing of the power plants and the contracts necessary to deliver that power to the cities and also arrange for transmission and do the day to day scheduling and the buying and selling of electricity around those loads and resources.

Another point I would like to make here that picks up on one of the themes that I have heard. There is really no mystery to electricity. The physics are very well understood. One third of the power in this country is sold by public power agencies. The expertise that you need to run and operate a public power system from the business side and the operations side exists. There is no shortage of folks to give you the expertise and capabilities that you will need to do this should you choose to do so.

On the right hand side of this slide you will see the darker shaded area which is essentially very small. That is essentially PG&E's service territory. Most of our members are clustered throughout that PG&E service territory. Santa Barbara is the only member that is in Southern California Edison service territory.

Vice-Chairperson McGoldrick asked if the color coding means anything, the green, the red, the black, the blue?

Mr. Dame stated that's when I mentioned we were a supermarket. The red members that you see there are actually members of a ten-member power pool where they join their resources and loads together and we dispatch simultaneously. The green members tend to be associate members. A lot of them aren't in the power business per se like the Placer County Water Agency, the Calaveras County Water District. Lassen Municipal Utility District is indeed in the power business, but they're not in our power pool. The blue members are involved in power plants and Truckee Donner is a lower retail distribution company that is not involved in power plants or the associate member activities.

Next slide—I hope you can see this. They say a picture is worth a thousand words. Who would ever believe we had a bankrupt huge investor-owned utility? That is one of the new PG&E service vehicles. I don't suppose you have seen those out in the streets out here, but I think that's a dual-fuel vehicle.

Next slide—we happened to get a clip from Enron before the demise. I put this up here because this is the antithesis of public power. Enron came in. They don't have roots in the community. Unlike both PG&E and public power entities, they came in with a big ego. They really didn't have any magic formulas. It was buy low, sell high, maintain political connections, use creative accounting when necessary, sell your stock before it drops, shred records, and if that doesn't work, leave town. I put this in here because that is just the opposite of what public power is. They maintain the responsibility and have to face the music if and when they do make mistakes.

Next slide--what was the driving force behind deregulation? Well in the mid-nineties everybody was lamenting that California power prices were half again the national average. Indeed, PG&E's residential rates were thirty-four percent above the eight-odd cents national average for residential customers. After five years of deregulation, now PG&E's rates are 77 percent above the national average, not a lot of prospect of going down. Again, sometimes we may do things for the right reasons, we get the wrong results.

Next slide—this is just a review of the general classes for PG&E. Right now, residential rates have gone from about 12 cents to 15 cents. Commercial from 11 cents to 14 cents, industrial from 4.9 to 9.8 cents, virtually 100 percent increase, in agricultural 11 cents to 15 ½ cents, a 30 odd-cent increase. A very difficult environment for businesses to deal in with power prices that go up to these amounts and with relative unpredictability.

Next slide—what is the real cost of deregulation experienced in California and throughout the west? It's been estimated to be 50 to 100 billion dollars. It is very difficult to even conceive of that amount of money. You put it in terms of residential families in California, and that's between five and ten thousand dollars per family. In retrospect, we could have not had deregulation and given residential customers electricity for ten years based on average California consumption and usage.

Vice-Chairperson McGoldrick asked what period of time is that for?

Mr. Dame stated that covers the period of the last three years and the projected increases out through 2010.

Vice-Chairperson McGoldrick asked so that is divided by eleven in terms of an annualized amount?

Mr. Dame stated that is not an annualized amount. That's the total amount.

Vice-Chairperson McGoldrick asked that's a total amount over an eleven-year span that you just described?

Mr. Dame stated that is correct.

Vice-Chairperson McGoldrick asked if I wanted to annualize, I would have to divide those numbers by eleven?

Next slide—what went wrong? Electricity is a very complex machine physically, but we had all those problems solved. We had the appropriate people in place to run this system on a day to day minute to minute basis. We added on to that a much more complex business system. The Independent System Operator,

which I assume you have heard about many times before, when they send out an invoice to us and we are relatively little guys, the Northern California Power Agency and aggregate about ten percent of the size of PG&E, that invoice has about 50 megabytes of data in that invoice. They have to send it on multiple compact disks. Rules and rule changes—we are currently on Amendment 42 of the ISO in just the last three and a half years of this change in system operations. For any of you who have perused the ISO's web sites, there are hundreds of thousands of pages of rules, regulations, and information on that. Literally, impossible to stay current and knowledgeable on what's going on in real time. Sometimes we like to characterize this as the "Bill Gates problem," simply programmers gone wild. We can write codes, let's write a lot of it. One of the losses we have seen here is really no obligation to serve load. This is one of the things that PG&E has lost unlike public power entities. It turns out it was based on high hopes, and it turned out to cost us high dollars and as we saw just a year ago—blackouts.

Next slide—put this in long historic context. The blue line on the bottom is what we call the nominal price of electricity. If you go back to 1920 all the way to the left, it was about eight cents a kilowatt hour. If you look all the way to the right, it's about eight cents a kilowatt hour today, national average price. Those are what we call nominal or as spent dollars. If you were a worker in 1920, and you bought a kilowatt hour of electricity, you would pay ten cents for it. If you were a worker and you buy a kilowatt hour of electricity on average throughout the country today, you would pay ten cents for it. The redline adjusts for the changes and purchasing power over that period. Ten cents was worth a lot more money in 1920 than ten cents is worth in the year 2000. What you see is an inflation-adjusted price, over the year 2000 dollar price of electricity, going from about 60 or 70 cents a kilowatt hour back in the 20's dropping to about eight or nine cents a kilowatt hour today. The point of this slide is electricity prices have been falling throughout the last century. This wasn't a system that was broke and in need of repair.

Next slide—I will show you one little tick in here. If you just change the scale on this and you go from 1950 to 2000, you will see that during the latter 70's and through the 80's there was a rise in the price of electricity. This is if some of us can remember back to the energy crisis when prices were short and oil prices were escalating. There was an up-tick in prices, but then the latter part of that curve you will see from the mid 1980's onward were falling again to as low as they had been in any time in the last 100 years.

Next slide—Now let's see what California does against those national averages. The red and the blue lines are the national average residential prices. The green line and purple line are the California average prices. You can see in 1975, they were tracking national averages. They have tended to go above national averages over the last 20-25 years. You will see a hook at the end of the

California numbers—those were the top lines. That is when deregulation took hold here in California, and it started to move us off the map.

Next slide—why are those prices in California higher than national averages after 1980? We had a lot of excess capacity. We brought some expensive plants online like Diablo Canyon. We had a very large reliance on natural gas and oil versus coal and some very strange environmental rules. We had PG&E and SCE primarily planning for deregulation and not what was good for their end users.

Next slide—are we out of the woods? What did bring prices down early last summer—mild summer weather, lots more power plant availability, gas prices plummeted, lots of conservation, lots of public awareness bringing about a significantly reduced demand and regulatory uncertainty as to whether some of these producers were really going to get their fingers wrapped for charging these very high prices. I think the most significant component there was luck.

Vice-Chairperson McGoldrick asked would you add to this the massive purchases that the state made?

Mr. Dame stated that may have had an impact. I don't personally think that had a significant impact on bringing high prices down. I really think it was the lack of sustainability of \$300 and \$400, 30 and 40 cent a kilowatt electricity prices. Demand was really dramatically reduced and there was no way the public was going to sustain those prices. I don't think the state entering long-term contracts had anything to do with it although everybody wants to take credit that they did, provided the relief that was necessary to bring prices down. I don't think it had a demonstrable impact.

Vice-Chairperson McGoldrick asked would you say then conversely that if those contracts were able to be renegotiated downward that they would have no effect upon the market as well?

Mr. Dame stated I don't think it would affect today's market especially. What we're seeing is just today is about 1.7 cent a kilowatt-hour-price off-peak and about 2.5, 2.6 cents per kilowatt-hour on-peak. Those are the day to day wholesale trading prices that we're seeing.

Next slide--do we have a stable power state here? Over the last twelve or fourteen months, we've seen over 500 energy-related bills go through our state government. We've seen Southern California Edison bail out legislation. We've seen PG&E and Enron. I should have had quotation marks around the state all in very suspect financial condition. We've seen a lot of Munis bashed in my opinion for doing the right thing throughout this whole period. We've got a whole host of new state agencies alongside the existing ones. I'd hardly describe this as a very stable power environment.

Next slide--one of the things that we've seemingly lost in this is the efficiency of integration. When we talk about integration from a power perspective, we're talking about the union of the loads, the ultimate place where electricity is consumed, transmission (our shorthand is XM), and generation (where power is produced). There is a very large efficiency in planning and designing around those loads the most efficient amounts of generation and transmission. Economic dispatch is not a new terminology. We've used it for years and years in this business. On a day to day basis, we always try to load the most efficient plants first. We always try to control the system in such a way so the lights do not go out. One large utility controlling loads, transmission, and generation has near instantaneous total information upon which to act, not only instantaneously but looking out over a 30-day, 6 months, 5 years or what have you. What you end up with is reasonable cost and high reliability.

Next slide--what is our prescription for public agencies? You'll hear it over and over again. Really getting in the power business is not about whether it's cheaper or more expensive. Within a hand-wave it's going to be in the neighborhood of the same cost if it is done right. It's about local control, building and owning your own power plants, undertaking that obligation to serve the members of your community, imposing and promoting conservation where it serves your purpose. This last black hole here is absolutely paramount. The customer always comes first. I know of no other power structure where the end use customer is the reason for all the day to day actions of all the staff involved in delivering those kilowatt-hours to load. Certainly something we would like to see is integration with local, state, and a national energy policy which we don't really have just yet.

Next slide--stupidity got us into this mess, why can't it get us out? Perhaps if it could, we would be out of this mess already. With that, I will answer any questions.

Vice-Chairperson McGoldrick asked do you know of any other public power companies that have had increases greater than the PG&E increases?

Mr. Dame stated that some of our folks were not immune and indeed were impacted by the system. The Truckee-Donner Public Utility District had rates that were in the neighborhood of 6.8 and 6.9 cents a kilowatt-hour. They're not in the ISO operator's or PG&E's control area. They are in Sierra Pacific's powers control area. They were short and had to go out on the market for new wholesale supplies, paid about 7 1/2 cents for their wholesale supply. They've consequently raised their retail rates to about 10 cents a kilowatt-hour, which is about a 40 odd percent increase in their retail rates. Also, the city of Palo Alto which had amongst the lower power rates in California raised their rates 43 percent approximately a year and a half to two years ago.

Vice-Chairperson McGoldrick asked do you know if this is because the amount of distributive energy that they got was of some disproportionate amount compared to other public power entities buying from non-public sources?

Mr. Dame stated most of them had a complete portfolio which virtually had every kilowatt-hour accounted for in terms of having the wholesale contracts and generation available to cover. Some of them did not have entire coverage of their supply requirements. Consequently, when the prices hit \$300, \$400 and \$500 a megawatt hour a year, a year and a half ago, and these folks even though they were only covering maybe 10 to 25 percent of their requirements on spot market purchases, they went up radically and indeed, they had to raise their rates to cover that. We went out almost a year ago this month and locked up a long-term contract for 10 years with Calpine Corporation for 6 1/2 cents a kilowatt-hour. As we speak, that's probably 2 1/2 cents out of the market rate now. So in order to serve your customers, diligence in managing your portfolio is required.

Mr. Smeloff stated I thought that was a superb presentation. I agree with all of it, particularly the point that he made about the cost effectiveness of integrated systems and the fact that historically utilities have dispatched based on the economies. We've dispatched the most efficient units first. So, the complexity of the new business system has added, in my judgement, costs to the overall delivery of electricity.

Ed Aghjayan, former Public Utilities General Manager, City of Anaheim and currently a strategic consultant on energy issues to several governmental agencies stated I think my introduction indicated among other things that in the last ten years I was General Manager of Anaheim Public Utilities. Since I retired in the past year, I have been working as a strategic consultant to a about a half dozen cities and agencies in Southern California that are concerned about their energy picture and are interested in municipalization. I thought it might be useful, since I have the history of having gone through the deregulation process with Anaheim (and having played a role in what the Munis negotiated as well as looking at what the options and problems are with the system) is to try to be as plain speaking as possible to give you some idea of what went wrong in the simplest fashion, and what you can do about it. I respect the fact that you are local government here, and to me local government is where you have to take responsibility for your decisions. This is something you deal with everyday. It is one thing to be at the federal and state level where you can sort of talk in some sort of generic global fashion about what's going wrong and what you should do about it. But when you are in your position, you have to make decisions that affect people.

Let's just talk a little bit about the history of AB 1890. It's worth talking about the basic difference between where the municipal power systems ended up and where the investor-owned utilities ended up. The municipal systems argued

during that entire process (it took a couple of years through the hearings), that we do not want to give up control of our power supply because that is what we can guarantee we can deliver to our customers. At one point in the past, Anaheim had no power generation. It took twenty years to get in the business and did not want to get out of the business because we knew what would happen if we did. So when the law was passed, the law contained provisions for municipal systems to maintain the term we use "vertical integration." All it really means is we continue to own our power plants, and we didn't have to sell them. If you talk to investor-owned utilities now, and I've listened to many speeches and conversations at different cities I'm in, they will be very quick to point out to you that whatever went wrong with deregulation, it isn't their fault because they are only in the energy delivery business. They just deliver the power. With that caveat I want to offer to you that something magical happened, not necessarily positive magical. On April 1, 1998 when deregulation took effect (actually I think they made it effective March 31st to avoid the April Fool's Day comparison), the average ratepayer became divorced from their power supplier. They didn't know it, but they went through a divorce. Up to that point, they had an equity ownership in the local power plant. After that, they were buying power from the grid. They became a renter on the market compared to a homeowner prior to when the power plant was regulated.

The investor-owned utilities were required to sell 50 percent of their thermal or generation. Most of them sold most of it, and it makes good business sense as to why they did because why would they hang on to investment when they were basically holding on to a risk. If power prices dropped down like everybody thought they might do, then they might be stuck with overpriced generation. They found they could sell it for more than book value, sometimes two to three times book value. In fact, they were protecting their shareholders by doing so. They were also aware of the fact that the other side of the coin was what happens if prices go up wasn't their concern anymore because they were no longer in that business. They just distribute the power.

In the one respect you have entities that are protecting their interest and their rights by hedging their bets and getting rid of their generation so they don't have investment in the market. On the other hand, you have ratepayers who do not even know they have been through a divorce who have no protection on the other side of that. This entire model depended upon quick entry into the market by a number of other players and prices dropping rapidly. As we know, the sale of these systems went to about a half dozen or less new players in the business.

About a year ago, I was being interviewed by a reporter who didn't seem to understand this is why prices were going up so fast, and I asked her where do you live? She said, I live in Huntington Beach. I said okay, you know where the power plant is on Pacific Coast Highway. She said, you mean the Edison Plant? I said it's not an Edison Plant. She said I know it's an Edison Plant. I said go take a look at it. The plant looks the same, but the sign in front is different.

That's the problem. It is not owned anymore. You used to own that like you own a house, and you don't own it anymore. That is why DWR had to go in the business to be able to guarantee power supply, and that is still where we are right now. Prices have dropped, but the problem and the situation remains. In terms of the city's ideal with the agency's ideal were a number of emerging issues that are facing them that effect the industry. One is who is going to invest in power generation and at what cost? Secondly, there has been a degradation in the reliability of distribution systems. A lack of funds, the negative side of performance-based rate making has all gone to result and distribution systems being neglected. In general, I am talking about the investor-owned systems. Those reliability needs need to be upgraded.

The transmission network is kind of a disaster right now. It's headed for a show down. The federal government is attempting to establish regional transmission organizations in other parts of the country, and hopefully will create a model if they think they could move to California. But right now, for example in Ahaheim's case, since 1996 the cost of transmission has gone up some 11 million dollars. That's on top of 300 million revenues, so there's about a 3 percent, 4 percent effect on the rates just in terms of increased transmission costs. They were high before. There is a question about the future of direct access. We don't know whether we will be allowed to do that anymore. We hope that the community aggregation bill that Ed Smeloff was talking about that we will, but we don't know. So that door might be shut.

We still have the issue of living with a volatile power supply market. Prices are low now, but they will go up again. How long and to what extent will the state be in the power business? I don't think the state wants to be in power business. If they are not in the power supply business, who is responsible for that planning, who is responsible for that capital investment?

I want to get back to this cost of money and power generation issue. There's been sort of an Enron effect in terms of the creditworthiness of those entities who have been doing construction of power plants. There have been a rash of power plant cancellations. The cost of money for these entities is now reaching in the 12 to 14 to 15 percent range. There was some discussion about the efficiency of the new power plants, and I agree with that. I want to give you some comparisons from a chart that I had come in contact with. I have been working with a couple of my clients, who are participants in the Magnolia Project, which is a publicly planned project. Southern California Public Power Authority is building a 240 megawatt plant spearheaded by the city of Burbank on the city of Burbank property within the city on an existing power plant site. This is going to be a combined cycle state of the art in terms of environmental quality and efficiency facility. There are seven public power participants in this project.

When we did a comparison of that project for the purpose of putting information on the official statement on the bonds that we hope will go out in the next several

months, we came out with a total of a 2005 price of about 3.8 cents per kilowatt hour at the bus bar. That includes fuel costs, gas costs, and investment costs. When we compare that to other privately built plants by Calpine, Merant, Mission, Pacifcor, Sempra, Constellation of similar construction, combined cycle, similar efficiency levels, we find that they have entered into contracts with DWR for prices between 4.7 cents and 6 cents a kilowatt hour. When you break down the reason for those differences, we find that the fuel cost is about the same for all these plants, but the capacity prices in most cases double or more that of the Magnolia Project, which is a joint action agency and public power project. Why is that so? I will give you two reasons—high interest rates and profit margins. So if the future of the business and the industry is such that we're talking a possible savings of 30 to 40 percent by engaging in public power projects where we're expecting an interest rate of about 5 percent, that something has to be considered in your thinking and in the thinking of the policy makers in this business.

I want to get back to community involvement in public power. I deal at the local level with mostly elected and appointed local officials that have their fingers on the pulse of the community and for the most part where the community has their fingers on the throats of these officials. Most crises that deal with failures of business and economic systems do not stir local officials in the public to cries of action. Examples are savings and loans failures, even Enron failures—the distrust in accounting and auditing standards. Even rising interest rates don't tend to end up at the local Council Chambers with demands for action. This is seen as problems for sure, but not generally affecting us directly or within the sphere of our influence. But every once in a while, an issue comes along that crosses the line and becomes a matter of public policy. I am making a case here as to why I think deregulation is a matter of public policy and solutions are demanded at the local level. Three times in my career I've seen it happen. Once was the oil embargo and fuel shortages in the late 60's, early 70's. The second is when nuclear power plant disasters and plants that weren't built caused bankruptcies and skyrocketing prices. The third is the most recent one with California deregulation.

Everyone in the community understands that the outcome affects their lifestyle and results will be lasting. It is by definition of public policy is that we won't leave it to the experts to decide. We as the public will participate in the debate. As mentioned earlier, I work with about a half dozen agencies and public entities and for them, they have about five issues that they need to address that they think is important for their communities. One is the quality of life. As prices rise, they find residential customers being seriously impacted. Second is business viability, and I want to differentiate between that and economic development. Business viability is a whole bunch of customers that are on the borderline of profitability when you suddenly raise prices 40 percent, they're not profitable anymore, and they're not going to stay in business. Third is economic development. I worked with one city that just purchased a 5,000 acre airforce

base, and they are starving for jobs in their community. How are they going to get business to locate when prices are 20 cents a kilowatt hour. The fourth is the issue of safety and reliability, the integrity of the infrastructure. They don't trust that. Lastly, they just don't trust others making these decisions. These are all issues that I find that Mayors and Council members, Supervisors, and City Managers are grappling with right now. Their goal is to address the above issues and to control their own destiny.

Generally speaking in working with them, I am getting into the nitty-gritty of what options you have. There are four options that I have seen and worked with. One is serving customers through community aggregation as we have talked about. As you know, that's on hold right now for electric customers unless we can get sufficient support for AB 117 and get that passed. However, I have customers that are doing it right now for natural gas. You can aggregate natural gas. I have one city that is buying it in bulk and selling it to its commercial industrial customers, and it's a great attraction—also the governmental users. A second option is decentralized systems to serve site-specific areas, like industrial parks. Co-generation systems where there is some substantial capital outlay, but not necessarily connected with the grid. There is no reason why a system like that wouldn't work, and because you are dealing with quite an efficient system when you are talking co-generation when you would be selling steam, chilled water, and electricity to potential retail customers. This is a legitimate approach. One of the cities I am working with is planning such an approach, and we think they will achieve significant financial savings and not connect to the grid. A third is going under FERC Order 888, filing for an interconnection agreement building the necessary substation infrastructure to serve new load only. In this instance, you are not condemning existing wires, but you are saying we're going to take care of the new load and the new growth through an interconnection agreement which is under FERC order and FERC tariff. The last and the more significant approach is purchasing, condemning the IOU system, which I have at least one client considering that.

These are significant efforts. You can expect to have a good deal of opposition from the local investor-owned utility for any of these. I hear them say that they support aggregation, but I don't necessarily see that in their actions. I know that in instances where we've proposed either site specific options or serving new load or negotiating for a sale or condemning a system there have been strong opposition by the local investor-owned utility. I think the reason is obvious. When deregulation occurred, I believe that these companies thought that the future of their company lay in the deregulated part of their business. I think their attitudes have changed. I think they now believe that the future of their companies lay in the regulated side. In fact, right now they are cash cows and generating money hand over fist. With rates set as high as they are and wholesale prices as low as they are, the NCPA had a nice chart about how prices had dropped down. None of my client's retail customers have seen the decline in prices because prices are still at the high levels.

In terms of benefits and opportunities, when I get back to vertical integration controlling your supply and generation, stabilizing the prices, local control over environmental priorities, reliability, economic incentives, rates and rate setting as well as local control over your public purpose programs. In Anaheim, I had 7 million dollars of public benefit money that I did not have to send to Sacramento that we could make local decisions. We had more than 50 programs that were designed around the local community, everything from putting in off-peak lighting for security and economically disadvantaged areas to reduce crime. I'm not sure whether we reduced crime or chased it into other communities, but it seemed to work. To tree power programs, where we planted some 17,000 shade trees for energy efficiency to business incentive programs to make businesses more efficient. The ability to design programs around what your local community needs and wants is much better than letting somebody in Sacramento or across the street decide how it is going to be spent.

When I got a letter on what I was supposed to say, they said make sure you mention the risks and disadvantages. Power supply investment can be risky, obviously. It's not the type of business cities are in. However, these risks can be mitigated through diversifying and working on joint power agencies. On the Magnolia project for example, there are seven entities that are sharing the risk on that project. Secondly, being publicly run doesn't mean automatically that it will be run well. In fact, you must pay a lot of attention to the government structure. I was impressed by the discussion of setting up a Department of Power in the city. You must set that government structure up properly with public accountability, but with a professional staffing organization. Third, expect strong opposition to all of the suggested approaches. It can be a very time-consuming effort to go all the way through a condemnation process. You've heard talk about Sacramento taking twenty years to do it.

I will end up in my final note. I pulled a twenty-year old article from Public Power Magazine. I was going through some old papers, and I had written an article in the same magazine. This was a story about Macina in New York, which is a public power system. They took about eight or nine years to get through the legal process to take over the system to where they could realize the benefits. Prices were a lot lower than in surrounding areas. At the point this article was written, it was 1980. It was six years into the process. They didn't get a final result yet, so they are still fighting it. I want to read you a very short section on what was at stake here in New York state. An unnamed official quoted by the New York Times the day after the 1974 vote expressed the possible utility concern.

"If Macina goes, can Niagara Falls be far behind? If that happens, will Buffalo, Rochester, and Syracuse be far off. Six years later, the sentiment still seems to be the same. So much rests on Macina. With everyone looking on, why does

Macina feel so much alone? The town official says they are not getting much support from anyone because their town is so small and infantile in the political scene. No one seems willing to get their hands wet.”

Macina went and as you can see, Niagra Falls, Buffalo, Rochester, and Syracuse didn't go because it was so hard to get this established. When SMUD went, Sacramento went after twenty years effort, who would want to go through that again? It's not an easy effort to go through and is something you have to give some careful thought weighing all of the options you have in terms of addressing this particular crisis. With that I will end my comments and open to any questions that you might have.

Mr. Smeloff stated Ms. Jackie Williams from South San Francisco asked a couple of questions. This relates to plans to build power plants at the San Francisco Airport. The question is:

“Does the 250 megawatt power plant for San Francisco Airport have the transmission lines to bring this power to San Francisco or will it go into the ISO grid for the highest bidder? It was my belief that any megawatts to San Francisco had to be connected north of the Martin substation. Is this true?”

There are two plants being proposed at the Airport. One would be owned by the San Francisco Public Utilities Commission. We're developing that in conjunction with the California Power Authority. They would finance it. We would enter into a long-term power purchase agreement. That power plant will be interconnected at the Airport into the 12KV system. It will back-feed to the Airport and deliver electricity to the Airport. It is designed to operate in what we call an “islanded configuration” so if there is a power disruption, the Airport can still maintain power. That's one power plant and it is specifically dedicated to serving Airport load. The other power plant is being developed by the California Power Authority with a private developer out near the United Airlines hangar. That is a peaking power plant that will only be there for grid reliability and will run only during hours of peak need to provide voltage support and grid reliability. It is not intended to be a plant that will deliver power into San Francisco.

The other question:

“SFO currently has a 50 megawatt co-generation plant at United Airlines for their needs, so why is there a 50 megawatt plant being financed by the Consumer Power Authority?”

There is a power plant that is owned by United. It's not 50 megawatts; it's 20 megawatts, and it's for United's own load. The plant that we're developing would be specifically dedicated to the Airport load.

Commissioner Hall asked Mr. Smeloff, do you have any approximate costs relating to the construction of those plants?

Mr. Smeloff stated I can give you a rough cost for the full all-in cost of the plant. This will be built and financed by the Power Authority. We will not finance it, but we will buy it. The all-in costs are probably around 45 million dollars. We will know specifically once they complete a competitive bidding process among developers what the price is.

Commissioner Hall asked but you are guessing around 45 million dollars?

Mr. Smeloff stated around 45 million dollars for a 57-megawatt plant, and it will include the interconnections to the Airport grid.

Commissioner Hall asked would that be standard average costs for a plant that size?

Mr. Smeloff stated costs are coming down because of the surplus of equipment that is available recently. So these are much better prices than what you would have seen last summer. Because of just labor and specific San Francisco costs, the costs are higher than what you would see in Southern California or the Central Valley.

Chairperson Gonzalez asked Mr. Aghjayan, related to the extent to which the private utilities characterize their responsibilities as energy-deliverers, who in their opinion became responsible for generation?

Mr. Aghjayan stated they don't know. Maybe they do know and maybe they would give you an answer to that, but I haven't heard it. The assumption behind deregulation was that it was going to be such a rush into the market that it was going to be like selling ping pong balls. There is always a supplier along that if the price goes up, somebody is going to get into the business. The problem is it takes years to build a power plant. These are not ping pong balls, and in my own personal opinion I think their focus was on protecting their shareholder in these negotiations. I also don't believe that they thought it was going to fall apart as quickly as it did.

Chairperson Gonzalez stated I would see how someone delivering energy would have an incentive in perhaps not bearing the responsibility for the generation component of it. But its curious to me that the laws that got us into this place also directed these deliverers to disinvest from generation. That seems to me significant because the legislators who did this bear a huge responsibility for not seeing the "crash" that that kind of public decision making was going to lead to. Am I missing something in the characterization?

Mr. Aghjayan stated without commenting on exactly what happened because I don't think anybody knows, I would say there certainly is a loose end there. What happens if the power plants don't get built, who is responsible? That question should have been asked a few more times during this process.

Chairperson Gonzalez asked what about the question of disinvesting of generation by those deliverers? What do you say to that?

Mr. Aghjayan stated they were required by law to sell half of their generation.

Chairperson Gonzalez asked why?

Mr. Aghjayan stated to get them out of a controlling, and I am not speaking from my personal viewpoint but from my perception of what was said at the time, was they wanted to get them away from a monopoly position on a power supply to allow more entrance into the market and hopefully, there would be fifty folks that wanted to generate power, not just the investor-owned utilities. One of the things that went wrong was that it ended up less than a half dozen companies being in that business that bought those plants. That was the negative. The other side of it is remember this, that some of these companies while at the very time were selling their generation in California were using their holding company funds to buy power plants in other parts of the country and take positions of that of a power supplier. All three major utilities in California are in that business right now.

Commissioner Hall stated if I recall, the intent of deregulation was to break up that monopoly as you just said and in reality it has resulted in something different.

Chairperson Gonzalez stated I think it is interesting that while the express motive may have been to increase competition in the generation of electricity. Of course it is easy with hindsight to see what was wrong, but it would seem to me that when you have a volatile market, and you are unsure of the availability of profits in the future, that that is not a huge incentive for people to go into these long term contracts or the process of creating generation in looking down the road. But the component that I think is interesting, and maybe this is what Supervisor Hall was thinking, the question of asking these deliverers to disinvest as a way to increase competition. I am wondering why isn't simply opening it up and letting anybody compete in the market or wouldn't have been sufficient to break down the monopoly?

Mr. Maynor stated one of the things that happened and we're in that process at the PUC, is that there was a belief that there was tremendous co-generation potential in California. There was a great deal of emphasis by the independent generators to just open up the market--we're ready to come in. As the speakers were saying, it takes a while for that to happen. It took a while for the program to

get started. Frankly, there were many people who testified from other places in the world that went through the direct access program that experienced the exact same thing that California went through. It's a complicated industry. That was one of the motivating forces was the sense that there was a lot of independent producers out there that were ready to come in if you could just get these folks out of the business so they would have a marketplace to sell.

Mr. Aghjayan stated it was also believed that in California there was a surplus of capacity back in the late 1990's. In fact, everybody believed there was a five to ten-year surplus in capacity. It disappeared very fast. The rush at that point was to get rid of the generation to not get stuck with that over-priced inefficient generation so that you would have that financial responsibility. Can you imagine the surprise when they went out to bid and found they were getting two to three times book value? Somebody else was betting on the opposite thing happening. While at one point, the investor-owned utilities obviously thought they have to get rid of this expensive generation, don't have it as a liability. Somebody in the market was saying it was going to go the other way and buying up generation.

Commissioner Hall stated exactly.

Commissioner Fellman stated there were a couple of other competing forces that occurred out of the AB 1890 legislation. One was that retail rates were frozen for all customers at a discount of 10 percent for everyone, so there wasn't that competitive advantage to go to alternative suppliers for your load. Those of us who did were mostly green customers and were willing to either get the discount or pay more. So there was a fixed price on the retail price that caused a problem and also FERC's (this is my personal opinion and I think others share this) market power analysis for monopoly power (and that's what Ed spoke about) was looking at a statewide monopoly impact from purchasers of these divested power plants.

So, if you bought, like Merant bought a significant number of megawatts in the Bay Area from PG&E, it's only maybe 6 percent of the statewide requirements, and yet in San Francisco, it's 90 percent. So, we had that kind of tension going back and forth plus PG&E kept Hunter's Point in the deal with the city to close it down as soon as reliable. So, there were a number of political factors and fixed policy factors that kept the prices at a particular level and didn't really send the price signals to the developers. Finally, I think this is something that as a Commission member I am excited about working with, is that we don't want to make decisions based on the short-term prices because those decisions were made in 1995 on short-term prices. Similar kinds of decisions were made in 2000 on short term prices, and we're living with the negative consequences of both those sets of decisions.

Mr. Aghjayan stated I agree with you. I also want to mention that 10 percent discount was financed through a 7 billion dollar bond issue of which we still have

at least 6 more years to pay on. I don't know where the 10 percent discount went to, but if you look at the back of your bill in the fine print, you will see something called a trust transfer account (at least it is in Edison's territory), and that's what you owe on that bond issue that finances that 10 percent decrease. We have 6 more years of that.

Commissioner Fellman stated and that 3 cents surcharge that was put in last March we're still going to continue to pay as IOU customers, at least Edison will. I bet we'll see that same thing ultimately for the PG&E bankruptcy solution.

3. Public Comment

Mr. Maynor stated we have one speaker card and now may be an appropriate time to hear from the audience.

Mr. Richard Knee stated I am a journalist. As such, I am extremely concerned about secrecy and the public's right to know. Aside from all of the practical aspects you have been discussing, I think that should be a part of the equation that is given considerable weight in this entire discussion. You and I, unless we own shares in PG&E, cannot attend a PG&E annual meeting or shareholder's meeting. You and I, unless we're on the PG&E board, may not attend a PG&E board meeting unless by invitation. With the public power agency, the public will have some accountability. With the public power agency, the public will be able to see and hear the decision-making process. The public will be able to have input into the decision-making process. That process involves decisions that affect the very quality of life and in some cases life itself.

Mr. Laurence Schekman of Berkeley, stated I wanted to call your attention to the little town of Kutztown, Pennsylvania where they have had public power generation and distribution for a long time. As a result of that, they now have instituted a high-speed internet system for every resident and every business. They have installed fiber-optics so they can give broad band computer service to everyone. Very, very cheap, somewhere between \$12 and \$18 a month. They are only able to do that because they have public power distribution and can piggy back fiber optics on top of that, use the same service. The same thing is happening across the Bay in Alameda where (I just called them this morning) for \$32 you can get broadband fiber-optics computer systems much faster than DSL. I added it up. If you wanted that with AOL, you would have to pay \$24 for AOL service plus \$31 for high-speed DSL, which in fact is not as fast.

The point is that if you opt for public power, you will also be able to provide the service of high-speed internet and cable television. In Pennsylvania, they have thrown in free long distance calls because when you have cable to every home, you can deliver free long distance in the same way that you can get long distance through the internet for no cost. It is an enormous advantage. I believe in San Francisco, that if you opt for providing cable as well as power generation, the

advantages to the public will be so obvious that it will be able to overcome the amount of money that the companies will spend against it. I hope that you will provide us with that service. I have leaflets here that I will give to people which provide some information from Pennsylvania--the web address and the phone number to City Hall.

Mr. Robert Van Buskirk, Economic Analyst, Lawrence Berkeley National Lab, stated I do energy efficiency policy. I came here today to present some rough economic numbers. I appreciate the comments from the speakers, but I think putting some dollar figures on some of the savings and benefits would be useful to help motivate this discussion. First of all, we should note that San Francisco pays about \$500 million dollars per year for electricity. The average residential rates in LAMP and SMUD compared to the investor-owned utilities are approximately 20 percent lower than the investor-owned utility rates. Commercial rates are about 10 percent lower. That means 50 to 100 million dollars per year for the City of San Francisco that succeeds in having a municipal utility.

Secondly, we talked about the cost of capital and the cost of borrowing. I looked up the cost of borrowing for PG&E which is in its filings. PG&E pays 6.8 percent interest compared to SMUD, which has a marginal cost of borrowing of 5.25 percent, which means that the interest rates for investments for a municipal utility would be approximately 30 percent less. They are very high amounts of debt and interest payments for utilities, so that would have a very large impact on the types of savings.

A very important issue which I think will help create the next financial crisis in the state sector is the huge stranded costs that PG&E still thinks its owed, which is many billions of dollars, and the huge stranded costs represented by the long-term contracts which are probably overpriced at least by a factor of 2. The contracts are valued at about 40 billion. That's about 20 billion dollars. San Francisco's share of that is about .6 billion dollars. The whole question of the degree to which San Francisco consumers can opt out of the exorbitant cost of the deregulation fiasco is a \$600 billion dollar question for San Francisco.

PG&E still thinks its owed \$7 billion dollars for the high electricity purchases. That means another half billion dollars for San Franciscans. So, the question of the degree to which San Francisco consumers will be liable for the cost of the deregulation fiasco is at least a \$1 billion dollar question. That is I believe about \$3,000 dollars for every San Francisco residential household. Currently, the only legal means of doing that is through conservation. So stranded costs are a charge on top of per kilowatt hour bills, then the less kilowatt hours you buy means the less stranded costs you wind up being liable for. A municipal utility may be able to emphasize conservation, local solar PB generation, and help individual San Francisco consumers opt out of that \$1 billion dollars in stranded costs that you may be liable for.

In addition, there was talk about buying the distribution system. San Francisco is currently paying approximately \$150 million dollars per year for the distribution system. You are renting it from PG&E. So, the question is, is it worth \$150 a year to rent, or do you get a benefit from being the owner? The operating costs for that distribution system if you use SMUD, which has a larger system as an example is only 30 million dollars. So of that \$150 million dollars per year that San Francisco is already paying for the distribution system, \$120 million is rent for the capital investment of PG&E and since the City borrowing costs would be 30 percent lower, that 30 percent lower would essentially represent 30 to 40 million dollars per year benefit. There is a significant benefit to condemning and obtaining the distribution system. I want to put some of those cost numbers in to help motivate this whole process and to provide a bit of prospective of how much benefit for each of the San Francisco households we might be talking about.

Chairperson Gonzalez asked Mr. Van Buskirk, the figure of 30 million that you came up with for SMUD in terms of their cost?

Mr. Van Buskirk stated that comes from their Annual Report. In their Annual Report, they have their annual operating costs coming out of the transmission and distribution. It's a line item. It's available on the web.

Chairperson Gonzalez asked Mr. Buskirk, could you repeat those figures because Mr. Smeloff is very familiar with SMUD, and I would like to hear his thoughts.

Mr. Van Buskirk stated the figures, I tried a rough calculation to get the operating costs versus the capital recovery costs for the distribution system of what it would be for San Francisco, so I looked up SMUD's Annual Report. It has a line item that says the annual operating costs for the distribution system is 30 million dollars per year. If you look at the rate structure, the rate structure in San Francisco says that approximately 30 percent of the rate goes to distribution. Thirty percent of the 500 million per year that San Francisco spends is approximately 150 million per year. The SMUD distribution system is bigger than the San Francisco distribution system, so San Francisco should be able to have operating costs of 30 million per year. That means the capital recovery costs for San Francisco distribution system that you are currently paying to PG&E is about 120 million per year. That is the rent that I propose that San Francisco is currently paying for its distribution system, and that could be decreased through lower cost on financing that you may have available through a MUD. Does that calculation seem more or less correct?

Mr. Smeloff stated what seems to be missing from that calculation is what the capital costs, the carrying costs are for SMUD's distribution system. You extracted the O&M costs for the distribution system, but I'm not sure because I haven't seen the numbers whether you actually included the capital costs.

Mr. Van Buskirk stated so what I was using the operating costs for SMUD for was to come up with a rough estimate of what the operating costs for the distribution system in San Francisco might be. The SMUD system delivers about twice as much electricity as San Francisco. So, San Francisco's operating costs should be about 30 million. We know from the rates that San Francisco is paying PG&E about 150 million a year for the distribution. So, therefore, the effective capital carrying costs that PG&E is charging San Francisco would be at least 150 million minus 30 million, which would be 120 million.

Chairperson Gonzalez stated what I hear Mr. Smeloff saying is that 30 million dollar line item, he'd want to know more about whether or not it includes the capital costs.

Mr. Van Buskirk stated that 30 million line item does not include the capital costs from my reading of the Annual Report of SMUD.

Mr. Smeloff stated 120 million dollar carrying costs for the distribution system in San Francisco seems extraordinarily high to me.

Mr. Van Buskirk stated that is what is coming out of the rates. I think that is a measure of the types of benefits that San Francisco would obtain from condemning and acquiring the distribution system. By being able to lower those capital carrying costs, you would have the capability of lowering rates for San Francisco consumers. Because that money sent to the parent company had to come from somewhere, and it comes from things like overcharging on the carrying costs of the capital assets of PG&E.

Mr. Maynor stated I might add if this is an area of interest to the Commission, this might be one of the subjects we could come back with in a future informational hearing on with more detailed information.

Chairperson Gonzalez stated I think that would be a good idea.

Ms. Jackie Williams lives in South San Francisco, stated I am deeply concerned with the fact that there are two 50-megawatt plants going in at the South San Francisco Airport. I only found out about it today that there is now two. My understanding is that we were back to one. So I am wondering where the public information is, how I get hold of information when things change? The other thing I would like you to be aware of is that I've been going to hearings on AB 917, Judge Gottstein's court with regard to transmission lines. The CPC end on the Jefferson Martin line is about to come out, which is a 230 KV line that goes from the Jefferson Substation in San Bruno to the San Martin. Is that correct?

Mr. Smeloff stated near Redwood City to Martin, the Martin Substation at the Cow Palace.

Ms. Jackie Williams stated it ends up at the San Martin station. ISO has informed the California for Better Environment that if there is two 230 KV transmission lines, we wouldn't need power plants. Even Hunter's Point could be closed down. I would like everybody to be aware of that because I don't know about how information gets around. There is a letter on file that says if you have 230 KV lines, and I don't know if that's possible or what's involved or how long it takes, my understanding is that at one time is that it takes eight to ten years to put in 230 KV lines and get all the approvals. But, now its on fast track because I just got some papers from Judge Gottstein's court that says its coming up to be put on the agenda, and it has been considered a need because for transmission lines, you have to show a need. But when it comes to power plants, you can put as many as you want in. Like the Airport, they only need 50 megawatts right now to operate the Airport. My understanding is that they have that capacity there so when everybody is talking about putting in two 50-megawatt power plants, that's purely for profit. Because none of those megawatts are going to come to San Francisco because you have to have a transmission line that goes north of the San Mateo station to bring most of the energy, which is my understanding into San Francisco.

My question to you is what is this megawatt at the Airport going to be used for? The Airport right now doesn't need it. These are the two lots. Are we just going to put it into the General Fund? I'm really concerned because peaker plants are very dirty as we all know. They are the worst that can be put in. It was brought to my attention that at one meeting I went to on the Potrero Plant recently that they don't want to just operate them for short term, they want to extend the time they use these peaker plants. Whereas, they used to have a certain number of hours they could run peaker plants, they want to extend the time on these peaker plants. I don't know how I find out what's going on because pollution is supposed to be a problem in South San Francisco. They've just paid out 150 thousand so the air quality could get passed. Along with a lot of other cities in the region, they've all put in some money to get the Clean Air Act passed. So if they've done that, why are we putting in peaker plants, which is the worst that we could possibly do?

Mr. Smeloff asked, first question you asked, how do you find out about this? One, the peaker plant will be owned by the State of California, by the California Power Authority. It's not operating the plant for profit. It's building the plant for reliability. You should go to the California Power Authority web site for information about that plant since it is going to be owned by the state. There are power needs in the mid-peninsula. There is not a power plant. There's that little co-gen plant at United Airlines. There is not another power plant to get down to Moss Landing. So you have needs to serve the mid-Peninsula as well. It is the one area where you could have problems if there is a lot of demand. I think having a peaker plant in that location is not for San Francisco, it is for grid support in the mid-Peninsula.

Second question you asked was about the transmission line. Indeed, there is a proposal by PG&E to build a transmission line that is very much needed, and we are very strongly in support of that from Jefferson to Martin. They are only proposing to build one line that has been approved by the ISO, and they have to go to the CPUC to get their Certificate of Participation and Convenience. PG&E all of a sudden has been aggressive in promoting this line. They were in kind of a slow period for years, but now they seem to be moving pretty quickly to get that line licensed.

Mr. Williams stated she went to Judge Gottstein's court and I asked for the Jefferson Martin. I also went to the CAL ISO and the stakeholder's meeting and a lot of people seemed to have interest, especially PG&E at that meeting that they wanted to get on with it. It seems now they are getting on with it. But, you're saying only one line?

Mr. Smeloff stated they are only planning to build one. It is very much needed. It will help us shut down Hunter's Point and generate less electricity in San Francisco.

Public Comment Closed.

4. Adjournment

Donald L. Maynor, Esquire thanked the panelists for participating.

Chairperson Gonzalez stated on behalf of the Commission want to thank all of the panel. I speak for myself when I say this, having been a legislator a little bit more than a year, we are called upon to get into so many subject areas. Sometimes it's very difficult obviously without the aid of experts in the field who are willing to come forward and speak to folks who are at so many different levels of competency on issues. Certainly, it's been a very fruitful discussion this afternoon, and I really want to thank all of you.

Vice-Chairperson McGoldrick stated I want to second the comments of our Chairperson, Commissioner Gonzalez. You don't know how appreciate we are. This really fills in a lot of blanks for us and helps us be able to be ready for decision making. It's really based upon facts.

Commissioner Hall stated, thank you very much and echoing the comments of my colleagues. I think it's so important that we know as much as we can before we embark upon any policy. We certainly do not want to repeat the mistakes of the past where we think deregulation is going to lead to a less monopoly, etc. etc. I think that's what we are going to be faced with in the future. Just knowing which way to go is going to be critical upon having as much knowledge as we can get about what took place in the past, and how it relates to the goals that we want to set

for the future. I think this is just the start of many informative sessions before we reach any direct path. Again, I want to thank Gloria for her work in setting this up.

Chairperson Gonzalez stated in the future hearings if possible, we should try to see if we could have Mr. Smeloff available. He brings with him quite a bit of understanding of what is happening on the local scene and is able to answer questions that I think the Commission wouldn't be able to answer. I think what we found a little bit in the earlier part of the hearings this morning was by some of the speakers, perhaps not enough of a familiarity with what San Francisco is doing, and I understand that we invited them because they understand what they were doing in their own communities. I think Mr. Smeloff would be very useful for that if we could get his support.

Gloria L. Young, Executive Officer stated the next steps would be that we will be contacting your individual offices to poll you for future dates. We will also be contacting speakers that we intend to have at future sessions just to keep the public informed, and we will be posting the notices as we get those meetings scheduled.

(All presentations and information distributed at the Commission Hearing are available at the Clerk of the Board's Office, Room 244, City Hall.)

The meeting of the San Francisco Local Agency Formation Commission adjourned at 3:31 p.m.

San Francisco
Local Agency
Formation Commission

ITEM NO. 2

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689
Tel. 415.554.7702
Fax. 415.554.5163

MINUTES

Special Meeting
Friday, March 22, 2002, 9:30 a.m.
City Hall, Board of Supervisors Chambers, Room 250

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall, and Schmeltzer
Alternates: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Gonzalez at 9:37 a.m.

Members Present: Chairperson Gonzalez, Vice-Chairperson McGoldrick,
Commissioner Ammiano, Commissioner Hall and Commissioner Fellman

Member Absent: Commissioner Schmeltzer

Legal Counsel Present: Donald Maynor, Esquire and Nancy Miller, Esquire

2. San Francisco Local Agency Formation Commission (SFLAFCo) Public Hearing on
Distributed Generation, Renewable Resources, and Conservation/Energy Efficiency.

Donald Maynor, Esquire stated this morning we're happy to have some speakers on the subject of distributed generation, energy efficiency, and renewable resources. Some of the panelists are coming from Sacramento, and I understand there is a lot of traffic coming over the bridge, so we will rearrange the speakers. One of the reasons we wanted to focus on this particular area is because as we've learned, San Francisco has difficulty importing in electricity because of transmission constraints.

It would make sense to closely investigate reducing energy usage through energy efficiency and conservation and at the same time looking at having generation within the City and including the idea of distributed generation, which the idea is that the end user actually has the generation on site. In that sense, it's not necessary to use transmission systems and perhaps even distribution systems. It is a topic of great interest around the state. In fact, the California Public Utilities Commission (CPUC) has an ongoing proceeding on how to further certain elements of distributed generation. This morning we are going to hear from a number of speakers on the subject. One will be from the industry that provides energy efficiency and distributed generation. Another person, Don Schultz, from the PUC will talk about the regulatory aspect of it.

This morning we have Rich Ferguson who is with the Center for Energy Efficiency and Renewable Technologies, most commonly known as CEERT. He has a great deal of background in renewable resources and energy efficiency. Dr. Ferguson received his degree in Solid State Physics from Washington University in St. Louis, Missouri in 1967 and has long been involved in energy policy issues. He has taught Physics at UCLA and Cal Poly in San Luis Obispo. Currently, he is the Research Director at CEERT at its headquarters in Sacramento. He is a volunteer leader in the Sierra Club, and he now serves as Chairman of the club's California Energy Committee. In addition, he is a member of the California Power Exchange Board of Governors representing public interest groups. At CEERT, Dr. Ferguson administered the California Regulatory Research Project to analyze potential impacts of electric industry restructuring proposals on public policy goals related to energy efficiency and renewable technologies. He has served on both the energy efficiency and renewables working groups as part of the California Public Utilities Commission's restructuring process, and he was involved in negotiations leading to California's restructuring legislation passed in September of 1996. You don't want to blame Dr. Ferguson for the results of those activities. Dr. Ferguson frequently testifies before legislative committees and state agencies on a wide range of energy policy issues.

Before Dr. Ferguson begins, I have asked that two articles be handed out that might be of interest. One entitled "Small and Clean is Beautiful: Exploring the Emissions of Distributed Generation and Pollution Prevention Policies" involves a good discussion of distributed generation. It has good definitions and gives you examples of what they're talking about. The other one entitled "Breaking the Consumption Habit: Ratemaking for Efficient Resource Decisions" by Sheryl Carter of the National Resources Defense Council involves rate making considerations. She was invited to participate as well and couldn't attend, but she thought you would be interested in reading these articles.

Panel 9:30 – 1:00 p.m.

Dr. Richard Ferguson, Director of Research, Center for Energy Efficiency and Renewable Technologies (CEERT); Energy Chair, Sierra Club, California stated

I am affiliated with a number of organizations. What I want to say this morning should not be attributed to any of them. It's a basis of my own analysis.

We'll start with the second slide—What problems are we trying to solve? I think it's important before you begin, to clearly understand what problem it is you are trying to solve. There are three general ones. One is reliability of service. You don't want the lights to go out. You are also worried about cost and price stability and environment is also an issues that needs to be addressed. Unfortunately, in this debate, people jump around from one issue to the other issue. In fact, that was a large part of the problem last year was that one week we were worried about the lights going out. The next week we were worried about what it was going to cost to keep them on. Unfortunately, we lost focus.

Next slide—Problem=Reliability. The reliability problem is three-fold. One is you have growing electric loads, and there is not enough generation to meet those loads and or not enough transmission.

Next slide—Problem=the cost and price stability issue. One is the issue of market power that can be wielded by generators. When the system gets tight and supply is on the margin, whoever controls that supply is obviously in a very strong position. The other thing that you should think about is the fact that our state and certainly this city is heavily dependent on natural gas, and we're very concerned what is going to happen about natural gas prices in the future. I am not going to talk too much about that today, but I submit that is worthy of your consideration. The fact is that the total supply in North America including Canada, Mexico, and the United States is only marginally sufficient for existing demand. BOA projects that demand for natural gas is going to increase 50 percent in the next two decades, and in fact we're going to have to start importing liquified natural gas. In the meantime the price is liable to go crazy. That is something I submit should be on your agenda, but I am not going to talk more about it today.

Next slide—Problem=Environment. Environmental issues, primarily to focus on air pollution first, both local and regional. I see my neighbors in Sacramento and San Joaquin Valleys are already nipping at your heels about all the nasty pollution that you generate and blows over in their turf. That certainly is an issue. Climate change from burning fossil fuels is a growing concern and will continue to be. Water cool power plants is always an issue. It is an issue at Potrero. Then there is always neighborhood impacts—generally people don't like these things in their back yard.

Next slide—Solutions—Reliability. What are the solutions to these problems? If what you are worried about is reliability, the very best thing you can do is reduce demand. Especially at times at peak use, because that is when we're fighting for it. You can also increase local generation capacity because that means you are not going to be as dependent on transmission and transmission problems. That can be either Central Station large power plants or distributed power plants, which is part of our discussion today. The other thing I am not going to talk much about but really

should think about additional transmission into the City. Back east they are proposing to run a 330 megawatt power line under the Long Island Sound from Connecticut to Long Island. If they can do that, I'm not exactly sure why we can't build additional transmission under the Bay from Oakland to wherever. That's another one that should be keyed up for your discussion, but we're not going to talk more about it today.

Next slide—Solutions—Cost and Price Stability. If what you're worried about is cost and price stability, again, the best thing you can do is try to reduce demand. As we like to say, the problem is not rates--its bills. You could have high cost per kilowatt hour, but if you're not doing very much then it doesn't matter so much. You could also own your own generation, which at least if the price of power goes up and you are getting paid for the generation, you are getting the money instead of some nasty other generator, as the governor would say. You could also contract for your own supply perhaps. I think Don Schultz is going to talk more about the details of the City getting more involved in making its own electric resource decisions. That is a big gulp. I think generally politicians are more comfortable having somebody else make the decisions and then complain if they turn out wrong, rather than take responsibility and make them yourselves. Generally, the municipal utilities have a pretty good process and it involves the public, but it is a huge responsibility. It's one that I recommend to you. There are other ways that the City could hedge against increased prices. For example, you could hedge in the gas markets against rise in price of gas so that if gas does go up, you are making some money to counteract or offset the cost of electricity. The other thing we are going to talk about is renewable generation. The reason this is a reasonable thing to do if you are worried about cost and price stability, it is basically a very capital intensive form of generation. But once, you've made that commitment there's fuel costs and if prices become (unclear) you could get long term contracts at fixed prices so you know what you're looking at down the road.

Next slide—Solutions-Environment. The best thing you can do is reduce electric loads, and you can also do things to reduce the fuel use, especially locally is probably most important, but also regionally by looking at high efficiency generation. Distributed generation may or may not play into that. Likewise, you can be more dependent on renewable generation and less on thermal generation. Reducing neighborhood impacts is a hard one. Combined distributed generation may play into that; maybe not. Those are the kinds of things that you can do. It's not rocket science. We know what the problems and potential solutions are in general. It's finding ways to do it.

Vice-Chair McGoldrick asked in terms of reducing electric load especially in times of peak demand, what does that require, a timer on the meter?

Dr. Ferguson stated there are a whole variety of programs to do that. We could supply you with a list that is generally done throughout the country. Depends what you are talking about, residential, commercial or industrial. We could come up with

a list like that. There are several. SMUD, for example, has a program where they could remotely turn off air conditioning units from headquarters. People sign up and get a discount on their bill in order to participate. SMUD can basically throw a switch and reduce the load. Let's come back to that.

Next slide—Strategy=reduce electric demand. Dr. Ferguson stated as you saw in all three of these problems, the very best thing you can do is to minimize the use of electricity. I don't care whether you call it conservation, efficiency, or anything else. The goal is to reduce the load on the electric grid. When people start thinking about doing that, you can either think about new technologies, for example like the one that I was talking about. But, basically it means that the old stuff has to get retired. You can't just grow your way out of this problem unless you get rid of the old stuff on the system. The program I am most familiar with is the refrigerator problem. The refrigerators that are out there in use now use about 1500 kilowatt hours a year on average. The new ones—we got a new standard last year, use 500. There is 1000 kilowatts a year difference. If I have a new refrigerator and I plug it into the wall, I'm not saving energy, I am using another 1500 kilowatts. It's unplugging the old one and making sure it never runs again that saves the energy. We need both. We need good new equipment, but you also have to think about retiring the old equipment, no matter what it is, whether it is traffic lights that you are going to replace, LED's or whatever. Then, educating consumers about what their impact is is also important. It was something we didn't really understand too much about until last year when the governor cranked up his "Flex your Power" program with amazing results. It was because it was before the consumers on a daily basis in the media and everywhere else that that succeeded. Again, we could talk about particular measures, and there are other experts better than I that could do that. That certainly has to be on top of your list.

Next slide—recommendations to reduce electric loads. What can the City do to do this? In my opinion, the first thing that needs to happen is you really need a good understanding of what is using electricity out there now. Rather than just say, "well I like this program, let's try it". You need to really understand how electricity is being used, not only in your City loads, but everywhere, if you are thinking about getting involved with other customers. In the process, you will be able to identify opportunities. Then, you just have to find a way that everything that is cost effective to do, you do, but it does cost money. It saves money in the long term, but there is an up-front cost. How you raise that money is always an issue. You could look at bonds, utility taxes, and presumably these revenue streams are all going to be repaid in one way or the other from the savings on your bill. As long as what you are doing is cost effective, then it is positive cash flow into the system. We had talked some years ago about what we called an energy efficiency bank, where a customer could go borrow some money from the City or whomever to put in some new equipment, get rid of the old equipment, and basically repay on their electricity bill in such a way so it is cost effective. Their bill still goes down, and nobody is out of pocket any money. It is difficult to do that unless you have control of the bills, and we'll talk about that. The other thing, just a simple one, is to make sure you are

participating at the PUC and their programs. The state has a program of about 230 million dollars a year to promote these kinds of measures. Unfortunately, what happens to that money is often left up to the utility. If nothing else, making your people more aware of the opportunities that are already out there to make sure they get their share of these programs is very important. It's a no-brainer. The money is there, but unfortunately, not enough public agencies are there talking about what's needed, how to deliver these programs, helping deliver these programs, and so on. That would be my very first recommendation is rather than reinvent the wheel is try to make the best use of the wheel we've got.

Next slide—Next strategy is what I call deployment of combined heat and power. Often this is referred to as distributed generation. Unfortunately, and I know there will be some disagreements from others on this panel. The technologies that we have for small-scale onsite generation are not very efficient. They are relatively new technologies. They tend to be expensive and in some cases, they are not as clean technologies as the good central station facility.

Vice-Chairperson McGoldrick asked what does CHP mean on the slide?

Dr. Ferguson stated combined heat and power. I think there is general agreement now in the industry that these technologies make sense to do if you use the heat that comes out the back end for some useful purpose. The simplest one for example is just turbine. Take a jet engine off an airplane. Instead of running the airplane, you could spin a generator and generate power with it, but the exhaust that comes out of it has a lot of heat in it. In fact, the small turbines that are on the market now use less than 30 percent of the energy for the electricity. The other 70 percent, if you are just throwing it away, don't bother. But if you could find a technology where somebody is using heat anyway, and they can put a turbine in the front end of that system and use the heat that comes out the back to run a cannery or whatever their heating mode is--then you're ahead of the game. That's why we refer to this as combined heat and power rather than just distributed generation. Stand alone distributed generation does not make much sense because of the reasons I said, primarily efficiency problems and cost. But, I'm sure there are opportunities, and in fact I think the speaker from Onsite can identify those. Their company is probably the biggest one in California and maybe in the West doing these systems. There again, if you have an audit and you know who is using energy, you can identify opportunities where you could get 10 to 50 megawatts, perhaps local generation and not increase air pollution and get some electricity out of it.

Commissioner Hall asked what are some of the uses for the combined heat and power? What are some of the uses for the heat that is extracted from these plants in your knowledge?

Dr. Ferguson stated there is a lot that is proposed and kind of depends and is a better question to ask the lady from Onsite. For example, a lot of the chillers that are used in hotels and buildings are fired by gas. It's technology basically that the

energy comes in the form of the heat from natural gas, and then there is a process that generates chilled water. So, if you can put your electric generator in front of that and use the heat to run your chiller, that's a good thing. In the valley, a lot of the systems that use this are food processing plants that you need low-temperature steam for running this system. In Europe, they are very often the heat from the back end is used for district heating system. I don't know enough about the details about what goes on in San Francisco to know whether that's an option or not. Just about any system that is gas-fired now that is using low-temperature heat potentially is a candidate for these technologies. But, to get down to the details of where these things have done successfully, you need to talk to people in the industry to find out.

To go back to the slide, there is a problem with what you do with the electricity that comes out of these things. If for example, you had a big hotel to put in a fuel cell set and was using the heat out of the fuel cell to run their air conditioners or whatever. If the electricity that is generated is used inside the building for their own load, there's no problem. If however, the idea is well they're going to generate extra energy and sell it to the City, now there is a problem. We think those are solvable problems. We think it's going to probably take legislation or at the very least action from the Public Utilities Commission to facilitate those kinds of transactions. Right now, they are very complicated. Perhaps, some of the other speakers can give you a clue. It is an issue that is being looked at heavily by the legislature and everybody else because it's a fascinating possibility that we generate power at a lot of little locations and send it around the grid. But, interacting with the grid is not simple. Anybody who thinks that the California Independent System Operator is a simple system operator has it wrong. As long as these things are small enough so the power can be used internally, then there should be no problem, and that's what Onsite is doing.

Next slide—Recommendations for deploying CHP. Certainly one of the things you need to do before you decide whether you are going to do it or not is identify what the opportunities are. That's why I think the idea of an audit inside the City is a good thing. In principle, you can set up a system whereby the capital is raised by the City through some mechanism or another, then it is repaid through the electricity that is produced in the process. But if what you are doing is selling to other entities, then there are additional problems, and we don't right now have the solution to those problems. Another thing that has been proposed by several people who want to do things like this is a thing called net metering. I am not encouraging it to go there, but it probably is something that your consultants need to consider. Net metering is the idea, for example, its used in photovoltaic applications where sometimes you are taking power off the grid and it goes through the meter one way, and sometimes you are putting power back into the grid and running the meter the other way. Basically, what you pay at the end of the month or the year is the sum of the net of those two. We got that system in place for solar, and other people have suggested that it be used for all kinds of other technologies. There are problems with that, basically having to do with bypassing the costs of maintaining the wires. Suppose that you could net things out to zero. On a daily basis, you are putting as much back in during the day as you are taking out at night so at the end of the month you have

zero change in your meter. But, the wires had to be there so that you could take that power out during the night. But if you have a zero bill, then you are not paying your share of maintaining those wires. So, that whole issue is touchy, but it might be used for combined heat and power if you could solve some of those problems. That is why I have the question marks in front there.

Next slide—Strategy—Deploy Renewable Resources. The renewable resources I'm sorry to say is a very difficult one. I know you sold to solar bonds and supported that, but it is a very expensive technology. Compared to the possibilities that exist on the demand site reductions and on combined heat and power, photovoltaics are a very expensive technology. I applaud people who want to put them on a house. It's a good thing. I am considering it for the house I'm building, but it's an expensive technology.

Commissioner Ammiano stated we've been working on this, and the key here is bulk. The more bulk, then that addresses this issue. That's what we're aiming for anyway. The City has their own grid, and we have the up-front cost for the homeowners.

Dr. Ferguson stated I don't mean to discourage that. Every time I run the numbers and I hope that prices come down. SMUD even went to the idea of getting a panel manufacturer to move into the City in terms of a deal.

Commissioner Ammiano stated we also have the advantage of getting state subsidies because it's renewable, because of different categories.

Dr. Ferguson stated and we work very hard to make those subsidies possible. Nevertheless from a matter of public policy, you have to think about where we're going to put public dollars into the system. I wish you all the success in the world, but it is an expensive technology any way you cut it. Unfortunately, the City does not have the best solar site in the world either. It doesn't have good wind sites, good geothermal sites, good bio-mass facilities or fuels. It is a different kind of thing. If what you are talking about renewables is building renewable power plants in the City, I think you have a hard road ahead. If you are going to use renewable resources, you have to go get them where mother-nature puts them. We just don't have a choice. The geothermal facilities exist in certain places and that's it. The wind is only strong enough to be economically viable in certain places. It's just a fact that you have to deal with. But, it is possible to solve some of your problems like the cost problem and the environmental problem by investing in renewable projects outside the City. If you are in a position where you are buying electricity for your own load, then there is absolutely no problem at all. If you're not doing that, then you are going to have to get clever about how these facilities work. After all, Hetchy Hetchy is a long ways away too and somehow we made that work more or less. There are opportunities, and I certainly encourage you to look at those, but they are going to be off-site facilities, over at Altamont. There's more wind available over there that would be a good investment for anybody to make. We are working on bills

in the legislature to make that possible. It is difficult. Because there is so much turmoil, it is our understanding that PG&E is not really very interested in going back into the power buying business and passing those costs through to consumers. There is no money in it for them. It's nothing but a hassle. They are never going to be sure that they are going to get all of their costs recovered, etc. etc. To the extent that there might be a deal here with PG&E where you guys take the responsibility for acquiring your own resources, but it is a difficult one. I really don't know what else to tell you. That is the last slide.

I would be happy to answer any questions. I know I am not as enthusiastic about some of these technologies as other people, and I don't mean to put a damper on it. The closer you get to actually making these decisions, the more you have to be realistic about where the technologies are, what the costs are, and what the opportunities for recovering those costs are and so on. The very first thing that you should do is to have a good understanding of how electricity and energy are used in the City. Unless you are a whole lot different from other cities, my guess is you don't have a very good idea, and even PG&E doesn't have a very good idea, truth be known.

Vice-Chairperson McGoldrick stated just a question from Page 10, your third bullet says participate at CPUC, recommend, promote and administer programs. Could you flush that out a little bit? Is there participation at the level of which the CPUC would give us assistance that is subsidized?

Dr. Ferguson stated the way these programs work now is that everybody in PG&E's territory pays money into the pot. On an annual basis, the PUC decides what to do with that money. Historically, basically the utilities have said, we are going to do this on a more or less take it or leave it basis. Over the last years, there has been more and more opportunity for people or entities like your own to go into that process and say, I don't need this stuff. Our problem here, we need these kinds of programs. The first thing you can do is to make sure that the Public Utilities Commission understands the needs of the City and what the best programs from your point of view would be. The second thing is that the marketing of these programs is also generally left to the utility. Generally, they are spread throughout the service territory and often to be frank do not do a good job. There are some of us who think that they are not really interested in reducing the sales of electricity. So, there is an opportunity for an agency like yours to put the word out through tax bills or garbage bills, or any other ways you have of communicating with the people what opportunities exist to make use of these funds. So that you are self-directing these funds. There is also an opportunity, and I think it's going to grow, to recommend your own programs and conceivably even administer those own programs. The whole question about who is going to control this money, which for PG&E's service territory is \$70 or \$80 million dollars a year. It is a large amount of money. It is not inconceivable in the future if you were going to go with your package to the PUC and say, here's what we want to do, that they would let you administer those programs. There was sort of a pilot that was done last year that was approved yesterday that is

sort of a step in that direction. Unfortunately, I wasn't really impressed with what the local entities came up with. Mostly, they just wanted additional marketing money to push the utility program. I think it's worth spending some of your own money on because it will be returned to the citizens many fold if they can increase their participation in these projects. Lots of people in the room are well aware of how these processes work and can help you out with it. That is sort of my vision for these programs in general is that they become less and less utility programs often for PR purposes and much more use that money targeted at solving problems that the local entities have. I encourage you to join in that process and push things in that direction. One caution that I have to make is that you really don't want to fragment those programs into a bizillion little pieces. It isn't rocket science. Generally, the kinds of things that you need to do are the same kinds of things that Oakland needs to do and everybody else in California. Rather than have twenty different programs all trying to do the same thing with twenty different RFP's, twenty different contracts, and twenty different sets of rules, you need to get together with the other entities and set up a common system so that it works for everybody. The vendors just go nuts if they have to sign different contracts with every city in the world. I know ABAG was trying to do that. Diane might know better than I how that turned out. There are some efforts in this direction to set up regional entities to coordinate these efforts, and I strongly recommend that you get involved with that.

Vice-Chair McGoldrick asked, did you say about \$70 or \$80 million dollars is available annually?

Dr. Ferguson stated we could get that number for you. The total in this particular pot is I think \$230 million dollars for the three investor-owned utilities. PG&E shares about 40 percent of the total. I could get you that number.

Vice-Chair McGoldrick stated that is close enough just to have some idea that that's out there, and we could be going for it.

Dr. Ferguson stated you need better targeting of that money. Its process is out there and lots of people can help with that. I strongly encourage you to step up and get involved.

Mr. Maynor stated I would remind the public if they have any questions they could go to the kiosk and write out your question, put it on the podium, and we'll ask the question.

Commissioner Ammiano asked how familiar are you with European models because almost every country there has some kind of municipalization, wind power, solar power. Are you familiar with their programs?

Dr. Ferguson stated not as much as I would like. There is a current flap in Denmark with the new conservative governor. They decided they had too much wind power. The one thing they have done on renewables on a system-wide basis is basically to

say, I think wind power is worth, pick a number six or seven cents a kilowatt hour. They passed the law called the Electricity Feed Law that exists in Germany, and I think Spain has one and some other countries too. Basically, if a developer can generate power and get it into the grid, they get paid seven cents. The rest of the system works around that. It's been very effective. It's surprised every utility manager in the United States that they didn't have more problems than they did. But that's one model. If you're in a position that you're actually buying power for your own use, I would certainly recommend something like that. If you can sell me solar power for 20 cents, you got a market. That's one of the things that they're doing in Europe. I don't know how the combined heat and power is set up except a lot of those cities were designed for central facilities whether it is air conditioning or heating. So that you have a citywide use for steam. Toronto is using Lake Ontario water instead of air conditioning. They decided they would just pump water out of the lake and circulate it around the city for cooling rather than to run electricity air conditioning. There are a lot of different models, but I am not as familiar as I would like to be.

Commissioner Fellman stated Dr. Ferguson, we do have a central steam plant here. We have the last heat corporation regulated by the California Public Utilities Commission in San Francisco, so there isn't an opportunity for that. The City is looking at that from the City PUC side as a possible generation. I think even City Hall may be on steam, but they are looking at the new commercial building development in the City because that is one of our main industries here. I was going to ask you to give us your observations of how these innovative programs have worked at the investor-owned utilities versus your experience at SMUD, because one of our admissions is looking at the possibility of a Municipal Utility in San Francisco. Have you have seen any differences or benefits to one model or the other?

Dr Ferguson stated the main virtue of a municipal utility, aside from the fact that you have low cost money available, is the process. You've got your hands on the throttle your own self. You are taking responsibility for the outcome and it's a much easier venue for the public to get involved with. I don't think the results are always necessarily better. We're certainly not happy about Los Angeles Department of Water and Power and what they do. They're thinking about buying more coal-fired power from Utah. I think municipal governments in general don't have a particularly sterling record that sets them apart from utilities. They are all over the place. There are good and bad ones like anything else. The main virtue is that you are taking control of your own destiny, and I think that's a good thing to do. I would strongly recommend it. I would say I don't think ownership of the wires is so important. I was surprised at the Muni proposal down here that you wanted to own the wires. It's what we call Muni light systems where the utility continues to maintain the wires at the distribution level just as they do the high voltage wires running around the state. The question of the energy that is bought and put onto the grid on behalf of the city and the people of San Francisco is in the hands of the city. It's called Muni Light, unlike Sacramento that does own the wires. It's an option that I think would

engender a whole lot less opposition from PG&E. They make money owning the wires. They don't make money buying power and selling it to you guys. That's a pass through cost. I think the resource issues—where are you going to buy your power, how are you going to contract, do you have contract law, do you go to the spot market, are you going to build your own stuff? All those questions, more renewables, more energy efficiency, all those kinds of things are in your own hands. Personally, I would recommend you look at the Muni Light option. It would probably take some legislation or at least PUC action, but I wouldn't go in it with the attitude that somehow you are going to sneak out of all the cost that the governor ran up last year at DWR buying power. You are not going to be able to do that first of all, and it's not the right motivation. You need to be in this for the long haul because you want to control the energy that is used in this City. I strongly recommend that you look at it, but I sure would add that option of not owning the wires, just being the one that controls the energy into the system.

Commissioner Fellman stated do you have an observation of a separate Board run Muni versus a City department type Muni?

Dr. Ferguson stated I think the SMUD elected Board is a good model. The DWP Los Angeles model where basically it's a City Council does not work very well. I think the closer the elected officials are to the decisions, the better off you are. I would say that if you are thinking about that, an elected Board directly in charge of these decisions is the better way to go. The more remote it gets, the more bogged down it gets in other political issues. That is certainly what happens in Los Angeles, for example. The option of having an elected Board that is directly responsible for these decisions is a better way to go.

Chairperson Gonzalez stated Dr. Ferguson, you made some remarks earlier and I think I agree with it in a general sense whether or not there is a need to buy distribution lines and things like that. I think the remarks that municipalized power is better because there is some general destiny in your hands, you get to make decisions--I agree with that. I think it's all good, but the question of owning lines also impacts what the cost is. Depending on the feasibility of that, that can be in some cases the precondition of putting together municipalized utility that is successful. While I agree with you, not every model in the state or in the country has been successful at the level that we can categorically say municipalized power is absolutely better than private utility or vice versa. You can't divorce that from the equation. I know that your remarks were not meant to say that you would divorce it from consideration.

Dr. Ferguson stated I don't disagree. I am building a new house in PG&E service territory, and I am dealing with the problem of getting service. I have to admit that I wish there was a local Municipal Utility that I could deal with rather than PG&E. It's a nightmare dealing with that bureaucracy. What you say is certainly true. It depends on what problem you are trying to solve. If it's a cost issue, the opportunities for reducing the cost of the distribution grid, I think are pretty minimal.

You could certainly improve customer service and make people a lot happier than you can now. There are a lot of opportunities there. I don't mean to deny that. Certainly from the cost point of view, there is not as much sort of upside potential for local ownership as there is from on the resource side. I am not against it. If you can do it, fine. I just think you should consider other options.

Chairperson Gonzalez stated you concede the fact that somebody else owns those lines. You yourself say that they stand to benefit from that. They are making a profit by virtue of the fact that we have to rent them in some fashion. So, while it may not be the deal breaker in terms of whether or not a municipalized control can be successful or what the level of profit is, it is clearly a component of it.

Dr. Ferguson stated if you want to go that way, I am not trying to talk you out of it. I am just saying it's useful to look at the other model where you are controlling energy only. You may do that first and then do the other later, do it in a two-step fashion. It's just an option. I think rather than butting heads with PG&E and go onto the mat, you may be can sort of go down this road in a step-wise fashion. I am not trying to talk you out of it.

Chairperson Gonzalez stated I am okay with the idea that somebody may disagree or want to talk me out of it. It just seems that when I hear your remarks in that particular area, your remarks seem to be influenced by the fact that there would be a battle with PG&E, be it a legal battle or whatever, it is that you are essentially saying there is a benefit in avoiding that. That seems to be at the foundation of your remarks.

Dr. Ferguson stated partly. I am an environmentalist. The environmental impacts and benefits come from where your energy comes from what you you put into these wires. I have to admit I am not as much focused on wires as other people. That probably accounts for my emphasis. That is your call on how you want to approach this. All I am suggesting is I think the option of going the Muni Light route at least as a first step is one that should be considered. I don't mean to talk you out of a full blown Muni. I am a fan of public power.

Chairperson Gonzalez stated the final thing I want to say is you made some remarks earlier about solar. I thought it was interesting because while you emphasize the cost of solar as an environmentalist, you didn't make the point that the public here in San Francisco may have elected to want to use solar energy even if it costs more. Of course, we are trying to make it so that is not the case. But clearly in terms of what the goal is, it may be the will of the citizenry here that we explore a type of energy that is environmentally friendly.

Dr. Ferguson stated I do not want to denigrate the environmental benefits of solar power. I really don't want to do that. The Sierra Club supported that bond issue. I understand that it's sexy politically, and it actually tends to run on peak so there is some value from peak. It is a distributed generation so that it doesn't rely as much

on transmission distribution. I hope that you get the cost down so that it's too cheap to meet her, like Diablo Canyon. In effect, there are other options. You could also put solar power out in the desert, where you get a whole lot more energy for the same kind of price. That is all I am saying that there are other options. I understand the decision that was made and I supported it. I am sorry if I gave the impression that I thought it was a stupid thing for the people of San Francisco to do. If you are interested in getting the "biggest bang for your buck" I think there are other options.

Commissioner Ammiano stated I don't agree with that analysis. However, I appreciate that you put that forth. If we had listened to that, we wouldn't have gone to the voters.

Mr. Maynor stated I think we are ready for our next speaker, and I want to thank Dr. Ferguson for stopping by this morning.

Dr. Ferguson stated thank you for inviting me, and I will keep an eye on what you do and wish you all the luck in the world. If I can be of any help, do not hesitate to call on us.

Mr. Maynor stated Donald Schultz is with the Office of Ratepayer Advocates, which is part of the PUC. I think at one point that was a division that was under the authority of the PUC, and now it is appointed by the governor. He is in Sacramento and is focused there at the PUC on energy efficiency, renewable based self generation program evaluation regulation, energy consumption patterns, energy efficiency opportunities, integrated resource planning, consumer education and protection. Mr. Schultz has worked for the Santa Barbara County, prepared their energy element to the General Plan. He has also worked six years at the Energy Commission in the Conservation Division in Demand Forecasting Office. He is currently on loan to the Governor's Office of Planning and Research. We're interested in hearing Mr. Schultz's comments on some of the same areas that Dr. Ferguson has spoken on, in particular on distributed generation.

Mr. Donald Schultz, Division of Ratepayer Advocates, California Public Utilities Commission stated I work for the Office of Ratepayer Advocates as my main job for the about the last six months. I have been working on loan half time for the Governor's Office of Planning and Research on various aspects of the energy crisis that have come our way in California. The package that you have--what I did as you can see is take the questions that Don had prepared for this and tried to prepare some response to some of them. I focused mostly on the issues and questions identified here associated with what is being called distributed generation. I don't want to go through and read all of this. My guess is you haven't had a chance to read it yourself, but maybe we can just go through and I could hit on some of the highlights.

First issue—What you have here is the definitions of distributed generation at least in recent PUC rulings. This term is something that is used widely in the press and

elsewhere in other states and in other agencies, and not necessarily the same way. I am not necessarily saying that these definitions are absolutely clear and definitive and don't need some further work, but nevertheless and as a long time fan of definitional purity and consistency, I am hoping that the State of California can use common definitions as we move forward and try to define what these products are and how they best fit into California's energy system, and also known in context of San Francisco. You'll notice on the last bullet of this first slide is the definition of self-generation which you can see on the graph. On this graph, self-generation is defined in regulatory terms and also in practice more importantly as sort of a subset of distributed generation. It is the kind of situation that in some cases Rich was talking about where basically the electricity is produced on site, and it stays on site. If there is some excess electricity that is not needed for the load of the building in which it is located, then it may or may not be sold into the grid. As an element of distributed generation and because it is pretty much tied to buildings itself, that's why self-generation doesn't have much potential here or around the state for other distributed generation technologies such as wind or some of the other renewables.

Issue 2 - what are the advantages of distributed generation in San Francisco? Again, I don't think there is anything new here. I am quite sure that you know that the San Francisco City and County and the area around it and the Bay Area in general along with San Diego Gas and Electric have been identified in California by system planners as being the most highly congested. That means that all the vulnerabilities that we experienced in the energy crisis when they come back as well as new vulnerabilities that are on the horizon perhaps, makes citizens and businesses in the city government in the San Diego region as well as in the Bay Area region perhaps more vulnerable than other parts of the state. That means in some way the value of distributed generation technologies is more important here and in San Diego than elsewhere. It doesn't mean that the standard methods of accounting for those benefits will capture those, but they nevertheless are there.

Issue 3 – Is ownership of the distribution facilities necessary for distributed generation? Again I know everybody wants simple answers. The simple answer is no. But a more meaningful answer is highlighted here. Again we go back to some of the basics, just the engineering part of it. The answer of ownership is inexplicably tied to the question of whether this is on the customer side of the meter or on the utility/grid side. If these products are installed on the system side of it, then presumably the ones who finance and sponsor those projects which could be the utilities or could be other power merchants, are probably going to want to own those things and they are going to want to be paid to sell that electricity into the grid. When you get to the customer side of the meter on the building on site type generation, logically to maximize control of that, one would want to retain that ownership of that system. It becomes part of the asset or the infrastructure of that building. It would increase the value of that building for resale or for whatever else you might want to do with that building. It is integrated into the building and electricity if it is done at least the way it could be done is used onsite. Ownership in

all of these issues, as I am sure you know are so interrelated that's what makes it so entertaining to try to find out what's going on.

Issue 4 – Is electricity generated by distributed generation cost-competitive with large power plant generation? At the about the time I came in, I heard Rich talk about his observations on the relative cost effectiveness, and the information I am giving you here is radically different than Rich. This is part of the ongoing argument that he and I have been having for at least a few months, probably a few years. Hopefully, we will continue in the future. Basically what I am trying to suggest is the number that I am looking at recently, is that first off that the relative cost of these technologies is changing and is changing favorably. When I am talking about these technologies, I am talking about primarily onsite photovoltaics and the two leading applications of combined heat and power, meaning fuel cells and micro-turbines. Economics is changing radically in its favor for the variety of reasons I have mentioned here. When you get into questions of relative cost effectiveness, and I know you are talking about PV and peakers and whatever. I think the key point here is if you want to say whether PV is cost effective, the right reference point is peakers because that is the competing research choice. You wouldn't want to compare the costs on a cents per kilowatt hour or a dollars perr megawatt of a PV with a combined cycle central power plant station or from imported power from hydro or something else. You would want to compare it to a peaker plant because solar is basically going to provide power or take power off the grid or reduce the load off the grid at the time the peaker would be kicked on. I think you understand that. In terms of the economics, I think that is a fair statement. Even with current prices of PV, and they haven't come down as fast as some would like, they hopefully will be coming down soon or continue to go down. The cost of PV systems should continue in a declining manner. No one can predict how far or how fast they will go down. Even at the current state, I believe it is cost competitive.

Commissioner Ammiano asked didn't the State Energy Commission go out to bid for solar down to 18 cents? That's what I heard anyway.

Mr. Schultz stated we have to be careful about what it is that different agencies pay in the form of subsidies versus what the total cost is. What I'm talking about is if you take the total cost of a PV system, regardless of how much is subsidized or financed by different financing mechanisms, and you compare it to a peaker regardless of who owns and operates and finances that project. That is what I am talking about. That, I believe is the right way to look at these comparisons and the right way to render a judgement on cost competitiveness. Again, there is not going to be a simple answer. If you look for something that says is this cost effective, there is a thousand other questions that you need to be asking. From whose perspective is it cost effective? From the participants perspective if it's an onsite type of thing? From the system or from society? There are a lot of questions that come up. Which type of resources? Is it a peaker? Is it a load following type generation or is it a base load? Those all matter a lot. All of this used to be before deregulation assessed rather methodically in what was called integrated resource planning process in

California. That all went away. It is now coming back and hopefully the questions of how do you compare and how do you establish cost effectiveness in the context of a long-term integrated resource plan. Hopefully, the terminology and standard methods that used to be used will be restored. To the extent that the City and County of San Francisco participate in those discussions, I would hope that you become familiar with those types of methods and methodologies.

Mr. Maynor asked do you share the view with the DOE that natural gas prices are going to increase 50 percent in the next ten years?

Mr. Schultz stated those weren't prices, those were quantities--the demand for natural gas.

Mr. Maynor asked to what extent? Obviously, when there are gas shortages, the prices go up. To what extent does that play in the analysis?

Mr. Schultz stated it plays in a lot. I think if we learned one thing, it has become more risky to try to predict what the future of the underlying... That is the key element that affects cost-effective statements is the future cost of natural gas at the wholesale and retail level, particularly in California, because as we all know virtually any new central power plant that is going to be built is going to be naturally gas fueled. If you do planning on a marginal cost basis or marginal plant kind of thing, which is what most economists argue, and that is sort of the identified deferrable resource--a natural gas fired peaker or a natural gas fired combined cycle central power plant in the 500 to 1000 megawatt. I don't think there is any point in trying to compare them for California and San Francisco purposes, the cost of any of these things relative to a new nuclear plant, for example. I don't think that's worth much pencil time, but I could be wrong.

Commissioner Fellman asked do you see the Energy Commission subsidies continuing? I know there are some issue in the legislature about whether or not the about a \$135 million a year will be allocated for the next ten years?

Mr. Schultz stated we will get back to the question of funding because it is a critical issue. Both the programs that are funded at the PUC and the CEC and elsewhere and how this should be coming together and is real and not real, we'll come back to later.

Issues 5 and 6--what are the air quality considerations for selecting distributed generation in San Francisco. Air quality sooner or later, as Rich correctly pointed out, the main focus from an environmentalist perspective, is what is the source of the generation and of the production of the energy? Not so much a wires-type issue. This is of course the air quality issue. I am sure you are all familiar with re-surgng issues of air quality and air quality disputes between Bay Area and the Central Valley. The type of energy resources that are used currently and in the future are inextricably going to be linked with that. The other one that is more recent and has

been around for the next few years is the MTBE/Ethanol dispute that is now getting attention at the federal level and has major implications for both the Central Valley and the Bay Area. Of course, we then immediately as suggested here get into transportation policy issues. The main message here is that transportation issues and transportation energy issues almost have to be dealt with at a regional level. To try to deal with them at a small geographic area is basically fruitless and counter to the larger public interest. I know the various dimensions to this dispute. All I am saying is that these issues are going to affect what you do in terms of stationary energy type applications.

Next slide. Going back to Diane's question. As I think Rich alluded to, but I want to put it in more specific form here. The PUC has been the public agency that has administered \$300 million dollar a year energy efficiency public purpose program for a long time. Rich's notation of 230 refers to the electric portion. There is another 70 million from PG&E on the gas side and also if you include SoCal gas. That money is intended by statute to provide financial assistance and information to customers statewide in the utility and industrial service areas to help finance traditional energy efficiency products and measures in homes and businesses. Everybody who pays into that which is every customer of investor owned utilities, and again I am talking about the four, including SoCal gas, but it is all PG&E in your case. The total statewide is 300. I don't know exactly the PG&E share. But the more relevant question moving ahead would be depending on which way you want to go, what share of the PG&E pot is being collected from San Francisco city businesses and residents. That can be determined or the share of it can be determined without too much trouble. That's one pot of money. That has been there for a long time. That program is one of four public purpose programs that were established by statute with the deregulation legislation, AB1890, which was passed in 1990. Its program life was extended up to ten years I believe in the 2000 legislative session. That money is fixed in statute. It could go up or down in the amount, but there is expected to be a per statute. Of course that could be changed. It is expected that the PUC is going to continue to be the public agency that will be overseeing that pot of money.

The second program that I don't think there was any mention of was created at the PUC under statutory direction with another bill, AB 970, which became law in October 2000. That law which had a lot of features to it directed the PUC to establish a new distribution charge and therefore new program that would promote what would then become self-generation. That is a \$125 million statewide collected by again the four industrial owned utilities. Again, I don't know the PG&E portion, but it would be somewhere in the neighborhood of probably \$50 or \$60 million of that for self generation. This money and the PUC finally got that program up and rolling and running in July of last year. That program is still in effect. That has by PUC direction a four-year program life. These are how long it is supposed to last, in other words charged, collected monthly alongside of the energy efficiency monies. Those two pots of money and the San Francisco share provide the foundation for basis for some stable funding that could be used to enable the City and County of San Francisco to become a program administrator of your share. Those are the two

programs I think most of you are familiar with. The Migden bill deals with the share from San Francisco. That only addresses the energy efficiency program. The same concept could be extended to the self generation program. That same concept going back to some of other Richard's comments and those that are more consistent with what my own are and of my agency, that is that could be done at a regional basis, not necessarily at a city basis. In other words if as suggested in here and getting into some suggested options to consider and I know you are considering, we can go on to the next slide to get to what I am talking about.

Issue 13 - What practical short term and long term recommendations do you have for San Francisco? To look at the two bulleted answers. The short term or moving toward the long term role for local governments are embedded in these two bullets. One is to take advantage of the upcoming opportunity. It is sort of there now, but it's not as definitive as it might be at the PUC. That is to become an alternative program administrator for both the energy efficiency and the self-generation program. Again, what we would recommend in the past when this issue has come up because it has come up a number of times at the PUC is that it be done through regional energy offices, not for each of the 435 cities and 58 counties. That would get back to something that Rich was talking about--some concerns about vulcanization and just serious problems. In any case, establishing that network of regional energy offices. What would be the geographic boundaries of them? All that is not clear. But if ABAG, for example, started to step up to do that. Let me back up. In the case when the PUC established its self generation program about a year ago or recommended that the Commission designate, not put out to bid, but simply designate the San Diego Regional Energy Office as the program administrator for that program--that's a model that the Commission bought. What they did was they just directed San Diego Gas and Electric to take the money that they collect monthly and turn it over to this non-profit regional energy office that existed and had some experience in energy matters. The San Diego Energy Regional Office is the program administrator, not San Diego Gas and Electric for the self-generation. That same model, that sort of flow of transactions, that sort of arrangement, could be extended to other regional offices, and it could be extended to both the energy efficiency and the self generation program. That issue generically about what is going to be the future role of the utilities including PG&E is again expected to come up at the PUC more formally sometime this summer. I don't think any dates have been set. We are going back to what is admitted here and what Rich was talking about. That will be your opportunity to get more formally involved. If you would do it on the context of working with say a regional entity like ABAG, it would probably be received better or be more effective rather than having hundreds of cities showing up independently or all fifty counties. The other thing that I don't think was fully flushed out and I am not sure it was alluded to. There is currently right now the beginning of a statewide bulk procurement effort that has been and is being sponsored by the newly formed California Power Authority that is actually being executed by the State's Department of General Services. The State Department of General Services for years, one of their jobs is to buy on a bulk basis everything from pencils to cars to whatever. Last year, for example, they bought a mass bulk purchase for traffic signal lights, LED's.

That brought the cost down. I don't know the details, but that was a short-term success that happened very quickly. It is easy to do when you have a totally standardized product. In any case, that same concept is being extended now for photovoltaic systems, for fuel-cell products and for micro-turbines. The results of what is called an RFB are just now coming back in, in which the industry has basically said back to the Power Authority--this is how much we will charge on a cents per KWH or a dollar per KW of capacity if you buy to put into public buildings x number of quantity. The theory is the larger the quantity the lower the price. The results of that RFB once they finalize would be to sort of to put a cap on. Anybody who is getting to the project level and actually trying to put together a financial package to get approval to put on one of these systems in a public building--and a public building by definition means city and county buildings, not just state buildings. City and county entities have used this process, this bulk procurement process, for a lot of products in the past. They could do it for this one is the point. How successful it will be in the short term of bringing down the cost is unclear, and the results of the micro-turbine one and the PV one are not yet posted. The idea again is that should put in an upper limit. When you get to a specific project and want to get approval for it, let's say on a city building, then that you would know the names of the companies that would offer at that price. There is no reason why you couldn't negotiate a lower cost. That is how the pressure downward is supposed to work. It is expected in the future that yet another RFB will be released. Hopefully, there will be more manufacturers and want to be installers of these products that will come in with lower costs. The theory is over a period of a few years, this would continue to keep pressure on the downward pressure. The companies will want to know that there is a buyer of these products and the buyers are public agencies. Cities and counties and state government agencies have been selling these products in the 4000 megawatts of load in public buildings in the state of California. That is the framework within this will hopefully happen over the next few years and hopefully again that will start to bring down the prices. Again, I know we haven't done anything quite like this in this kind of scale in California so it's too soon to be completely optimistic. I understand Rich's curmudgeon and skepticism, but nevertheless, Rich, I think it is going to work this time.

Mr. Maynor asked, you were talking about the public benefits funding. Is that like a surcharge that shows up on the bill?

Mr. Schultz stated right.

Mr. Maynor asked if the City was a Municipal Utility, would a Municipal Utility also be subject to the same surcharge?

Mr. Schultz stated yes.

Mr. Maynor asked would they get to control the program itself? Is that how it works?

Mr. Schultz stated basically there are two differences in a Municipal Utility. One is in statute in an investor owned -- the exact amount, the dollar amount annually that is supposed to be collected is identified by statute. The statute for municipals basically says municipal utilities are encouraged to have a comparably-funded collection of programs. Remember, for investor-owned and by statute, there are four public-purpose programs that have been established. One is the low-income energy efficiency program. Another is the non-low income energy efficiency program which is the \$300 million a year. Then there is the RND program that is administered at the CEC, and then there is a CEC renewable program. Those are the four public-purpose programs that were established by statute for the investor owned. The municipals as I understand it, were encouraged by that same statute to have a similar set of programs. They would get to control it and the amount of money that they could use for one versus the other. They could use all of it for RND and no one would know presumably, because there's no state agency oversight of the Municipal Utility's use of that money, or if they are in fact collecting the amount that they were expected to by statute.

Dr. Ferguson stated I think as I recall, the number was supposed to be 2 1/2 percent of revenues, but performance has been very spotty.

Mr. Maynor stated I have another question for both of you. Do you use any computer modeling to analyze these different types of generation models in forecasting in changes and gas prices and at what point do certain renewable resources become-cost effective? Does the Energy Commission, your Department, or CERT use those types of computer modeling?

Dr. Ferguson stated we are involved in an advisory process with all the western states to the Western Governor's Association called the Western Regional Air Partnership Rap. They are using a model like that. It's the same model that DOE uses by ICF Consulting and in fact, we're running that model right now in that process to sort of see what prices and what point to say when to become cost effective. I am not a fan of computer models generally speaking. Basically, what you put into the models, your assumptions influence what comes out so strongly that I am never quite sure what you've gotten. The ICF model is sort of the standard one used by IPA and DOE and it is being run, but what's going to happen to gas prices? As what Don says, that is major input, and you can get just about anything you want out by what you put in. There are models around that are so complex because they have to model interactions between states, interactions between fuels, interactions between technologies, transmission access, pipeline access. They are very complex and certainly beyond what our organization could do and probably beyond what the Energy Commission can do. There are people who can do that.

Mr. Maynor asked would it be safe to say that the difference between you two gentlemen is that Mr. Schultz is more interested in immediately beginning to see more investment in distributed generation, where you would perhaps prefer or

recommend more investment in the energy efficiency side, conservation side? I'm not sure I understood what the differences are between you two.

Dr. Ferguson stated the discussions Don and I have been having--it is an unusual position because I hope he's right. But I don't think he is. He makes the point in his comments too that the distributed generation--how you use the thermal, the so-called waste heat is very important. We've been looking at the efficiencies of turbines and their using natural gas. The fuel for the fuel cells comes out of natural gas. The efficiencies are very important here, and they are not as good as a combined cycle gas plant. Unless you have the stuff in a situation where you are making good use of the exhaust from an efficiency standpoint--how we're using natural gas in the United States is just hard to justify. I think we're in agreement on that that it is very important that where you put these things in, you have to look and make sure that you make maximum use of all of the energy.

Mr. Schultz stated we have always argued in a different way but with the same effect that these products should not be eligible for subsidies or public finance support unless they are used in a combined heating mode power for that very reason.' There is not a disagreement there in terms of once you do, we believe they are, from what I've seen, of comparable efficiency to a total efficiency to a central power plant. They don't have some of the other adverse environmental impacts that a central power plant has. There is one difference that I was reminded of that Rich and I have not had a chance to argue about recently. That is, I do believe that the energy efficiency choice as opposed to the on-site power generation choice is a declining market, so to speak. Both because it's been done already or a lot more. There is a physical limit to saturation of these things. The further we get up there, there are diminishing returns and they are becoming less cost-effective. They are going in different directions. If you take the traditional energy efficiency as one clump of stuff, and it's always hard to generalize but you have to at some point, and if you take the other group of onsite self generation, that's a huge potential with the expected declining costs if we stay on focus and do what things are in the works for. Whereas, the traditional energy efficiency stuff--now we are talking about high efficiency lighting systems, high efficiency HVAC and even high efficiency refrigerators. There is a limit here. We have reached a limit. That's probably a declining thing. When you get into that kind of situation, the cost-effectiveness becomes worse, not better. So, I think these things are crossing. That doesn't mean we should stop from running energy efficiency. It just means that longer term that if you had a ten year investment plan, if you expected current year quantities of savings from energy efficiency to be the same for each of the next ten years, personally, I think that would be unjustifiable. Whereas, you could have an expanding amount of load taken off the grid from these other things--that would be reasonable.

Dr. Ferguson stated I don't disagree with Don except perhaps where these lines are going to cross in the future. I would like to report that we had a meeting at SMUD, including the General Manager Jan Schore, on this issue of distributed generation.

We asked SMUD what their discussions had been with their large customers who are maybe targets of opportunity for this technology. She reported that they just had very little interest in becoming electric generators. They say, just give us the electricity for cheap and we're happy. How these technologies move into the market is a question right now. It's an issue that in fact the City could play a role in. For example in some cases, suppose you have a facility that you need steam and you decide that you are going to put a micro-turbine in there and generate the steam with the exhaust. The question, if the operator has to now have an employee who understands electricity, who understands how to connect up to the grid and all the rest of this stuff. That is asking a lot of a company who has never been into this business at all. It was basically what SMUD found is that there was a reluctance to do this. It might make sort of marginal economic sense maybe, but, this is not the business we're in. There has been some discussion about ways to help people get around that. For example, maybe somebody else owns the equipment and leases it to them and provides all of the management that you need to keep the system running and get hooked to the grid and all the rest of that stuff. So, there are a lot of management models. I think how fast this stuff moves into the market depends on how that works out. People need help. Just because it may make economic sense, doesn't mean that it is going to happen automatically. That's why I say if you could in your audit process identify some good looking targets where this makes sense to do and then find out what is the entity need. If it is a public or private entity, what kind of assistance do they need to make this stuff happen? I think maybe more important than the financial role you might play is this kind of management assistance to make this happen. Maybe you aggregate these systems together--I don't know the answer. Maybe on site and new testimony will give some examples of how they have done it. We're just hearing that from utilities all over the country when they go to their customers and say, would you be interested in doing this--the immediate reaction would be no. So people are going to need help making this happen. That is an ideal role for a city entity to play.

Nancy Miller, Esquire stated I do work for SMUD, and it is true that the initial reaction of many of these businesses are, what me, that's not really the business that I'm in. But, there's growing interest and I think if you talked with Jan Schore, the Director at SMUD, she would say this. Particularly, in what I would call our new high-energy demand industries hi-tech, which is a marvelous opportunity for this City, and they just need a little push and a little guidance and that market is there in my opinion.

Commissioner Fellman stated at the City we have the old PG&E steam system still in place. It's not like Sacramento where you have to build a new steam system or have individual ones. We could use that. If we're trying to attract server farms or some of the other bio-tech, I think a lot of those industries given what's happened over the last couple of years are looking at their own sources of electricity. They want to incorporate that into their building costs up front rather than trying to retrofit. That gets a cost savings when you build it in.

Mr. Maynor asked Don, is there any state money to do some of these auditing functions that Rich was recommending for San Francisco?

Mr. Schultz stated there is a difference between auditing the city-owned facilities—that money is available. Through the energy efficiency program that PG&E currently administers, they have offered forever and are still offering the opportunity for each individual building to be audited in terms of what its energy use is. To do an inventory to distinguish it of the whole consumption pattern—how much exactly is used for lighting, how much is used among all residences and government buildings in this geographic boundary? That's the kind of information that has not been done, but could be done. That would be sort of the basis for a planning type function and opportunity. But for actually implementing projects, that auditing service is available. In terms of this specific thing that Rich is talking about, providing the service of actually outsourcing the ongoing maintenance of these onsite products and whether they could be leased or owned. The mechanics of how to put those things together are there. There are some that have been worked out—the city of Vallejo I think is the most prominent example where they have put in a fairly large PV system. It was sort of financed and I am not quite sure who owns it. I am not sure of the details. Those kinds of transactions involving the emerging EESP industry, for example, or the Esco industry, companies like On-Site, which there are perhaps far too many for their case. In any case, there are a number of those that are working in California mostly on energy efficiency stuff, but they have the skills, the information and the wherewithal to put together that package of services for onsite self-generation.

Mr. Maynor stated we have a written question from Charles Kalish. It's regarding the intersection of cost/benefits on energy efficiency and conservation versus solar. Where does Amory Lovins' data weigh in on the amount of efficiencies yet to be gained from conservation and energy efficiency.

Mr. Charles Kalish stated that Amory Lovins had a lot of studies on efficiency in conservation. You are saying that it's kind of reached its peak and from his talks up in Sacramento last year during the power crisis, it seemed like he's talking about an enormous number of benefits still to be gained from both efficiency in conservation.

Mr. Schultz stated he knows that Amory has been saying that forever and he'll never stop saying that. At some point, the laws of physics and economics will come in. You can take one of his favorite things, that is refrigerators that Rich knows a lot about. You are not going to get much lower than 600 KWH a year without another huge investment in some kind of product materials and whatever else that doesn't really exist yet. If you do, ten years ago the average usage for a refrigerator was 2000. Now it's down to 600. A lot of those higher efficiency refrigerators just by a normal turnover in stock are happening. There have been some accelerated replacement for those refrigerators, and all that is fine. All I am saying is that there is a limit. Amory or nobody can know in California definitively right now what the saturation level is of these high-efficiency products because the state of California stopped collecting that data as a part of deregulation. There are efforts underway to

start to collect that, revisit the question which needs to be revisited in my mind every few years and should be done on a regional level that is--what is the saturation level of high efficiency refrigerators? What is the saturation of high-efficiency lighting systems in commercial buildings? There isn't good data on that now. So, no one can say definitively. All I am saying is at some point there's got to be a limit. But because these things have been installed and promoted for so many years, we have to be somewhere on this. At some point, there's a limit and we have to be somewhere down that curb. Whereas with the onsite self-generation type product it's a zero basically now. These are starting to go in and the potential is huge.

Mr. Maynor stated Ms. Lowe is here, that she is from the private sector and will help resolve this dispute between these gentlemen.

The San Francisco Local Agency Formation Commission hearing recessed at 11:20 a.m.

Chairperson Gonzalez called the hearing to order at 11:48 a.m.

Mr. Maynor stated that Elizabeth Lowe is the Vice-President with the On-Site Energy Corporation, which is in the business of both energy efficiency and distributed generation. She is responsible for the firm's operations and regulatory representation in Northern California and Texas, and she has a particular expertise with industrial and food-processing customers. She also has capabilities in the areas of natural gas and electric purchases and overall customer strategies to reduce energy costs. Prior to joining Onsite, Ms. Lowe was the Vice-President with Duke Solutions, which is part of the Duke Energy subsidiary. That involved working with retail and wholesale customers to develop and implement overall energy purchasing strategies. She has assisted in the past large energy consumers and the development of the energy cost -education strategies through procurement and management of fuels, tariff and contract negotiations, aggregation strategies and demand-site management planning.

Elizabeth T. Lowe, Vice-President, Northern California, Onsite Energy stated I am also here representing the interests of National Association of Energy Services Company, which is why I believe our company was contacted originally. So, I can speak to issues beyond just some of the industrial work that I am responsible for, but also the NAESCO market and the kind of market we see in California with projects both in energy efficiency and distributed generation. I did leave some handouts on your desk.

Starting off with the pie chart I have here, it's our belief, and I am going to give you a little bit of insight from the trenches, what we've seen with energy efficiency opportunities and distributed generation opportunities in California. First with this pie chart, we see still very large opportunities for energy efficiency savings for customers. If you look at their overall bill, there's an opportunity we're seeing saved between 15 and 30 percent on energy

efficiency with usually between a two and five year pay back in most cases. Those paybacks have been improved given recent rate increases for customers and obviously having a downward trend on those paybacks. So, I put this here just to indicate there are various strategies to pursue. Co-generation and distributed generation are actually not on this chart. It's actually more of a focus on energy efficiency.

Turning to the next page on current trends. Pricing trends aren't looking good for energy consumers, which is maybe one reason why we're here. However, natural gas prices are lower. What we're seeing is a disconnect between low wholesale prices for electricity and high retail rates in California, whereas, the retail prices for natural gas reflect better the wholesale market for natural gas. We have seen a huge price increase for customers in California. Many have seen between a 50 percent and 100 percent rate increase depending on how they are using energy throughout the year and if they are summer-peak or winter-peak loaded. However, we have also seen incentives for customers interested in pursuing energy efficiency, peak load reduction projects, and generation. So, the strategies we believe a customer should pursue include purchasing from third parties, particularly natural gas and at this time, pursuing peak load reduction strategies including thermal storage, distributed generation. Thermal storage has not been a very viable kind of strategy in the past because there hasn't been a large differential between on- and off-peak rates. Thermal storage basically involves using ice or water that you are chilling at night during off-peak rates and you are running it through a system to run air conditioning or HVAC systems during the day. So now, that is more of a viable strategy just given on- and off-peak rate differentials. We also believe that customers should become as efficient as possible because the best way to reduce cost is to use less and then look at onsite generation options. I think pursuing a lot of these in parallel is a good way to go.

I have got a list of projects here in industry. I know there has been some discussion before I got here regarding lighting and HVAC. Some of the things I have included here go way beyond that including a lot of industrial process kinds of projects. Looking at frequency drives and control systems that are going to take existing equipment and make it run more efficiently as well as putting in more efficient equipment taking all inefficient equipment out and putting more efficient equipment in. Boiler retrofits and condensate return systems are basically using waste heat from a boiler system and putting it back into the system so you are using the heat more efficiently. Several examples here. I also had onsite generation.

I am going to talk a little bit about energy efficiency and then talk some about distributed generation and then address questions. In energy efficiency, as I mentioned, we believe the most effective way to lower cost is to reduce how much you are using. Our company and other energy service companies have also been referred to as EESP's or Energy Efficiency Service Providers in the

deregulated market. Energy service companies are probably just a more frequently used acronym. Our companies will identify, will look at a facility, will audit facilities--I know there were some questions before about auditing, and look at what the opportunities are on commercial and industrial facilities. Primarily, there are some companies that also work through contractors to look at residential facilities. We'll do audits, preliminary engineering. We'll bring regulatory incentives and then implementation can include financing, project management, guaranteeing of savings of those projects and measuring of the savings. There are many state incentives. I've listed some in California and in other states as well.

You can flip through the next few pages. They simply have pictures of some of the types of projects that energy service companies implement. Controls and energy management systems have been particularly effective over the past number of years. We've seen not only controls working well for lighting systems—obviously, you have probably experienced this where you have got motion sensors where the light goes on when you are there. If you take that to a larger level with large industrial customers who are running say three big pieces of equipment and the controls rely sense when the production is going down, normally those pieces of equipment will continue to run or are manually controlled. Now with an automatic control system that has various points of connection into that facility, it will automatically shut down pieces of equipment. So we're seeing dramatic savings from controls.

The next page shows some case studies. I know Don has been very involved in the Public Utilities Commission's dealings with the incentive programs, and he was on the committee that helped develop these programs in recent years. I have the energy savings shown here where you have energy efficiency savings, which are the bottom line dollar amount. The customer is saving T&D savings if there is a voltage or transmission-related project done putting in the substation for that customer. These are all state-funded incentives that have been implemented for large industrial customers and then you have capital. You see the annual bill where there has been a savings impact of 16 to 32 percent. The simple payback (the state incentives have been paid for several years) is actually closer to two years, but I just put in all of these numbers as if they have been paid in year one. These are again for industrial customers who have literally done no energy efficiency projects in the past. The way that a lot of manufacturers work is that no money goes towards energy efficiency. It all goes towards new production. In fact, we dealt with a large defense contractor at one point, who is virtually going to the scrap yard to find pieces of equipment to hold things together where they are getting millions of dollar for building very large complex pieces of equipment and putting a lot of money into that. So, these incentives have certainly gotten attention in that the paybacks now are more reasonable. They get the attention that they are two years and less payback. Companies are more likely to do these kinds of projects.

The next chart just shows some of the projects that Onsite Energy has been involved in with incentives and saving customers significant amount of money and bringing in a lot of incentives.

The next several pages are some case studies. I think for the purposes of this meeting, we can flip through the case studies 1, 2, and 3 and put them aside because these are more food-processing related. But, the reality again is that none of these projects were done before the incentives were available. Case study 4 and 5 are probably more relevant for this meeting in that one is a multiple facility bank and the other is municipal buildings. So, chillers were installed in this bank, cooling tower, a control system, lighting retrofit. There were incentives of \$270,000, capital of 1.1 million dollars, and an annual savings that were significant. So, you can see how these incentives continue to provide value and benefit to the customer.

Municipal buildings—this was some work done in the city of San Diego. Chiller and cooling systems or handling systems again controls, and lighting retrofits and variable speed drives, significant incentives in capital. This project was then financed with a guaranteed savings over a number of years. The city of San Diego is pursuing more and more projects at each of their city-owned facilities.

I know there was some discussion about incentive programs in California and I have provided a bit of a summary here. We do not know the final incentive numbers on these. We in essence have payments between six and twenty cents per kilowatt hour depending on whether you are doing a lighting system or a refrigeration system. Natural gas has some incentives as well. There is up to \$300,000 available per site and \$1.5 million per corporate entity that is being proposed. There has also been California Energy Commission money as you probably know. We actually got some money for an agricultural program, but there has been other money going out from the Energy Commission focused on kilowatt demand reduction, so not just the KWH, but getting peak demands down in the state. Distributed generation incentive—again I think that was discussed earlier--It pays 30 percent for cogeneration projects. It pays up to 50 percent for photovoltaic projects, 40 percent of fuel cells. So it is promoting again distributed generation and smaller facilities with some innovation in fuel cells and photovoltaics also being an incentive. PG&E has \$60 million dollars this year and will continue to have about that amount through 2004. There is about ten million dollars, actually maybe fifteen I think is the net amount going out to commercial and industrial customers in the PG&E energy efficiency program this year.

With that, I'll turn to distributed generation. In the past, there has been more use of onsite generation for transmission and distribution reinforcement or we've needed new power in the system. Certainly two years ago there was a

big push towards increasing the amount of generation we had. Not really as much as on a distributed generation level, but for putting in some big generators as you probably know. Merant is in the city of San Francisco and Calpine and others are in other parts of the state developing projects. With distributed generation, at least the energy service company focus has been more on the incentive-based type of projects. So 1.5 megawatts and below usually on projects that are going to provide some additional reliability for a customer or are going to maybe give that customer the ability to be self-sufficient. I know there is some discussion before also on the importance on steam usage. Co-generation is very efficient on a small level and that it is using instead of using gas to run a boiler for heating, you are actually using the waste heat from the generator for heating. So you are creating steam from that. So there are some great efficiencies there. I think that certainly that is the only thing that is incented in the state program is when it is combined heat and power where there is a use for that (unclear) steam. The larger generators are just building large generators and not necessarily have any use for the (unclear) steam.

The conclusion on distributed generation from our standpoint is there is high electric prices, there is low gas prices, there is some value of distributed generation particularly in some transmission constrained areas. Customers are screaming about reliability. They are screaming about high costs. They see distributed generation as providing a solution for both. Most generation is distributed generation technology is proven. We are also seeing a lot more vendors in the marketplace coming to California, seeing things like air permitting requirements and then coming up with solutions so there is no Nox emissions from their gen sets. So there is a lot of innovation going on in this area.

The next few slides are really here for your information just indicating that there is a very large market. There has not been much penetration of co-generation, particularly in the food sector that's been much more at steam than Petrochem. If you take that down to the commercial level where you are looking at smaller facilities or rooftop units, it's even lower or more limited penetration in those market places.

In distributed generation, the current opportunities we see to lower cost for customers are fuel-switching going from electricity to natural gas since gas prices are low and electric is high. Looking at generation, engineering solutions or more efficient equipment and shifting operations off peak, load profile adjustments, and we also see some savings on voltage upgrades where customers may get power at a higher level of transmission and reduce their distribution costs from a utility.

What are some of the challenges? We think it is very important with a lot of vendors running around saying that their type of equipment is the best

whether this is energy efficiency frankly or distributed generation to appropriately evaluate the type of equipment so it is correctly sized for a customer given their load. At this point, we are not recommending that a customer sell back at this level to the utility because they may be paying 12 cents for electricity, but the marketplace is going to pay them too. It doesn't make a lot of sense to do that so generally being a self-generator is important. Permitting could be a problem certainly in California, but as I said before we are finding some very innovative technologies that have reduced emissions and some no Nox emissions types of technologies. There is also a limited opportunity to pursue distributed generation because these incentives we believe have been so critical. If they are paying 30 percent of the total installed cost, we only have a few years to install distributed generation. There could be even more limitations on that if the state comes back and says we are going to take some of that money back, which is always a concern for many of those programs. We are seeing that right now in fact with the California Energy Commission where there is a lot of money put in place and contracted for peak demand reduction for a project installed this summer and last summer and a lot of that money is being taken back. We are looking at a limited window. Although most large developers are going to see value in size, so bigger is better, right now I think there is a very good market and more vendors out there who are focusing on smaller distributed generation units.

In conclusion, I hesitate on this first point because we are looking at the alternative to going completely off the grid, and the potential that there could be exit fees. So, what can you do as you are evaluating that? What can you do if that is not a feasible strategy? There are other approaches to reducing costs. You can pursue these parallel and I think it makes a lot of sense in any case in this environment. There are incentives out there for energy efficiency and distributed generation. I believe you should be as efficient as possible and then put in distributed generation so you size it appropriately. I also think that there is a lot of discussion of course about where rates are going to be over the next five years. But I think the economics are there right now for small co-generation. I think the environmental benefits of co-generation are significant and of course as we see these new technologies with low emissions, they're even better and permitting costs should not be significant. There is also a growing number of developers. Although we have seen a decrease, not only in the ESP's who provide a commodity only in a deregulated market, we're also seeing a decrease in the number of energy service companies who are in our business. But, there is a growing number of I would say vendors, the companies who actually have the equipment for distributed generation or who have the more efficient appliances or more efficient control systems. That marketplace is really growing, so there's more and more options there, some lower cost options and again, these environmentally conscious options as well.

I think the last page just has very fine type with your introduction.

Vice-Chairperson McGoldrick asked Mr. Maynor would you referee a running dispute this morning or a discussion of course regarding the maximization of energy efficiency and whether or not there is a kind of cap there where eventually you just can't reduce it anymore and that there is a natural recurrence of replacement factors with things like refrigerators and so on. How far do you think we still could go in terms of energy efficiency?

Ms. Lowe stated my opinion is a little bit different from my colleague on my left. I think there is a huge opportunity. Part of this is from personal experience where our company has gotten into the industrial marketplace that has literally been untapped for energy efficiency when there's all the pieces of equipment and production has taken priority for projects. We are also dealing with large commercial buildings. Again when the focus has not been energy efficiency, the focus has been making this chip or this widget and doing it no matter what the cost. I think Mr. Schultz is right that when you look at appliances, there may not be more room to go in terms of efficiency. In the market there is very efficient equipment. Then the next question is how much of that has gotten into the market to be used by customers. I'm speaking much more to the commercial and industrial types of buildings where there are huge opportunities. In a lot of cases people have installed lighting. Maybe they have installed lighting five years ago. Now there are new lighting technologies that could be put in. Maybe they don't have lighting controls, so those lights are very efficient, but they are never turned off. I mean again I think those are opportunities on the HVAC side adding controls, putting in more efficient equipment there is still a lot of opportunities these, and technologies are improving all of the time.

Vice-Chairperson McGoldrick asked what are those initials that you used?

Ms. Lowe stated HVAC for Heating, Ventilation, Air Conditioning. So HVAC systems, there is a lot of opportunity for improvement there at each facility level. Then, when you get into industrial process which gets very sticky in... dealing with those types of customers. They don't want you coming in and messing with their process even if you are just dealing with an engine room and it's not going to do anything to affect how they are producing some widget. We found significant savings. That's where we're getting to the 30 to 40 percent cost savings on those types of projects with two to four year paybacks. So, it's not saturated from my standpoint.

Vice-Chairperson McGoldrick stated, but I understand the short of it too is the industrial and commercial as opposed to the residential. The residential may be already more saturated.

Ms. Lowe stated, and I don't know that. I think that Don was also commenting that we don't have the kind of data. We know what's there for sale, but we don't necessarily know how many people have bought it. So, on residential, I really don't have an idea. I think it's certainly given the increased interest in energy that we've seen in California that's been a front page issue over the past few years. I bet people are a lot more interested in seeing little appliance efficiencies now than they were three years ago.

Vice-Chairperson McGoldrick stated let me give you an example. For example, you list as one of the many items electronic ballasts and I think what they call T21 tubes that they replace the old fluorescent tubes, the old neon tubes, the skinnier ones about an inch in diameter.

Ms. Lowe stated there are T12's and T8's. Now there is T5's.

Vice-Chairperson McGoldrick stated and I remember seeing people starting to install those in recent years. I know we have an energy efficiency system going on right now with our small businesses. We have about an 8 million dollar grant that some folks in the small business community were able to get and going around the small businesses around the city right now. My question is, what percentage of the commercial or industrial opportunities would you say have converted to something like electronic ballasts with T12's or T5's and so on? Would you venture a guess that there is less than five percent or 40/50 percent or any idea?

Ms. Lowe stated I don't have an idea on electronic ballasts and what kind of saturation we have. I will let Don comment on this. One thing I would say one of the big struggles we have with commercial buildings installing these types of units is if they have tenants, then they are passing on the costs to their tenants. There is not necessarily an incentive in all of these high rises to put in electronic ballasts. I have always found it amusing when I would go into the PG&E building that was leased from somebody else, and you go to the floor that was the energy efficiency floor and you look everywhere and its magnetic ballasts and the T12, the more inefficient lighting. But, the tenant had no incentive to install this because it was all passed through on their lease.

Mr. Schultz stated, this goes back to the point I was making earlier. There has not been a convincing study done of where we are. That should have been done on a time-series basis so we could see the effects over time just to get some sense not only of the saturation level, but the saturation rate. That kind of data was collected on a bi-annual basis through the 80's and into the mid 90's and then that was stopped. There is an effort underway now to sort of redo those studies to try to get a better sense of where we are on that penetration curve for different end uses. I think the best way to approach this is through different major end uses meaning different within ratepayer

classes. The large customers are a whole different thing. I don't know. This may be right that there's a lot more there. All I know is that the utilities have reported major savings from that industrial class, the large customers, for many, many years. I never personally believed what they said, but there have been reported savings. To say that it has been untapped, would be unfair. Also, what nobody knows is what appears to be reported by the only authority who has access to the data that there was a huge, huge reduction in consumption last year. The argument is over why and which customer classes. We don't know the answer to that because the data to provide that which will shed light on these questions.

Commissioner Ammiano asked if somebody is doing an analysis of that? Is it available?

Mr. Schultz stated there have been comments in the media on these various aspects, and there is a study underway. There is data being collected to do some kind of studies to shed some light about what exactly did happen last year. There is widespread agreement that a huge unprecedented level of reduction of consumption statewide happened. There is not reliable data happened whether that happened more or less here versus there, large customers versus medium, whether that was a result of changes in behavior which was a one time effect, whether that was a result of investments in energy efficiency that have a long lasting effect. That is the information that is not available.

Commissioner Ammiano stated I have always contended that when PG&E was reacting to everything and saying we must conserve and that's the answer--I always thought that was kind of patronizing because I thought California did have that awareness and actually were very conservation minded and maybe that coupled with made everyone feel more conscious about it.

Mr. Schultz stated and the core question is whether that is going to be repeated. As opposed to whether that change was a result of a recession or whether that reduction was a result of investments in significant long lasting energy efficiency products. Those are the unknowns right now.

Commissioner Ammiano stated as an FYI, my office is taking the lead on a refrigerator-replacement program for the public housing developments here in San Francisco. We are going to replace them. The current ones, which really eat a lot of energy up with energy efficient ones and the cost savings will go back. It will be 2,000 or 3,000 refrigerators. It is working out well. Except of course all the vendors are calling us now, Maytag and they want to try to pitch it to us.

Mr. Schultz asked, do you have a sense of when once you do that with the money that you are pushing out, what percentage of public housing refrigerator use will you have effected?

Commissioner Ammiano stated in San Francisco it would be 100 percent. There's also an issue of what do we do with the old refrigerators. That's another issue. I guess they have freon—I'm not sure. But, they just can't be disposed of.

Dr. Ferguson stated I have a question of Commissioner McGoldrick. How would the City go about trying to assess what potential there is on a citywide basis. Is there some kind of statistical sampling you can do of the various kinds of businesses to find out. I was asking this question myself and I just don't know the answer.

Mr. Schultz stated utilities do report to the Energy Commission, sales by both an SIC code and rate class and so on. If we had that on a geographical basis, consumption by business type, by foreign designated region, then you could whip from other information make an estimate what the load profiles are within this.

Dr. Ferguson asked, but what opportunities exist for companies like Onsite to fix it?

Mr. Schultz stated I know. But to me, starting with basic actual consumption data by those different categories provides the outer boundary.

Vice-Chairperson McGoldrick stated, I think you are just talking about scoping and sequencing a survey in terms of certain parameters that you would establish that would have trip switches in them that would revolve around the technologies available at the time at say when the buildings were constructed for one, let alone the uses for that building. You could take pre-impost 1930, pre-impost 1950, pre-impost and so on. You just go on and do some samplings and request permission to go in and visit a few places. Would that make sense to you all? Then that would give you something as opposed to a more morphis survey that is looking at a total load without accounting for the particularities and specificity regarding those actual buildings and their uses and their time of completion and occupation and so on.

Mr. Schultz stated that the kind of survey you are talking about is the right kind of survey. Those surveys were done in the past. They are in the process in the CEC as a protracted negotiation. The data, to do that survey, you have to have the total population of customers and you have to know who they are and where they are. You have to figure out who the representative is to know who to contact, That information is controlled by the utilities and always will be because they have the actual sales data. The qualifier in this,

In the past those surveys have not been stratified as they say by region within the utility area. They could be, which would be a more costly survey. If you did that, you would have a sub-utility area survey information that would lead information into what the current consumption is, what the major end uses are and what already has been done based upon customer responses to the survey.

Vice-Chairperson McGoldrick stated an inventory of certificates of completion of buildings of certain types would be available with our Planning Department. That is all part of our inventory of real estate that we have public and private.

Mr. Schultz stated that would give vintage oriented. Because the state of California having Title 24 standards and that kind of thing, that would give at least another reference point to get a handle on consumption by vintage.

Ms. Lowe stated I think you can do a survey. I think it's possible to start if you are looking at San Francisco in particular. You've got groups and I have talked to San Francisco BOMA for instance. When you go through BOMA and provide through them a questionnaire, and we have a standard one page questionnaire that says what do you have in your building and a checklist of type of equipment, and then you can see what the opportunity is. With BOMA, you could get a great sampling of the large commercial buildings here. Then if you wanted to get more industrial data, you could send that to a sampling of industrial customers. If you wanted to get retailers, you could send it to a sampling there. I think it's possible and basically it's a one page questionnaire that you need to get back. Isn't that always the struggle? You send it out, it's great. It will give you great information, but you have to get it back.

Mr. Maynor asked what if you were to do a survey of industrial customer or hospital for example and you concluded they would be a good candidate for a co-generation facility. It looked like some of the pay-ack periods were very short with these incentives. I understand the incentives may not always be around. If the end user did not want to pursue the project for whatever reason—let's assume the City would want to become a Municipal Utility—would that be a project that they could finance and recoup within a short period of time? Are the savings that identifiable where you could actually work out an arrangement with the end-user that will reduce your energy bill by ten percent or will keep the benefits of having invested in this facility? Is that something that can be done?

Ms. Lowe stated absolutely, we are actually dealing with some folks on the distributed generation front where you were actually working with them on setting up another legal entity that would in essence sell power and steam to itself. So what you are doing there is acting as the operator and companies can come in, operate, and maintain that facility. It is important to realize that

you are providing electricity and steam to that customer because that is really what makes the economics work, and is significant savings because instead of buying gas for heating, they are buying gas for this turbine that is also creating electricity. It is a real benefit there with the steam.

Mr. Maynor stated in effect there may be a short time period or opportunity for a City to do this if the incentives are going to go away in three or five years. That would be an ideal opportunity to invest in some of those specific opportunities that an audit may reveal in the City.

Ms. Lowe stated I would think so just because of the window of opportunity.

Dr. Ferguson stated these incentives are being paid for by the customer. It's not free money. So, if you were to go about setting up your own utility, you have the same ability to raise this money from your customers as utilities do. Again, that is another argument of taking charge of your own destiny that you get to make the decision whether you want to still raise money from all of your customers to provide these incentives.

Ms. Lowe stated however, isn't that more the case with energy efficiency incentives and less the case with distributed generation? I thought distributed generation was coming from more of a state pot as opposed to a direct line item on the bill.

Mr. Schultz stated it is not a line item on the bill, but it is a monthly fee that is being collected. Whether it starts to appear on the bill is up to the PUC.

Ms. Lowe stated that for distributed generation, that money is available for Municipal Utilities.

Mr. Schultz stated the Municipal Utilities were not by AB 970 ordered to create a comparable self-generation program that the legislation did order the PUC to set up.

Ms. Lowe stated I thought there was some funds available.

Mr. Schultz stated no, the municipal utilities have been left with considerable flexibility. They could use the public goods charges right now that they are collecting for anything including subsidizing self-generation or whatever else or energy efficiency or whatever else. They are given much more flexibility by statute.

Ms. Lowe stated you could certainly argue that this concept of getting the incentives that are out there now for energy efficiency and for distributed generation (as much of those funds in that are kind of paid for by San

Francisco customers now). Use as much as those as possible while you are evaluating the feasibility.

Mr. Schultz stated I would urge you to focus on your own buildings, the buildings you control. In some way or another, you are going to approve or not approve projects for energy-efficiency upgrades or self-generation. Those are the ones you are going to see that are going to get approved. That money is available to help finance those. As a customer, you pay into those charges, into those funds. How long those charges will be assessed will depend on future legislation and future action of the PUC. But at least for the next four years, you are going to have access to that money to help pay for investments in energy-efficiency products and onsite self-generation products in public buildings on your own--beyond what you might want to try to do to encourage other businesses and residents to participate. That's what you have control over right now is the electricity usage and the electricity bills of your City and County buildings.

Ms. Lowe stated and that's what is happening down in San Diego in fact. One of the projects that I mentioned earlier. Next is the Police Department, then it is the Pool, then it is the Library. It's all of those city-owned buildings that are being done right now in San Diego.

Mr. Maynor asked are you involved in that project?

Ms. Lowe stated, yes.

Mr. Maynor asked do you have any descriptive material that you could share with us at some point?

Ms. Lowe stated sure, I would be happy to share that. Onsite got a contract with San Diego a couple of years ago.

Vice-Chairperson McGoldrick stated you may already know. This building got renovated in recent years and was basically retrofitted in terms of high-efficiency factor. Of course, we have another building on the 500 block of Golden Gate Avenue that's just beginning. That's a very so-called green building and very similar to what the new Federal Building in San Francisco is going to be. I was going to ask you, and I appreciate your reminding us of all that--in terms of the public goods charge that you just referred to, you say there is a lot more flexibility in terms of the municipally-owned or publicly-owned facilities. Is that number one question, is that partly because there is an assumption that there is already probably a public goods objective and mission at work with a publicly-owned utility. Secondly, is there any kind of cap in terms of a public-goods charge? Is there any ability of the localities to actually tap into the public-goods charge? Is it only at the CPUC level that that can be done?

Ms. Lowe stated there are with the public goods charges related to energy efficiency, those are only available to customers in investor-owned utility areas.

Mr. Schultz stated no, by the same statute did expect...

Ms. Lowe stated, okay, thanks. There are programs available with municipal utilities. They typically have not been as lucrative as the ones run by PG&E, Edison and San Diego Gas and Electric in particular. There are state-imposed limits. I think I mentioned that there is \$300,000 per facility and 1.5 million per corporate entity whether you look at the City of San Francisco as a corporate entity.

Mr. Schultz stated those are program design details that change every year per order from the PUC in the case. Or, if you are talking about a municipal utility, a municipal utility itself could change those kind of program design details. Municipal utilities can also change the amount of the surcharge for any particular purpose that they want to. Those are not restricted by legislation. But to come back to your first question of why was that. My own observation is pretty simple is that it is pure politics. Municipal utilities are local government. The legislature does not thread lightly in terms of dictating things like that to local governments. That's why they gave them a lot of flexibility because the municipal utilities and their associations at the time this was discussed came forward and said look, we'll do these things, but don't tell us exactly how to do it.

Vice-Chairperson McGoldrick asked is there an inventory that you know of of the institutions in San Francisco who are actually doing self generation, or is there any idea about what level of self-generation might actually be generated in San Francisco? Is there anything comparative to other cities that are comparable to San Francisco. I know there aren't that many. Fresno, we'll say, San Jose, San Diego, Los Angeles, where self generation is known. Do you know what the levels are?

Mr. Schultz stated I am sure that San Jose city facilities have installed for example some PB's. I'm quite sure I heard about that. My guess is that was partially financed by the self-generation program. If it wasn't, it was a mistake. Lots of cities and counties are starting to do this. There have been so far media reports about these kinds of things that they are in the works or have been approved in the last six months, and we are just recently starting to see final evidence that they have happened.

Vice-Chairperson McGoldrick asked how about large public institutions like universities, colleges, and school districts? I know those are more spread out in terms of the aerial factor. But, is there any indication that there are a lot of

people hopping on board with that? Is there anything in San Francisco that you know about in terms of public institutions, not just City and County of San Francisco, and then any large private users. What is the level at which self-generation is occurring with large private users?

Ms. Lowe stated there has been a few waves of looking at co-generation. In fact, Onsite started twenty years ago in the generation market. That was when there was interest in working with third parties where we had qualifying facilities that had a steam load and could produce electricity and this interest in diversification in the state of California. So, there were a lot of universities who installed co-generation. So they used the waste heat. We are talking bigger scale, say 10-50 megawatts in size, generally. What I've been talking about with distributed generation is a much smaller unit that is eligible for these incentives. So, for a period of time in the 80's, you had a lot of co-generation being installed. If you look at the more recent years, until a couple of years ago, you had low electricity prices or anticipated lower electricity prices and in fact higher gas prices so it didn't make sense to pursue generation. People were looking at feasibility studies but no one was doing it because the economics didn't make sense. Now, high electric, low gas, and incentives--I think a lot of people are looking into this. How much is installed so far I don't know. How much is installed in the city of San Francisco that might have been done ten to fifteen years ago, I don't know the answer to that either. But I think interest, certainly given the marketplace and the incentives, there is considerably more interests now than there would have been two or three years ago.

Vice-Chairperson McGoldrick asked is it traditional to have to strongly motivate and incentivize these things as opposed to letting the market sort of cause the fluctuations in interest?

Ms. Lowe stated we have certainly seen a big difference when you take the payback from seven years to four or something like that. There is a dramatic impact, and it goes from a project that is absolutely not going to go to something that gets some interest. Of course, now you have this coupled... with a lot of corporations who are saying they want increased reliability. They don't want to go through what they went through two summers ago. Everyone considers that last summer was mild. The other thing that people consider, and I know I am kind of going back to an earlier discussion, but last summer was mild and there wasn't as much demand. A lot of companies simply shut off during peak hours and they sent people home or they had them work over the weekends, and it was a disaster for some of these businesses and their relationship with their employees. They vowed, we are not going to do that again so what do we need to do now to avoid that? We are going to put in distributed generation so we can run off peak and not worry about what the prices are, have reliability and things like that. So, going through last summer with high prices, people shutting off again. A lot of

people now are more interested in distributed generation I think than were before.

Dr. Ferguson stated historically, most what would be called distributed generation was used for backup generation and usually diesels. There is an enormous amount of that stuff around. It's not the kind of technology that we've been talking about here today because it made no use of waste heat at all. That was a big concern last summer that people would start using that as if it were additional power for the grid. The California Resources Board because it tends to be dirty diesel stuff did develop a list of all that, but I don't think they got down to the level of detail of small combined heat and power facilities. But, these would have to be permitted. So your Planning Department might have an idea.

Mr. Schultz stated I don't think these small ones would need to be permitted by the City. They would need to be registered with the utility.

Dr. Ferguson asked you would need a building permit, don't you?

Mr. Schultz stated no, I am talking about a retrofit case. I don't think the City is involved. I could be wrong. Let's say a small commercial building put in the rooftop PV. It would reduce their annual load by 25 percent from what you would get from traditional energy efficiency by the way. I don't think that would require a city.

Vice-Chairperson McGoldrick stated it wouldn't be a Planning Department issue. It would be a Department of Building Inspection issue with electrical, gas and utilities.

Mr. Schultz stated that they as well as the utility would have to sign off. What information they get would be different. Like the utility collects information on the size of it and that it has met safety standards and whatever else. I am not sure what the City would actually get. Does the City keep records on the exact location of it and what kind of business it is?

Commissioner Fellman asked, don't we have to have that kind of review? I think under Title 24, which was developed twenty years ago, do commercial buildings also have to comply with Title 24? Any home improvement or residential construction in the City has to show what their energy use is going to be under Title 24.

Mr. Schultz stated the relationship between these kinds of products or these kinds of systems and Title 24 is a little bit murky at the moment in terms of reporting and keeping track of that kind of data.

Commissioner Fellman stated that was a question we talked about during the break. I just wanted to get a quick comment from the panelists for us on this, which is that the big upsurge in California in the late 70's and early 80's was because California took a proactive role in regulating requirements for new refrigerators for example.

Mr. Schultz stated for appliances in buildings.

Commissioner Fellman stated and as Elizabeth was referring to and co-generation and other kinds of renewables. We're at a point now where over the past ten years, culminating with the AB 1890 legislation, there was a move to have the market to provide those services. We were retreating from the market model now back to a regulatory model, but the genie is out of the bottle on competition. I was going to ask the panel if they could comment on whether there is a space now for local government to do something that using the incentives, but also requiring that those incentives be used. Not just leaving it to an individual developer, but saying new buildings need to have certain kinds of energy efficiencies built into them.

Mr. Schultz stated. remember in that same era in the early 80's there was a push to encourage local governments and some state assistance was provided by the Energy Commission and others to help local cities and counties develop local ordinances that would go beyond Title 24, which is a state standard. That applied mostly to new construction and quite exclusively new construction. But how do you define new construction has evolved. A lot of those ordinances were passed. There were even some retrofit ordinances. I'm not sure whether the city of San Francisco actually had one of those. I know Berkeley did of course.

Commissioner Fellman stated we did have one when I bought my house in 1983, and it has expired.

Mr. Schultz stated those ordinances were either repealed later or just not enforced. The opportunity is still there now. The point is the city of San Francisco and any city without being a municipal utility or anything else can adopt standards that would basically have the effect of all new homes or small commercial buildings, for example, would have to have a PV system on it or would have to have zero electric load. The technology is there. With a combination of a PV system and a fuel cell, for example, there shouldn't need any new load on the grid with this. That in conjunction with meeting Title 24 efficiency standards shouldn't be that hard. It shouldn't add that much to the cost of the building and the technologies there. That is something that the city can do that goes beyond what state standards would be and you could do that. In other words it wouldn't add to the load grid of this whole area and further aggravate and it would help to contribute to the reduction in the

vulnerabilities that this region would face. All of those buildings that have those kinds of products are isolated from those effects.

Vice-Chairperson McGoldrick asked are there jurisdictions where that's a requirement in some very low density including single-family home levels or two-three unit places?

Mr. Schultz stated those are all possibilities. Those can be done at the state level.

Vice-Chairperson McGoldrick asked, is there any place where it has actually been implemented that you know of?

Mr. Schultz stated not that I am aware of. I think it's under discussion or at least under consideration.

Vice-Chairperson McGoldrick asked, is that under discussion at the CPUC or with building standards?

Mr. Schultz stated there are three ways in which that could occur legally. One is the CEC which governs Title 24 standards that applies to all new... But Title 24 does not apply to new industrial. It applies to basically commercial and residential, including multi-family. The CEC could upgrade the standards that would have the effect of requiring either PV or more on all new residential single-family homes or on all new multi-family homes. They would do it by commercial building type. For each commercial building type, they have different Title 24 standards, but a wide range of them. These new technologies could be there at a statewide level. The state could do that. Or each city or county has the authority to go beyond the state standards, which is a minimum and adopt basically an ordinance that would have that same effect. The other way that that could happen is it could happen through the PUC--the PUC because of its oversight of the investor-owned utilities basically through line extension regulations. Whenever there is a new building built, they have to put a new line in there. There is a cost assessed. The cost for that line extension could reflect or could be changed in such a way that it could become an economic imperative to put in PV systems as opposed to putting in or paying for that kind of... Or they could give a subsidized line extension so the building could have the grid as standby if they put in those things.

Vice-Chairperson McGoldrick asked what would be the likelihood of the last, the CPUC?

Mr. Schultz stated I think both the CEC and the PUC have their hands full for awhile. So if you want to see it happen locally, you might just want to do it.

Vice-Chairperson McGoldrick stated there are a lot of other variable factors and constraints on that that would have to do with everything from housing to at least initial affordability, not duration affordability.

Mr. Schultz stated that these are considerations that should be looked at locally or regionally, not necessarily statewide.

Ms. Lowe stated I just want to comment on the idea of being in essence a distribution channel for incentives that would promote these kinds of technologies or projects. I think there is definitely a role for cities to be that avenue to their areas of influence. We as a Committee have talked to the city of San Jose before about that helping them get incentives out to their customers. They now are trying to get incentives directly from the state that they can allocate to customers. So, there is definitely a role where you all are closer. We have been in the same situation as a company where we are working with the Energy Commission because we are close to food and agricultural customers so we have money that we directly allocate to those customers. I believe you are very well positioned to do that.

Mr. Maynor stated we have no other questions from the public.

Commissioner Ammiano stated I would like to thank the members of the panel for their time and expertise.

Chairperson Gonzalez stated I would like to join Commissioner Ammiano in thanking the invited speakers for coming out today. Mr. Maynor, my thought would be that we would take general public comment and close the meeting. If you could confer with the individual members regarding the next meeting dates informally rather than publicly on the record. We are all interested in continuing to have these hearings, and they have been very productive.

(All presentations are available at the Clerk of the Board's Office, Room 244, City Hall.)

3. Public Comment

No Public comment.

Public Comment closed.

4. Adjournment

The public hearing of the San Francisco Local Agency Formation Commission adjourned at 12:48 p.m.

San Francisco
Local Agency
Formation Commission

ITEM NO. 2

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689
Tel. 415.554.7702
Fax. 415.554.5163

MINUTES

Special Meeting
Friday, April 19, 2002, 2:00 p.m.
City Hall, Board of Supervisors Chambers, Room 250

Chair: Commissioner Gonzalez; Vice-Chair: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall, and Schmeltzer
Alternates: Commissioners Peskin and Fellman

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chair Gonzalez at 2:10 p.m.

Members Present: Chair Gonzalez, Vice-Chair McGoldrick; Commissioners Ammiano, and Schmeltzer. Commissioner Hall was noted present at 2:15 p.m. Commissioner Fellman was noted present at 2:22 p.m.

2. Approval of Minutes of the Public Hearing of March 22, 2002. Action Item.

Chair Gonzalez stated there was a motion to move the item. The minutes were unanimously approved with no discussion and no objection.

No Public Comment.

Public Comment Closed.

3. Interview of Applicants Who Responded to Request for Qualifications for San Francisco Local Agency Formation Commission Energy Consultant(s) and Selection. The applicants are:

- Flynn and Associates

- Henwood Energy Services, Inc.
- R. W. Beck
- EES Consulting
- Navigant Consulting, Inc. (withdrawn)

Chair Gonzalez stated Mr. Maynor, we were just speaking briefly a moment ago before the meeting began about some of the considerations that we should have a discussion about before we discuss this item.

Donald Maynor, Esquire stated it might assist you in asking questions and hearing the presentations of the various consultants, to give some thought as to what the study should look like—where you are going with the study. So, I put together a draft with the hope of having a “talking” document, and if it suited your purposes, if this is a document that captures the direction you want to go, then that may assist you in asking questions of the consultants.

Briefly, the idea in the Executive Summary is to address three key issues from the public hearing process that are driving the interest in this matter. That's the high prices, the question of reliability, shortages, and also this matter of local control, being able to have some control over these programs. Then the question becomes when you look at “utility service” what makes up utility services? There are a lot of different pieces to it. What the study might do is help identify by looking at these various pieces, to what extent they are going to have an influence on those key issues.

Then you might want to consider what your options are with PG&E, having the City doing this, or to form a Municipal Utility-Utility District. By doing that, you could reach the conclusion that, if you want to pursue some of these issues because they are important to the City, what would be the best vehicle for doing that? The reason why the Executive Summary recommends this approach is that some of these issues are very complicated. Some of the testimony we have heard, you really cannot know the economic feasibility of doing certain things. For example, the FERC hasn't decided how they are going to do transmission rates, or you don't know what the PUC is going to do with respect to generation and power purchases. It may be impossible in a very short time period to answer all of the questions.

What I think you can do at this time is gather the information that you already have heard in the public hearing process, and identify the issues, how important they are, and to what extent the City of San Francisco could exercise its constitutional right to form a Municipal Utility or Utility District or just using its City powers to address some or all of these issues. I think that is the best thing a study can do is go through that and also, generally go in to each item and talk about what the implementation steps would likely entail as well.

Commissioner Schmeltzer stated I think that's a good summary and a good start. It seems to me that based on the information that's already out in the form of other

public reports and on the information we already have in the record here, what we would really want to focus on is what would be involved in each step for generation, distribution, efficiency and conservation programs, and transmission. We need a study that would show the costs and steps necessary to take to provide those services and on each of those, which would require the fewest resources and the fewest further studies, and which ones would require the most legal and other resources.

Donald Maynor, Esquire stated it would depend on the nature of the item. Some of these would involve very complicated analyses like generation. If you would consider all of the generation options, and they change over time, it's not always easy to do them. That's why I wanted to emphasize creating the vehicle for pursuing these options as your first step, assuming that these issues are important to you and you want to exercise some self control in reviewing these issues. It may not be possible to do a thorough study on every one of these. I think we could describe generally how you would go about that, whether it would be a complicated study, and what that may involve.

Commissioner Schmeltzer stated that was exactly what she had in mind. What we want to do is focus on identifying what steps need to be done so we have a blueprint laid out because we have limited time and more limited resources.

Donald Maynor, Esquire stated I think when you get into feasibility studies and starting to cost things out, they become much more complicated and take more time. I'm not sure it is necessary for you to do those now. Having some general idea or a pretty good idea as to what that would entail would be very useful. That was the intent of this kind of study. We'll talk about all these issues, look at the options and also tell you what the next steps would be to pursue them.

Chair Gonzalez stated what I hear Commissioner Schmeltzer saying is that, essentially, what we get back from our consultant we don't want to simply be a rehash of what is available to us if we just went to the public library or made a request for certain documents. How can we be assured in this process of interviewing consultants that we not only communicate our interest in having a certain unique component in this study, but that we're capable of giving them a directive that they will be able to understand and bring back to us?

Donald Maynor, Esquire stated let me give you one suggestion. I think I have told you in an early stage that my recommendation initially would have been to hire more than one consultant. After we met with the various consultants, I think that confirmed my sense that each one has some strength. I would like to bring the consultants in the room and go over the study and find out what kind of resources, what kind of ideas or thinking they would bring to bear. Not simply as you pointed out gathering information that's readily available in a lot of these studies, but information that in particular is more locally specific to San Francisco and the issues they need to face. I think you'll find in doing that, that some consultants will have a

lot of information in a particular area that would be useful in an analytical sense, and others may only have the general information. You really don't know until you sit down and get them in the room and say okay, here's the scope of the study--whose got what, who has the capabilities? Let's talk about, or brainstorm, in terms of ideas. One possibility would be to then come back to you with a proposal with what the study is going to look like, what it will cost, and who is going to be doing what. That was my thought on how to approach it.

Commissioner Schmeltzer asked are you speaking of a time other than today or beyond today?

Donald Maynor, Esquire stated yes. Let's assume that you wanted to hire more than one consultant then the next step would be, what are they going to do, because they all probably want to do the whole report. It would be necessary to sit down with them and go over in view of what you decide today in terms of what the study should look like. We would sit down and go through it in some detail and talk about which consultant has readily available information, specific information, and ideas. There may be some areas where you would want more than one consultant to share their input. We would come back to you after that one meeting with a pretty good idea of an outline of who will be doing what and hopefully, they can come back with some cost estimates as to what it would cost to provide those elements of the study.

Commissioner Ammiano stated I like that idea because in going over everything and questioning and listening, it seems to me that more than one consultant is not necessarily a bad thing, particularly once we decide what area each would focus on.

Chair Gonzalez asked, Mr. Maynor how do you suggest we proceed on this?

Donald Maynor, Esquire stated my recommendation would be to have the consultants make a brief presentation regarding their qualifications. Hopefully, some of these comments were of assistance to you, and then you would be allowed to ask questions. Keeping it informal always works best. I know some of you have some prepared presentations, and others indicated they would be able to make their comments in a rather brief manner. Then following that, we could have a discussion and talk about recommendations as a result of the work that Ms. Miller, Ms. Young and I did in meeting with the consultants. We would share our thoughts and then you could make some decisions.

Chair Gonzalez asked shall we just go down the list? Was there any time constraint that we need to accommodate?

Donald Maynor, Esquire stated I believe Commissioner Ammiano indicated that he would need to leave at 3:30 p.m.

Commissioner Ammiano stated yes. So given the fact that we have about an hour and there are four consultants, about fifteen minutes would be appropriate.

Chair Gonzalez asked and is it your thought Mr. Maynor, that the decision about the consultant would be based on this interview alone?

Donald Maynor, Esquire stated you've been given some materials. By the way, we're very pleased with the quality of the consultants. They are all outstanding. By the way, Navigant I should announce has withdrawn. I believe you have received a withdrawal letter from them. They expressed their regrets. We had some outstanding responses and the references all checked out very well. So I am not sure, other than the materials that you have seen from the process. I'd be happy to answer any specific questions you may have that came out of the interview process. Maybe it's appropriate first to hear from the consultants.

Chair Gonzalez stated I think we can leave open the question of whether or not we feel that this interview alone is enough to make the decision. We can always invite individual consultants back or obviously, we can confer on this. When the individual party steps forward, perhaps you can tell us how long your presentation is. I think we can accommodate fifteen to twenty minutes. If Commissioner Ammiano has to leave, our alternate Commissioner is here, Diane Fellman. We would then be able to continue the meeting, and he can certainly see a replay of the presentations.

Donald Maynor, Esquire stated one other comment for the benefit of the consultants. It would appear that there's going to be a lot of work to be done in the next two or three months. I think there's a draft report that would be expected by the end of June. One question that you might want to consider is your ability to have available resources to commit to the project.

Flynn and Associates: Mr. Chairman, Commissioners, my name is Doug Boccignone. I am a principal with Flynn and Associates. We have prepared a presentation to guide our discussion to illustrate our expertise in the energy business, talk about what some of the key issues are, and how we might help the City address those. What I'll do is give an overview of those key issues and of our experience. Mr. Flynn will come up and talk about specific examples of projects we have previously worked on and are currently working on for the City and other Bay Area municipal utilities in the energy business.

A key issue is the access to transmission, particularly in constrained areas like San Francisco for reliability purposes and also access to low-cost supply. There's a couple of proceedings that are going on right now at the California Independent System Operator and also at the Federal Energy Regulatory Commission that are going to have dramatic impacts on the cost of delivering energy, particularly in constrained areas like San Francisco. The specific issue I think is going to be the proposed locational marginal pricing model, which is the standard preferred by the FERC, and the California ISO is supporting that in their market design efforts. That's going to put a big need and also motivation to upgrade transmission to be able to

access low cost power and find other ways to mitigate potential high market clearing prices, particularly in the Bay Area and the Peninsula.

The City has some experience with utility interconnection agreement issues going back decades to deliver the power from the Hetch Hetchy project to the municipal loads. If you go down the path of municipalization, there will be other interconnection agreement issues that will need to be addressed. Agreements with either the California Independent System Operator for the wholesale access tariff and or agreements with Pacific Gas and Electric. Of course any municipal utility has to deal with energy supply issues, investigate alternatives whether its conventional or renewable resources, conservation, federal preference power, and also third party contracts. A key issue given the volatile energy markets that we're facing, is how do you manage the energy price risks that are out there in developing your portfolio supply resources? That kind of highlights as what we see as key issues. By no means is that an exhaustive list.

We've chosen to highlight those areas where we have the most experience and expertise and where we think we can help out a lot. I guess I would echo what Mr. Maynor said. I think it would be difficult to find any one consultant who can cover all of the issues that you need. In fact, we did not propose to cover all of the issues. I think where we add the most value is in providing strategic advice to policy makers and top management on energy-supply issues. We've been doing it for years. Mr. Flynn has over fifteen years of experience as a consultant. I have over eight years. We've both been executives of Municipal Utilities and also for private companies. Before I turn it over to Mr. Flynn, I would just highlight one other area, which is experience with formation of joint action agencies and operation of joint action agencies. I think there is a good chance that if you do go down the Municipal Utility route, it will involve some form of joint action as was anticipated in previous efforts. I think that's an area where both of us have a significant amount of experience. I would like to turn this over now to Mr. Flynn. He's going to highlight some of the specific activities that we've done and conducted for the City.

Commissioner Schmeltzer stated I understand you have experience with the City and County of San Francisco and have knowledge of the City system. Could you talk a little bit about it and whether there are any conflicts or other issues that might bring?

Mr. Boccignone stated I will turn that question over to Mr. Flynn, and maybe the both of us can answer that.

Mr. Flynn stated when we received the RFQ we wondered the same thing. We have been doing work for the City for six years. Basically, fought through the issues with regard to the work that we're doing, which are basically the increase of reliability and reduced costs. Although we work with various City staffers, our contract is through the City Attorney's Office. I checked it out with the City Attorney's Office who thought there was no problem. We came to the conclusion that there was no

problem and that our expertise and intimate knowledge of the City's issues would be very useful to LAFCo.

Commissioner Hall asked, do you have existing contracts with the City now?

Mr. Flynn stated yes, I do.

Commissioner Hall asked, how many different contracts have you got going at present?

Mr. Flynn stated one contract.

Commissioner Schmeltzer asked, could you then just say what the contract is for?

Mr. Flynn stated it's to work on areas where I am assigned tasks by the City Attorney's Office. As I go through this next couple of minutes telling you the work I've done for the City, you'll know specifically what we had been doing. This has been a multi-year effort. They are all not spelled out in the contract. What I've tried to do, and you can well imagine there may be twenty-five issues or more that we've been involved in so I am going to try to talk about the ones that I think are most critical to your efforts here at LAFCo.

As Doug explained, we are now currently representing a group of municipal entities that are worried about locational marginal pricing issues. That's a current thing that is going on. Doug went to some meetings yesterday that are very important. Our experience in that area goes back a number of years. As to when the ISO was first formed as part of the initial architecture of the ISO, they proposed various zones, and there would be pricing based on each zone. They had a zone for the Bay Area, one for the Peninsula, and one for San Francisco. The prices would be set based on the marginal bid in each of those zones. At the time it went before the ISO, it was reduced to four zones. A couple of those zones were Humboldt and San Francisco. We were successful in working first with the Trustees Advisory Committee of the ISO and then with some FERC proceedings to essentially change the San Francisco zone from an active zone into an inactive zone. I know these are probably new terms. Basically, by making it into an inactive zone, we became sensitive to the same price that all of Northern California sees, rather than the one that was specific for the City.

I have represented the City in a number of stakeholder processes with regard to transmission. I would say that transmission has been one of the key focuses of our efforts for the City. One of those was the long-term study group to develop a long-term plan to serve the City that went on for a year and a half. It ended up supporting PG&E's submitting or doing the permitting work to submit an application on the construction of a Jefferson Martin 230 KB line that would be a major increase to transmission in the City and a major increase in the reliability of the supply. PG&E

intends to file with the PUC a Certificate of Public Convenience and Necessity later this year in September looking for an operation date in 2005.

Commissioner Schmeltzer asked, that's the Jefferson Martin transmission line?

Mr. Flynn stated right, that's the Jefferson Martin transmission line. That was a specific stakeholder group focused on the long-term transmission needs in San Francisco. There is also an annual process that PG&E goes through to try to determine what transmission is needed for their system as a whole. I have been participating in that process since it was started about three years ago representing the City's interests to get additional transmission built into the City and also into the Bay Area of which the City is a part.

Right now, Flynn and Associates is representing the cities of Palo Alto and San Francisco in some discussions with regard to advancing a 2800 megawatt transmission addition into the Bay Area. This is something that PG&E in their long-term plans has recognized a need for. Load has dropped off. They are thinking it wouldn't be needed right away. At the CPUC's direction, PG&E is having discussions studying the economics of advancing that so that it would be constructed before it would normally be needed for reliability. Basically, what are the economics of building it quicker and what kind of savings would result?

I've been a member of the Planning Standards Subcommittee that develops the standards under which the transmission owners like PG&E test the performance of their transmission system. One of the standards that was created during that time period was the standard to depart from just looking at one generator out in one line out and saying you have to serve load under that situation to a separate standard for the Bay Area where they look at simultaneously having four generators out. That has resulted in an acceleration of transmission in the Bay Area.

We also assisted the City in a stakeholder process to determine the methodology of access fees or transmission costs in terms of recovering the embedded costs of that transmission. That has gone through many phases. The City proposed a methodology that would break the state up into areas and have a common access fee for each of those areas. The ISO ended up proposing to FERC something similar that called them tack areas, and the current proposal will transition into a statewide access fee over ten years.

You are probably familiar with the fact that on December 8, 1998, the City had a major outage. The whole City went down. Some people were out for as long as eight hours. The CPUC started an investigation in terms of reliability of supply to San Francisco. We had been assisting the City Attorney's Office in representing the City's interests as part of that proceeding. The proceedings had gone through everything from maintenance practices to protection system issues to design issues with regard to the adequacy of the transmission system. I believe it has resulted in PG&E proposing some changes in the way they do things. Specifically, have

proposed a method of restoring load to the distribution system even if the total transmission system has not been brought back into service that I believe will decrease restoration time, make it quicker to bring the load back. They've also proposed what is called a remedial action scheme or a special protection system that basically will reduce the scope of outages if something happens above the normal planning practices.

Mr. Flynn stated the only other area I was going to bring out at this point in time is we have provided some assistance with regard to issues in terms of the current contract that San Francisco has with PG&E to deliver power from the hydro projects to the municipal load. Specifically, helped interpret that contract in the best way we could to try to make it operate under an environment of the ISO control of the transmission system that was never envisioned when the contract was negotiated. That about covers what I thought was the most important things that we have worked on that would be applicable to cost and reliability of service to the City that we think is part of the overall issue that you people are having to deal with. I would just reiterate to what Mr. Boccignone said and we told the panel is we could perform a critical service in some of the areas. We would not want to propose to do the whole study. Thank you very much.

Chair Gonzalez stated Mr. Flynn, the advice that you have given related to the municipal load, that was with the Turlock Modesto contract?

Mr. Flynn stated I was referring to the PG&E agreement, the transportation of the power from the hydroelectric project to Turlock and to Modesto and then onto the City to serve municipal load.

Chair Gonzalez stated I understand, we are talking about the same thing. That was advice you had given to our City Attorney then?

Mr. Flynn stated yes.

Commissioner Schmeltzer asked Mr. Flynn, you had said that you believe that your firm would be able to address parts of the study, but not the whole thing?

Mr. Flynn stated yes.

Commissioner Schmeltzer stated what we just discussed here was laying out the steps that would need to be taken for in a number of areas including generation, distribution, energy efficiency and demand reduction programs and transmission. So for each of those areas, which areas are you saying that your firm would be able to provide services to the City?

Mr. Flynn stated I would envision a team of consultants that could possibly add things in various areas. I would see our focus as being transmission and energy supply. Those two are intimately tied together. Because if you don't produce the

energy locally, you buy it someplace else, you have to get it to the City. I would say energy supply and transmission would be the areas we would propose to focus on.

Donald Maynor, Esquire asked would Mr. Flynn's firm also have expertise in distributed generation?

Mr. Flynn stated yes, we have done some distributed generation studies. I would say the closest thing in terms of real experience was during the time I was director of Electrical Utility for the city of Santa Clara, we signed a steam sales agreement and installed three megawatt gas turbines to produce the first city owned electricity and sold steam to California Paper Company over a multi-year period. I would call that distributed generation.

Commissioner Fellman asked do you have any experience with municipal utility structures? I believe both of you have worked for municipal utilities?

Mr. Flynn stated yes, I was the director of Electric Utilities for the city of Santa Clara for ten years. During that time period many joint action agencies were formed like the MSR, NCPA, CCPA. Doug headed up the Resource Planning Department for the city of Palo Alto. So we both have been intimately tied in with the municipal community both from the standpoint of employees or executives with those entities. The majority of the work for fifteen years, I have been a consultant. I have also been with municipal utilities for the last six of those years where San Francisco has been a major client of ours.

Commissioner Fellman asked would you be prepared to assist the LAFCo in the process of analyzing the possible structures that could take place with regard to public power agency formation in the City and County of San Francisco? Would that be another area?

Mr. Flynn stated absolutely. That certainly wasn't the focus of the six years of work we've been doing with the City. That's been the City's relationship between the hydroelectric capacity and its City load. In terms of formation of a district. Basically, those ten years as director of a utility, it was for a chartered city where we supplied all the distribution needs within that city. The particular form of a government that I was part of was a City Council, City Manager form of government. But to the joint action agencies, I've seen various forms where the City Council has a Utility Commission. There was a Utility Commission in Palo Alto where Doug worked. I would propose that we could provide some real experience in terms of sharing our thoughts on what worked best in certain situations. I don't think there's one way to do it. We have seen how it's worked very well for some cities, certain kinds of structures. A lot of what you are dealing with when you are talking about structures in terms of what your alternatives are, are more legal than technical. So far, I would say a large part of it will come from Don Maynor or other kind of legal assistance. In terms of real world working experience, what we're able to accomplish with a

chartered city and what potential restraints we had, I think we could be very helpful in sharing those with the Commission.

Chair McGoldrick asked Mr. Flynn, how familiar are you with the PG&E bankruptcy case?

Mr. Flynn stated that has not been an area where we have spent a lot of time on. I'm maybe more familiar than you are. I don't know how much reading you've done, but that is not an area where we've been hired to participate directly.

Chair McGoldrick asked my other question was how familiar are you with the California Public Utilities Commission's policy regarding power purchases?

Mr. Flynn stated pretty familiar with that, and Doug is more familiar with regard to the proceeding and what's proposed for the future in terms of having the what's called the local serving entities. We always have these acronyms, like PG&E to go out and buy long term for the needs for their customers.

Mr. Boccignone stated clearly a key issue in California is how load serving entities meet their obligation to serve load. CPUC has been undertaking this process on the procurement side, and right now there is a big battle between the system operator, who wants to have what they call an available capacity obligation on all load serving entities and the PUC who wants to maintain state control. It's not clear exactly how that is going to turn out. I think the one thing that is clear is that municipal utilities in the past and in the future have maintained and met their obligation to serve by putting in capacity that's needed. The issue is if a MUNI is going to meet its obligation, but the majority of the load is served by a private utility and they don't meet their obligation, then we've got a big problem.

Vice-Chair McGoldrick asked how do you understand the idea around the whole concept of aggregation?

Mr. Boccignone asked for retail aggregation on the retail side? Big history behind this.

Commissioner Fellman stated I think our emphasis is not just the retail customer but on community aggregation.

Mr. Boccignone stated I think clearly, community aggregation is an interesting option to be pursued because it doesn't involve as many issues as acquisition of the distribution system, condemnation, and those types of issues. Clearly, an important factor that will affect the ability and the profitability of such an activity will be the retail rates that govern that. I think right now it's not completely clear the direction that that's going. It is going to take a lot of political pressure to get that shaped in a way that makes it feasible for communities to do community aggregation.

Chair Gonzalez asked Mr. Maynor, any other questions that we should ask?

Donald Maynor, Esquire stated I think the only question is your availability to expend some of your resources in the next ninety days. I think you have already commented on the fact that you are open to the idea of participating on a shared basis in this study. So availability of resources in the next ninety days?

Mr. Flynn stated we certainly are available to contribute to this effort and of course, even if you wanted to, we wouldn't have enough time to put aside to do the whole study. If we were part of a team, we would not make a commitment to do more or to do a share as part of that team that we could not perform to meet your time schedule.

Chair Gonzalez asked Mr. Maynor, do you think we should be inquiring specifically about a consultant's previous participation in expert testimony around condemnation or anything like that?

Donald Maynor, Esquire stated that would be a second phase that would come out of this study. If you formed a utility and wanted to pursue some of those things, that would be a separate complicated feasibility study. Although I might add, some of the consultants have more expertise in an area that would be helpful in describing the process in the key issues. Again, getting some of the detail of what the process entails would be helpful.

Henwood Energy Services. Good afternoon. My name is Bill Pezalla. I am a project manager with Henwood Energy Services. I know that we're pressed for time, so I will try to make the first couple of slides short. Henwood is a firm of about 200 consultants and other technical support people. We have offices all across the world in Australia, England, Atlanta, and our headquarters is here in Sacramento where about 150 of our employees are. We do a lot of work in the wholesale power markets, and you can see on our graphic here, different markets where we've analyzed all of the generation, transmission and other systems related to wholesale power supplies for areas all around the world. We do forecasts for wholesale energy prices for those areas. We do a lot of work in analyzing power markets and assessment of energy markets and their rules.

The initial tasks for Phase 1 of this project are to evaluate the risks, the benefits, and the feasibility of looking into becoming a utility. Electric utility operations have traditionally been vertically integrated. Start out with fuel procurement, generation, transmission, distribution and retail services. These can be looked at in a different way, such as power supply procurement and management and power supply issues of course are very big right now and management of those costs. Tied in with that is load forecasting and supply scheduling. Between these two are some of the major risk issues facing California. Additionally, elements of energy service require delivery facilities, revenue cycle services and settlements, customer services, and regulatory requirements.

Now the City's issues are basically tied in with managing the energy costs invariability and volatility of the wholesale markets. The reason that the City would be interested in looking at these would be for current residents and for future growth and development here in the City. Lowering energy costs to maintain services within budget for the City itself is certainly viable. Creating self-sustained operations is certainly something you would want to look at from an economic standpoint. There is also the issue of the City's interest in local control.

Now, once that we have looked at the different issues related to what the City's interests are, we'd be able to look at the strategy. There is no one size fits all approach for doing this. Every City that you could look at in California has some different model, different method that is chosen. Those who have started new utilities, like Merced Irrigation District, who we helped put into business a few years back started with one large customer and grew from there. This City would be looking at something completely different with loads already established. The strategy selection process would certainly involve selecting the City's key drivers. Trying to determine what the issues are for the City, trying to balance the economics, social and political factors that deal with all of the issues related to energy delivery and power procurement, and identifying the possible roles for the City. The City might want to do something different or not do all of the different parts of the value chain. Then being able to evaluate the different opportunities that are available.

We will now take a minute to look in depth at some of the key drivers in the political factors for the City. What would be the City's long-term and short-term objectives for this program? Is this something just to get the City through the crisis that we've been under in the electric utility industry for the past year? Or is this a long-term viable project? What are the expected benefits from that? Certainly, what are the City's risk tolerances? If the City decides to get involved in wholesale power markets, there is going to be some risk involved, same type of risk that faced PG&E and Enron and everyone else. What are the City's available resources for this? What things does the City have now and does the City control that can be used to leverage going in to the power market? What are the constituents' requirements and how much support does a move into the wholesale power market or electric utility have from the City constituents and the folks who live here? And the level of commitment.

As we look at these, we look at the possible City roles. The City could be a provider of specific parts of the value chain. It could be the commodity portion with fuel procurement and generation. It could be the delivery systems which PG&E is owning and operating right now. It could be in customer services. Of course, the City could look at facilitating actions by others such as in reduced risk through other types of plans such as figuring out how to help in right-of-way, planning, energy conservation, and load management. Depending on these drivers and strategies, the City could decide on certain sample investigations. A few of these could be

looked at through a study like this and would include strategic alliance opportunities with other entities, economic or green power, such as the study that we helped Oakland perform over a year ago. The legal and political threats in distributed generation could help enhance power supplies. I will go ahead and turn it over to my associate Adrian Chiosea, so he could speak about some of the projects we've done around the San Francisco and the California area.

Good afternoon, my name is Adrian Chiosea. I'm a project manager with Henwood Energy Services. I'm here to give you a quick tour of some representative projects we've performed for various entities that qualify us to do this project. I would start with Merced Irrigation District. Bill already alluded to this--we've been the consultants that helped put them into the electricity business. We are the consultant chosen to do strategic planning for the Merced Irrigation District and actually, we came up with a detailed plan that would help them get into the electricity business from the beginning.

Commissioner Schmeltzer asked when was that?

Mr. Chiosea stated that was in 1995. We basically helped them construct a plan to use as little resources as possible at the beginning in order to get into the electricity business based on the fact that they had some resources available, and they could provide a lot of benefits to their customers locally. So, we helped them negotiate contracts with local utilities such as PG&E and also with Turlock and Modesto Irrigation Districts on an operation and maintenance program that wouldn't oblige them to increase their infrastructure immediately and was a gradual process. Turlock actually took over the operation and maintenance of the system on behalf of the Merced Irrigation District. So, they don't have to go into a hiring spree just to increase their personnel to serve all those new business needs. Also, we helped them write RFQs for power and helped them define interconnection agreements with the utilities that will help them interconnect with all the other parties in the region. Certainly, we support them with the regulatory and legal proceedings.

Commissioner Fellman asked under what authority was the Merced Irrigation District established? Was there an existing state law that allowed that area to become an irrigation district?

Mr. Chiosea stated I think it was AB 2638 that allowed them to get into the electricity business.

Commissioner Fellman asked how big is their service territory now? You said they started with one customer. How much have they grown in the last five years?

Mr. Chiosea stated I think they are serving about 70 megawatts of load and they are still increasing. We have still been in contact with them, and I know they started hiring the first people that would grow their department and load.

Our second project I would like to talk to you about is Presidio Trust. We're the consultant chosen by the Presidio Trust to perform strategic utility business planning. As part of our assignment with the Trust, we developed energy strategic plans for them. For example, performing complex financial analysis that will allow them to determine utility rates that they could charge tenants at the Presidio. It's like a micro-universe there at the Presidio. They look unto us to advise them based on their major strategic goals they have of being self-supporting and at the same time, being very competitive to provide those utilities.

Also, as part of that process of performing all of those analyses, we develop utility load forecasts for them that will project the kind of growth they should expect. In that regard, we work closely with their Planning Department to see what their strategic goals are and what kind of growth they should expect at the Presidio. We assist them with the commodity procurement process such as natural gas and looking at the alternatives they have other than PG&E, from whom they presently purchase power. Also, we have an assignment for utility easements at the Presidio grounds and on the Golden Gate Bridge.

Commissioner Schmeltzer asked is the Presidio Trust contract still underway or has it been completed?

Mr. Chiosea stated we are in the second year contract with Presidio Trust, and it is like a five year consulting assignment with annual renewal.

Commissioner Schmeltzer asked and the Presidio currently gets their power from PG&E?

Mr. Chiosea stated yes. Next assignment I would like to talk to you about is Hetch Hetchy Water and Power. We've done a lot of work for Hetch Hetchy Water and Power. The first assignment I would like to talk to you about is Treasure Island. Treasure Island was transferred, as you probably know from the Navy to the city of San Francisco. We've been the consultant to help them negotiate all the contracts for the transfer between the Navy and the City including Treasure Island and Yerba Buena.

Second assignment would be with Hetch Hetchy that was the Port of San Francisco, where Hetch Hetchy was looking into taking over the Port loads from PG&E. We helped them manage, construct, and configure the interconnection configurations such that they could serve all those Port loads. Hunter's Point is another assignment with Hetch Hetchy in which we again look at the present condition of Hunter's Point, all the environmental remedial actions that were needed there, and did a lot of utility studies for constructing an infrastructure backbone system so that Hunter's Point can be redeveloped. Also the San Francisco International Airport, where we assisted in Hetch Hetchy for coordinating construction of a substation together with PG&E and taking transmission power from lines coming into San Francisco and serving additional loads at the San Francisco Airport.

The last assignment I would like to talk to you about is Oakland Base Reuse Authority. We're the current consultant helping Oakland Base Reuse Authority (OBRA) manage the Oakland Army Base. We're the program utility manager for OBRA. We started early with OBRA by defining the strategic options they have in the transfer of the base from the Army to the City of Oakland. We perform a lot of financial analyses again for determining the kind of freight and the kind of measures they have to take in order to comply with their two major goals, being self-sustaining and at the same time being competitive with the local utility providers. Also, we helped them procure commodity from WAPA, from East Bay MUD, and certainly from PG&E for natural gas. Also, we helped them in negotiating a contract. They have a partnership with the Port of Oakland in which they operate a base jointly so that they will lay out a road map for the future involvement of the base as a joint corporation between two City agencies.

Commissioner Schmeltzer asked is this contract and the Hetch Hetchy contract both ongoing?

Mr. Chiosea stated no, we finished with Hetch Hetchy about two years ago while the OBRA is an active contract. We're the utilities program manager for Oakland Base Reuse Authority.

Commissioner Schmeltzer asked, are there any current contracts that you have that might provide a conflict with the work that you would be proposing to do here?

Mr. Chiosea stated no, I am not aware of any conflicts.

Commissioner Fellman asked do you have any contracts with PG&E?

Mr. Chiosea stated I think we were previously asked this question. We looked into it and no, we have no conflicts of that nature.

Commissioner Schmeltzer asked, it looks like from your proposal that the two of you would be directing or conducting the bulk of the work that you would be proposing to do. Is that correct and your availability over the next two months?

Mr. Chiosea stated one of us would probably be the project manager of the assignment. But we have so many resources that we could bring into this assignment, senior people that worked for PG&E and for public utilities.. We have a wealth of knowledge and management in our company.

Donald Maynor, Esquire asked, does your firm have any difficulty with the idea of doing this on a team basis where we might parcel out different assignments to different consultants?

Mr. Chiose stated we haven't thought about that. It's the first time we heard this idea, but I would say we wouldn't have any conflicts. We would be willing to be part of a team.

Commissioner Schmeltzer stated thank you.

R. W. Beck. Good afternoon and thank you for this opportunity. I would like to introduce Ken Mellor who is a principal with R. W. Beck and would be co-project manager on this project. I'm Mike Bell and I'm the manager of our California operations and would also be co-project manager on this project. Ken and I have found in projects similar to this, a good approach has been to have the two most senior people with experience in this area in the firm. Our availability to quickly respond to questions or issues that may arise is enhanced by having both of us involved in the process. We'll trade off here and try and work through this together.

Briefly, the history of our firm. We've been in business for sixty years, have 500 employees spread across the country and are recognized as experts particularly in the municipal electric utility arena. This next chart shows representation of capabilities that the firm has. You'll see that it ranges from generation, transmission, distribution, distributed generation, renewable resources and on. We have a very wide breadth. Our firm was built within the electric power business and that is our core business.

I would like to spend a few moments on this particular slide. In the interest of time, I will try to be fast. What we would envision as Phase I would include public hearing support in terms of your ongoing public process. Very importantly, the risk benefit analysis, and I'll speak to this in a little greater detail later. Our quantitative skills we believe are excellent and proven. I will give you some examples of that as we move forward. Most importantly, strategic options development. This process could lead in many different directions ultimately. We feel that our expertise in terms of structuring a solution that meets your needs and will be most responsive to the community's desires is a strong point of ours.

With regard to the economic analysis and the quantification of alternatives, what I'm offering you here is an example of what we did for the East Bay Municipal Utility District. In that case, we looked at a wide range of options. As was pointed out earlier, there are many issues that are still up in the air and haven't been decided. You cannot accurately quantify where an organization may be a year from now or five years or ten years from now given the uncertainty that is out there. What we tried to do with East Bay MUD was identify the key variables and then work through a range of options so we could at least place some dollars on where those options occurred as well as a range of possibilities as to how likely it is that you are going to see a tremendous upside or a downside. What this graph represents is basically a number of different financial runs that we constructed based upon the possible acquisition cost of the facilities in the East Bay area, a possible range of options for non by-passable charges that are being considered by the state and also a range in

terms of power supply acquisition costs. As you can see in that case across the full breadth of possibilities, it looks like there are more opportunities to save money than to lose money. But their numbers are also quite large on each extreme.

Mr. Mellor stated I would also note on this that this is only one of the options that we looked at. We looked at other options of forms of municipal service provision including assisting through a direct access process, looking at facilitating renewable resources. This was just one option, but we've looked at a whole series of options.

Mr. Bell stated Phase II, which I believe Mr. Maynor described as a more detailed analysis we would envision would be started only if the LAFCo finds that it is worth pursuing any option further. That particular phase would be very much customized towards the City's needs. I will describe the individuals that we have available should you get to that point, but that's quite premature at this point in time. I am going to skip through a couple of slides here in the interest of your time.

Key personnel—both Ken and I would be devoted to the co-project management of this particular project. We have identified several areas that we see as being key in terms of personnel that we would devote towards this. One would be quality control. We would propose having a national director involved who has also been involved in large scale municipalization efforts across the United States. Another issue would be severance and transmission. We have individuals there that focus on transmission load flows and studies as well as costs of acquisition. Valuation, particularly if it were to go to Phase II would be very important. We have one of the few certified utility system appraisers in the United States on staff. Municipal operations in terms of how you would structure an organization, what would it look like, what type of expertise would you need to have run that organization? We have people available to evaluate that. Power market, which is extremely important because it is such a large component of the cost of power is an area where we have excellent expertise. Finally, financial and economic analysis. I believe, in the last slide, we offered an example of the types of expertise we have there.

I would like to speak for a few minutes about our related experience and actually at this point, why don't I ask Ken to go through this slide and give you some examples of other work we have performed.

Mr. Mellor stated we have also mentioned a couple of times the East Bay Municipal Utilities District study. That is still underway. We have reached a stage now that is more the public outreach stage. As I mentioned, we looked at several scenarios, different business plans where the City could take advantage of its resources. They have hydro generation just as the City of San Francisco does. They also have some co-generation at their waste water treatment plant. So we looked at options. How could they optimize their energy use so that they got into operations analysis, and then how could they best apply the resources that they own to those operations and get the best final bang for their utility dollar?

The Port of Oakland is another ongoing project. In that case we have looked at their operations, their energy purchases, what they should do as far as future expansion. That covers the Airport, the Port, and what they call their commercial real estate area which includes Jack London Square. That project is just about at completion. In fact, we submitted the final report yesterday that will be distributed today, and then we will go again to the public process part of it.

The third is the city of Fremont. The city of Fremont is not in the public power business. They wanted to know what energy policy they should have. They were particularly concerned about rolling blackouts. They were concerned about how they could advance the ideas of conservation and demand site management in the city of Fremont. What could they do with their very large industrial customers to make sure that they were not out during rolling blackouts. We came up with proposals. We worked with a public task force including their large industrial customers to come up with an energy policy for the city of Fremont.

Lastly shown there is the city of Long Beach. Long Beach had the opportunity through a termination of their franchise to acquire the electric distribution system from the Southern California Edison Company. We did the analysis as to what the economics of that would be and then worked through the process and finally ended up assisting the city of Long Beach and negotiating future arrangements with Southern California Edison.

Just other municipalization projects we have worked on recently in California--city of Fresno, Delano, West Hollywood, Chino, Culver City, Alturas, Pasadena, Redding. We've done work for all of those on these issues in the recent past. City of Los Altos Hills, I think that is still ongoing.

Commissioner Schmeltzer asked when you say these issues, some of these are cities with municipal districts and some of them are not?

Mr. Mellor stated actually, the only two cities that are currently in the municipal business are Pasadena and Redding. Pasadena, they were looking at contracting their customer service aspects and actually a portion of their distribution system activities. We looked at contracting out as an opportunity to save money for the city of Pasadena. We also worked on some of those issues in the city of Redding.

Commissioner Schmeltzer asked for the other cities that don't have districts, what types of issues were you working on?

Mr. Mellor stated in the City of Fresno, I started out as a prospect of looking at utility operations. It ended up with a project that is still underway looking at co-generation, working with the city, state, federal government and county and a very large public hospital combining a co-generation facility to provide steam and electricity to those areas out of the co-generation project. In Delano, they were looking at spot municipalization which is as a new area develops like a residential subdivision or a

large industrial tract. That part being taken over by the City and operated as a City municipality acquiring power supply and just owning those little spots around the City as they develop. In West Hollywood, it was a municipalization study. We worked with the City Council and very quickly learned the City Council wasn't very interested in doing it. It stopped right there. In the city of Chino we've been working again on new generation power development and spot municipalization studies. Culver City was a full municipalization study effort. That did not proceed and we've already talked about Pasadena and Redding. Mike, you might want to talk about Los Altos Hills. You are the general manager of that project.

Mr. Bell stated that's something of a unique project. The city of Los Altos Hills was interested in improving their system via under-grounding. They were not successful in getting either PG&E or Pac Bell to underground much of that system since it is largely residential and not very large. They have embarked upon a path to construct an underground system that would serve both the electrical needs and the telecommunication needs within the City. This is not a comprehensive list. These are just examples.

Commissioner Schmeltzer stated we don't need to go through it in detail.

Mr. Mellor stated I might mention Los Angeles Department of Water and Power, which is also currently a publicly owned utility. They were very interested in looking at different management and organizational structures. What we did with them is worked on different kinds of municipal ownership and governance to see whether there was a better way than they currently had.

Mr. Bell stated we believe that we are quite familiar with the issues here in the Bay Area with loads and resources. We are familiar with Hetch Hetchy and that project as well as the contracts associated there. We've looked at the PUC plan that was delivered to you a few weeks ago by Ed Smeloff and are familiar with that particular plan. We followed quite closely the 2001 ballot measure and that process. By virtue of the work that we have performed here in the Bay Area, we are also quite familiar with options that are available and with the system itself here in the Bay, most notably the transmission constraints and the potential for market power abuses via generation here in the Peninsula.

What I would like to close with is why we feel we are the best firm to perform this particular work. We feel we have got the best qualifications and experience, particularly locally. We know what to expect and have done successful work here. Our analytic capabilities again we believe are excellent and will suit you well particularly in terms of quantifying risk and reward and making decisions as to where's an appropriate place to go and not to go. Again, familiarity with the Bay Area dynamics. Most important are our reputation for objective independent analysis. Oftentimes, particularly with regard to municipalization, we are advising clients of where they run the most risk and what they ought not to do as opposed to what they ought to do. So oftentimes, we will play a devil's advocate and most

clearly point out what can be done and what can't be done objectively. You have got the corporate commitment of this firm. We've done a lot of that work. As I say, I run the practice here in California so we will make certain that you get whatever resources you need to accomplish your objective. With that, we are ready to start work.

To address some of the earlier questions particularly with regard to working with other firms. We do believe that we have all the skills to do this work ourselves. However, should the LAFCo desire to have other participants in the project, we would have no objection to that. We know everybody that you have assembled here in the room quite well, and I can honestly say that you got a good group of respondents. That would not present a problem with us. We would also commit to having a draft back to you in June and meet whatever time deadlines that you might have.

Vice-Chair McGoldrick asked would you anticipate needing much staff time from our City and County employees here, our LAFCo staff, that begins and ends with our Executive Director, Ms. Young?

Mr. Bell stated some time would be necessary. That would depend upon the ultimate scope. We also find oftentimes assistance with data collection. When we're looking for information, it helps to have staff members that are available to perform that function. Also, with regard to the legal side of the questions, if Mr. Maynor or other attorneys would be available that would be helpful.

Vice-Chair McGoldrick stated I didn't mean to exclude Mr. Maynor or Ms. Miller. I think of them as not City employees yet, but rather as staff that are helping with special expertise.

Mr. Mellor stated we find it valuable at the outset of a project like this to meet with the policy makers, interview those policy makers, find out what their objectives are so that we are working in concert with those objectives. We typically have what we call a straw-man process which allows us to see where there is consensus among those we have interviewed, where there is disagreement, and to be able to put back to the policymakers what the range of views are. That often helps us get a very good start in the direction of the project.

Vice-Chair McGoldrick asked have you had any work that you have done that your clients have not been necessarily satisfied with what you have produced?

Mr. Mellor stated we find our clients are usually very satisfied. I can't think of one that is not.

Mr. Bell stated we also do a lot of repeat work. We look to develop long-term relationships and deliver on our projects.

Vice-Chair McGoldrick asked would you say that there is any weakness that your company has?

Mr. Bell stated I don't believe so in this particular area. We've done a lot of this work in many different jurisdictions particularly here in California, and we believe we are well suited to do this work.

Vice-Chair McGoldrick asked in the area of energy efficiency and conservation, do you have a sort of thumbnail sketch or description of where you've been with that?

Mr. Bell stated we've got resources in Sacramento that have been involved in green power projects all across the state. We've got the expertise in renewable resources in that particular field.

Mr. Mellor stated I would also add another California project recently completed was for the Imperial Irrigation District, where we put out proposals for all of their conservation demand site management research and development and renewable resource programs and then evaluated those and helped them award the bids. We are very familiar with that side of the business.

Commissioner Schmeltzer asked do you have any current contracts that would potentially pose a conflict with the work proposed here?

Mr. Mellor stated the only contract that I would mention is that we are currently working for the Public Utilities Commission on the independent evaluation of their CIP.

Mr. Bell stated that shouldn't present a conflict. We are presently engaged with the Public Utilities Commission.

Commissioner Schmeltzer stated thank you for that information.

EES Consulting. Good afternoon. My name is Alex Miller. I am managing director with EES Consulting, and this is Gail Tabone, Vice President with EES Consulting.

Gail Tabone stated a lot has been said by all the other different consultants today so I think we will try and keep things short. We don't want to repeat what everybody else has said. I would start off by telling us a little bit about our firm. We are a firm of about forty professionals primarily focused on engineering and economics. We're not a 200 or 300 person firm unlike some of the other ones. We are very specialized, very much a boutique consulting firm. We have about seven principals in the company. Two of us are here who are managing the work, managing the offices on a day to day basis and would be heavily involved in this project. We would probably bring in at least one other principal to work on this. We also have expertise in accounting and finance. We do some operational planning, expert testimony, regulatory work, all those things. One of our key focuses, especially in

the last two years, has been municipalization and looking at different options for cities that are not already utilities.

As a small firm, we primarily work for public utilities. We mostly work for electric utilities, but we also work for water and natural gas utilities. We work for a lot of the cities and municipal agencies in California, as well as the rest of the west coast and from time to time other parts of the country. We generally do not work for the investor-owned utilities. We do not work for PG&E, Southern California Edison, STG&E, people like that. That's just not our area. Some of our recent experience is very relevant to this because we are looking at the same issues for several different clients right now, and they are listed here. Coachilla Valley Association of Governments or CVAG is a group of cities in the Coachilla Valley, Palm Springs and some of those people who are looking at their options right now. They are served by Southern Cal Edison. We are just completing Phase II of that project and are at this point on hold waiting further instructions if they are going ahead or not. In their case, we have looked at a lot of different options from them, different organizational structures that would work, whether they should do aggregation, whether they want to do condemnation, what all of their different alternatives are, just as you are.

Two smaller cities in Southern California, city of San Marcos and Cerritos we have been working with separately and together. Both of them had committed to buy into generation resource at this point, and we helped them with that analysis and evaluation. The city of San Marcos is also looking at some creative ideas for forming a new municipal utility apart from condemnation. Norcal Electric Authority is in the three northern counties in California, and they have formed a joint powers authority to purchase Pacificor's service territory within California. This is a consensual sale, but we have been the key consultant on that and have done all the work from the beginning, looking at the feasibility, and all the way through submitting it to the CPUC for approval, which is about to happen in the next month or so.

Finally, Truckee Meadows Water Authority is another recent client that we have had. They again, the city of Reno, Sparks and Washoe County formed a JPA to buy out Sierra Pacific's water utility in the state of Nevada. We helped them all the way through the process working with another large consulting firm. Again, that was a joint effort as was Norcal Electric Authority. We worked with a team of lawyers, financial advisors, public relations people. So, when these things happen, it generally is a team effort and we've been involved as both a lead consultant and also as a smaller contributor to the process. Alex will talk a little bit about the scope that we had planned for this type of project.

Mr. Miller stated as was shown earlier and as was shown in your RFP, the risks, benefits and feasibility of municipalization are the overall scope of Phase I. You know the current issues and we've gone through these high rates and started with the nuclear plants, continued with the qualifying facilities, went on with the stranded cost recovery and then moved on to the DWR contracts, which we would have to

deal with several years going forward. Reliability, obviously one of the biggest issues here. How to improve that is one of the reasons that this is ongoing.

A couple of other things that are really not really right in the scope of that needs to be looked at. One is AB 2266 which is known in the municipal community as the PG&E anti-municipalization bill. I do not know what's happened in the last few days, but that was originally focused on Municipal Utility Districts and preventing in essence their formation. Moving into electricity services is something that would need to be watched as it could be easily expanded to include other forms of municipalization. There is a current plan coming out of the Mayor's Office, which I'm sure you are well aware of. In terms of the risks, benefits and feasibility. I'm not going through an exhausted list, but here are a couple of thoughts.

This is a challenging process. If it gets down to municipalization, I think you were told early on that would be the fight of your lives. It's also risky in the sense that in municipalization, just compensation for the assets can be determined either by a court or by the California Public Utilities Commission. At any time something is left up to the court, there is some risk of what the outcome might be no matter how much homework you've done. Another risk and we've seen this in other areas as well is the thought that government is taking over a private sector duty and responsibility and that is not in a sense really the point. The point is that there is very professional management. Many of us have done a much better job through the electricity crisis on a municipal electric side than on an investor-owned utility side. One thought to consider here is that having somebody on board that is in fact experienced at that as sort of an interim general manager, we found has helped making its way through these processes.

On the benefits. One of the major benefits is that municipal utilities have a cost advantage right from the start. A cost advantage is able to finance with 100% debt no higher cost equity and not paying taxes. So municipal utilities begin with a cost advantage over investor-owned utilities. Another benefit is and it's been talked a lot about is local control. I will give you one more aspect to that. There is a public purpose charge that's charged to all customers and right now that is collected by the load serving entities, PG&E here. That is then split up amongst the state and how it is used is determined by the California Public Utilities Commissions. If you municipalize here in the City, those funds would come to you or direct application in the municipal utility service territory.

Feasibility, in addition to looking at the economics and the potential options and ways to go forward. If it becomes a municipalization fight, support and staying power is extremely important. Getting support of the local community, a very close vote last time. Having a positive vote would help. But other ways to make sure that there is a willingness to stay in the fight would be vitally important in getting something done. And then, keeping an eye on the legislation. AB 2266 popped up just recently. Now there's a community aggregation bill working its way through the legislation that has a chance to turn back in imminent domain proceedings the

rebuttable presumption of higher value use. There's lots of legislation also that needs to be watched and that could harm any of your ability to get something done here.

Lastly, we would need to sit down obviously, and everybody has said that, to develop a work plan. We don't work without having a very detailed understanding of what we would want to get accomplished in some sort of detailed scoping document. We have in the past worked with other firms and if there are going to be other firms, it becomes even more important to figure out specifically and exactly what we all want to do. We generally work very closely because these types of things generally iterate through time.

Ms. Tabone stated let me just wrap up with a few key points. This is one of our key areas of work that we are doing. This isn't just a small portion of our work. This is one of our primary focuses of our company right now. So, we're very much looking at these issues for various people on a day to day basis. We would have principals of the company involved. This wouldn't be delegated to analysts. It wouldn't be delegated to mid-level engineers. This would be the principals of the company working on this on a day to day basis giving direction to the more analytical staff. We can do a lot of the different pieces. Again, we are much smaller than some of the firms you have talked to. I think our key benefits would be looking at strategies and alternatives, doing some pre-feasibility, looking at the rough numbers. Let's not start off looking at a detailed study of every single item and what it may cost. Let's look at big picture items. Let's narrow it down to a couple of things and take on the next step. That's consistent with what we do for all of our clients.

We don't have any conflicts of interests. We don't work for the investor-owned utilities here. We do work for other municipal agencies whether they are existing utilities or cities that are looking at becoming utilities. But again, none of them would create a conflict. In fact there are a lot of synergies with that because we are looking at the same issues for multiple people. Because we're in the Pacific Northwest, we have much lower rates than those firms in California. We travel down here a lot. We spend a lot of time here, but, we don't pay salaries here and we don't own homes here. So, we can do things for a little bit less cost on a per-hour basis.

Vice-Chair McGoldrick asked have you been involved with any utility condemnation cases?

Ms. Tabone stated we have been. We have been looking at some that are starting. We've been involved in some where there have been more annexations as opposed to a complete condemnation. As you may know, there haven't been many of those in this country in the past ten to twenty years. We have been involved in some smaller ones and Gary Saleva, our president, has given expert testimony in condemnation for some cases in Oregon.

Vice-Chair McGoldrick asked as regards to fees. You would be coming down from the Pacific Northwest, how do you handle your travel time?

Ms. Tabone stated if we are working during our travel time, which we usually are, because we all spend a lot of time on airplanes we try to do as much work as we can. Of course, that is billable if we are doing work. If we are not doing work, going to and from the airport, the down time, we don't bill for that.

Vice-Chair McGoldrick asked would you be anticipating needing to request much support from our staff?

Ms. Tabone stated I think the other answer is very similar to what we would say. We would really need to understand what it is you are trying to achieve and the policy direction that you want before we would proceed. But on a data-wide basis, we think there are a lot of sources for data and probably would do most of that leg work ourselves.

Vice-Chair McGoldrick asked are you familiar with the PG&E bankruptcy situation?

Ms. Tabone stated we are not representing anybody in that case. Of course being in the utility industry, we are following it pretty closely.

Vice-Chair McGoldrick asked what your familiarity might be with the California Public Utilities Commission regarding their power purchases?

Ms. Tabone stated we have had to look at that same issue for CVAG, San Marcos, and Cerritos so we are familiar with it, but again we're not representing anybody in that case right now.

Chair Gonzalez asked could you tell me where your main office is located again?

Mr. Miller stated this would work out of my office in Portland.

Commissioner Fellman stated have you done any work for the City and County before or the San Francisco PUC with the Hetch Hetchy system?

Ms. Tabone stated no, we have not.

Chair Gonzalez asked and the Norcal Electric Authority is located where?

Ms. Tabone stated that is Siskiyou County, Del Norte County and Modoc County, the three northernmost counties in California.

Chair Gonzalez asked how long has EES been in existence, how many years?

Ms. Tabone stated twenty-three years. We have grown during that time. We started off as a small firm just in the Pacific Northwest, and we really expanded and work all up and down the West Coast on a routine basis now.

Commissioner Hall asked how long has each one of you been with EES?

Ms. Tabone stated I have been with the firm for fourteen years and one of the partners at this point.

Mr. Miller stated and I have been here less than a year, but I have been in the electric utility industry for more than twenty.

Ms. Tabone stated something to point out on Alex's experience is that he's been on the other side of the fence from some of these.

Mr. Miller stated I have worked for many years at Southern California Edison as Vice-President and Treasurer of the utility there, and I have worked for Pacific Corp in the Pacific Northwest doing a lot of property sales.

Chair Gonzalez asked if the Commissioners or Mr. Maynor had anything to add.

Mr. Maynor stated that he did not have any questions for the consultants.

Chair Gonzalez asked Mr. Maynor, what's your opinion of how we should proceed? My thinking is that we should allow the various Commissioners time to review any information related to the selection, and perhaps make that decision at our next meeting. I know that I personally would like to consult with my own staff related to their opinions of this.

Mr. Maynor stated if it's appropriate, I don't mind commenting on some thoughts of Gloria Young and Nancy Miller when we did the interviews. Is that alright with the Chair at this time?

Chair Gonzalez stated that would be fine.

Mr. Maynor stated we were impressed with strengths in particular areas. Mr. Flynn's firm obviously had the most intimate knowledge of San Francisco and was very strong on transmission. The Henwood firm didn't talk much about this, but they have impressive market simulation computer programs that might be useful in doing risk analysis. They also have a lot of experience in not just the municipal market, but the larger market. That was impressive. R. W. Beck, as you could tell has the ability to do the whole package if that was something that the group wanted, and they've been doing some work with similar studies. There's information there that would be readily available. EES also has experience doing similar studies. They are a smaller version of R. W. Beck and you get a bit of a Northwest flavor, and sometimes that could be helpful.

If I were picking a basketball team, I would want some of those folks on my team. I think I would like Flynn on my team on the transmission issues, and I would like to be able to use the Henwood analytical tools. I'm not sure I need both R. W. Beck and EES because I think there might be overlap. They both seem to have the general background to do much of it. I was just thinking about what your next steps might be. A couple of approaches. One might be to authorize the Executive Director to enter into contracts with three of the four, sit down and have a scoping study and get some cost estimates based upon what we worked out as a group as to what the project should like, who would do what, and what the estimated costs would be. Or, we could invite all four groups, if they would be willing to do that, sit down and have that same scoping study, hopefully very soon, and come back again with cost estimates to the extent that there was overlaps in areas where my firm can do that, and we get a sense what the costs might be. I like the idea of bringing in additional consultants in for several reasons. One, I think you broaden the scope of the different viewpoints. You have some peer review opportunities as well. Sometimes these kinds of studies can become political. You take away the ability to target the consultant as a problem because you have a little bit of a broader range.

Commissioner Schmeltzer stated my concern with having three or four consultants given our budget constraints, would be that we could use all of that time figuring out who's doing what rather than getting a study done. I think the opportunity for overlap and to lose time on that sort of sorting when you have that many different people involved would be very high.

Mr. Maynor stated that may be the case after you had your scoping meeting and you couldn't reach conclusions on it. On the other hand, we've learned a lot through the public hearing process in the last several months. But, these folks are in the business on a day to day basis. We're at a certain level of information. They are on a much more technical level. It would be useful to hear their thoughts on not only the process, but on some of these issues. When you'll get them in the room, you'll hear some different viewpoints, which I think is very helpful. I am optimistic that we can parcel it out in one session and get a clear idea where the study should go. If it can't happen, then you may be correct, that's a problem. I wouldn't anticipate spending days and many hours trying to figure out who is doing what and having overlap issues.

Chair Gonzalez stated I think that my own sense of this is that the ideal situation would be to have Mr. Maynor make a recommendation to us. I would also like our Executive Officer to make a recommendation to us. Between now and that next meeting, I think I would invite the members, if they have specific areas of inquiry that they want to flush out, to contact Mr. Maynor, and let him know what it is that they might be concerned about, and let's flush that out. I'm a little bit hesitant to get terribly far along in trying to make a selection today, or to make that decision as to whether or not the scoping study should be bringing in more than one consultant. My instinct has always been that that would be the preferable way of going about it,

but I also see the advantages of doing it differently. As you said at the outset, I think we have a number of consultants that are all very talented and can do quite a bit of work related to the kind of information that we want.

Commissioner Schmeltzer stated I think some of the San Francisco specific knowledge that some of the consultants have would be very valuable. I also think that there is a lot of valuable information or valuable experience in the room, and I could see the benefit of having more than one consultant. I would be concerned about having more than two. I think we would start to get into scoping problems in a process that we would need to move rather quickly along that we could very easily end up bogged down.

Chair Gonzalez stated I am proposing that we make a decision at a meeting sometime in the future, and we can decide when that meeting will be held. This idea of Flynn and Associates appears to have some knowledge of San Francisco that might make somebody favor them. That may be true. I certainly didn't hear anything in the presentation that so impressed me about that, that I would make a decision based on that. If that really rises to a level that it gives them an advantage over others, then I want to see more about what they have done for the City and County before I am willing to cast my vote in that particular way. That's not obviously something we have here today.

Commissioner Fellman stated I am concerned about our timing because we want to get a report done. We talked about a final product being delivered in June. We're already at April 19 today. Everyone was kind enough to come today and give us their oral presentations. We have their documents. What I would like to do is have us establish a process for reaching a decision plus indicating a date as to when that decision would be reached. I can appreciate that we've heard the presentations, and you might want people to look at it further. I like the idea of having a recommendation from Mr. Maynor and Ms. Young, but I think we should get a recommendation for one approach if it's two consultants or one consultant, but use the next couple of weeks to process that internally. I think we have a meeting scheduled, is it May 10th? I think we should develop a process today even if we can't reach a decision.

Chair Gonzalez stated I agree with you. I think my remarks about asking Mr. Maynor and Ms. Young to prepare their individual recommendations and what the scoping study in Mr. Maynor's opinion would look like could be done between now and that next day. We can pick a new date today if we want to. There's no problem with that. That just speaks to our availability. We can try to do this in the next ten days.

Mr. Maynor stated the other advantage might be to actually contact the consultants, share with them the Executive Summary, and get some feedback from them on what they feel they would be qualified doing and perhaps costing some of this out in the general sense. That might assist us in maybe reaching a conclusion that you don't need three or two or one or what that might be. This is kind of an iterative process

where we didn't know exactly what the study was going to look like. When we met with these consultants, we couldn't tell them exactly what the study was going to look like. So we got more information this afternoon. The next step that would be helpful would be to get a sense of what kind of unique information these people have. Maybe on further investigation, it may not be as unique as we thought. Or it may be something that is essential in making the study valuable. That might give us an opportunity to get more feedback than we already have.

Chair Gonzalez stated I want to hear from Commissioner McGoldrick and Commissioner Hall.

Vice-Chair McGoldrick stated I was just concerned about the timeline. I misspoke and said April 29th. That's actually a completion of contract negotiations target date that we had in our schedule of events, but we were not fixed on that necessarily. I was looking at the projected draft report due date as June 30 and trying to see if we can maybe speed things up a little bit. I think if we want to give whoever does this work the time, if we weren't to meet again until May 10th and enter into negotiations and spend a week or ten days on that, the next thing you know it's the end of May. I don't think we can feasibly expect a quality product. I think one of our possible outcomes for today's meeting was that we would in fact make our final selection today. I don't know whether or not Commissioners want to go back and reconsider that or consider meeting in another week, next Friday afternoon, or something like that. I can imagine we can be prepared by Friday.

Commissioner Schmeltzer asked do we have enough time to notice another meeting for next Friday? I don't think that we do.

Monica Fish, Commission Clerk stated that it would have to be noticed by Tuesday.

Vice-Chair McGoldrick stated it would have to be noticed 72 hours before the meeting.

Mr. Maynor stated the other factor that Ms. Young asked me to share with you is that she is not obviously able to begin negotiations until you reward the contract. Then she has to get a budget approval. So your point is well taken. I wouldn't go beyond next week.

Commissioner Hall asked could I ask you to repeat the process that you did a few minutes ago because that's an interesting approach?

Mr. Maynor stated the idea would be to informally meet with the consultants, get a sense of what the study would look like, and hear some of their input as well. To see what extent they are interested in doing parts of the project, all of the project or whatever, and ask that they come back with some preliminary budget estimates given our time constraints. Then we would be in a position to come back to you with a little more information on how you might want to go.

Commissioner Hall stated he liked that approach.

Mr. Maynor stated that assumes we would have the cooperation of the consultants.

Commissioner Hall stated that what Mr. Maynor just mentioned is narrowing the scope down and meeting with the consultants in coming back to us with their input and some kind of cost estimates, if I am correct on that?

Mr. Maynor stated that the other option would be to as soon as possible next week to informally discuss with the consultants what we sense the nature of the study is going to look like and have them tell us what parts they would feel comfortable doing and get a sense of their input on what they think a study should look like. Also, give us some general cost estimates prior to Friday assuming you want to meet next Friday.

Commissioner Hall stated I like the approach, but first of all I am not interested in having three. Two would be a push. I would like to have one do the whole thing if possible. That may be the better way to go is two, but have them look at it in its entirety and then tell us if they can't do it as they did today and what parts. I'm sure there are parts of this study that each one is more interested in than the other. I would like to have one do the whole thing, back up to two, but definitely not three.

Mr. Maynor stated part of the reason I want to talk to them is to find out how much is currently available. The advantage to perhaps having more than one or two or three is that one of them may have a lot of information on a particular issue that is sitting there, and you don't have to ask somebody to reinvent that wheel. I don't know to what extent that exists. That's why I would like to have an opportunity to find out. It may well be that you would be better off with one, or you might be better off with three.

Commissioner Hall stated that's fine. I like that approach.

Mr. Maynor stated the other possibility that was mentioned was the possibility of continuing this meeting until next Friday and then that might eliminate the notice process.

Ms. Fish, Commission Clerk stated the meeting can be recessed to a specific date and time.

Chair Gonzalez asked what is the problem with concluding the meeting and preparing a separate agenda for a different meeting?

Ms. Fish, Commission Clerk stated there would be no problem. We would just have to re-post and notice the meeting.

Chair Gonzalez stated when we have Committees at the Board of Supervisors, we could just as easily recess every meeting at the end and then continue it to some other date. The bigger question is whether or not we are available for next Friday.

Commissioners Schmeltzer and Fellman stated they were not available.

Vice-Chair McGoldrick stated if we were to discuss the possibility of making a decision today, it may help facilitate where we are going. We may have sufficient information today to be able to make a decision and move forward. I don't know if any other Commissioners would like to express their feelings on that.

Chair Gonzalez asked Vice-Chair McGoldrick if he were available next Friday.

Vice-Chair McGoldrick stated that he would have to run down to his office and check his schedule.

Chair Gonzalez stated why don't we recess the meeting for five minutes to find out who is available next Friday.

The meeting recessed at 4:15 p.m.

Chair Gonzalez called the meeting to order at 4:27 p.m.

Chair Gonzalez asked, Mr. Maynor, how much time would you need to be able to consult with the various consultants related to the scoping issue, and how much time would you need to feel comfortable making recommendations and presenting us different options about who we could select and what the configurations might look like?

Mr. Maynor stated I don't think it is so much of a problem with me. I can get in contact with the consultants and have a mini scoping session with them. Then it is really a function for them to get back and let me know what areas they feel they are capable of doing, can get done in the time period, and some approximate costs, recognizing this is a very general sense. I can have those conversations early next week. Then it's just a question of how soon they could back to me and then we would put together a presentation with a little bit more information for you.

Commissioner Schmeltzer asked then you would envision talking to them and having them get back to you after a period of time?

Mr. Maynor stated what I would do is give them the Executive Summary and maybe a matrix of issues, ask them some specific questions about what they feel is in their capabilities of doing in that timeframe, then to get back with some general time and cost estimates of what that would entail. This is not going to be the kind of scoping issue that would later take place after you negotiated with the contract, and I would mention that to the consultants. It is not a contract negotiation as much as it is to get

a better sense of what the project entails, what their capabilities are, and what their sense of what the costs would be, in ballpark areas.

Commissioner Schmeltzer asked you would envision contacting them on Monday or sooner than that?

Mr. Maynor stated I would begin the process on Monday to the extent they are available. I would not know how long it would take them to get back to me with the information, their estimates, but I would begin the process on Monday.

Commissioner Schmeltzer asked, could we get an idea from the consultants about their availability early next week to respond quickly to a request like that? Could we go in the order that you presented in, and what you think your turnaround might be on that?

Mr. Boccignone, Flynn and Associates asked how long is the Executive Summary you want us to review?

Mr. Maynor stated it is not very long. It is more to give you a sense of what the direction and scope are, that it's not going to be the kind of feasibility studies that some may envision.

Commissioner Schmeltzer stated it is about three pages.

Mr. Boccignone stated I think we could review that and respond in a day or two.

Commissioner Schmeltzer asked, Mr. Maynor, it's about three to five pages?

Mr. Maynor stated it is three pages.

Mr. Boccignone stated I think if we could have a conversation early next week, we could get back within a day or two after that.

Mr. Pezzala, Henwood stated we are prepared to limit our scope to just wholesale power markets and prices for that. We would be available immediately to give you that information because we run that all of the time. So, we would be able to respond to the questions within a day.

Mr. Bell, R. W. Beck stated if the information is available on Monday, we could take a look at it and get back to you within a day or so with estimates and an understanding. That should not present a problem.

Mr. Miller, EES Consulting stated we could get back within twenty-four hours and if Don could e-mail the information over the weekend, we could get started quickly.

Mr. Maynor stated I will do that. I will make sure before you leave that I have your e-mail addresses, so I can do that this evening actually.

Chair Gonzalez stated colleagues, there is some issue about whether or not we could meet on Friday and Commissioners Hall, Schmeltzer and Fellman were not available for that. Do you want to suggest another date?

Commissioner Ammiano suggested Wednesday morning, April 24, at 8:30 a.m. It seems to be a time that everyone is available.

Commissioner Hall asked would the procedure you explained to me just before we took a break, is that now being short-circuited by having us meet here Wednesday? It sounded to me like you needed a week or two. Now it sounds like you can get it done in a couple of days. Are we sacrificing something here? I am not prepared to move that quick on this. I like what you said before we went on break. If that took a week or two, I am not bothered by it.

Mr. Maynor stated let's see where the conversations go at the beginning of the week with the consultants. If it seems to me that more time would be needed, then I would get back to you.

Commissioner Hall stated if you feel comfortable that you are giving us the information that I need to make a decision by Wednesday, fine. If not, then I am going to vote to take more time.

Mr. Maynor concurred.

Commissioner Fellman asked, Mr. Maynor is part of your process going to be a recommendation from you and the Executive Director regarding a preferred approach or selection process with preferred candidates?

Mr. Maynor stated yes, if you would like that. The other option is to come back with the information that I have received.

Commissioner Hall stated I think we would be looking for some guidance there.

Chair Gonzalez asked, Ms. Fish, for a Wednesday meeting there wouldn't be enough time to publicly notice it, would there?

Ms. Fish, Commission Clerk stated 72 hours would be enough time.

Chair Gonzalez asked is there any possibility we can meet the following day?

Vice-Chair McGoldrick stated just to be clear we won't be recessing at the end of this item, we just won't take no action on this item. We do have some other agenda items to deal with today.

Chair Gonzalez asked for another possible date.

A discussion was held about the various meeting dates to select from.

Chair Gonzalez stated I appreciate Wednesday is a good date, but I think we should try to select another possibility in the event Mr. Maynor needs more time. The other option would be a week from Monday in the event we couldn't be prepared for Wednesday.

Commissioner Schmeltzer asked does that mean we have a Wednesday as long as Mr. Maynor can prepare. If not, we move it back to Monday?

Commissioner Ammiano stated that is what the suggestion is.

Commissioner Fellman stated I would just request that we know Tuesday by noon whether or not we're going to meet on Wednesday or Monday.

Chair Gonzalez stated Mr. Maynor, in the event that we can't make Wednesday, a quorum of the LAFCo will meet and simply adjourn the meeting and reschedule the meeting for the following Monday if that is going to be the time. We are going to go on to other business. To the consultants that came today, I want to thank you all for coming forward and for your patience. I think a little bit more of a deliberative process is a good thing on this item. I hope you are patient with us. I'm sure Mr. Maynor will let you know whether or not we will be hearing the item on Wednesday. If not, it will be a week from Monday.

Commissioner Fellman asked if we should take public comment on this item.

Chair Gonzalez stated there would be an opportunity for public comment later on because we haven't taken any action on the item.

This item was recessed until Wednesday, April 24, 2002 at 8:30 a.m.

4. Discussion and Authorization to the Executive Officer to request release of reserves in the amount negotiated for the contract to provide energy consultant(s) services.

Chair Gonzalez asked Mr. Maynor, is Ms. Young with us? With Item No. 4, is that something we should just likewise continue to the meeting when we make a decision as to Item No. 3?

Mr. Maynor stated I don't know much about Item No. 4.

Chair Gonzalez asked, Ms. Fish, can we continue the item then with Item #3?

Vice-Chair McGoldrick asked Chair Gonzalez, technically can we say rather than to continue that item, can we say rather than #8 being Adjournment, #8 will then be Recessed?

Chair Gonzalez stated we won't be adjourning the meeting. We will be recessing it until Wednesday.

Ms. Fish, Commission Clerk stated this item could also be recessed until the Wednesday meeting.

Mr. Maynor stated with respect to this item, I think the authorization is for the Executive Officer to request release of reserves. She wants to begin the process. Is there a report in your packet on that issue?

Chair Gonzalez stated the only problem is I don't see how we could be authorizing her without any estimates of what the costs are. So that even if we had selected a consultant today, we wouldn't be able to take action on Item #4.

Mr. Maynor stated in view of the fact that we are having that meeting either Wednesday or the following Monday, the whole idea was to find out what those numbers would look like.

Chair Gonzalez stated this item would be recessed along with Item #3 for Wednesday. Ms. Fish, before we go into closed session, can we hear Item #7, general public comment?

5. CLOSED SESSION

CONFERENCE WITH LEGAL COUNSEL

Motion that the San Francisco Local Agency Formation Commission convene in closed session. Conference with Legal Counsel - Anticipated Litigation: Significant exposure to litigation pursuant to subdivision (b) of Section 54956.9. Claimant: E. J. Simpson (copy of claim is available for public inspection) for the purpose of conferring with or receiving advice from legal counsel.

Question: Shall this Motion be ADOPTED?

PUBLIC COMMENT

No Public Comment. Public Comment Closed.

ADJOURN TO CLOSED SESSION

Commissioner McGoldrick moved to adjourn into closed session; Chair Gonzalez seconded. No objection.

After a closed session, if one occurs, the Chairperson shall (1) request the Legal Counsel to identify the subjects discussed in the closed session, and (2) direct the Clerk to report the vote taken on any motion in the closed session.

[Elect To Disclose]

Motion that the SF LAFCo finds it is in the public interest to disclose information discussed in closed session, and directs the Chairperson immediately to disclose that information.

[Elect Not to Disclose]

Motion that the SF LAFCo finds that it is in the best interest of the public that the Board elect at this time not to disclose its closed session deliberations concerning the litigation listed above.

RETURN TO OPEN SESSION FOR ANY REPORTABLE ACTION

Commissioner Hall moved not to disclose the closed session deliberation concerning the litigation listed above. Commissioner Gonzalez seconded. No objection.

6. Future Agenda Items

Chair Gonzalez stated I think we have discussed what is going to be heard at the next meeting.

7. Public Comment on Items not on the Agenda

Chair Gonzalez stated to the members of the public anyone that wants to can also address the items that we continued. So if you want to say anything about the particular consultants or Item 4, that would be fine since we didn't take action on those items.

Dennis Mosgofian stated I didn't realize that when you invited me to make comments last week, come back this week and make comments, it would be on the consultants. I do have a couple of observations on the consultants, and they are probably politically incorrect but I will make the observations. First, I noticed that the only one of the presentations that I heard was clear on public was the outfit from Portland. They were clear right from the beginning, and their presentation was simple and to the point about serving public utilities, not private-investor utilities. They don't obviously have a conflict of interest. To me, that was impressive, although I suppose someone could say that there might be some bias there in favor of the public. Therefore, they would not be able to give such objective testimony or give objective analysis in the feasibility study.

I had a problem with a remark that was made by R. W. Beck. As somebody who has had over forty years of experience in the world that is included in a lot of

debates and struggles--I have a problem when someone comes up to the microphone and says what we do is we like to play the devil's advocate. I find it is always easy to tear down anything. It's very difficult to build something up. It's easy to destroy trust. It's hard to build trust. When we're trying to build something that will serve the best interest of the City and County of San Francisco and its residents, its businesses and its future, one needs to be thinking positively and not negatively. Even though R. W. Beck has performed a study for East Bay MUD, and I understand they have a good reputation. I have some concern about a firm that presents itself as wanting to play a devil's advocate role. I think you can be objective and analytical and not play that role. I would have questions about that.

Chair Gonzalez asked Mr. Mosgofian, I don't recall that particular remark that was made. Was it in the context of playing devil's advocate with recommendations that they might be making?

Mr. Mosgofian stated he made it in the context of facilitating giving you an objective analysis of facts in this situation. That's a method they use to get there. Don, I heard your proposal for hiring three out of the four. From my impression, from what you said both the Portland outfit and R. W. Beck are the equivalent of a general consultant and the others are more specific. I had some concern about why you wanted to include so many of them. When somebody needs to coordinate it all, I assume from your remarks that it would be either R. W. Beck or EES.

I was particularly appreciative of your remark, Supervisor Gonzalez, when you said that special knowledge of San Francisco should not rise to the level of a criterion by which the Commission would make a decision in hiring a consultant unless that knowledge is based on actual experience in having served the City, and you would want to look at it more carefully. That had to do with Flynn and Associates. Those were my remarks on this. I thought I was coming back today to say some of the things I had said last week. I know there's a limit in the time I have here.

Chair Gonzalez asked you gave us your general impressions of R. W. Beck and EES. What about Flynn and Associates other than the remark about the San Francisco experience?

Mr. Mosgofian stated I missed a good part of Mr. Flynn's presentation. I did hear something that bothered me. I think it was Henwood that said that they would bring in some senior people from PG&E as part of their consulting team. I wasn't so comfortable with Flynn, but I can't be so knowledgeable because I missed part of their presentation. My big concern here is who is going to serve the interests of San Francisco, and who is going to serve the interests of the private investors or PG&E? That would be the biggest criteria I would start from. Ultimately, if you are not interested in the primary purposes of serving the citizens and businesses of San Francisco, I don't think you have any business in being in the process. Since we are evolving from last year's campaign. We are not starting fresh. We are coming from a history.

Commissioner Fellman stated just for the record, I have familiarity with Henwood from my professional life. I was also puzzled by that comment. I think what he meant is that they have senior PG&E people who have retired from the utility and now are working for Henwood toward the Henwood projects.

Mr. Mosgofian stated I thought I heard a similar remark. I guess I was a little bit concerned too when someone asked how long have you been with EES? The woman said fourteen years and the other fellow said one year, and he came out of Edison. Now, I understand switching sides, but I have some concern, although their expression of interest in public was far clearer and stronger than the other consultants.

Chair Gonzalez stated Mr. Mosgofian, I think you are raising an issue as it relates to Henwood that we can clear up between now and Wednesday.

Commissioner Hall stated I think in going one step further than that, the EES person if I heard him right, was not only Edison but L. A. Water and Power and something else. He had twenty-one years of experience. Am I right?

Mr. Mosgofian stated that was a different person on L. A. Water and Power.

Commissioner Hall stated I think it was the same guy.

Commissioner Fellman stated we can look through the RFQ's.

Chair Gonzalez stated that was Alex Miller and Gail Tabone, I think.

Commissioner Fellman stated I guess we could ask Mr. Maynor to highlight that particular issue when he comes back to us.

Mr. Maynor asked about the background with respect to working for private companies? I will follow up on that.

Mr. Mosgofian stated I was aware that you were all mindful of the need to not delay in this process because before and after you've made your decisions, there is a lot of work that the consultants have to do and have to get you a report back. I am just concerned that we all collectively not end up like we did last year with a study that is going down the line, and a lot of people in San Francisco waiting for a report to take a look at. This looks like the final report will be after the fact of the new Prop F, the new municipalization charter amendment that will already be cast for the ballot. I would hope that whatever you do, that you expedite the process without making mistakes. I appreciate your deliberation and carefulness.

Richard Ow stated, he is with People's Budget, and I listened very carefully to all these competent consultants. They failed to address the people's need. I realize

some people do not have any problem paying their PG&E electric bill, but lots of our limited-income people, pensioners, and low-wage working people, their choice is go hungry or pay PG&E. In your final request for the result of the report, I hope that you establish or ask them to write so that all the citizens, every household, every small business can be able to pay their electric bill.

No further public comment. Public comment closed

8. Recessed

The meeting of the San Francisco Local Agency Formation Commission recessed at 5:15 p.m. to April 24, 2002 at 8:30 a.m. to discuss Agenda Items 3 and 4.

San Francisco
Local Agency
Formation Commission

ITEM NO. 2

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689
Tel. 415.554.7702
Fax. 415.554.5163

MINUTES

Special Meeting
Friday, May 10, 2002, 2:00 p.m.
City Hall, Room 263

Chairperson: Commissioner Gonzalez; Vice Chairperson: Commissioner McGoldrick
Members: Commissioners Ammiano, Hall and Schmeltzer
Alternate: Commissioners Peskin and Fellman

Clerk: Monica Fish

SPECIAL AGENDA

(There will be public comment on each item)

1. Call to Order and Roll Call

The meeting was called to order by Chairperson Gonzalez at 2:10 p.m.

Members Present: Chair Commissioner Gonzalez, Vice-Chair Commissioner McGoldrick; Commissioner Schmeltzer and Commissioner Fellman.

Members Absent: Commissioner Ammiano and Commissioner Hall

2. Approval of Minutes of the Commission Meeting and Public Hearing dated April 12, 2002 and Commission Meeting dated April 24, 2002 (Action Item).

Vice-Chair Commissioner McGoldrick moved to approve the minutes. Minutes were duly seconded. No objection. Minutes approved.

No Public Comment

3. Presentation by Ed Smeloff, Assistant General Manager for Power Policy, Planning and Resource Development, San Francisco Public Utilities Commission.

Mr. Smeloff stated I have a prepared presentation and ready to take questions from you. Let me start out by saying I have met with your consultants, and our office is fully prepared to cooperate with them to share data and work together so there isn't any overlap or redundancy. I think this can be an effort where the Electricity Resource Plan that we're going to bring forward to the Board of Supervisors around June 3rd will be complimented with the work that the LAFCo Commission is doing.

I thought I would walk through some of the things we have developed in the Electricity Resource Plan. We have held eight public hearings throughout San Francisco and have taken input from a variety of people in the community, as well as written input. We have developed several goals that we think should inform any legislation or charter amendment that should be what we're aiming to achieve here in San Francisco.

1. Support and develop renewable sources of electricity. The voters strongly supported that in the last November election.
2. Maximize energy efficiency. It's both the most environmentally benign and least costly in many cases meeting our long-term needs. You will see even in the short-term, given some of the vulnerabilities that San Francisco has, is a very important resource.
3. Assure reliable power. Obviously it is an increasing technology. In a technological society, reliability is even more important than it had been in the past. San Francisco has some vulnerability that gives it a less reliable system than other parts of the state.
4. Support Affordable Electric Bills. I use the term electric bills specifically rather than rates because that is what people pay. Electric bills are a combination of both the rate and volume of the commodity that they use.
5. Improve Air Quality. Improving air quality is a key issue in San Francisco. The largest industrial polluters in San Francisco are the two power plants that are located in the City. You would have a substantial improvement in air quality if we use them less or close them.
6. Support Environmental Justice. We held several meetings out in the Bayview, and it's a major issue in the City because many of the infrastructure that you need for an operating city are all located in the low-income and predominantly African-American, Latino neighborhoods.
7. Increase Local Control over Energy Resources. Particularly now with deregulation, we've seen that relying on others to meet your needs or relying on market forces for such a vital commodity can have some very disruptive effects.

Let me describe the vulnerabilities that we face in San Francisco. We're pretty unique. We are really the most vulnerable part of the state for electric reliability. All of the power that we import comes in through two sets of substations, one at San Mateo County and one near the Cow Palace. All of our transmission lines are subject to disruption at either one of those substations. Or if there were an airline that flew into the lines which all go right into the International Airport, we could lose electricity as was the case in December 1998. Our system is limited. We can't import all of our needs. We will see later in one of the slides that about 30 - 35 percent of the time we need to be operating plants in the city to meet our needs.

The plants that we do have in the city are very old. Hunter's Point is 44 years old; Potrero is 37 years old. Plants that old tend to break down a lot more than new plants and they are less efficient and dirtier. Obviously, our dependence on these old plants impacts air quality and people's health. I think this is really important why we are addressing this issue. The current market realities in California, but really nationwide, have undermined the basic assumption of deregulation, and that is the private investors would invest in new power plants based on forward price curves and their perception of risk. That is not happening in California and it is not happening in the eastern states where deregulation has occurred.

What's happening now is that the power plant developers are demanding to be secured through long-term power purchase contracts. The plants we're seeing developed in California, the Calpine Plants and others are being done so because they do have long-term contracts including the ones proposed for San Francisco, like the Merant Plant. They have told us clearly that they need a long-term power purchase agreement to proceed with construction. It's a big vulnerability given the current uncertainties about who is going to buy. We don't have other than the state any creditworthy buyers of electricity other than some other public power entities in the state. Lastly, one of our vulnerabilities is what you see being built in California and elsewhere are natural gas plants. Gas is clean and is relatively abundant. But putting all your eggs in one basket is not a prudent policy.

One of the things driving the whole interest in local control and our resource plan is shutting down Hunter's Point Power Plant. This is the Mayor's top priority for San Francisco is to achieve that as soon as possible. Operation of the Hunter's Point is a little bit peculiar even though PG&E owns the plant, doesn't really control when it operates. It only operates when dictated to do so by the Independent System Operator (ISO). It's what we call a Reliability Must Run Power Plant so the ISO says turn it on. They actually pay PG&E a pretty substantial availability fee just to have that plant there available to run to meet the needs.

The Mayor and PG&E have signed a binding agreement. PG&E has agreed to shut down Hunter's Point as soon as the ISO makes a finding that it's no longer needed for reliability. We did have a success at the ISO a couple of weeks ago. We got their governing board appointed by Governor Davis to agree for the very first time that they will sit down with the staff of the City and other stakeholders and come up

with a plan for the shutdown. Up until that time, senior management of the ISO didn't recognize that the ISO had a role in the shutdown of Hunter's Point. It's an important step. Hunter's Point, even though it only meets eight percent of all of the electricity used still produces a pretty substantial amount of power, enough for about 100,000 apartments in the City. It was available to operate 5800 hours. There is 8760 hours in a year. So you see the plant given its age was not available for a new plant. New plants are available 90 to 95 percent of the time.

Vice-Chairperson McGoldrick asked if the Potrero Plant was not under the ISO Must Run?

Mr. Smeloff stated it is. It actually has the very same contract. It is a Reliability Must Run. But it runs a lot more of the time because it tends to be a more reliable plant, and the ISO dispatches that plant first.

Vice-Chairperson McGoldrick asked which plant was subjected to fines?

Mr. Smeloff stated those are Merant's peakers. They are at Potrero. Potrero has a base low plant, three peakers. In 2001 they ran beyond the hours they were allowed to under the Regional Air Quality Management District so they were fined for that.

Vice-Chairperson McGoldrick asked so that wasn't a Reliability Must Run situation?

Mr. Smeloff stated what happened with those peakers was last year during the energy crisis, so many plants were unavailable for operation. When the utilities lost their creditworthiness they didn't pay so-called qualifying facilities, these third party plants. So in order to have enough power, the ISO did order Merant to run these plants and then Merant actually made a substantial amount of money doing it when the prices were very high as well.

Vice-Chairperson McGoldrick asked but in the meantime the Air Quality Board fined Merant?

Mr. Smeloff stated actually, the Air Quality Board gave them an exemption from their license, and then the City sued both the Air Quality Management District and Merant. Then, there was a settlement on that lawsuit.

Commissioner Schmeltzer asked when you say that the plant was available to operate, is that the number of hours that it was not down for maintenance?

Mr. Smeloff stated that is the number of hours that it was reported to the ISO that it was available to operate under its RMR contract.

I thought I would show you what a load curve looks like for San Francisco. I said there was 8760 hours in a year. The peak day occurred last January 2001 at 875 megawatts. You see that we get down to a little bit less than 400 megawatts in the

wee hours of the morning. The reason I put this here is to show you that later we had the ability to import about 640 megawatts, which is about 3000 hours. All the rest of the time we were relying on resources located in San Francisco. This is how we meet our needs. We import up to 640 megawatts and we have the two big plants, one at Potrero and one at Hunter's Point. There are actually four peaking plants. I only listed three, because the way the ISO treats it as they assume that one plant won't come on when started. So what we really have available for reliability purposes is three plants equivalent of 156 megawatts.

This shows how the plants have been operating in the past years. There used to be four plants out at Hunter's Point. Two were shut down in 2000. So there is only the large plant and the peaking plant. So the use of Hunter's Point actually is declining--it was 8 percent last year. Where Potrero has been increasing--it's up to 22 percent of all of the electricity sold comes from the Potrero Plant. Hunter's Point really only operates during peak times when the power is needed, and Unit 3 is not enough. But it also operates when Unit 3 is out of service for repairs or when it breaks down unexpectedly.

I wanted to point this out to you because what we are facing here in San Francisco, and I really want to underline this is a big potential crisis in 2004 and 2005. In 2005, the Clean Air Act requires that all of these old plants substantially reduce emissions of oxide and nitrogen, cutting them more than half from 43 parts per million down to 19 parts per million. The only way you can do this is putting on end of the stack technology that cuts down on the emissions. This will have to be done at Potrero in 2004, and that plant will be out of operation for at least three months, perhaps longer. There are also some major repairs. So in 2004 we're facing a situation during the fall of the year when our reliability is dependent on a plant at that time that will be 46 years old. So we need to do certain things beginning now. The charter amendment you are conceiving should create the right kinds of authorities and powers so we can effectively reduce peak demand and get resources in place in the next 30 months so that we have reliability come the end of 2004.

In 2005, the issue really is what happens to Hunter's Point? PG&E is facing a dilemma whether they either have to make major capital improvements in that plant, perhaps as much as 30 million dollars to put on this Clean Air technology or face not complying with the Clean Air Act. If they put on that amount of money, then they are going to expect to be compensated for that and try to keep that plant in operation a lot longer. So if we're going to meet our goal of commitment to the community in Bayview Hunter's Point to shut it down, we really need to act so we get some resources in place by 2005.

We have a lot more detail in our Resource Plan, but we've done some projections, looked at what the California Energy Commission has done and what the growth in electricity demand will be in San Francisco over the next ten years. We have three projections. One will show you how inherently unpredictable or subject to economic changes. Back during the .Com days of 1999, we were forecasting well over 1300

megawatts of electricity demand in San Francisco by the year 2012. That was revised last year by the Energy Commission and dropped the demand down to under 1200. In 2001, we really saw a remarkable reduction in load in California and in San Francisco. Statewide, people reduced their electricity consumption by about 6 percent. Our peak demand in San Francisco went down from 940 to 875 and if you really look after the price spikes, in May, the summer peak was down to 840, almost a 100-megawatt reduction from the year before. Some of that was behavioral. Some of that is a result of investment and more efficient technologies. What we've done is forecast based on last year's 2001 and increased it by 1 1/2 percent. It shows that by the year 2012, we'll be a little over a 1000 megawatts. That's what we have to plan for. The ISO is still saying we have to plan for that middle line. They're being more cautious. That means you need to put more resources in place. Between the low line and the high line, our gap in 2005 when we need to replace Hunter's Point is between 130 megawatts and 305 megawatts. So we're really challenged how we're going to get that in place. We need to have the tools here in San Francisco to do that. These are the resources that are really feasible that I have identified. There may be others out there.

Chairperson Gonzalez asked Mr. Smeloff the point that you are just making related to the gap being 130 to 305 megawatts?

Mr. Smeloff stated maybe I need to explain that better.

Chairperson Gonzalez asked why wouldn't it just be adding Potrero and Hunter's Point together because they're not operating at the same time?

Mr. Smeloff stated this is what is available in each of these years assuming that you have taken Hunter's Point and shut it down. Then, you need to plan your system in a way that the largest unit can break down, and you still have enough resources to meet the need. So if Potrero is unavailable because it is out for maintenance or it breaks down, you have a gap between roughly 800 and whatever you believe the peak demand is going to be for that year. That is what we have to fill. You will always need to operate the system assuming that the largest resource that you have could break down or be tripped offline for one reason or another. That's how we assure reliability.

These are the resources that we are looking at. There's been a lot of controversy and a lot of discussion about Merant's proposal to build this very large power plant down in Potrero, 540 megawatts. That's now before the Energy Commission for its license. They haven't yet set a schedule. A lot of challenging issues Merant faces just in the licensing process, let alone trying to finance this plant.

Commissioner Fellman asked what is the scheduled online date for Potrero 7 if everything would fall in place and they would get a contract?

Mr. Smeloff stated realistically, I think you need to plan for two years of construction after they obtain their license. Assuming there's no legal challenges, which I think given the controversy of it, particularly if they don't change their cooling system. I guarantee you if they use once through cooling try to use the quantity of bay water they are proposing, there will be legal challenges that could tie it up for a couple of years. If there were no legal challenges, perhaps they could get it online in mid 2006. It doesn't really solve the 2005 problem. It's going to take some real focus to solve that problem.

The Jefferson Martin transmission line is being proposed to be built by PG&E. It goes up a different pathway up the peninsula and connects into San Francisco near the Cow Palace. It just got approved by the ISO to allow the cost of that line to be recovered from ratepayers. It now needs to be approved by the California Public Utilities Commission that needs to give it a Certificate of Need and then do an Environmental Impact Report Analysis for that. Jefferson Martin can be online, PG&E is estimating in September of 2005. We're trying to push them to crash that so they could get it in place before the summer of 2005 so we could avoid the problem with Hunter's Point. It goes through some pretty well connected neighborhoods in San Mateo County, Hillsborough, and places like that. The transmission lines are controversial even though this one will go underground most of the way in Northern San Mateo County.

There are a couple of power plants that we could build elsewhere. There is an opportunity to build a co-gen plant downtown where we have existing boilers to provide steam for the downtown steam load in the various hotels and office buildings. Developers come forward to us and ask us to enter into a power purchase contract to support that. We're analyzing that and we've actually encouraged them to begin discussions with PG&E to interconnect to the Mission Substation down at 9th and Mission.

The University of California has approached us to form a Joint Powers Agreement to build a power plant out at Mission Bay Campus. They have already put in place a steam loop and chilled water loop to make the campus ready for co-generation. The university has told me that they need some power plant out there because the PG&E grid is simply not reliable enough for the purposes they have. So when opportunity is to build a larger plant, a 50-megawatt plant, if the City has the capability into entering into a JPA and financing the plant with the university.

We've also been looking at opportunities on Port property to do another power plant. Probably the best location we've found right now is just north of Islais Creek right on the bay on Port property. The reason that is good is that we are putting in a duct bank, a conduit under Islais Creek that we could run cable from this site out to the Hunter's Point switchyard, which then would allow electricity to feed into the grid. You can size all kinds of different plants out there. We've chosen the smallest combined cycle plant that you can economically build which is 57 megawatts.

Then we've looked at what we can achieve at other resources by 2005, solar if we push it. I think we can do 10 megawatts of solar by then. One of the new things that are happening is that a lot of people are proposing to build small reciprocating engines in existing-office buildings. The CPUC is putting one in their building as well as the State Office Building on Golden Gate are going to put in these small fairly clean internal combustion engines that run on natural gas. If that market opened up, there are a lot of businesses in San Francisco that would be interested. The issue with these small-scale generators is that they are not as clean in terms of air emissions as the larger plants. They are a lot cleaner than Hunter's Point and Potrero, but not as clean as the state of art large plant.

Load Reduction. Load reduction is the cleanest that we saw what we could do in 2001, where we reduce load by 100 megawatts in San Francisco in the summer months.

When we were out in the community, we reminded people that the air quality impacts is not just how clean or dirty the plant is, but how many hours it runs and how large the plant is. Whereas, the Hunter's Point Plants are relatively dirty, if they run a few hours compared to a brand new large plant you may end up with a similar amount of emissions in the area.

This is the pounds per megawatt hour metric that we've chosen for this graph for the Merant Plant. It is pretty clean when you look at it compared to Hunter's Point. This is what Hunter's Point Potrero Plant looks like now. This is what Potrero would look like after it has the clean air technology, the SCR put on it in 2005 obviously when hydro solar have no emissions in Nox.

To summarize and lay the context for what you are doing with LAFCo, I will just say that my view of the most pressing needs is we need to reduce electric consumption within the next 30 months, particularly during the peak hours. Particularly targeting some of the larger commercial customers in San Francisco where there are some economies that can be achieved. We need to develop some new power plants such as the ones at Mission Bay and Downtown. To be able to do that, the City needs to have more tools than it currently has. We are limited by not being able to issue revenue bonds, and we are limited by not being able under the City Charter to enter into long-term power purchase agreements because in the provision that subjects annual power purchase contracts to an annual appropriation. So, if we can achieve those, we can assure reliability and meet our goal of shutting down Hunter's Point.

Vice-Chairperson McGoldrick asked Mr. Smeloff, could you repeat those last two limitations you talked about? The first one you said was we are limited in our ability to issue revenue bonds?

Mr. Smeloff stated the PUC is limited. The current Charter requires that revenue bonds with certain exceptions have to be approved by the voters, and that is a

pretty time consuming process for each kind of investment that a utility would make. So that's one. Another is this issue of not being able to enter into long-term contracts. The way we did it with Calpine is we got a letter from the City Attorney's Office that said if there wasn't an appropriation by the governing body by the Board of Supervisors that that would constitute default, and that gave some sort of confidence to Calpine. You're going to pay a premium to have to enter into those types of contracts, and you are going to limit the number of parties that are going to want to sell power. To have an effective electric utility, you need to put together a portfolio of resources, some that you own and some that you may buy. You don't want to be in the short-term market for everything as we saw last year. You want to have a mixed portfolio of different types of technologies that you are buying electricity from.

Chairperson Gonzalez asked do other municipalities that you are familiar with have the same restrictions regarding revenue bonds for this kind of acquisition?

Mr. Smeloff stated no other municipal utility that's a City department has that restriction. So you look at Palo Alto, or Alameda, or Santa Clara or any of the other municipal utilities that are part of City government--they don't have that restriction. The limitation on the city of Anaheim (I just called down) has entered into contracts as long as thirty years with power suppliers. I think it is just San Francisco and San Diego (I am told by the City Attorney) that have this limitation on revenue bonds where they have to go to the voters. I think all counties have this requirement to go to the voters for general obligation bonds, but not the case for revenue bonds.

Chairperson Gonzalez asked what could you tell us about a much-publicized piece that was in the Chronicle related to a plan that you are putting forward. Is there anything you can tell us about that?

Mr. Smeloff stated this is the core of the plan. What the Chronicle played up, and it was part of that plan is that we recommended or draft recommended that in order to facilitate these things, San Francisco should take on the responsibility of being "a load serving entity" or a "community aggregator of load". That is we should be the responsible party for serving the businesses and residences of San Francisco. Right now, we are somewhat precluded from doing that by regulations of the California Public Utilities Commission, but there is a bill that Assemblywoman Migden is carrying that would enable San Francisco and other municipalities to be community aggregators. That bill I understand is past the Assembly and is now in the Senate and is scheduled in July for its first Committee. If that passes, then next January we would have to get an ordinance from the Board of Supervisors and then develop an implementation plan. We could take on the responsibility from PG&E of providing the commodity without owning the wires or other pieces of equipment necessary to deliver the electricity to customers. It could get us in the business a lot sooner than for municipalization or condemnation. I have actually talked to PG&E and as they were quoted to see if they were quoted correctly in the Chronicle. They have told me they are not opposed to San Francisco taking on that responsibility.

They would actually share data and assist San Francisco in becoming a load serving entity. Their interest apparently is in maintaining their franchise and business as a distributor of electricity.

Commissioner Fellman asked isn't it the case that PG&E has stated in the bankruptcy proceeding it doesn't really want to be a generator any longer under the regulated utility function?

Mr. Smeloff stated exactly. What they are trying to do is get rid of their generation from their regulated utility and turn it over to their unregulated or federally regulated subsidiary and then be able to sell at market prices. So, they would be in the position then of being able to compete for San Francisco's business against other suppliers.

Chairperson Gonzalez asked and the prohibition from community aggregation has been in place for how long?

Mr. Smeloff stated I think since last July. Commissioner Fellman may know better. I think it's been in place since July or September of last year.

Commissioner Fellman stated in September there was a final vote, and there really never was under the restructuring, a community aggregation process that worked. It was more individual rather than the City.

Mr. Smeloff stated what is special about the Migden legislation is that it allows the City to be the default provider. That is, that it would take on the load and then it would have an opportunity for individual customers to opt out. If they wanted to choose a different supplier, they would have 180 days after the beginning of this to opt out at no cost. The City would have certain obligations to inform everybody of their rights and the opportunity to make a choice. The old way is you had to opt in and that was extraordinarily expensive. The transaction costs in having to go out and market and get individual customers to sign a contract made it prohibitive for cities to get into the business of aggregating customers. That is the big difference with Assemblywoman Migden's bill.

Public Comment

Mr. Charles Kalish asked Mr. Smeloff, I know that you had a response when people asked why you seemed to be in favor of this over going to public ownership of power. If there's a way to have our cake and eat it, that is your concern is that it is going to take us too long to go to public power, we're going to get sued, etc. etc. Is there a way for us to start aggregating interimly and at the same time implement public ownership of power or vote on it this November?

Vice-Chairperson McGoldrick stated that procedurally in terms of questions from the public, you don't have to answer the question. However, I would be interested if you were able to answer the question procedurally.

Mr. Smeloff stated the reason I am focusing on community aggregation is because the immediate problems we need to solve require immediate action. It is my belief that if you try to condemn the system, that does get you into a legal process that could take years with PG&E. There is a provision of state law called rebuttable presumption, which means that your decision to condemn PG&E's property is not final. It is not conclusive. PG&E can rebut it and show that there is not a higher public need being served by the City taking over their property.

Nothing that I am proposing here and focusing on community aggregation would prohibit the City at a later date from trying to take over the distribution system. What I am trying to do is to provide a focus on what needs to be done first. What is the most important energy policy problem in San Francisco and keep the focus on solving that problem. If we focus on solving this problem, we are going to see whether PG&E wants to cooperate in solving the problem or not. There are some real important reasons why PG&E should want to cooperate in shutting down Hunter's Point and assuring reliability. If they fail to do that and help interconnect these small power plants and cooperate on the solar, then you lay a stronger basis for the public need, the public necessity of taking over their distribution system.

Chairperson Gonzalez asked couldn't the opposite be argued though that to the extent that we do community aggregation and some of the other things that you are describing, that we strengthen their ability to respond to the under rebuttable presumption theory?

Mr. Smeloff stated I think you do if PG&E turns out to be cooperative and helps the City in solving these problems, reducing load, and getting new power plants connected. Then the argument that there is a higher public good being served by taking over their distribution system is weakened.

Chairperson Gonzalez stated if it is weakened, then taking this approach does in some ways set you back.

Mr. Smeloff stated if that is your goal. If your goal is taking over the distribution system, this has the potential of weakening the argument that you would make at the time of condemnation. If PG&E is cooperative and helps solve these problems, I think they then could make the argument that there isn't a higher public good being served here by taking over their system.

Chairperson Gonzalez stated correct me if I am wrong. PG&E right now can engage in activity that essentially amounts to taking themselves, even though they are not a government entity in some cases, can't they? Under what circumstances can they do that?

Donald Maynor, Esquire stated PG&E can use the power of condemnation if it needs right of way. That is primarily the only time they use it is for purposes of right of way for transmission lines or if they had to acquire a generation site, they have a limited use of the power of condemnation.

Chairperson Gonzalez asked is there any other non-governmental entity that has that taking authority?

Mr. Maynor stated there are some unusual rules in the California law of condemnation. Private people can or they used to have that right under certain circumstances, private water companies, and even private individuals in certain circumstances. There is a very high burden they need to meet in order to use that.

Commissioner Fellman asked are there any entities outside of those regulated by the California Public Utilities Commission that can exercise eminent domain?

Mr. Maynor stated there was a provision in certain circumstances having to do with easements where an individual could actually go into court. The only other situation I am aware of is in the utility context. So the primary use of condemnation is by public agencies and public utilities. I might add with respect to that rebuttable presumption concern—oftentimes that issue could be addressed at the very beginning of a lawsuit, and it doesn't necessarily have to take years to litigate that issue. Particularly in view of what's happened with respect to energy rates and a company that's been in bankruptcy, this presumption may not be as difficult as one would think.

Chairperson Gonzalez asked because of the reliability question?

Mr. Maynor stated before, there was an absolute presumption that the public need outweighs the current private use. They changed that presumption a few years ago to make that a rebuttable presumption. It is the kind of issue that you would address right at the beginning. You would make a motion before the court. I have condemned a lot of PG&E property. I have never heard them make that argument before. They likely would in this case because it is very important to them. That particular issue in my view is not one that would go on for years and years. I think it would be an issue that would be resolved up front in an initial proceeding. In view of the facts that have taken place in the last couple of years, meeting that presumption shouldn't be that difficult.

Commissioner Fellman asked Mr. Smeloff, you told us that you met with the consultants to coordinate with them. For the record, how do you see LAFCo's work interfacing with the work that you are doing in the Public Utilities Commission?

Mr. Smeloff stated the work that we are doing is putting together a resource plan, a vision for the future and blueprint on some steps that we could take to get there. As

I understand it, your consultants are going to advise you on different organizational structures for a Municipal Utility on some of the risks and benefits of a municipal utility. We have data that we will be glad to share, and we have load data for all of San Francisco. We have information that we have collected from the ISO and elsewhere that would probably be easier for us to simply just give to the consultants rather than have them collect it themselves. We think we can help them out in meeting your goals by meeting with them and providing them with the information that we have.

Commissioner Fellman asked will the resource plan that you are developing contain any recommendations regarding structure also? Is that something you see LAFCo focusing on?

Mr. Smeloff stated I see that as outside of our mandate. We have been instructed specifically by the Board of Supervisors by Resolution that Supervisor Maxwell introduced to look at all practical transmission, load management, conservation, renewable and other ways of shutting down Hunter's Point providing reliability and as an alternative to the Merant proposed power plant.

Mr. Maynor asked to what extent is Mr. Smeloff's plan premised on the enactment of the aggregation legislation, and if it's not adopted to what extent does that impede it?

Mr. Smeloff stated to build new power plants, as I mentioned earlier, the developers and owners of those plants are going to need a long term power purchase agreement. To prudently, from the City's perspective, enter into a long term power purchase agreement, you need to have customers that you are then going to sell that power to. I would not recommend the City to buy power from a power developer and then try to market that in the wholesale market. I think that is too risky an activity for City government. The City really needs to have end users and to have load that it is willing to serve so you have a predictable stream of revenue then you can use to service that power purchase agreement or any debt financing that the City has entered into. That's why I think it is crucial to implement this plan to have customers that you are responsible for. The community aggregation gives you most of the customers in San Francisco.

Chairperson Gonzalez thanked Mr. Smeloff for his presentation.

4. Public Hearing: Discussion and Adoption of the proposed SF LAFCo 2002-2003 FISCAL YEAR BUDGET (Government Code Section 56381). Action item.

Gloria L. Young, Executive Officer stated the Commission has received the staff report related to the budget that refers to the Cortese-Knox-Hertzberg Act requirement to adopt an annual budget. You held your first hearing on April 12, 2002. As previously stated, the budget before the Commission is identical to the one that was approved by the Commission last year in the amount of \$458,750. As

you may recall funds for LAFCo were set up as a project fund and currently there is \$364,444 on reserve. As of May 8th this week, the Board of Supervisors Finance Committee released an amount of \$125,000, which was a request from this Commission for legal counsel and for the energy consulting services contract that you have before you today. This will need to go to the full Board for approval on May 13. I should also note that the Finance Committee and the Board of Supervisors were both advised by the City Attorney's Office that after the fiscal year no longer will the Board of Supervisors be able to reserve LAFCo funds. That is in accordance with the new law. The remaining balance that is currently on reserve with the Board of Supervisors, if in fact the Board approves the release of \$125,000, is \$239,806, which will offset the budget if it is adopted by the Board today. The \$458,750 would include the \$239,806, and the difference would be what would be allocated by the Board of Supervisors for the next fiscal year.

I should also note and you had before you and is in this packet as well a detailed list of what the budget entails. I should also note that Commissioner Ammiano spoke at the previous meeting and asked that I reiterate the desire to return to inside counsel for Fiscal Year 2002-2003. I'm supportive of that. I suggest that we continue to use our outside legal counsel as we go through this energy consultant services. The existing contracts with both Don Maynor and Nancy Miller are billable and terminate on June 30, 2002. We do have the availability to do a month to month so if there are in fact funds left, we could also work with them if we needed their outside services. I recommend approval of this item.

Chairperson Gonzalez asked are you saying that Commissioner Ammiano said that to you at an actual LAFCo meeting?

Ms. Young stated yes, Commissioner Ammiano expressed that at the last Commission meeting, which I believe was April 24th. He also indicated to me since he was going to be absent from this meeting today that it be reiterated to the Commission today. We have been very fortunate to have the two outside attorneys that we have used. There will be a cost whether we use inside or outside attorneys so you need to keep that in mind, and that is why there are funds budgeted for legal services.

Chairperson Gonzalez stated I'm sure we all have our own opinions about this item. I would not be inclined to change counsel anytime this year. We could discuss that at a later time.

Commissioner Schmeltzer asked how is that decision made or implemented?

Ms. Young asked which one, the decision to go with outside legal counsel versus inside legal counsel?

Commissioner Schmeltzer stated yes. Is that part of the budget?

Ms. Young stated that was a decision made by the previous members of the San Francisco LAFCo last year to seek outside services. It was as a result of the internal counsel indicating their lack of interest in supporting the LAFCo.

Chairperson Gonzalez stated when the contract is up in June, we'll make a decision whether we will want to renew it, whether we want to go month to month, or whether to go to the City Attorney. To the extent that Ms. Young brought it up related to something Commissioner Ammiano was saying, I don't want it to pass without others knowing that. I think it is going to be a contested issue when the time comes.

Ms. Young stated there is an issue that keeps coming up at our LAFCo meetings with respect to the funding and whether or not internal counsel would be less costly than external counsel. I have in fact provided you with information that shows it would be relatively the same.

Vice-Chairperson McGoldrick asked where is the information?

Ms. Young stated you received that information previously, Commissioner McGoldrick. It was a printout, and I do have it available if you would like to take a look at it. It was a printout of the expenditures of our inside counsel including their use of outside counsel as well. The amount for services was \$153,699 from 2000-2001 if I recall correctly.

Commissioner Fellman asked did that also include some outside counsel?

Ms. Young stated absolutely. That is included in the printout.

Commissioner Fellman asked other outside counsel?

Ms. Young stated not the counsel I contracted with last year, but previous other counsel.

Chairperson Gonzalez stated that is a decision the City Attorney was making without any direct request of the LAFCo. They made their own decision to do that, and the LAFCo was essentially paying for it.

Ms. Young concurred.

Commissioner Fellman stated I would like to see this item discussed. How do we put it on the agenda? I agree with Commissioner Gonzalez that we shouldn't approve a process on counsel while we are approving going forward with the budget.

Ms. Young stated it is two separate issues and as I said before, the current contracts that we have with the City Attorney expire on June 30, 2002. We can

agendaize it for the next meeting. We do have the ability on a month to month to use their services until such time as this Commission decides how it wants to go. We could discuss it now or we could agendaize it for a future meeting.

Vice-Chairperson McGoldrick stated it seems like an item that is correlated to the budget, but also it could be considered extraneous at this point. We could approve the monies and decide who we want to give us the counsel.

Ms. Young concurred.

Vice-Chairperson McGoldrick stated there is no description in the budget that specifies one way or the other?

Ms. Young stated no, it is generic so it allows the Commission to make the decisions it needs to make.

Commissioner Schmeltzer asked then we can agendaize it for the next meeting?

Chairperson Gonzalez stated we're not sure when the next meeting is going to be, but we'll agendaize it before we get to the conclusion of the contract.

Ms. Young stated before June 30.

Vice-Chairperson McGoldrick asked shouldn't we give ourselves a little bit more lead time as well as for our counsel?

Ms. Young stated we will be coming back to you well before June 30 because if the consultants have their first draft report, we can probably agendaize it at that time.

Vice-Chairperson McGoldrick stated you just put a condition on that. I think we definitely need to agendaize this item in June.

Ms. Young stated we will.

Chairperson Gonzalez stated it might be helpful in the interim to focus on what the issue is in terms of the purpose for changing counsel. Is it because we're going to save money? Is it because you think you are going to get better services? Just having a general sense that you would like to go back to your previous attorneys given the nature of that previous decision that led us to seek outside counsel. If we're satisfied with the representation we're getting, and there's not a significant cost difference. As I recall from our previous meeting if anything Ms. Young came forward and said the cost was less since we've been using this counsel. This is something to consider.

Vice-Chairperson McGoldrick stated we'll have to compare whether we are talking about apples or oranges. If we are saying it costs us less did we tap into their

services less, or are we saying the number of hours we billed? Did we use more hours from our previous counsel? I would have to look at the report that you just handed me in some detail. Indeed, if we are comparing time issues, I don't know what we're comparing. We would have time to do that in June.

Chairperson Gonzalez stated keep in mind you are dealing with the City Attorney's Office. Because of the nature of work orders, in many cases they have a captive client, and your ability to bill clients at a particular rate and make certain decisions is such that drives the cost up for some of the departmental clients. One of the things I was always shocked at during the budget process was the extent to which you are budgeting to departments to pay for the work of the City Attorney. It doesn't surprise me at all that the costs would be relatively the same if not lower not to use them.

Commissioner Schmeltzer asked would we be able to have the City Attorney representative who we would be considering be here at that meeting?

Ms. Young stated I will make that request to City Attorney, Dennis Herrera when we find a date that is available for us to meet.

Commissioner Fellman stated I would like to know some of the history. This is obviously a charged item. Is it correct that the City Attorney backed out of representing LAFCo or elected not to represent LAFCo? Or was it LAFCo's decision? I would like to be directed to some of that history so I could read that.

Ms. Young stated you are more than welcome to also visit the web page. The minutes are reflective of that discussion and of what led to that discussion. It is on the web, and all of the minutes are available there on the LAFCo web page. It has a detailed discussion of how we got to that point, and it also includes a discussion of City Attorney's Office here with their representative indicating their desire to no longer serve LAFCo.

Commissioner Fellman stated I would also like to add to the discussion or this agenda item, but not expand it to infinity. I think as a LAFCo we need to look at what we will be doing in the next year that the services will be provided for. I think we had some specific activities this year that Mr. Maynor and Ms. Miller were uniquely qualified to assist us with and advise us on. Going forward, what are our needs going to be, and which entity is best to serve that? If we are going to be working with the City anyway, there seems to be some synergies there with the City Attorney's Office. So, I don't know what the future holds for LAFCo. I would also like to suggest that we look at that as well in the context of the representation question.

Ms. Young stated If you want through the Chair, we can broaden the item that will be on the agenda, not only focus on the use of inside versus outside legal counsel,

but also what the scope of work or work plan is for LAFCo for Fiscal Year 2002-2003.

Chairperson Gonzalez stated I think the point that Ms. Fellman makes is probably the strongest reason why absent some overarching reason, a change in counsel in June wouldn't make sense particularly to the extent that any members of the Board or Commissioners are talking about putting items on the ballot related to the study that we're preparing right now. The thought that we would change counsel after counsel has essentially carried us through a variety of public hearings, etc.--we have worked very closely with these consultants. For that reason, my earlier comment to Ms. Young was that I would not be inclined to change counsel this year. Obviously, depending upon what future issues the LAFCo gets involved in we're still at the other point, which is if it's not more cost effective, then?

I recall the representation by the City Attorney as very politically charged. I know we have a different City Attorney, but he's not going to be coming to our meetings. It's going to be the previous Deputies. It was a very awkward time. The LAFCo put an item on the ballot. The attorneys representing the LAFCo were appearing before the Board of Supervisors as the Board of Supervisors attorneys telling the Board of Supervisors that what the LAFCo was doing wasn't proper. It was a very complicated matter. To the extent that it is an agency that is not the Board of Supervisors, we would want to think about not having the same counsel!

Vice-Chairperson McGoldrick stated I think it is also important particularly for our two newer Commissioners to note that the composition of the LAFCo itself was different at the time. There were different perspectives that were being presented, and one could say that a representation that came out of this Commission and not necessarily from each and every Commissioner as individuals, represented a different approach to the use of the legal counsel and the interpretations of what the legal counsel's advice was, as the Deputy City Attorney's who came here presented that advice. There were different kinds of understandings or misunderstandings, agreements and disagreements which occurred with a Commissioner who is no longer serving on this Commission. I think it is important to understand that you have a different perspective from certain individuals and collectively as well.

I would still be open for further discussion, as Commissioner Fellman indicates, in terms of knowing with some specificity what the anticipated work would be. In understanding, as Chairperson Gonzalez indicates, that continuity in terms of the work that has been done by our current outside counsel, I think is paramount. But if we have other descriptions of specific work, it may be necessary to decide one way or the other on those specific items of work to be anticipated over the next year. I would not just be locked into the entire year. I would rather we look at what it is that we anticipate to be the work that is required. From the Deputy City Attorney or Attorneys that advised this Commission in the past, there is a history there. There is some memory there, and there is some expertise there that is worth considering.

I am not saying one way or the other where I am going to go. But, I think all of those factors need to be weighted in terms of deliberating on this issue later on.

Commissioner Fellman stated I just have one point of clarification. Commissioner Ammiano's statement or preference as I heard it was that it seems our funding cycle is not in conjunction with our operations cycle. That the report and what we do with the report is going to go beyond this fiscal year. So what he was proposing is that, as I understand it, is that we continue with current counsel until we finish this project phase where we go through the consultant's report, and get the results of that which will go beyond the fiscal year.

Ms. Young stated that is my understanding. There is a staff person from his office here, Brad Benson, that could speak to Commissioner Ammiano's intent. If in fact the Commission was interested in bringing the legal services back inside this organization, I was concerned equally that at least it occur after we complete the cycle of information that we need with respect to the consultant services. It seems to me that we needed to keep that consistency as we work through those processes. So, that was going to be my caveat.

Commissioner Fellman stated that is critical to keep in mind here.

Vice-Chairperson McGoldrick asked about the law that changed. What law was that? The Board of Supervisors can no longer provide a reserve?

Ms. Young stated last year the Cortese Knox Hertzberg bill went into effect and what it indicated was first of all, the LAFCo has to approve a budget each and every year, and that the year 2001 was the base year budget for LAFCo. It took away any opportunity for the Board or another legislative body to have control over the LAFCo's Commission's budget. When this entity was initiated in 2000, the Board of Supervisors placed a large portion of the funds on reserve, so we have been existing with the existing funds and going back for a release of reserves as we needed it, and did so this week. The \$239,000 that is currently on reserve would be no longer on reserve. That is per the City Attorney's advice to the Board of Supervisors. It was made as a part of the Budget Analyst's Report this week when the Finance Committee heard LAFCo's item on the release of reserves.

Vice-Chairperson McGoldrick asked what do we in accountancy language call the place where the money is held?

Ms. Young stated it is held right now on reserve in a project fund. The Controller's Office is working right now with the Mayor's Budget Office so that when the Board adopts the new Fiscal Year Budget 2002-2003, those funds will be moved from a project fund. It was set up as a project fund because it was felt that it might not last past the last fiscal year, and it has. It was anticipated that it was going to be a short-term process, and that is why it was set up in project funds, and that is why it was able to have reserve funds. Recognizing that this is an ongoing entity, it does

need to have its own budget and not be set up in a project fund that is not available in terms of expenditures. It will be moved from the project fund, and the Controller's Office could speak better to this than I could, but be placed in the regular budget document that the Board and the Mayor will be approving this year.

Vice-Chairperson McGoldrick asked what will we be asking the Board of Supervisors and the Mayor to approve, the \$458,000?

Ms. Young stated the Mayor's Budget Office specifically, the Budget Analyst, Taylor Emerson and my office have been working closely with Deborah Newman from the Budget Analyst's Office. What will be requested this year is new monies is the difference between the \$239,806 which is currently on reserve and the \$458,750 which is our requested budget, which was the baseline budget from last year. So a little over \$210,000.

Vice-Chairperson McGoldrick stated it is about \$220,000 almost. So if we need to go and ask for money again, we'll just ask for money?

Ms. Young stated if you were to expend more than the \$458,000 yes, you would be asking for a supplement.

Mr. Brad Benson, Legislative Aide to Supervisor Ammiano's Office stated I was not present when Commissioner Ammiano made the comment about legal counsel for LAFCo. I would suspect that he would want to discuss a lot of the issues that all of you have raised at a later time.

Vice-Chairperson McGoldrick moved to approve the adoption of the proposed SF LAFCo 2002-2003 Fiscal Year Budget; duly seconded, and unanimously approved. No objection.

Public Comment

No public comment.

5. Report by Commissioner Ammiano regarding the Public Power Authority Measure.

Mr. Benson stated that Commissioner Ammiano regrets that he couldn't be here today to talk to you about this item. This is one of the principal projects that he is going to be working on over the next several weeks in anticipation of the completion of some of the work that LAFCo has contracted for on public power feasibility. I understand from Commissioner Gonzalez that the Commission would appreciate a brief history of the drafting of Proposition F, which was on last November's ballot and possibly a few words about what Supervisor Ammiano might envision going forward coming the November ballot. Is that correct?

Chairperson Gonzalez stated yes.

Mr. Benson stated I am giving you a copy of a revised version of Proposition F that Supervisor Ammiano introduced to the Clerk of the Board of Supervisors shortly after the November election. It is substantially the same as what was on the ballot with a few minor changes. In drafting this measure which was placed on the ballot at the same time as the Municipal Utility District measure that was put on the ballot, Supervisor Ammiano went through a series of drafting meetings with different constituencies. He met with environmental groups, business groups, homeowners, consumer groups, and worked closely with the City Attorney and also got a significant amount of advice from the Public Utilities Commission staff about obstacles that they saw with the current Public Utilities Commission. Through that consultation arrived at a measure that would replace the Public Utilities Commission, which is currently an appointed Commission with an elected Board with seven members elected by districts with a number of powers that are enumerated in measure, the ability to appoint a General Manager, setting forth specific goals and objectives for the agency related to consumer protection and environmental issues.

As you well know, the PUC is the steward for very far reaching properties throughout the state of California all the way up to Hetch Hetchy. There are a broad number of environmental issues involved. We looked at issuance of debt to finance capital projects and to pursue public power. We looked at rate setting and how the PUC sets rates for both water, sewer, and also power if it were to enter into public power. We looked at a variety of options and asked the agency to look at a variety of options for pursuing public power including some that you have heard Mr. Smeloff describe from the PUC. Community aggregation was one of the options. Taking over distribution facilities owned by PG&E was another option that would have been studied. The third option was developing new generation capacity in San Francisco. The final major provisions in the legislation were negotiated at length with representatives from organized labor about how employees from PG&E might become City employees if the agency pursued eminent domain and took over the distribution grid in the City. That's about as brief a summary as I could provide about what's in the measure and the process that he went through. He will probably want to consult with Commissioners and other members.

Chairperson Gonzalez stated I don't remember asking for a brief summary. You're free to take as much time as you want. I thought it might be more helpful to break down some of the specifics rather than overview it.

Mr. Benson stated I would be happy to talk about any of the specific questions you would like to talk about. Let me just continue by saying that there are deadlines for the Board of Supervisors to draft and consider Charter Amendments that are proposed for the November ballot. This measure has already been introduced. The last day to introduce Charter Amendments for voter consideration is May 20th. Then, it has to sit under public review for a 30-day period of time and then Charter Amendments are scheduled in the Rules Committee of the Board of Supervisors

and need to stay there under public review if they are substantive amendments to the measure. Chairperson Gonzalez, the final submittal date, is it in July or early August? I think it is in either later July or early August. So as you can see the time is not a great deal of time. The initial report back in terms of the LAFCo feasibility study that you are pursuing would occur sometime around the end of June at least in terms of draft findings. The Board would need to act fairly quickly on those draft findings to get those recommendations into a new Charter amendment that would be presented to voters. Supervisor Ammiano wants to be inclusive in drafting a measure, bring constituencies who care about this issue together to talk about it because it affects a lot of folks. I know that of particular concern to him will be involving people in the Potrero and Bayview communities who are concerned about some of the aging power plants in their neighborhoods and really getting their advice about what should be in this measure.

Back to the specific components, do you want me to walk through the different sections?

Chairperson Gonzalez stated that would be best.

In the new draft that Supervisor Ammiano introduced in November, Page 3, Section 8B.100 just establishes the agency, the Municipal Water and Power Agency to succeed to the functions of the Public Utilities Commission. That would be effective in January of next year.

Section 8B.101. Agency Goals and Objectives calls for a public hearing process to invite comment on agency goals and objectives. It asks the agency to adopt and then update goals that deal with the provision of water, water pollution control, and electric service to San Francisco residents, businesses and departments at rates that are both affordable and stable for ratepayers. I'm not going to read from the measure, but it includes other goals and objectives that go to health and safety of the public, protecting and managing lands and resources. Under the jurisdiction of this new agency what is currently the PUC, and sets further on aggressive goals in terms of implementing energy conservation and renewable energy programs, storm water overflow programs, odor control in certain neighborhoods that are complaining about odors from sewage treatment facilities in San Francisco, etc.

Section 8B.102. Governance and Duties. As I described before, a seven-member Board of Directors would be elected via district elections that would need to be a process to establish lines for the seven districts. The City recently saw that process occur for the redistricting for the Board of Supervisors. It is a complicated process but something that would need to be undertaken in order to elect seven members by district. The elected Directors would act through a General Manager who would actually manage the rest of the agencies employees. They would be compensated elected directors, and they would be subject to campaign contributions and other ethics laws in the City. The agency would appoint its own general counsel so similar to the discussion that you've been having, decide who would represent the

agency. Some issues that are specific to public power. Right now the City sells some Hetch Hetchy power in some months of the year to Modesto and Turlock. Irrigation districts. The agency would have precluded that if there was a need to supply residents or businesses in the service area here in San Francisco, which is allowed under those contracts with some notice to those districts. The agency would be able to enter into joint powers agreements. The agency would be able to issue revenue bonds or other forms of indebtedness provided the Controller certified that the agency had revenue to meet those obligations. Had this measure passed, the City might not be in as much of a debate as it is now about how to finance improvements to the water and sewer enterprises at the PUC. Along with that ability to issue revenue bonds, voters would maintain the ability to trigger referendum so that if they opposed the issuance of a large bond, they could have gathered signatures to put it on the ballot.

Chairperson Gonzalez asked what kind of vote is necessary for this measure to issue the revenue bonds?

Mr. Benson stated a majority vote of the agency directors would have been sufficient. On advice from counsel, the agency directors would have had to recommend the exercise of eminent domain to the Board of Supervisors for the acquisition of property and facilities. Again, on advice of the City Attorney, the Agency Board of Directors would have recommended to the Board of Supervisors the adoption of water, water pollution control, and energy impact development fees or connection fees. Those are powers granted under state law to the Board of Supervisors and can't be transferred to the agency board. The measure also dealt with an issue that is still being debated around what has been a consistent practice to transfer surplus funds from the Hetch Hetchy enterprise and the PUC to the General Fund of the City and County for general City purposes. This would have prohibited any General Fund transfer for a period of five years and then created a threshold where it would only be allowed by a two thirds vote of the Board of Supervisors.

Section 8B.103 starting on Page 12 dealt with budget issues.

Chairperson Gonzalez asked was that specifically where you are thinking about the Hetch Hetchy rebuild for that reason or just general infrastructure?

Mr. Benson stated I think this was something that Supervisor Ammiano heard complaints from constituencies who felt like it was unfair that surplus Hetch Hetchy revenues would be transferred to the General Fund when capital projects for water and sewer needed to be funded and felt like that was inappropriate. There is also the perspective of finance managers at the PUC and maybe people who are rating the bonds for the PUC who say when there is an arbitrary amount of money being taken out of the agency on an annual basis, that it is not as good from a fiscal perspective, and that it would be better that it be a fixed amount or no money coming out of the agency.

Chairperson Gonzalez stated particularly now as the public is becoming aware of a very large bond that is being suggested for the rebuild, it would seem that if this measure clearly earmarked money to that specific project, not just that it obviously could just stay in Hetch Hetchy and would be used for those projects. But if you went so far as to underscore that, I'm sure it would strengthen public support.

Vice-Chairperson McGoldrick asked, the last two fiscal years, the one that we are currently in and last year, there were no monies surpluses transferred to the General Fund from the PUC?

Mr. Benson stated from my understanding is it is unlikely to occur any time in the near future.

Section 8B.103. Budget on Page 12. On advice from PUC Finance Managers, set up a schedule of priorities for how revenues to the PUC or the Municipal Water and Power Agency would be used. This section actually describes how they should set up their ten-year capital and long-range financial plan. A lot of criticism of the PUC has been that it has not engaged in long-range planning. Also called for a five-year business plan and then two-year budget. The goal being that more long range planning, more stabilization of rates would occur. A lot of these sections came when Supervisor Ammiano consulted with current PUC staff and other utility experts on what best practices were for utilities.

Section 8B.104. Rates. On Page 15. Describes a rate setting methodology that is sufficient to meet bond indebtedness by the agency to meet operating costs, long-term capital costs and maintain a prudent reserve, all of which are standard utility practice, adopt rate structures for each utility service designed to induce conservation and deter waste including contemplating possible surcharges to fund implementation of water conservation programs, environmental and public health programs, odor control programs and/or alternative water pollution projects or waste water treatment projects. Also looking at low income rate discounts for cable service, for energy service, it's fairly standard to have life line rates for classes of ratepayers who cannot afford to pay. This enabled the agency to consider those issues and also allowed for if the agency were to enter into public power and consider taking over PG&E, PG&E pays the City franchise fees that are fairly substantial and part of the City's revenue for general City purposes. This provision would have required that the agency set up surcharges sufficient so that the City would not have lost money.

Section 8B.105. Public Power Feasibility and Mandates starting on Page 16 looked at public power feasibility and mandates and gave the agency direction to look at public power and how it could be provided. Looking at generation, looking at community aggregation, looking at taking over distribution facilities.

Section 8B.106. Labor Relations on page 17 was probably one of the most complicated portions of the drafting process. Supervisor Ammiano met at length with effected employee bargaining units who currently represent employees working with the PUC and others who work at PG&E to figure out a process by which people who are employees of a private company might move over and become City employees, which is not an easy thing to figure out. There are a lot of complicated details there. That I think sums up the major portions of the legislation and questions.

Chairperson Gonzalez stated it is not a major item, but with the Department of Elections, with the creating of the new lines, I suspect that requires additional work on their part in terms of being able to segregate out balance for any new districts. I am wondering if there is any other way to do it. I guess there isn't a way to utilize the state assembly lines or something like that.

Mr. Benson stated I think that the rules for establishing districts are pretty standard, the bounds of population, keeping constituencies together, keeping communities and interests together. The number chosen here was seven. I think that in the initial drafting process people felt like that's the number of people that we have on the School Board, that's the number of people we have on the Community College Board, and that's the current number of PUC Commissioners. It made sense in terms of the size of the Utility Board. You'd have to draw new lines. It would create new ballot types, which is I think what Commissioner Gonzalez is referring to and it would increase costs of running elections. The way around that would be to consider a larger Board that ran in the same lines, as the Board of Supervisors for instance.

Chairperson Gonzalez stated I think a lot of what was driving the district lines was the fact that that's how the Municipal Utility District kind of worked with some districts. Although that was complicated and that you got elected citywide.

Mr. Benson stated you had to run citywide, but represent a geographic area.

Chairperson Gonzalez asked any thought on rather than seven districts, just doing it like the Community College Board or School Board? Although there is a lot of talk now about taking the School Board and moving it to District lines.

Mr. Benson stated those would be policy questions that I think would be better for my boss to answer.

Public Comment

Mr. Richard Knee asked if he could address a question to Mr. Benson.

Vice-Chairperson McGoldrick stated I think that it depends on the question.

Chairperson Gonzalez stated I think Mr. Benson could let us know if he can't answer.

Mr. Knee stated I had heard that there was some discussion of switching in the new amendment, the proposal that is to be put before the voters this coming November, to an appointed rather than an elected Commission. I would like to find out if that is the case.

Chairperson Gonzalez stated I think the point that Mr. Benson just brought up was that there are certain things that he would prefer for Commissioner Ammiano to answer. Although there was a lot of discussion about an item for this November, Mr. Benson was primarily going over last year's item and just giving everybody a lay of the land.

No further public comment.

Public Comment Closed.

6. Report on the status of Assemblyman Kelley's bill (AB 2266).

Mr. Maynor stated we were concerned when we saw this bill because it had some really ugly provisions in it. It would essentially preclude any meaningful opportunity to become a municipal utility. So we understand that that bill is no longer active. We will continue to monitor it and if there are any developments there, we will let you know.

Public Comment

No Public Comment.

7. R. W. Beck, Energy Consultant Status Report on the Scope of Work and Timeline for the SF LAFCo Energy Services Study.

Mr. Mike Bell, R. W. Beck, stated I would also like to point out that also in attendance this afternoon are Barry Flynn of Flynn Resource Consultants and Ken Mellor, who is also with R. W. Beck. I would also ask if they would like when there are questions to be addressed by each of their areas, if they would like to step forward. I would like to make a few points before I get into the actual presentation. I would like to start out by saying that we began this process by first meeting with the Task Force members here about a week and a half ago to get some input from the Task Force. We've also had meetings amongst the three consulting firms Beck, Henwood Energy Services, and Flynn Resource Consultants to work on this scope and come up with a plan, a timeline, and clear responsibility assignments so all three of us are in lock step with one another as we proceed. That results in the scope that we will discuss with you this afternoon.

We also took advantage of our time here today with Mr. Smeloff to talk with him about the work that he is doing and about the direction that he is taking. Also, to find out from him what data he has already collected and has available to him so we are not out searching for information that is already readily available. As Mr. Smeloff noted, he has offered to help provide that information to us. I would also like to point out, based on our discussion with Mr. Smeloff that as he outlined today, the issues that he is addressing are largely generation and transmission-related. Because of the severity of the situation looking out to 2004, he is very much focused on what happens between now and then. So it would appear from my perspective, that the work that you are engaged in certainly covers those same areas. But, the focus of your attention is more long-term and also takes into account other components such as distribution and service options that he hasn't spent quite as much time with.

With that, I would like to introduce the scope by saying what we have done is identified major components such as the generation, transmission, distribution, as well as customer service, rates, energy efficiency, renewables, and the like in terms of our scope of our work. What we intend to do then is take that and look at the different options that will be available that being continued service from PG&E, City services, and municipal options, and report back in the final report. With that, let me start to walk through the presentation.

What we would envision the scope to include would be an introduction section that would deal with the energy market and what's happened in the recent past and how that impacts the City in its future decision making. We also would talk about the unique aspects of San Francisco's electric system, some of which you've heard about today from Mr. Smeloff. It is a unique system and is different from many other locales based upon how its been built out and by its geography. The wholesale power generation cost is largely made up of three components. I believe that we should be able to get much of the data we need for this area from Mr. Smeloff.

The first section would be the position report, which would identify the City load requirements, area generation, and status of the wholesale market in the City. Potential cost outcomes would begin to get into energy forecasts and what happens under different scenarios such as spot market prices, continued service as is today or alternatives along the lines of municipal development or options that would be available to the City.

Commissioner Schmeltzer asked will you be considering the potential fixed charges that could be imposed by the DWR contracts through the CPUC in that section?

Mr. Bell stated that will probably come into play not only in this section, but in the distribution section. A lot of these issues are interrelated, but that certainly is a very important component of this study. The results of how that plays out could obviously have a big impact on decision-making. Yes, that would apply not only

here, but in the distribution section of the study. Also, the wholesale power market risk factors. What we would identify there is just what the risks are in the generation component of the market as well as what the opportunities are to mitigate that risk, insulate one-self, and protect one-self from those risks.

The transmission evaluation would also discuss the current environment, where things are at and the activities that are taking place today. We would also look at alternatives to improve reliability as a key component. This again will interact with the generation piece because none of these options stand-alone. They need to be considered in the whole. There also are potentials to avoid future load interruptions depending upon both physical improvements to the transmission system as well as organizational issues that will be around these various alternatives. Transmission pricing is going to be important. There are directions that the Federal Energy Regulatory Commission is taking and the ISO is taking regarding future pricing of transmission resources. Those will be identified and included in the report. As well as local control issues, which obviously come into play when you talk about reliability and the ability to avoid future interruptions of service.

Commissioner Schmeltzer asked could you give us a couple of examples of the types of local control issues that you are thinking of?

Mr. Bell stated I think a good example would be with regard to trying to increase reliability by participating and supporting, as Mr. Smeloff noted, the development of say, Jefferson Martin. Or, taking an active role in both the physical construction of facilities or organizationally, creating a structure that would insulate the City from blackouts. Along the lines of for example, what Los Angeles Department of Water and Power had done in order to free themselves from mandated rolling blackouts and the like--a combination of those items.

With regard to distribution, again we would look at the current environment, how that stands, and where we think it's going to go in the future. Look at a full range of potential retail service options, and I would envision that being anything from aggregation of services to acquiring wires and facilities. There is a lot in between those options. So, articulate them and identify what they are. I will show you in an upcoming slide on conclusions, pros, cons, risks, costs, etc., which really gets to the costs of pricing issues and again the local control issues associated with involvement in the actual distribution system.

Commissioner Schmeltzer asked are you going to identify what additional studies would be recommended to get when you say that there are potential retail service options like aggregation or acquiring the wires or a range of other things in between. What the pieces would be to get there?

Mr. Bell stated yes. I will come back to that in just a minute. Then identify other considerations that really transcend all of the generation, transmission, and distribution areas. Those are going to be important no matter what option or which

issue is ultimately decided upon. Those include things and items such as conservation, efficiency, renewable resources, rates, pricing, economic development, etc. They will come into play no matter which option is pursued.

Inclusions are where we think you will get the most value from the report. What we would envision is identifying the range of options that are available, summarize the pros and cons of each one. All will have strengths and weaknesses associated with them. Each one will have risks and benefits. We would identify just what those are and how they play out in each of the individual options. One thing that there is still a lot of uncertainty about is legislative and regulatory change. What we would do in the report is identify those key issues that have yet to be resolved, but will obviously have a big impact. The example of exit fees and non by-passable charges is a good example of that. Back to your point Commissioner, identifying the next steps for each of the options. What would need to be done, milestones, identifying the major pieces in order to pursue that option as well as timeline for implementation, should you determine to move forward with any of the options.

Commissioner Schmeltzer asked will you have projected cost estimates?

Mr. Bell stated we could that. I would say those cost ranges at this early stage are going to be pretty broad. Sometimes, it is difficult--you put a number out there and people really grab a hold of it. We can do it, but I would caution at this early stage that it would be a broad range.

Commissioner Schmeltzer asked that may be something that the Task Force could consider when they see drafts?

Mr. Bell stated I think that would be helpful to do that in that process.

Commissioner Fellman asked could you please comment how you see your work interfacing with what Mr. Smeloff is doing? He gave us your prospective and I would like to hear yours.

Mr. Bell stated I think that the perspective here, and this really should come from the LAFCo. But my vision of that is that this is a longer-term perspective that really looks out over a longer period of time in terms of organizationally and structurally what options are there, with particular regard to the distribution side. I see Mr. Smeloff, and for good logical reason, focused on the near time future in terms of generation, transmission, and reliability. Right now, those are real critical issues to the day to day operation of electrical facilities here in the City. I would envision that what we would look at would be, where do you want to be 15 or 20 years from now. What are the choices that could be made today to position the City to be at that position at that point in time. From that standpoint, that would be what would provide you with the best value.

Commissioner Fellman asked do you have a rough estimate of the proportion of the background transmission discussion and this more interesting part? Do you have a sense of how that is going to divide up in your report?

Mr. Bell stated not just yet. I think we need to get into it. From what I have seen from talking with Mr. Smeloff today, a good deal of work and effort has been put forth in the generation and transmission components. Mr. Flynn has actually been working with the City on transmission issues, and I think he is in a good unique position with regard to this report to report on where those are at. We'll work through that in the coming weeks and make certain that we have covered all of those bases.

Commissioner Fellman stated just as a general comment, given that the City is already engaged in a resource planning process, it would be useful to spend less time on the background and more time on what do you do with the resource plan from my perspective.

Mr. Bell stated I think what will be a value to us is the Task Force. As you will see when I get the schedule, what we are trying to do is trying to make sure that we have at least two or three more meetings with the Task Force. I have structured it so that we have a couple of drafts out there also to make sure that the work produce as we proceed is positioned such that it fulfills your ultimate objective.

We prepared a responsibility matrix as much for our own planning purposes as anything else in terms of structure and who is going to what work. What we did was we collectively got together and determined which of the firms has the expertise and resources to fulfill those areas. This chart represents what I would describe as the lead-consulting firm for each of those areas. As I mentioned earlier, most of these are interrelated and if you make a change and an assumption for one, it's going to impact in other areas. I don't want to leave you with the impression that each firm is doing just what's in that block because we are going to need to talk to one another and make sure that as we go forward, that we're all consistent. But for purposes of who is the lead, that is what this chart represents. I would say in the discussions that we've had so far, the interaction between the three firms has been very good. I was a little worried about having to coordinate three different agencies in this process, but I think we've already seen that each of us has unique skills, abilities, and knowledge that will make the final work product stronger for doing it. I know there were some concerns on the Commission about this group being too large, but from what I've seen thus far, it's working pretty well.

The other thing we did we looked at the responsibilities and the work product that we envisioned, and we came up with a budget amongst the three of us that we all could agree to that covers the work product that we envision. We distributed that work and came up with a budget that is within the amount that was discussed at the last meeting. Finally, with regard to the timeline. We would envision having a first draft available by the end of this month. We've positioned three-future Task Force

updates in that process. We may want to add one more if your time permits or if during the course of discussion, we see certain areas that need to be addressed in more detail. I would err on the side of making sure that we are communicating well particularly with the Task Force during this process because we don't have a lot of time if we are going to have the report done by the end of June. As in a project management role, I prefer that we have the ability to do that if necessary.

The second draft then would be available the middle of June. What we envision the final report would be delivered the end of June in order to meet your timetable. With that, if you have any further questions, I would be happy to address them.

Chairperson Gonzalez stated I have a question for Ms. Young related to your thoughts on whether or not you think it would be a good idea to have public meetings or any kind of presentation of the final report on the Energy Services Study.

Ms. Young stated when we first envisioned the schedule of not only the letting of the bids, but also receiving and having the interviews, etc., we looked at an opportunity for a public hearing to allow members of the public to have an opportunity to express their feelings on what the actual results of the study would look like. What we modified the plan to do was to have a public hearing for the review of the first or second draft at a time when we could have public comment before we finalize the plan. What I would suggest for the LAFCo Commission is that we have an evening meeting for when we get that first draft so the public has an opportunity to come and comment. That would give an opportunity for the second draft to include the comments that come from the public hearing on the first draft. Around the 17th of June is when the time schedule says we could schedule an evening meeting to allow public testimony. That's within the information that was provided to the consultants. I think it was discussed when we had our Task Force meeting

Chairperson Gonzalez asked to our counsel, Is there any part of the proposal that you want to comment on?

Mr. Maynor stated I had a chance to look at their outline this morning and last night. We've already talked more about this briefly earlier this afternoon. I think the content of what they're going to have in the report is pretty much what I expected them to have. My preference would be that the form be presented a little bit differently. The way I would suggest, and Ms. Young is going to hand out a rough draft of something I put together this morning that gives you an idea. I am not sure this is necessarily the right way to do it. It will give you a flavor of what I had in mind. I think it works well with Mr. Smeloff's plan as well. I am very pleased that he was here. Whenever he comes, we learn a lot of information from him, and it is very helpful.

When we went to the hearings, we learned that being a municipal utility or any type of utility involves a number of different parts to it. I thought it would be helpful

particularly for a person who doesn't have a lot of technical expertise to use this document and learn from it. One way you might be able to do that is if we had an Executive Summary that sort of outlined the purpose of the study, but then give a little primer and made sure that they understand what some of these terms mean. Then get into the description that is unique to San Francisco that Mr. Smeloff talked about. Then as you go through the various components of being a utility, you actually could include within that:

- What they're currently getting with PG&E or likely to get in the future from PG&E in the state.
- What the City is doing or proposes to do, and that is when you would get into Mr. Smeloff's plan.
- Then also discuss what a municipal utility could do.

For each one of these sections, you would have an easy comparison. You also would have different layers of complexity in this report. My suggestion would be to make sure that the text of it is not more than 50-60 pages, and then have more of the technical appendices attached to it. So people that want to get more in the meat of these things can see it through the appendices or some of the more technical studies. The average person could read through the primary text and come away from reading the report with what the differences are:

- What they get from PG&E?
- What they are going to get with the City?
- What they are going to get with the City if they are going to get their aggregation legislation and have the plan that Mr. Smeloff is suggesting, but also what the possibilities are with the municipal utility?

I think it would be easier for somebody to digest. You could put this altogether in one large analysis describing the whole thing, and maybe that's a better way to do it in the sense that's how utilities operate. You don't do generation in isolation from transmission. It all kind of fits together. However, to read all of that and digest it and then come back down to the conclusions at the end of the report might be a bit much to ask. That is just a suggestion. It may be a bad idea. I am not sure. Sometimes when you get a draft and you lay it all out, you change your mind on these things. One advantage to doing it my suggested way is it will make sure that you cover all of the important issues in comparing the various options. I actually feel stronger about it after hearing Mr. Smeloff's plan because I think it is a way to compare the three options.

Chairperson Gonzalez asked you mentioned it to the three consultants and it sounded like you just had a brief discussion?

Mr. Maynor stated I think they can speak for themselves. I think Mr. Mellor would like me not to get funded after June. We have different approaches. The other part about it that is important is that there be some perspective to this, that it not be a typical LAFCo study with a lot of EIR's, with a lot of technical information. I think this is a little bit different, and you want to get a historical perspective of utility industry where it is today and where it is heading. Otherwise, if you just get a snapshot, I think you are going to miss it. I was pleased to hear R. W. Beck talk about having the longer-range perspective because I think it is very important in this type of analysis.

Chairperson Gonzalez stated I do think Mr. Maynor, in the course of the telephone call that many of us participated in, seeing it in writing, you did articulate this approach. I think I like the benefit of within a particular subject area getting a comparative opportunity, and I think that is attractive.

Mr. Maynor stated we proceeded that way when we went through the public hearing process, and that is why, when I was going through that, I sort of came away with that feeling of addressing each component of the utility business. It doesn't necessarily fit well with the way a utility actually operates because it is more of an integrated sort of proposal. That's the bad part of it. I think you can also include a section in the report that mentions that and talks about why these things are all integrated.

Commissioner Schmeltzer stated I think it is a nice way of trying to draw out that comparison so people can see it. I think Mr. Smeloff's report did something similar in portions of the report that came out last month. I think it would be nice to have all in one place, all of the background information about all of San Francisco's and California's history in electricity.

Mr. Maynor stated I don't mean the whole history, just a little bit.

Commissioner Schmeltzer stated I would like to see references for where some of the material where it's well written could be easily found and that we not spend too much of the short time and money that we have restating what's been said elsewhere. I think identifying where that information is would be sufficient.

Mr. Maynor stated I didn't mean that it should be a scholarly topic. In fact, I suggested that if most of this is in our heads, we could pull it out pretty quickly. I think it is important, particularly today, when there is a question going on at the PUC whether to go back to the old way of regulation. If you simply looked at what's happened the last two years and didn't look at what it looked like ten years ago, I am not sure you would capture the whole picture. I think you need enough of it to be able to get the perspective. I was a history major. Otherwise, you are going to get a snapshot, and that is not necessarily enough. I agree with you, you don't want

pages and pages of history. There is a lot written on these subjects, and you really want a condensed version in a couple of paragraphs. That is what I had in mind.

Chairperson Gonzalez asked to hear from our consultants.

Mr. Bell stated first, I would like to thank Mr. Maynor. He called me this morning and told me that he had some concerns and was gracious enough to meet with us just before this meeting to express those. What I got from our meeting was that from a technical standpoint, we don't have a problem there. We are kind of looking at the same issues. I think where I saw Mr. Maynor's comments as being valuable was with regard to presentation. We are after all consultants and engineers and more focused on the technical side of these issues. What is going to be of value for the Commission is a report that can be used in the public and not necessarily worded as if it were delivered to a utility, which most of our reports are.

What I would suggest is what we could do next is begin to fashion the structure and the presentation style of the report. Before we get you that first draft before the end of the month, what I would like to do is get you an outline and maybe some language associated with it that would get into the style of presentation and how we would piece this together and work with the Task Force to make certain that it addresses the needs that Mr. Maynor has expressed here. I think that would be helpful for us to not get too far down the road in terms of structuring it. It's not along the lines that would be of value.

Commissioner Schmeltzer asked that would be information that you would provide to the Task Force before the next proposed phone meeting?

Mr. Bell stated before the first draft comes out. I think that would probably be the best way to work with it. That way we get to begin to put it in the format perhaps as Mr. Maynor described and make sure that you get a chance to see that before we invest three or four weeks in the effort and find we need to change it around. Again, I don't think there is a fundamental problem here. I think it's more in terms of how the work is presented as opposed to what we're doing.

Commissioner Fellman stated I think it is a question of presentation. This comparative aspect is what we discussed in our Task Force meeting. I thought it worked well to schedule those meetings using a conference call and Ms. Fish and Ms. Young to just send out e-mails, and we pick out the times that will work. It was very focussed. We set an hour or an hour and a half, a limited time with an agenda. It would be helpful to get information in advance to have a chance to look at it so we could give you reactions rather than going through it. I feel we are always one step behind in the process. What Mr. Maynor gave us today reflects what we talked about. I think if you two talk beforehand and what kind of format you would like us to look at, we can look at it ahead of time and give you our feedback in real time.

Mr. Bell stated certainly. We recognize your time is valuable too. I don't want to have so many phone calls and meetings that it intrudes upon what your other schedules have. From our standpoint, it is helpful to get that regular feedback and make sure that we're not wasting resources or going down a path that we ultimately don't want to be on.

Commissioner Fellman stated I think it's always tough when you do reports like this because if you decide to parcel it out under topics, then you don't necessarily have the comparative analysis. If you decide to parcel it out under the comparative analysis, you are duplicating some of the topics. That is going to be a juggling act. That is why we're paying you to figure out. I think from my perspective, even if we talk about it really does help to have something in writing to reach to. We don't want you to spend all of the time preparing for conference calls, but I think if you give us a product that will be used as your Table of Contents, that will be really useful and some examples of charts. We also have Ms. Miller's proposal. Did you want to separate those out? We are considering them for one report now.

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Mr. Kalish stated I would like to second what Mr. Maynor just recommended. Actually, take it a step further to let R. W. Beck know now that this type of Executive Summary, if you will, is something that we would expect them to create for the purpose of bringing this to the public and not just for public comment or a public hearing, but rather to reach out to the public in a complete and thorough outreach program presented by R. W. Beck to organizations varying from the Board of Supervisors, the Board of Supervisors staff, other elected officials, other appointed officials, other environmental community, just any kind of organization that might in any way be interested in this throughout the City to really inform them. I feel that there is a responsibility of the LAFCo to the public, and this is the best way that it can realize that responsibility. The reason for having R. W. Beck do the presentations is that they have the credibility and the independent view that they're not trying to push one agenda over another, so they will be above suspicion, so the chips fall where they may as far as the study is concerned, and get all of their findings out to the public. I would like to see them be the ones that do it.

Nancy Miller, Esquire stated on the Scope of Services that you have from me has to do with complimenting the services that your consultants will be provided. What I intend is to briefly summarize for you different types of governance structures in dealing with the issue of providing electric services. Depending on the recommendations, pros and cons that the consultants give you, there will be a section of specific ways that you could in San Francisco implement those depending on your Commission's decision. Those would include obviously amendments to the Charter designating additional duties to the SFPUC or perhaps similar actions similar to Measure F and then revenue type actions. I would also spend a little time on the Municipal Utility District and then the idea of City to spot municipalization issues that we have discussed in the past. This is all dependent

upon where your consultant goes in terms of the issues that they spot as pros and cons depending on the different types of governance.

Commissioner Schmeltzer stated I think that sounds good.

No further public comment.

Public Comment Closed.

8. Future Agenda Items

Chairperson Gonzalez asked Ms. Young, that last item was not an action item, was it? Or was it informational in terms of how we are proceeding?

Ms. Miller stated we are assuming that we are proceeding. Unless there are some indication that you want things to go different than how we presented them to you, then we will be proceeding as we have stated. I just want to make one thing clear. In that first draft, we will be asking the consultant to also have recommendations so in the event you want to take action in early June, you will have that opportunity.

Chairperson Gonzalez stated unless a Commissioner states otherwise, we were in support of the approach that Mr. Maynor was articulating if there is any doubt.

Ms. Young stated what I would suggest, and I just had a brief conversation with Mike Bell, is that we could have the Task Force process occur before we get our first draft and to look over the scope. By the 14th, we could look at perhaps an evening meeting for public hearing or the 21st, one of the two. That would be in June. We also wanted to discuss the attorneys and that process. We could do that June 7th and perhaps have the hearing on the 21st.

Chairperson Gonzalez stated so on June 7th if we could also re-calendar the item on the report by Commissioner Ammiano so he can address us and take any questions related to the presentation Mr. Benson made.

Vice-Chairperson McGoldrick stated I think Friday evenings are unusual for public meetings. The 14th of June and the 21st of June are both Fridays. Maybe some other weekday might be preferable.

Ms. Young stated what we could look at is the week of the 16th and see how that works with your schedule in terms of your Committee meetings. Some of you will have longer days because that will be when the final budgets are before you at the Budget Committee. We will look at the week of the 16th and see where there is better day for public comment. On the 7th, as I hear Chairperson Gonzalez, we will re-agendaize a presentation of Commissioner Ammiano. We will have the discussion of the inside versus outside legal counsel, and the third piece of that as I

understood from Commissioners McGoldrick and Fellman was to talk about the future LAFCo work plan.

Chairperson Gonzalez asked could we also add something related to what the public speaker noted, the possible presentation of this study to the public, any advantages, disadvantages and what we may want to consider?

Ms. Young stated and that would be on the 7th prior to our hearing the week of the 16th.

Vice-Chairperson McGoldrick asked what you are referring to is with the Budget Committee at the Board of Supervisors, there will be very long hearings, sometimes 12, 14 hours for three days during the week of the 9th, and three days during the week of the 16th scheduled for the Tuesday, Wednesday, and Thursday?

Ms. Young stated that is my understanding. The first round is the week of the 9th when you will have all of the departments coming before you and the second week is the final adoption.

Vice-Chairperson McGoldrick stated and on the Monday the full Board of Supervisors has hearings that could go until 5:00, but they could go until 10:00 p.m. as well.

Ms. Young stated we will look at what works because if the Chamber is booked, then we will have to look at another venue.

Commissioner Schmeltzer stated in light of that, does that mean that Monday is the only other day that there isn't the potential for budget hearings to go into the evening?

Ms. Young stated what I suggested is that we could possibly look at another venue. We would have to make sure that the Commissioners that are present here are not on the Budget Committee. Commissioners McGoldrick, Ammiano and Peskin are on the Budget Committee.

Vice-Chairperson McGoldrick stated which brings us back to those dates that you were recommending. If we were not able to do evening hearings, what about later on these afternoons such as late Friday afternoons to start at 3:00 or 4:00 p.m.?

Ms. Young stated when we raised this issue on the 7th, we may want to just think about those kinds of issues. My concern is that if we wait until the 7th to start talking about who we want to be there, how we get the report out, we won't have a lot of time for advertising and making it known to the public. We need to keep that in mind when scheduling that meeting if it is going to be the week of the 17th on the first draft.

Commissioner Schmeltzer asked I think what you said is that the Budget Committee meets Tuesday, Wednesday, and Thursday?

Ms. Young stated yes, it is my understanding that they meet Tuesday, Wednesday and Thursday starting the week of the 9th and the follow-up is the week of the 16th.

Commissioner Schmeltzer asked so we don't have that issue on Monday?

Ms. Young stated we have Board meetings.

Commissioner Schmeltzer asked on Monday night?

Ms. Young stated there is no way of gaging whether it goes into the evening. It starts at 2:00 p.m. Generally it's over at 6:00 p.m. There are some times public hearings and items such as closed session that may take you into the evening.

Commissioner Fellman stated what's the timing on the final deliverable? What have we told the consultants?

Ms. Young stated I believe that we wanted the final deliverable before the first of July. So if you're pushing it back, the issue becomes the second draft and the final.

Commissioner Fellman asked are Saturday public hearings unprecedented?

Vice-Chairperson McGoldrick stated I think there was at least one Saturday hearing for the budget last year. The Board of Supervisors had a Saturday meeting for the budget. It's unusual, but it is certainly a possibility.

Chairperson Gonzalez stated if I recall, the Board of Supervisors meetings during the budget time were relatively quick matters. They seemed to be relatively short meetings. So if we scheduled a LAFCo meeting on Monday evening, we might be able to accommodate it if we were thinking about 6:00 on the 17th because the Board meetings start at 2:00 p.m.

Ms. Young stated that's a possibility.

Vice-Chairperson McGoldrick stated or let's say 7:00 p.m. to allow a little time.

Ms. Young stated if we did that, then we would have enough time for this second draft and to notify people.

Commissioner Fellman stated I want to feel that the public input is incorporated, not just an afterthought.

Ms. Young stated, then we are looking at Monday, the 17th at 7:00 or 6:00 p.m.

Chairperson Gonzalez stated I would be interested in the possibility of having a discussion at the next meeting related to some of the current governing structure at the PUC to the extent that we've heard a little bit about what Prop F was and some of the duties in some general sense. Perhaps to have either Mr. Smeloff or perhaps the PUC could be invited to speak to us to explain its management structure right now.

Ms. Young asked do you see Mr. Smeloff returning on the 7th or is there someone else in mind that you have?

Chairperson Gonzalez stated if he is available and willing to do it. I think we've kind of put this idea of where there was a little bit of discussion on how Measure F related to elected by district type concerns and I think it might be helpful to know what the PUC looks like right now, how it is put together, and that sort of thing. It might not be a bad thing to get some preliminary discussion going on about it. I think one of the natural advantages for instance about district elections is that you assure that there is geographic representation on a body. On the other hand, sometimes the theory is that if you appoint directors, you can be assured that they are going to be exceptionally well qualified as opposed to running elections. I think it would be interesting to get some presentation.

Mr. Smeloff stated I will extend to the General Manager, Pat Martel, and if she would like me to come on her behalf I would be glad to do that, but it should go to the General Manager.

9. Public Comment on Items not on the Agenda

No Public Comment

10. Adjournment

The meeting adjourned at 5:08 p.m.

