

**San Francisco
Local Agency
Formation Commission**

ITEM NO. 2

City Hall
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MINUTES
Special Meeting
Monday, June 17, 2002, 6:30 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 7:15 p.m.

Members Present: Chairperson Gonzalez, Vice-Chairperson McGoldrick (noted present at 8:20 p.m.); Commissioners Schmeltzer and Fellman

Members Absent: Commissioners Ammiano and Hall

Chairperson Gonzalez stated, I am informed that because Commissioner Fellman is Commissioner Schmeltzer's alternate that we don't have a quorum insofar as we can't take action, but we can begin the public hearing. Just for the benefit of those that are here, Commissioner Ammiano who is the President of the Board of Supervisors is in the Board meeting that is still taking place as is Commissioner McGoldrick. Commissioner Hall, I believe, is in Ireland at the moment.

2. Public Hearing: Discussion regarding the First Draft of the Consultant's Energy Services Study.

Nancy Miller, Esquire stated, this agenda item is set for a presentation of the Draft Energy Services Study that has been prepared by R. W. Beck, Henwood, and Flynn

and Associates. At this time, unless there are questions from the Commissioners, we should go ahead with the presentation.
The Commissioners agreed to proceed.

Mr. Ken Mellor, R. W. Beck stated, I am going to try to go through this presentation relatively rapidly. As we go through, I am going to turn part of it over to Mike Bell who will finish it up.

Chairperson Gonzalez stated, I am not sure whether any of the other Commissioners are in a hurry. I am not in a hurry now that I am here, so take your time.

Commissioner Fellman asked, if we could just lay out the process for this evening.

Chairperson Gonzalez stated, I think we will hear from the consultants who have prepared the report and then we will open it up for public comment. The Commissioners can ask questions any time during the presentation or afterwards.

Commissioner Fellman asked, are we going to allow the members of the public to ask direct questions to the consultants?

Chairperson Gonzalez stated, they can come forward in the process of public comment and present questions that they think have not been adequately answered. To the Energy Consultants—how long will the presentation take?

Mr. Mellor stated, I think the presentation will take twenty minutes. I would like to start first with the purpose of the activity, the structure of our report, and talk about the industry structure. First, the purpose of this study is to support the development and the evaluation of San Francisco options. We've gone through a number of options, and we've looked at some key elements associated with those options based on what you asked us to do in the first place. That is particularly looking at the effect of any of these options on rates, costs, and pricing. Secondly, to look at reliability issues as to whether any of these options would provide more reliable power supply in San Francisco and then finally, looking at the issue of local control. You will find our report is organized that way to look at the options and then look at those key elements.

We've also broken the report into elements that really track the makeup of the electric utility industry. That includes first the wholesale power supply side, the generation aspects, and secondly, transmission. I would say that to start with, on the wholesale power supply side, that part of the report was done by Henwood Energy Services. Jim Davidson is here from Henwood and will be available to answer questions. I will try as I go through the report to talk about which parts were done by different consultants. Secondly, we look at the transmission issues and Barry Flynn is here from Flynn Resource Consultants. So, he looked at the transmission issues, particularly the congestion into the San Francisco Bay Area. Thirdly, there is a section on the retail side of the business, that is the delivery and various ways to deliver energy to the retail customers or the end users. R. W. Beck did that, and Mike Bell is going to present the

key parts of that. Finally, there is a section on conservation, energy efficiency, and renewable resources, and Mike is also going to talk about that.

As we get into this, we will find that we really focused on three different ways that you could structure this. One continues to rely a great deal on Pacific Gas & Electric Company as the distributor. Not just PG&E, but also the other status-quo participants like the California ISO for transmission concerns. On the generation side, the developers who are already in developing power plants. So we have looked at each of those aspects and compared those different approaches. We have also then looked at the San Francisco Public Utilities Commission (SF PUC) as a second tier or entity that would take charge of any one of these unbundled parts of the industry. Thirdly, looking at a new San Francisco Municipal Utility and you will find in the report, and I know it is confusing. When we talk about either of those two, the SF PUC or a new San Francisco Municipal Utility, we have called it SF Muni. We understand that is probably not a good term. We would invite anybody to come up with any suggestion that allows us to go back and globally change it so that we can come up with something that really says, we know that there is an initiative to look at changing the way the SF PUC is governed. Whether it is that approach to life, but we are really talking about some form of municipal entity being in the fully integrated power business in San Francisco. We don't know the right term. The fact is that when you go through this and look at the different results of either the SFPUC or a new Municipal Utility, you will find they are very much the same when they come to local control and when it comes to pricing. All those things--either one can do it about the same. So, we've combined them for discussion purposes to simplify the report. Any ideas as to what to call that approach would be fine.

We have a section in the report that talks about the industry structure and some of the important activities that have been taking place and will continue to take place and how that might affect the decisions that LAFCo would make with regard to which of these options to take. The first is that Pacific Gas and Electric Company is still in bankruptcy. A bankruptcy judge has two different options as to how to get them out of bankruptcy before them. The stakeholders are voting as to which of those to take, and it is likely that they will say that either one would work from their point of view. What comes out of the PG&E bankruptcy and that structure will be very important to rates and pricing issues. It will be very important to the options that you had before you. We just don't know what the outcome of that is going to be.

The second is that the Federal Energy Regulatory Commission has a number of proceedings underway. They are looking at whether or not there should be rebates because of the high prices in the year 2000 and 2001. They are looking at regulatory issues. How do they get rid of market gaming. They are looking at price cap extensions, and they are looking at transmission ownership whether there should be a regional transmission organization, whether it should follow what the current Independent System Operator is for California or some other structure. All of those things are going to effect how transmission is priced in the region. All of those are important and all of those create some uncertainties. The next issue is the California

Public Utilities Commission (CPUC). The CPUC is looking at direct access, whether it should be reinstated, whether in fact the right date for cutting it off was September 20, 2001 or July 1, 2001. I think more importantly they are looking at what they should do to be able to extend direct access. That is the ability for retail customers to choose their energy supplier. When they make that decision, it is very likely that coming along with that decision will be decisions on how those customers who take a new supplier will pay for obligations that have already been created. We call that non-by-passable charges, exit fees, whatever they might be. Those numbers are still very unclear and uncertain. I think we're getting some focus on them. As that happens, then the cost of the various options to you will start to change. You are going to need to track what is going on at the CPUC, and that will be very important to your long-term decisions.

Let me now shift to power supply. As I mentioned already, Henwood Energy Services has played the key role on developing this part of the report, and they are here to answer any questions at the end of this discussion. First, in 2000 and 2001, they talked about what happened. They talk about the fact that the investor-owned utilities were in effect required to be in the spot market. That is, they didn't have long-term contracts. The spot market was very volatile. It was a year when we had low hydro production, and that created losses of imports that would normally come into California. There were gas delivery problems driving up the price of natural gas which fueled the marginal generating units, particularly the combined cycle of gas-fired generating plants. Then there were traders manipulating the markets both in the gas and electric side of the business. Price caps that had been set by the Federal Energy Regulatory Commission (FERC) were not very effective. All of those things caused the problems that we had in 2000 and 2001.

Going to the near-term outlook. What Henwood has said is the fact that we had an economic downturn reduced the demand for electricity. Conservation was very aggressive in California so that helped. There are price increases. You've noted the PG&E price increases for example. There is price elasticity. You've increased the price 50 percent and people use less electricity so that was part of the game. New generation came online and regulation started coming in and taking care of some of the problems that were out there in the industry. All of those things ended up in a near-term outlook where wholesale prices have stabilized. There are comfortable reserve margins. Most folks think that we're going to get through this summer without major problems. However, all of those things I have mentioned earlier still create the uncertainty as to what's going to go on in the future. In fact, we have seen in the last two weeks some pretty volatile prices again. Even though what Henwood is saying that on average they are seeing stability in prices, we are still going to see volatility in real time from one week to the next depending on weather and those kinds of factors.

With regard to long-term outlook. One of the issues, and you will find this is mentioned both in the generation and transmission sections, the move of the regulators to locational marginal pricing could be very important to the City of San Francisco. That is because costs that are currently being averaged over the entire PG&E service area and in fact the whole state as far as transmission could all of a sudden be changed

such that San Francisco bears the brunt of the fact that they have insufficient transmission and generation in the area such that you are in a congestion area a lot of the time. So that locational marginal pricing could increase San Francisco's costs. There is the environmental risk from local gas-fired generation. A lot of attention has been given to that. There is technological change that could mean that any new generation that is built could have a technological shorter life. Also the fact that distributed generation and other kinds of generation are coming along could change the economics of something that is built today or tomorrow. All of those things create somewhat of a problem. If you look at the San Francisco situation with loads during peak of around 960 megawatts (just to put that into perspective, 1 megawatt is about the size of a big box store), so you've got the equivalent of 960 big box stores in San Francisco. Of that, about 650 megawatts of generation in the City is showing the reliance on transmission. That transmission is insufficient when that generation is down to support the whole City. So you need generation running in the City. The combination gives you problems with negative reserve margins, and so there clearly are some issues as far as generation in the San Francisco Bay Area.

Wholesale generation risk factors. One of the things that is stressed in this report is a need for integrated planning. One of the things that has happened with unbundling the electric industry is that nobody is doing that integrated planning right now. The generators are doing their planning, and they are doing that by themselves. They are not supposed to even be talking to each other. So each one is making their own decisions, financial for new generation resources. The transmission should be being planned by the California Independent System Operator, and that's not truly happening. So the transmission plans are not necessarily coordinated with the generating plans. Meanwhile you have conservation and demand-site management potential for distributed generation. All of those things that would reduce the requirement for transmission and generation and to the extent that you invest in that but it's not coordinated with the other things—you have a problem. So one of the issues here is how do you get integrated planning, and that is a function that would be very valuable for somebody to be able to do, hopefully, in San Francisco.

Secondly, price volatility. I mentioned that long-term average, Henwood sees stable prices, but in the short term, they change a lot. To the extent that people are out there on the spot market, then there is a great deal of risk if you are in that position. Forward contracts can be used to hedge those spot-market prices. So if you have a large part of your generating resources in long-term forward contracts, as long as the counterparty to those contracts are financially viable, then you have been able to hedge against those short-term markets.

Then there are all the other issues that go into this. If you are in the generation business and you are reliant on customers to take your supply, and those customers have the option of leaving, which they would under any of the direct access approaches. Even the community aggregation approach, the customer has the option to opt out and go to another supplier. If you have long-term commitments for generation, then you can have that kind of a problem. So you have the risk both on the

load side and on the supply side. If you own generation and it's down when you need it, all of those things put the supply risk on you. There is fuel price, which has been much more volatile in the recent past than it used to be. You have the regulatory risk. We don't know what's going on at FERC or the Public Utilities Commission. Weather changes the availability of hydro. It changes load substantially and then the transmission issues that we'll get into in a minute.

Finally, on power supply. There are a number of options, and I would note that we have put these options together. These were not put forward by Henwood, so I want to make it clear that this is R. W. Beck trying to put down some options here. One of the options is to continue to rely on PG&E and CAL ISO and hope that they do a good job in being able to develop the generation of transmission resources together that meets San Francisco's needs. The second is to continue to develop renewable resources. This won't do all of it. The more that you can do to get local generation through renewable resources will be advantageous to reduce the need for those other resources. You can rely on the developers—the Calpines and the other folks of the world who are out there building generation. They can come in and build generation and you can rely on them to do that certainly with a lot of local control. You can hope that gets it done. If you don't do those things and you quit relying on other folks, then the question is what can the City do? What we're suggesting is you can invest in transmission upgrades, and I'm mixing transmission and generation here a little bit because you cannot separate the two. So, you can improve your local situation with transmission, or you can improve your local transmission with generation. That means you can invest in either one of those, and there are different ways to recover your costs of that investment and we will talk about that as we go along.

Turning to transmission. Again, I would note that this section was developed by Flynn. There again, this locational marginal pricing comes up. Right at the start, the proposed regulatory changes that look like they're coming out of the Federal Regulatory Energy Commission seem to be pushing locational pricing. That would mean that because there is congestion into San Francisco, that San Franciscans will end up paying higher prices than people outside until that condition is fixed. San Francisco has less reliable electric service than other parts of the state and that's again because of the old and unreliable generation within the City and this limitation on transmission into the City. There are proposed Bay Area transmission additions, which would increase reliability and lower the exposure to those congestion charges. Conservation and local generation would help offset the need for that and improve reliability.

As far as opportunities for the City. The City can develop new transmission. There are different ways of entering the transmission business and recovering your costs. If you were to build transmission and turn it over to CAL ISO for its operation, then you could get your revenue requirements, that is the cost of doing that back from the money they collect system-wide, and you would be pretty well protected for your investments. If you do that, then you increase the reliability of the system and you lower this exposure to the congestion charges. A second approach would be to create a control area in the City. Again, if you did that you would invest in transmission, but you would probably

also eat the total cost of that transmission. That is higher costs, but you would get some additional reliability benefits potentially. That is, if you can escape rotating blackouts because you can show that you're fully resourced in San Francisco, and you have (unclear) this control area, then you might be able to avoid those rotating blackouts and improve reliability. But there is a cost of doing that. It is an expensive approach and it would probably overall increase prices. You can't have targeted transmission. Right now, the San Francisco Public Utilities Commission is building some transmission lines. Therefore, city loads could be expanded to serve other loads and have the capital investment of those transmission facilities paid off by being able to serve those additional loads. That would potentially lower the cost for everybody in the City. Those are the main transmission options. With that, let me turn over to Mike, who is going to talk about the retail side of the picture before we go to questions.

Mr. Mike Bell stated, let me start out by first announcing the current service providers within the City. There are two. One is Hetch-Hetchy Water and Power which provides power to mostly City services and loads. The other is Pacific Gas and Electric Company serving residential and business consumers within the City. The options that were evaluated in this stage of the study include aggregation, integrated distribution services, and spot municipalization. What I would like to do is spend a few minutes going through each of those options and identifying the key issues and components of those options. We have broken the aggregation into two different basic services. I should point out at the outset that aggregation as of today is not viable because state law prohibits it. But aggregation is well worth discussing at this point because it is very likely that at some point in the future it will return as an option. It should be certainly discussed within the context of this study since it is likely to reappear.

The first alternative that we looked at is facilitator of aggregation. This is based on the association of California Water Agency models or what I will call the "Aqua" model. In a moment, I will show you a graph that in a pictorial sense makes it a little easier to communicate the message that I am trying to communicate here. In this alternative, the City would facilitate the contracting of these aggregation models. There is very limited financial risk to the City because they are not a party to the contract. In this case, they are assisting others to enter into these contracts. They provide stable and predictable energy costs and also provides the City with an opportunity to provide renewable resources. The graphic demonstration of this model gets to the point that I was making regarding risk. In this case, the City would actually facilitate by going out with a Request for Proposal (RFP) the acquisition of energy service providers that would then enter into contracts with individual end-users thereby effectively insulating the City from taking a risk position in terms of providing this service. That is the facilitator option with regard to aggregation.

The alternative would be for the City to become an energy service provider itself. This is a model that is akin to what the Association of Bay Area Governments did while aggregation was in place. In this case, the City would be responsible for contracting and would be in a position to assume greater risk. It also provides a better ability to manage and hedge costs and may provide more substantial returns for those parties

involved. It, also like the other model, provides for the ability to include renewable resources in the portfolio. Just to compare and contrast this to the earlier model. In this case, the City would actually enter into contracts. That could be with generators, with marketers, with energy service providers or any combination of those and then would in turn would enter into contracts with end-users for the use of that power. Similar concept and ideas, but entirely different risk principles involved.

Finally, with regard to aggregation. It's worthwhile spending a few minutes to talk about AB 117, which is the Migden Bill. Under this bill, there is an opt-out provision. I will come back to that here at the end. That is important in terms of providing for customers right up front should this bill pass and become legislation. Also included in the bill is that the service boundaries would be the same as the existing current boundaries. In this case, the same as the City boundaries. It also includes provisions to compensate the California Department of Water Resources for the contracts and supplies that it has contracted for and allows the Public Utilities Commission to set exit fees for those that would be exiting the IOUs facilities. This bill would be similar to the standard aggregation concepts except this City would not compete for initial customers. Essentially, under this bill, if the City were to move forward, all those customers would move over to the City-service provision.

Chairperson Gonzalez asked, I take it the customer would have to opt-out?

Mr. Bell stated, that is right. That is where that term comes from. Typically, that is a lot easier in terms of that many people choose not to take that action so your customer base right at the outset is going to be a lot larger than having to go out and sign people up.

Chairperson Gonzalez stated, is there a theory on what the percentage difference might be?

Mr. Bell stated, I haven't seen, but it's probably going to be a very high percentage, maybe 80 percent or higher that would remain.

Commissioner Schmeltzer asked, do you know what the numbers were in San Francisco for people who opted out of PG&E service when that option was available?

Mr. Bell stated, no and said he would move into integrated distribution services. The options there would be to maintain the status quo as we have discussed with PG&E, CAL ISO, and existing providers. Another option would be the PUC Hetch-Hetchy Water and Power option. There also could be a new independent municipal utility established under a different scenario. There is the possibility for spot municipalization which is simply municipalizing new services as they are developed as opposed to existing services. Lastly, some combination of the above. They don't necessarily all have to fall into one of these boxes. There is the ability to mix and match. What we tried to do in the next several slides is provide a comparison between the public or municipal service as opposed to PG&E services. This first chart really gets at the basic

fundamental operation of the systems which under either circumstance are going to be fairly similar. First the electric distribution operation and maintenance—the standards, construction practices across different utilities are pretty common and pretty standard. There wouldn't be much difference depending on the ownership for that particular category. The reliability—the standards are measured by the same indices. In this case, the frequency and duration of outages. Those would be similar standards. From a safety standpoint, no matter who the owners of the facilities are, they would need to comply with General Orders 95 and 128 standards. So on this side, there are very few differences.

Where we start to see differences from ownership begins with the financing and pricing, the financial side of the business. Publicly-owned systems have access to tax-exempt debt for at least portions of their business. Whereas, the investor-owned systems are on taxable basis are through some stock issuance. Sometimes within that environment as we have seen of late, the ability to finance can be unpredictable and at times costly. You are seeing that right now with the independent power producers who are having difficulty raising funds in the capital markets. There are also substantial differences in rates and pricing between the public systems and investor-owned. The public systems have historically enjoyed a rather sizable price advantage over the investor-owned systems on the order of magnitude of around 20 to 25 percent. Usually though, we find that IOU's have more pricing options involved in their rates. Sometimes with that comes more complexity. The issue of taxes often comes up comparing publicly-owned systems with the investor-owned. Public systems are not obligated to pay all of the same property taxes and franchise fees that investor-owned systems are. However, it is important to note that many public systems do pay fees that have a different name, but essentially provide for the same compensation to public agencies that they are members or within local jurisdiction of.

Chairperson Gonzalez stated, before you move on. The question of the prices being traditionally lower from a publicly owned versus IOU. To what extent is that directly a result of the tax-exempt bonds, or is it the other way around? Is it some of the exemptions from property taxes and things like that?

Mr. Bell stated, it is a combination of all of those factors.

Chairperson Gonzalez asked, which would you say is the most significant?

Mr. Bell stated as of late, I would say that owning one's own generation has provided the greatest savings. Those municipally or publicly owned power systems that have not been subject to the spot market price volatility and have had some self-control or self-generation are the ones from a financial standpoint that have beared well. Long term, having the advantage of tax-exempt debt and the other options are of value. If you were to look at a thirty-year period of time, it would be a greater portion of that picture. Certainly, in the last two years, the insulation that any of the publicly-owned systems have had to the generation costs has been quite substantial.

Finally, with regard to the comparison. The publicly-owned systems are self-regulated and in many cases have an elected governing body and in some cases appointed governing bodies that are appointed by elected officials who are accountable to their local constituents. Whereas, the investor-owned utilities are regulated at least by the Utilities Commission and the Federal Energy Commission.

Chairperson Gonzalez stated, to the extent that you are seeing a value in outside an elected body insofar as you have appointments by an elected body—doesn't that apply to the CPUC or the FERC?

Mr. Bell stated, in a global stance, yes. For example, a FERC is a good example. When prices started to go up in California and the FERC was petitioned not only by first the constituents and residents of San Diego, but later the investor-owned utilities themselves. They failed to take action and address what was perceived at the time as a California problem. It was only after the entire Western United States, the states of Oregon, Washington, Nevada, Arizona, and Utah all started to experience problems that FERC started to take action. It was slow in coming. I guess the point that I am getting at is when you talk about local control, it is local, not in Washington, not elsewhere where it is more difficult to get through to those individuals.

Chairperson Gonzalez stated, I guess I am not thinking of it from the view of a geographic question of local control, but really whether or not how far away are you from that direct democracy of the elected decision makers? I think you probably saw Mr. Smeloff's presentation about some of the distinctions in some of the various utilities throughout the country and various models. But anyway, I interrupted you because you were setting up the dichotomy on the one hand of what it is to have a direct election and or appointments from elected folks. It seems to me that essentially encompasses any paradigm or model that you could come up with.

Mr. Bell stated, and that is going to flow through any number of these and would be an important area of discussion and further debate in terms of how best that could be structured. Back to the public purpose programs. Again, having the local control allows for programs that are tailored to meet local needs and local concerns. Many of the existing public power utilities have structured their programs for their own unique needs as opposed to the IOU programs, which are basically established by the Utilities Commission and the Energy Commission and apply to all parties involved. It just simply provides for local flexibility and control. Then resource mix, the municipals and public power systems have generally had greater access to federal hydro-power whereas the IOU's have had declining access to the power.

What I would like to do next is talk a little bit about the impact of the alternatives starting with the facilitation of aggregation. What we would envision is that there would be a small positive price impact of facilitation of these types of agreements. Unless Hetchy-Hetchy power was available, in which case that could be a substantial amount. For purposes of this study, we have not assumed that the Hetch-Hetchy power would be available. That would be something that would be worth pursuing and evaluating were

the City to move forward. We've said no change in reliability here simply because the size of this program would probably be relatively small and focus on the end-user and wouldn't change that reliability picture greatly. But it certainly would provide for greater local control in terms of rates, public benefits, and so on. The aggregator as an energy services provider would have a small positive impact unless Hetch-Hetchy was available. Also, very little change in reliability and greater local control. This is very much like the facilitator absent the risk. I am going to spend a few moments on the full municipalization.

Mr. Dennis Mosgofian asked, why make the assumption that Hetch-Hetchy power isn't available when the presumption is from Prop F today that we were working on simply reforming the PUC and renaming it Water and Power Agency? Hetch-Hetchy was not changed—it was part of it and so was the power.

Mr. Bell stated, the reason we've not assumed that is because we believe that there would be certain legal questions that would need to be entertained as part of that analysis. There are existing contracts that Hetch-Hetchy has to provide output and sell sales to other entities. That would need to be reviewed. The point that we're making is that is certainly a strong and powerful consideration, but we are not attorneys and certainly not able to provide an opinion whether that would be available. Under either option it would be something that would be clearly in the City's interest in pursuing.

Chairperson Gonzalez stated, to the extent that you are talking about municipalization at all and about SF Muni, wouldn't your remarks now equally apply to that? That you're not an attorney and that would require a certain action on the part of either a local government or the citizenry to change let's say the SF PUC. It seems to me a fair area of inquiry that not withstanding the commitments we have to the long-term contracts that Hetch-Hetchy might have to Turlock, Modesto, whatever, that it is...

Mr. Bell stated, let me say that it is entirely conceivable that those potential obstacles could be circumvented. But from the standpoint of an analysis or an initial feasibility review such as this to simply assume that that would be the case would be an unsafe assumption.

Chairperson Gonzalez stated I am not asking you to assume that that would be the case, but it is an option to the extent that we might take certain steps that make the assumption real.

Mr. Bell stated, that is why I am trying to point out that that's an important piece and is very critical should the City move forward to include that package. By small, I mean it is probably in the range of single-digit percentage absent that piece. If you include that, it is well into the double digits.

Chairperson Gonzalez stated, it might be helpful that as you consider some of the options from aggregation to municipal control that in certain of those models, Hetch-Hetchy power and the ability to make it available is a consideration.

Commissioner Schmeltzer stated, in moving from this draft to the next draft, it sounds like there is the opportunity to incorporate some more explanation about the role and the potential role of Hetch-Hetchy. Giving an analysis of what the percentage difference would be if it were available versus if it were not available is something that it sounds like you have a pretty good idea about and could incorporate into the discussion. Is that correct?

Mr. Bell stated, we could work as we finalize the report and as you duly note, this is a draft and it is still a work in progress. That certainly would be appropriate to do as we move forward.

Impact of alternatives for full municipalization. Prices under full municipalization would be very much dependent upon the cost of acquisition of the system. Any potential severance cost from the PG&E system, the overall power-supply, and any exit fees that may or may not apply. Again, not to belabor the point, but Hetch-Hetchy is an important piece of the puzzle that would need to be considered. Transmission costs within the system could increase just based upon the mechanics and the structure of the system. The downtown financial district area is on what is called a network system that is very expensive to maintain and has unique operational requirements associated with it. However, to offset that, you have a very compact and distinct service area with many users. That, as opposed to the sprawl of the PG&E system and other parts of their territory where you may have vast differences between hookups is a positive economic impact that would lower costs. You have synergy with the services already provided by the Public Utilities Commission. That Commission is providing other related services that fit well with this type of product.

Commissioner Schmeltzer stated, you have brought up the issue of exit fees a couple of times. Is there a discussion of what the relative impact of those exit fees might be or what is being considered by the California PUC as far as the size of those types of exit fees?

Mr. Bell stated, there is some we could probably elaborate a little bit more. But, you have items such as the Department of Water Resources contracts, the payoff of debt for the IOU's. There are any number of components that haven't been established yet. Furthermore, nobody has gotten as far into this process to have those fees established. So, there is a little bit of uncertainty involved with regard to those fees. They certainly can be identified as to what they are and what pieces may or may not apply.

Commissioner Fellman asked, would it be fair to say that on the exit fees it is the goal of PG&E to ensure that customers are indifferent to whether they are PG&E customers or they would be City of San Francisco customers? Should there be some form of aggregation?

Mr. Bell stated, at least that. The same would apply for the State of California that will wish to recover their full cost for power that they purchase since they assumed that role. The pressure there will be intense to see that all of those costs are covered.

Commissioner Fellman asked, so if we assume that the exit fees keep the customers indifferent, would your estimates of pricing advantage still hold true?

Mr. Bell stated those estimates are based on historical relationships and yes, I don't see any reason why that wouldn't apply absent the leveling of those fees. That is the final point, essentially, that the pricing conclusions at this stage are difficult, subject to change. However, there has been historically an advantage for publicly-owned systems in the range of 20 percent.

Again, on reliability, we've indicated no change. I really, probably as we move towards the final report, would change that some. When you assume the local control, you are assuming a greater level of decision-making over the resources that will best suit your needs. The example of that that was discussed earlier was generation and transmission. Obviously, if you exert greater influence over those areas, you can in fact enhance reliability. Or you can choose to simply invest more and have a greater portion of your rate dedicated to reliability. So, that's something that in a municipalization option you would have available. What I am saying is that as a City is in a position to have greater influence over the resources and the investments in infrastructure, it can enhance its reliability. Just by virtue of the fact that you are in that decision-making mode and not totally reliant on others to do it, you can in fact impact your reliability. Then again the greater local-control, which we have already talked about.

With regard to conservation and energy efficiency, San Francisco is already looked upon as a national leader in these areas. But in addition to that, we come back to integrated-planning. Really having the ability to pull together your planning of all resources and projects lends a much greater impact on your future course of action. In addition to what already has been done here, and I think some of these are already in place. You have heard from Mr. Smeloff on the activities that are being undertaken. But, this greater local control can relieve some of those ongoing service concerns.

In conclusion, I think it is important to note that San Francisco is presently at risk. There is limited transmission into city-load centers. There is old, inefficient, and environmentally unfriendly generation within the City, and there is a regulatory structure that subjects the City to price volatility. And if as was mentioned, the locational pricing of transmission goes into effect, the City will even be at greater risk in terms of those fees because it is not a shared cost over a wide region--they are going to be narrowing those regions down. If that happens, an area that is generation and transmission constrained such as San Francisco would be at even greater price risk than it is now. There are advantages clearly that San Francisco has also. The Hetch-Hetchy is clearly a very strong advantage to the citizens of San Francisco. Also, the broad public

support for renewable resources, renewable resource programs, conservation and energy efficiency and local involvement are tremendous strengths that the City enjoys.

Options to consider include ownership, participation, local generation, and power supply markets in several of the existing objectives. That can include increasing local generation. There has been some talk of that. Substituting existing generation by relieving the old out of date inefficient facilities and replacing them with ones that are much more environmentally friendly than the existing resources that are there as well as distributed generation. Putting in smaller scale units at various strategic points within the system that can help relieve transmission and distribution constraints significantly if they are positioned in the right places and serving the retail load.

Also, options to consider are transmission expansion to enhance reliability of the overall system and offset some need for local generation as was pointed out earlier. There is opportunity through greater transmission access to relieve the need for local generation. The other benefit of transmission enhancements is it will relieve these congestion prices. If in fact FERC moves towards locational pricing, having greater transmission resources will result in less congestion and lower prices. Again, options to consider include both forms of aggregation. That becomes more of a policy level decision as to the facilitator role which is a little less risky as opposed to the energy service provider role. Also with community aggregation. If the Migden bill moves forward, that may present some opportunities.

Then finally, providing electric retail services as part of municipalization. That could be anywhere from the smaller spot municipalization that covers very defined geographic areas to more broad service of the full distribution system. Also, efforts to increase conservation, energy efficiency, and renewable resources and the like. That basically concludes the prepared presentation. I would like to again say that this is a continuing work in progress and over the next two to three weeks, we anticipate finalizing the study, but we're continuing to work on it amongst the three firms.

Commissioner Schmeltzer asked, I was wondering if we should talk about receiving comments on this draft in addition to tonight? I think we were hoping to receive written comments until the 26th of June. We are expecting to have the final report out in early July, so that would hopefully give people the opportunity to read the report and submit written comments. Does that seem like a timeframe that would work?

Chairperson Gonzalez stated, I think everybody is in agreement.

Commissioner Fellman stated, what we would also do on our meeting on the 28th, if anyone wanted to submit oral comments, we would take them at that time as well. But written comments would be by the 26th.

Gloria L. Young, Executive Officer stated, that is correct. We would accept written comments up until June 26, 2002 and provide those to the consultants. We will also have copies of where those comments can be mailed at the Front Counter at Room

244. So the comments can either come to me as the Executive Officer or to Monica Fish, the Commission Clerk.

Vice-Chairperson McGoldrick stated, will we have met the requirements of the Sunshine Ordinance regarding those comments? Do those comments have to be part of a package?

Ms. Young stated, as long as the comments are written, we will put them in the packet that you will receive on June 28th. If they are in fact sent to us electronically, we will forward them electronically to the Commissioners and Consultants so that you have them in advance.

Vice-Chairperson McGoldrick asked, since these are comments coming from the public, do we have a 72-hour requirement?

Ms. Young stated, no.

Commissioner Fellman stated, I understand that we will continue working with the Commissioner Task Force directly with the consultants to incorporate the Commissioner's comments as well.

Chairperson Gonzalez asked, Mr. Maynor, I wanted to ask you whether or not in your review of the draft you felt comfortable with its presentation? I know there was some discussion about the form.

Donald Maynor, Esquire stated, it's a first draft. Questions are coming to mind for many of us. It's the first time we've gotten a close look at it. I have a lot of questions that are coming to my mind. I appreciated some of the things that Mike was saying at the end. Particularly the unique risk that San Francisco faces. I think it will be useful for them to build on that part of the report. We will talk about that to our group, and I am sure we will all have some thoughts.

Mr. Ed Smeloff stated, I had not come to make remarks, but if you have questions, I will be glad to answer them. In general, I think this is a very helpful document. In particular, some of the issues related to transmission actually are new to me. I have a better understanding of the wider Bay Area transmission issues and the potential that there is congestion even further out in the grid beyond the Northern San Mateo area that is impacted by our availability to have generation here. The fact is that we do need to have in-city generation, not just to meet the peak demands here in San Francisco, but to decongest the transmission lines further down the peninsula even across the Bay when there is heavy demand within the overall Bay Area.

Chairperson Gonzalez asked, what can you say about the congestion costs that could accrue to a municipality such as San Francisco's in terms of moving towards more local control?

Mr. Smeloff stated, this issue that I think the consultants have brought up about locational marginal pricing is something that we at the PUC have followed very closely. If not implemented correctly, it could have a negative impact on both municipalization, and if you don't have municipalization depending on what the CPUC does could impact electric rates here. Locational pricing is the way that the ISO's work in New Jersey, New England, and New York. There is a good theoretical reason for doing locational pricing because it is more expensive to serve in congested areas, in areas where there is not transmission. From an equity point of view, San Francisco ratepayers did not design the transmission system. The fact that there are shortages, that there are constraints in the transmission system is a historical decision that PG&E made in how it was designed. Now, at this point in time to change the rules of the game and penalize San Francisco ratepayers as something that we have told the ISO governing board and others as patently unfair. The Mayor has written a letter to the chairman of the FERC pointing out this issue. I think the Governor is very much aware that this is an issue that this locational marginal pricing doesn't only impact San Francisco, but impacts some other load pockets in the state as well, San Diego being the most notable one, but areas, like Humboldt County and Fresno. On a separate venue apart from municipalization, we need to be very aggressive as a city in opposing this quick movement to locational pricing.

Chairperson Gonzalez stated, the other thing I wanted to ask you about related to the remarks about aggregation, specifically the models, the "Aqua" versus the ABAG model. I know there has been a lot of talk about the City taking on a role as an aggregator. I am wondering which of the models you have in mind?

Mr. Smeloff stated, the model that we are favoring is that the City would be an energy-service provider. It already has the experience of operating the Hetch-Hetchy system, is involved with the ISO in scheduling load to meet the City's municipal load. The real advantage of being an energy service provider is not just entering into contracts with other generators, but to develop our own supply here in San Francisco. In the median term, the real savings that we can achieve through municipal control, and I've said this repeatedly, is the phase out of Potrero and Hunter's Point. These are inefficient plants. They are expensive. They are under these reliability must-run contracts with the ISO. Ratepayers and PG&E are paying about \$75,000,000 a year simply for the availability of those plants to provide reliability. If we can put in energy efficiency and more efficient generation, we can lower the cost of the system and save monies for San Francisco and region-wide. That is a key reason to be an energy service provider rather than simply a facilitator of other energy services providers to come here in the market. You really want to have a long-term commitment to developing resources if you want to green the portfolio and increase reliability. A facilitator really doesn't in my mind enable you to do that.

Chairperson Gonzalez stated, let me ask you this. Do you think it would be a value to explore the model that you are suggesting, this energy service provider in the context of aggregation? Mr. Bell, do you have thoughts on that?

Mr. Bell stated, I think within the context of Mr. Smeloff's comments, there are clearly ongoing activities that would make the energy service provider role one that may be more favorable for the City given the fact that many of those activities are already talking place.

Chairperson Gonzalez stated, the question I had was whether you think that is encompassed in the models that were put forward here today insofar as this is a draft.

Mr. Bell stated, and I believe so in the energy service provider model. We can have some further discussion with Mr. Smeloff as to what current activities are in place so we have a better appreciation for that within that model.

Commissioner Schmeltzer asked, is the model that Mr. Smeloff described or you are referring to as the ABAG model in here? Were there differences in what he put forward from what you think is encompassed?

Mr. Bell stated, no. They are basically the same approach.

Chairperson Gonzalez stated, the reason I see it as something different is just from the model as I see it has the city contracting with the energy services provider. Seeing that that doesn't quite fit in with the notion of the City being the energy service provider or actually having control over that directly without...

Mr. Bell stated, same concept. If I were to go back to that chart, it could be generation was one component. That could be the City's own generation. It doesn't necessarily mean that it has to be contracted with another party. That would clearly fit under that particular model. It could be the City's own resources or other.

Commissioner Fellman asked, were you here when Chairperson Gonzalez was discussing the Hetch-Hetchy system? While you were here and while Mr. Bell was here, I just wanted to remind you to coordinate with Mr. Bell. I don't think we should be replicating what is being done in the SF PUC's plan in this report. But we should be at least able to reference those sections and summarize what's being done. If that is something that can be done within the next few days, that would be great.

Mr. Smeloff stated, I think they understand the nature of the long-term service contracts with the districts. We are in negotiations with both districts trying to eliminate both our risks and our long-term obligations. I am certainly glad to brief as with the City Attorney the members of the Board of Supervisors. I don't think I am in a position to discuss this with consultants since we are in negotiations right now. I can certainly tell them details of the contracts, what the risks of those contracts are, what our obligations to the districts are.

Commissioner Fellman stated, I think what you have just said is sufficient for our report. I wasn't asking for a full briefing. I think Chairperson Gonzalez was concerned about assumptions that were being made where Hetch-Hetchy was out of the picture in terms

of the lower cost power. We can say that there is a path to getting lower cost power in the report.

Commissioner Schmeltzer stated, but that path doesn't have to be outlined in the report.

Mr. Smeloff stated the path is to change the structure of the contracts or to nullify them entirely.

3. Public Comment

Mr. Dennis Mosgofian stated, one of the consultants asked for suggestions as to how to name the new agency. I am going to make a suggestion that it be called the Municipal Water and Power Agency just like it was under Prop F, which was all frankly part of this process. It is really an integrated part, and it would be a mistake to just ignore last year's history. I had a question for one of the consultants based on a transmission issues slide, which talked about planned Bay Area transmission additions that would increase reliability and lower exposure to congestion charges. It was on about the sixth slide and or so. I want to know what the other alternatives are other than the Jefferson-Martin transmission line.

Mr. Barry Flynn, Flynn and Associates stated, there are a number of alternatives, some of them we would say are in the advanced planning stages that affect the transmission into the Bay Area. Just from memory, some of them are like adding a transformer at Metcalfe, at Tesler, and at Tracy substations of 500 to 230 KV transformers. Those are in the advanced planning stages and implementation in some cases. In terms of the long-term alternatives to adding transmission into the Bay Area, they are part of a long-range Bay Area study that is now being completed by PG&E. Now, we're talking about eight to ten years out in order to complete them. Those involve adding additional transmission lines from Moss Landing Power Plant into Metcalfe, adding a new 500 to 230 KV bank near Sunol and bringing additional 500 KV lines into that new Substation near Sunol, building 230 KV from there into Newark. Then in addition to that, there are some alternatives investigating as part of the long-range planning effort to upgrade some of the 115 KV lines that leave Newark Substation and go to Hanes and on to San Mateo to convert those to 230 KV. Those are the projects that are planned for bulk power into the Bay Area per se.

In terms of those more closely related to the transmission system into San Francisco, there were three alternatives that were investigated at Phase 1 in the long-term study. One was the Jefferson Martin 230 KV line. That's from a substation up near the skyline area of the Peninsula into Martin Substation which is just south of San Francisco. A second alternative investigated was to build a new 230 KV underground line, a second one from San Mateo Substation to Martin Substation. A third one would be to bring a 230 KV line across the Bay Bridge or bury it under the Bay or across the Bart tube from the East Bay into a termination at the Potrero Power Plant. Those were the three that were most closely tied to San Francisco. The Jefferson Martin alternative was the one

chosen and the permitting studies had been done. That is the one where there was a transmission line that PG&E is proposing to build, has ISO approval, and would go into the PUC for CPC and in September. The other two alternatives will be investigated as part of the Phase II long-term planning effort to San Francisco. That is just now getting underway. The scope for that study was included as an appendix to that report.

Mr. Mosgofian stated, I have one follow-up question. The line that was proposed that would perhaps need to be buried or be along BART or be on the bridge, was that proposed to help provide collateral circulation to avoid the vulnerability from a seismic event along the Peninsula? Was that an alternative to come across the Bay instead of up the Peninsula?

Mr. Flynn stated, I think it would be wrong to say that just the concern about a seismic event causing a loss of transmission was the main driver behind that particular alternative. Clearly, when the three alternatives that I mentioned were studied, one was from San Mateo to Martin. The other one was from Jefferson to Martin, and the third one was from essentially Moraga Substation to Potrero coming across the Bay. The two alternatives that did not favor coming from San Mateo to Martin, which would be a parallel to everything that is there today. The Jefferson Martin and the East Bay alternative were considered more reliable because they came from different sources. There are a number of reasons why a single event could take out the corridor from San Mateo to Martin. Clearly, an earthquake would be one of those.

Mr. Mosgofian stated, my concern about that particular area was that it would seem to me if the concern for earthquake vulnerability in San Francisco was paramount, then it would make sense to come from a different direction for a transmission line in order to avoid whatever could happen on the Peninsula. That was my thinking, impression I have been given, things I have read, and hearings I have gone to. I had a couple of other comments, and I was hoping that Supervisor Gonzalez would be here to hear them. In the Executive Summary, Report Purpose and Industry Structure, Page ES-1, at the bottom of the page under a bullet called Governance. It says in the last sentence "the addition of new transmission can relieve the need for local generation and aggressive conservation." I take the and to be a but. "And energy efficiency programs can offset the need for transmission, generation, and distribution." I want to raise the question of whether or not the study focuses sufficient description on San Francisco's interest in having local control in a public power utility, such that we don't find ourselves with new transmission lines undercutting our ability to get to renewables and distributed generation as has been proposed in some of the scenarios?

Mr. Mellor stated, we tried to make it very clear that integrated planning is critical and very important to the outcome. We were not intending to say you do one or the other. But really, you look at all of them together and come up with the optimum plan.

Commissioner Schmeltzer stated, that is something that can be clarified between this draft and the next draft.

Mr. Bruce Brugmann, Bay Guardian stated, I am delighted to see this report. We have been pushing for it since 1969 at the Bay Guardian. The key fact is that through all these years, PG&E has done everything they could to keep a report like this even in its limited form from coming to City Hall. You folks are to be congratulated for doing it. Mr. Bell and his group here that came in and talked about municipalization—nothing has happened to them as far as I can tell. They're still there. I think they should be careful when they leave the building though.

This is a historic report and among other things, Mr. Bell and the group have said that PG&E after all these years, after the Raker Act, after the Supreme Court decision, after, after, after. You've heard me make these points before, but it's even more important to make it now. After all of these things, PG&E has left us at terrible risk. Even though we are the only city in the United States of America that's required by law and the United States Supreme Court to have public power, we don't have it. That's what I am getting at here. We have a good report, but it's limited. The report says in several places, without an in-depth analysis, how can all of these pluses and minuses work out in the short term? However, in the long term we're all dead in the long-term. I like the short term. If San Francisco is like other public power communities, it is likely to obtain a net cost advantage in the neighborhood of 20 percent. That's a lot of money. Further in here, they ask for in-depth this and more of that. They mentioned that if we move toward acquisition, PG&E is going to have vehement opposition. This is a key point. The next step. So the question for the consultant and the question for the Commission at this critical juncture after the MUD campaign lost by 500 votes, after we have an introduction today of a new initiative or measure aimed at municipalization, how much more specifics can the consultants give us toward acquisition? The key figures that we need. Or do we need another study? I think we do. Commissioned immediately by LAFCo to move ahead on the very issue that LAFCo was created on. You folks didn't come from spontaneous combustion. You came from a MUD campaign aimed at bringing public power to San Francisco and kicking PG&E out of City Hall. That was the point. That's why you are here. The next step is to either get from the consultants more specifics here to help answer this question...

Chairperson Gonzalez stated, Mr. Brugmann, let me interrupt you. I am with you to a certain extent. I think the reason the LAFCo was created was a unique reality in trying to deal with the citizen MUD issue and some of the requirements. There was a sense that this had to get LAFCo review prior to being able to being placed on the ballot. That is why this Commission got created.

Mr. Brugmann stated, but they were created by the MUD campaign. Otherwise, they wouldn't be here, right?

Chairperson Gonzalez stated, the levels of specificity that I think folks would all like are very difficult to arrive at when you have the kind of volatility and the kind of numerous factors that come into play in existence. I think what the consultants are trying to do in this document are to lay a foundation to some of the considerations and some of the issues that need to be there. I do personally find it very significant when they take a

figure like 20 percent, which they are arriving at from what they're looking at around the state and what happened in other areas. I think that is a significant point.

Mr. Brugmann stated, sure it is significant, but PG&E can knock that out in a one full page ad. A careful analysis of severing the distribution system from the rest of PG&E's system would need to be performed as part of any feasibility study. All of the way through here, they say we need to examine more, we need to get a careful analysis, we need to detail this, we need to detail that. This is a forward.

Chairperson Gonzalez stated, even if the MUD measure had passed and you had MUD directors, what would they have done? They would have convened and started to try to make some of the inquiry that you are saying and that the consultants are acknowledging, I think everyone would acknowledge that you would need before you took the actual step. In terms of the beginning of the process whereby you have a municipality or a water and power authority decide that it's in the municipalities' interest to engage in local control and start to take those steps--I think that's what you are finding in this document.

Mr. Brugmann stated, that is fine, but we need more. This is just a start—that's all it is.

Chairperson Gonzalez stated, well you're never going to be satisfied until we do it.

Mr. Brugmann stated, no, I will be satisfied when you provide a few more specifics. This is an argument for a charter-light. This is not an argument for a charter-heavy. That's what I am getting at. To get to do a charter heavy, to talk about acquisition and not limiting the City from acquisition, you have to have some figures. I have been sitting for thirty-some years now listening to PG&E say, it's costly, you don't have any figures, you don't have this, you don't have that. We have done endless feasibility studies at the Guardian.

Chairperson Gonzalez stated to Mr. Brugmann, when the cost of so much of what we are talking about is dependent upon bankruptcy proceedings and on actions of the state legislature that are going to happen soon, do you really want to send these consultants off to numbers that will be good for a week or two?

Mr. Brugmann stated, not for a week or two. I think this is the best consulting firm in the country for public power. I would like to hear them answer these points and say what specifics they can provide on these points because all of the way through here they talk about a careful analysis, a detailed study. On the next page here, a cost-benefit analysis of this option would quantify this impact.

Vice-Chairperson McGoldrick asked, what page are you on?

Mr. Brugmann stated, pages 4-9, 4-10 in particular because that gets into the "guts" of it. It is not likely that the construction of a parallel system would be acceptable or practical for San Francisco. This option will not be discussed further here. The new

utility would therefore need to purchase and acquire the PG&E distribution system. That's the "guts" of everything. Then it says a careful analysis of severing the acquired distribution system from the rest of PG&E's system would need to be performed as part of any feasibility study. That's the "guts" of this. What we need to find out is what would be involved from the consultant's point of view in getting a credible but preliminary answer to that question. They've done studies like this all over the country.

Chairperson Gonzalez asked, Mr. Bell, do you want to respond to Mr. Brugmann?

Mr. Bell stated, I think that in response to that--at this stage, it is important for City leadership and decision makers to at least make some preliminary determination as to whether or not there is the will and interest to take on something as large as a full municipalization of the entire PG&E distribution system. We've outlined a range of options from smaller aggregation programs to involvement in certain pieces such as generation, transmission, and even pieces of distribution. I can't state strongly enough--to go that route of acquiring the distribution system is a time consuming, costly, and very difficult battle.

Chairperson Gonzalez stated, but it might also be the right decision.

Mr. Bell stated, it very well could be. From the standpoint of quantifying what the impact is, we can make certain assumptions and put the boundaries on the analysis as to what happens if you can escape none of the non by-passable charges. What happens under different scenarios that at least present a picture that gives you the representative range between one side and the other--that can be done. I don't recommend, unless there is a serious will to go down that route, to do so, because it is costly and time-consuming to do it. But certainly, we have the technical expertise to do that.

Vice-Chairperson McGoldrick asked, it was not your understanding that you would be asked to do that or that you had already been asked to do that previously?

Mr. Bell stated, not within this scope and with the amount of time allocated towards this function, no.

Vice-Chairperson McGoldrick asked, and if you were asked to do that, how much longer do you think it would take—a gross amount? We won't hold you to any contractual figure. Time and money?

Mr. Bell stated, probably a period of three to four months and an amount in the range of \$150,000 to \$200,000.

Mr. Mellor stated, I agree with Mr. Bell that there has to be a will if you are going to go that route. This we have seen time and time again. It was mentioned that we have done a lot of these studies. We have done them across the country. The number that are successful you can count on one hand. The trouble is that this is one of the most

decisive things that you can do as far as what's going on in the City. You have to have full commitment to it to make it work. There are two or three stages to this. What you have seen, and I think we've done precisely what was asked in terms of laying out what the policy issues are. We were not asked to do a feasibility study or a pre-feasibility study.

The next step if you wanted to do this would be a pre-feasibility study that is probably in the time and price range that Mr. Bell mentioned. That would not get the job done. That would not be going out and looking along the lines of the southern boundary line of San Francisco where the severance would take place, the lines would have to be reconfigured in doing the engineering studies to see what that is. That would only look at ballpark kinds of numbers, rule of thumb kinds of numbers as to what the system value would be. We know that in any one of these cases, there will be a contest of about a three to one cost. That is if we say that it is going to cost you 100 million dollars to buy it, that is the book value of the system. That is what PG&E is allowed to earn on and a fair value to them for their system. They would come in and say it is three times that. When you start looking at the difference in rates that comes from buying it at 100 million dollars or 300 million dollars, it makes a big difference. When you look at the severance costs, all of those kinds of things, and then you take the uncertainties as to what's going on in the power supply markets, all of those things—you are actually going to have three levels of study. To go in and actually do a condemnation of PG&E facilities would require a detailed engineering study. That would not be done in the price range that Mr. Bell mentioned. What you would get with what Mr. Bell mentioned is something that says, yes, it is enough for us to decide we want to go ahead and do the very detailed study.

Vice-Chairperson McGoldrick asked, Mr. Mellor, would you be surprised if an evaluation of the system were already available with the California PUC?

Mr. Mellor stated, no. In fact, I would be surprised if you couldn't fairly quickly come to the value that is on PG&E's books that they are allowed to earn a rate of return on the distribution system. I believe that's readily available. The point is that PG&E will come back and say, that is not what we are going to sell it for.

Vice-Chairperson McGoldrick asked, if you were to request the information from the California Public Utilities Commission, how difficult would it be for them to turn it over to you?

Mr. Mellor stated, they wouldn't have it in quite the same way that you would want. The boundaries wouldn't be the same. We would have to do and we have done this many times before is we would look at a number of factors. We would make estimates based on the FERC Form 1 reports that PG&E has, the PUC data. We can come to a pretty good estimate probably plus or minus 20 percent as to what the book value of the system is in San Francisco. Maybe even closer than that because of the peninsula nature of San Francisco. Severance, not so. There is nothing at the PUC that would say what the severance cost would be along your southern boundary. But, the study

can be done. I think Mike's right, three to four months in that price range. But that would not be sufficient for you to go in and start a condemnation proceeding. You need more than that.

Commissioner Schmeltzer stated, going back to what we have in the report now. One of the things that we did discuss in some of these meetings previously was turning this document into a roadmap for how to pursue these different options. What we have in here in the parts that I have read are the policy issues laid out with the pros and cons of each of those positions, and there is some text in some of the sections that talks about what else may need to be done. I think it would be helpful to have under each of those pro and con sections a "next steps if you wanted to pursue those options" that would lay out what else you would need to do, what the costs and timeframes might be that were involved in each of those steps. For example in this one, some of the items that Mr. Brugmann pointed out that are in the text proceeding the pros and cons could be pulled out underneath as a start of, if you wanted to move to this model, what steps would be taken and what type of commitment would be in terms of time and money?

Mr. Mellor stated, I understand the question. I think we can get part way there, whether we can get all of the way there—because there are a lot of options. Some of these lend themselves to that kind of next step and others don't, because they are really policy questions that you guys have to look at. As to this item, it would be relatively easy to put together a next step discussion.

Commissioner Schmeltzer stated, and I think for a number of the items, we could do that.

Mr. Mellor stated, I think that is right. I would have to go back and see, but there are some areas in terms to the extent that you take on generation, transmission, whether you start owning it or not. Those kinds of things are almost more policy, but they come down to you've got to look at it and do an economic evaluation as to whether you want to get into that business, and is that the core business or business that you want to be in? In my mind, a lot of this is really strategic planning and it's deciding what business we want to be in. There are a lot of entities that have looked at it and have said, we are in the waste water business. If we get in the power business, it's going to mean three times as much revenue, three times as much customer care. It is going to change our core business, and we don't want to do that. That's a strategic issue as to what business you want to be in, but I think is an important issue. Then if you decide, yes, we can take on that business, then look at the economics of each sector of it and decide, do I want to be transmission, do I just want to be distribution? One of the options in front of you is be in the generation and transmission business and only use that to support distribution over PG&E lines. We can help with that next set of discussion.

Chairperson Gonzalez asked, if Mr. Maynor, Mr. Brugmann or any other member of the public wanted to make any comments on this discussion item?

Mr. Brugmann stated, the consultants mentioned political will. I think that was demonstrated last year in which the City came within 500 votes of voting, and there is considerable doubt about the ballots that were counted and the election lids floating in the bay or one thing or another. I think the will is here. What PG&E beat us on among other things was that we do not have any kind of expert study beyond what the Bay Guardian had done. Our study was more conservative than the expert's study. I think a very valuable part of this whole mix is to move ahead with the next step.

Chairperson Gonzalez stated, I think there were a lot of folks that were uncertain as to what alternatives the City had and the debate around municipalization was not overly informed in many respects. I think that one thing that I like about this draft document is that it really breaks down some of the different options in a very matter of fact way, discusses municipalization, and local control among other options. It kind of demystifies it in large part and shows that it has been successful elsewhere and shows that there is nothing odd or unusual about a City looking into this and exploring it etc. I think that's one of the things that made that proposal that went to the voters vulnerable which was that there were a lot of scare tactics that made people think that anybody that believed in local control, that something was wrong.

Mr. Brugmann stated, I understand. Those are good points. Too costly, too risky. Now, in the consultant's report they say that the biggest risk of municipalization is the likelihood of contested acquisition of PG&E's distribution facilities. Due to geographic circumstances, severance, often a significant part of acquisition cost, would be relatively small for San Francisco. Let's quantify that. Relatively small for San Francisco. The city is at risk. PG&E is in bankruptcy. Enron is on the run. Anderson has been put out of business. This is a serious issue here. We now have consultants that are working for us and working for this group. Let's just get a little more information.

Chairperson Gonzalez stated, I think from a document like this, and this speaks to political will, you could create a Municipal Water and Power Authority that had a directive to work to pursue local control. As part of trying to empower that agency, being it an elected one or an appointed one, would come the responsibility of flushing out some of those unknowns. The point is that from a political point of view, looking at the different options, and saying we're comfortable that we want to pursue this one and let's start doing it. I think that's what this document provides. I think you know that I'm not of the opinion that I'm going to be satisfied with public power in San Francisco if the City just has some aggregator role.

Mr. Brugmann stated, without doing this you are allowing the Charter Amendment or initiative measure to go forward with a limitation on acquisition because there aren't the kind of specifics and arguments in here that would help do that. We could go on. But I just think you ought to do the next step, get the consultants to flush this out, and provide more information.

Mr. Charles Kalish asked, did I misunderstand this? (Question addressed to Mr. Mellor or Mr. Bell) You didn't say that if all of the exit fees are invoked, that that would eliminate the 20 percent advantage that you get in reducing prices?

Mr. Mellor stated, I am not sure which of us made the statement. Let me just put those exit fees into perspective. They probably range from 2 ½ to 4 cents a kilowatt hour. In nine or ten years, those exits fees will be gone. Short- and long-term are really important here. I would say at the outset, it will be very hard to get anything close to 20 percent savings as long as those exit fees have to be paid. Right at the outset, the cost of acquisition and those things are going to work against you. The fact is the acquisition would have to be done using taxable debt, not tax-exempt debt. That changes the perspective a little bit. What we said was given the experience of other public agencies in the long-term, and I am thinking out twenty years, you might be able to expect some kind of savings around 20 percent. That's beyond the exit fee period. I think in the short-term you would not be able to get a twenty-percent savings or anything close to it.

Mr. Kalish stated, we're having an internal discussion about including distribution into this Charter amendment. Some of us have read your report and felt that what you said was that owning distribution is key to this whole equation of achieving 20 to 25 percent or more savings for the rate payers.

Mr. Mellor stated, without owning the distribution system you don't have the opportunities for the integrated planning, for the integration of the generation, transmission, distribution, conservation, renewable resources, all of those things. So I think owning the distribution system is key to being successful in getting those integrated benefits. I don't think you can get 20 percent savings with regard to power supply costs through any of the aggregation approaches. Ultimately, to get to 20 percent, I think you would have to own a distribution system. But, what I don't want to do is preclude the City from doing some of the other things because I think that there are some real values that can come from taking roles in generation and transmission and providing energy services to the San Francisco residents including getting additional value out of Hetch-Hetchy. All of those things kind of come together, but I don't want to go quite as far as Mr. Kalish has said.

Chairperson Gonzalez stated to Mr. Kalish, I think when we are talking about a specific measure and how it relates to distribution in the measure that might go to the voters, I just want to say that you can always build in a certain level of security or comfort among the voters insofar as an understanding that a Power Authority or what have you has a charge to go try to implement a particular thing subject to the kind of cost benefit analysis specificity that you are hearing about. You can build that in. I think the previous measure had that to a certain degree. Certainly, you can also build it in by requiring not only the Water and Power Authority to approve that action, but you could say the vote of the City Council or the Board of Supervisors to add that level. It is not going to happen until these steps are taken. I wanted Mr. Maynor to address the issue of some of the public comment regarding approach.

Mr. Maynor stated, there are a couple of points. One is that every City has a right to be a municipal utility. You don't have to do anything special to become a municipal utility. And once they do, they have the right under the Constitution to take over the distribution system. San Francisco, I understand has some Charter restrictions on financing that is a problem. But as far as when you form a municipal utility, you have the inherent power to go ahead and condemn and take over the distribution system. It's a question of whether it makes economic sense or not. I have had a lot of experience condemning PG&E property over the years, primarily streetlights. I have probably condemned most of the streetlights in Northern California. I have had a lot of experience dealing with their valuations.

One thing that I would warn you is that and I agree with your analysis that there is a historic cost. We always contend that is the price you should pay. Then there is what's called a reproduction cost new less depreciation. The last couple of trials that I was involved in, PG&E got very clever and they came up with some new theories. It generates some very high numbers. The problem is when the public is hearing these numbers, they don't know what's a reasonable number and what's not. I'm not sure that the number that you will see is the one that is three times the historic cost. It may be something dramatically higher and it may sound as if the acquisition of a distribution system is just out of the question. When in fact, that may not be a reasonable number. I caution that when you throw out numbers, it makes an easy target for the opposition to say, the City forgot to do this analysis and they are way off. They will bankrupt the City. It happens in many places around the country and I think R. W. Beck can attest to that. I think that is the reluctance of throwing out numbers on distribution systems. We had hoped initially in the process was to identify the unique risks that San Francisco may have faced in the future as well as some of the opportunities to do some things about those risks. By going through that initial process, you could decide whether you wanted to form a vehicle to analyze the economics that some might want to do, and that is to take over the distribution system. Those were the comments I wanted to share with you.

Mr. Kalish stated, you said that building our own distribution was not viable and would not be discussed further. I ask you to examine it further in this study to whatever degree this type of study allows because one of the things that we're talking about is in fact doing that. An idea that comes from one of the people that works at the PUC is look, you are going to be opening up the ground to put in water pipes and sewer pipes to fix those. Let's put a conduit in there and maybe even put pipes for gas, cable, electricity, and get the show on the road. That would completely eliminate the need to take over this antiquated and really what many people say is a useless distribution system. Would that be possible to add that to the study?

Mr. Mellor stated, that really moves from the discussion of the alternatives available to you to the economic evaluation that we haven't done in any other part of this study, and so I wouldn't propose that you do that. We can easily say that the City may want to reconsider this option and we can not throw it out totally. But let me tell you that I think

that building a parallel distribution system particularly where the customer has a choice as to which system they are going to buy from, which is the kind of thing that they do in places like Lubbock, Texas. They call it head to head competition and the customer has a choice, and they can bounce back and forth from Distribution Company A to Distribution Company B. It's going on right now in the city of Oakdale in California. It's going on in parts of Modesto Irrigation and Merced Irrigation District territories. Building parallel systems means that you have twice as much investment in distribution systems for the same amount of revenue and sales. Generally, my view is that it is poor public policy. Now, to the extent that you have a system that has to be rebuilt anyway, that would be very different.

Chairperson Gonzalez stated, take the comment you just said. If that's something that is a starting point and if it's a premise that we can work from, which is that maybe you have a system that's old. Why wouldn't you want to consider what Mr. Kalish is suggesting particularly in the area of network distribution that we are talking about and downtown that Mr. Bell was talking about.

Mr. Mellor stated, I think that would be an extremely expensive system to replace. We did offer the alternative of spot municipalization. That would be the same thing. You could not afford to go through the whole City and replace the entire distribution system. I would just tell you it would be cost prohibitive. However, if there were places where the system would have to be replaced anyway, then you could look at that as a spot municipalization and approach it in that fashion.

Chairperson Gonzalez stated, listen to what Mr. Kalish is saying. He is saying that there may be other things going on in the City that may lend itself to an opportunity.

Mr. Mellor stated, that again would fit the spot municipalization. If you have a specific area where you are going in and replacing all of the water and sewer pipes...

Chairperson Gonzalez stated, I think it might be helpful in the area that you discussed, the point Mr. Kalish raised, that perhaps you make reference to spot municipalization as opposed to laying an entire network, so to speak.

Mr. Mellor stated, I think we can expand the concept of spot municipalization. But keep in mind that let's say you are replacing a four-mile section of pipeline and you go in and put your distribution system in there, you still have to interconnect with the PG&E distribution system to make it work.

Chairperson Gonzalez stated, I am with you there. But certainly, on some of these alternatives you say that it is a policy matter or public policy decision. I think that in certain cases like the point you are making right now, it is helpful to say that this is the kind of thing that either the municipality decides or the SF PUC or the SF Muni.

Mr. Mellor stated, and we can do that. What we were trying to do is to get to those options which had the greatest likelihood of success. So, we were not trying to carry

things forward that we thought would have a lesser chance of success. We can certainly change the language to open up that option a little bit, but I would suggest you study it very carefully financially before you move forward with it.

Commissioner Fellman stated, I just wanted to emphasize that the purpose of this report was to lay out the options, to have a fuller discussion on some options that you may have concluded were not probable of success. It would be useful to expand that, but we have to recognize what the limits are of our report and that the focus is the discussion of the options. Expanding them would be helpful and adding the next steps is helpful. I think that's where we need to stop and then go to the next steps.

Mr. Bell stated, I would just like to say that this is where the discussion and input is quite valuable. We made a pretty strong statement there with regard to this issue thinking that you are overbuilding the entire city of San Francisco. The point that is being raised here is a good and valid one is that there may be other alternatives particularly in instances where you are already involved in other work and other projects that you could systematically do other things. I think that we can very easily incorporate that into the work product.

Mr. Kalish stated, the last question that I have is about the public purpose programs. I may have missed it in the reports. It seems like public purpose programs the way you presented it are much more effective under the SF Muni model. You just said that PG&E is regulated by the CPUC as far as their public purpose programs. I was wondering if you could just flush that out more and tell us what we don't get from PG&E as a result of that.

Mr. Bell stated, what winds up happening under the existing public purpose programs is that the Energy Commission and the Public Utilities Commission determine basically on a statewide basis what programs are appropriate across the various service areas of the investor-owned utilities. Compare and contrast that to a local utility that looks within their community and says, we have a need for low-income rate assistance, or we have a specific desire for renewable resources for this particular area. Those decisions are made with the local community in mind. Also, certain public power systems, I will use SMUD as an example, go beyond what is required by the State Commissions. They, simply because of their rate payer's interest and desires choose to go and offer programs and services beyond those that are offered in that area. That's been used as a competitive advantage by the locally owned systems and as a good relations tool within their own service territories.

Mr. Ross Mirkarimi stated, I would like to express my appreciation and congratulations to this body for commissioning this study with R. W. Beck and would like to extend that to R. W. Beck. I spent some time over the weekend familiarizing myself with the study. I can assure you that I wish I had this in our campaign and our endeavors for public power last year. In many ways, I think it provides the validation and the armor in order to advance our thesis that San Francisco's pursuit for local self-reliance, public control of our electricity infrastructure is the right pursuit, one that is banked on the tried and

true experience of hundreds of municipalities around the country and one that speaks loud and clear to the citizens of San Francisco that it's now time to make our case effectively at the ballot for the upcoming election.

I remind this body that we are dictated by a clock, and that clock is not necessarily just public policy, but it is a concurrent process that right now is exploring what avenues we should present to the voters for the November ballot. This is a tight timeline with over several weeks remaining at most. There is a concurrent process right now as all of you I am sure know where we are developing which path to take in presenting what option it is we want to present to the voters. This has a lot of technical ramifications and consequences. I think some of those consequences and ramifications have been characterized in a number of versions such as a fundamentalist version of public power versus public power light or maybe some sort of pragmatic sort of compromise that is berthed out of the many advocates who have come together to help shape this particular document. LAFCo can help set a very strong position or help provide cues to what happens politically in the same edifice here in City Hall by suggesting that if we lead with a whatever version the kind of measure we put on the ballot, then let us bolster and underscore that particular version that appears to the Board with all the proper elements that support our supposition that we can stand by our claim that San Francisco is primed and ready to convert to a municipal utility. What I am saying is that I can already anticipate by reading the Beck report some of the arguments that PG&E will wage against us. This was a vulnerable area that we experienced last year because we did not benefit from such a report at that particular time. I think that this is a very good first step. It is a first step that should be followed upon by this body within the scope of the timeline that remains between now and the election and not losing sight of the political consequences that we're having to address when we're not in this particular body, but when we are in City Hall discussing this issue.

Vice-Chairperson McGoldrick asked Mr. Mellor or Bell, you talk about there being other cases across the country and I see that in your report that you are dealing with specifics like the need for a new customer care system, things like that. What's been the experience of other jurisdictions that have municipalized in terms of retaining the workforce that was in place when the utility provider would have previously been in the private sector and then municipalization occurred? That was certainly one of the issues that came up in the campaign last year regarding one of the unions. The Electrical Workers Union was fearful and they weren't sure what to think about the future. What kind of experiences have you seen?

Mr. Mellor stated, typically the union employees like the International Brotherhood of Electric Workers are paid almost exactly the same amount throughout California, whether it is public or private. So, the salaries and compensation are about the same. Typically, publicly-owned utility would agree at the outset to take on the employees of the investor-owned utility. You would just transfer. We would almost always see the unions oppose it, but we're not quite sure why, because we don't think they are hurt by it. So I think that in going through the process, it would be relatively easy. I think the

employees could be dealt with in a way that they would come out just as well under public ownership as private ownership.

Vice-Chairperson McGoldrick stated, I am really pleased that you are able to give us that fact. Could you give us an example or two of where that may have occurred?

Mr. Mellor stated, there haven't been a lot of these. In the Sacramento Municipal Utility District acquisition, that occurred. The employees came over from PG&E. A recent change up in the northern part of California—that occurred there.

Vice-Chairperson McGoldrick asked, where was that?

Mr. Mellor stated, the part of Northern California that was sold off to something called Norcal and that was again a transfer of employees. In fact, I don't know of any one of these where people have brought in their own employees. You would have an opportunity, as an example, if the PUC were the body that took this over. They would have some infrastructure already in place, and you would use that infrastructure. But, they would need to supplement that infrastructure. So, I don't think that employees are going to be disadvantaged by this kind of action.

Vice-Chairperson McGoldrick asked, and you don't know of any cases where there has been any kind of serious union busting or wholesale dismissal of employees?

Mr. Mellor stated, I have never heard of one. But again, this is something that doesn't happen often.

Vice-Chairperson McGoldrick stated, you have never heard of a single one. I appreciate it.

Mr. Mark Stout stated, congratulations to the LAFCo on commissioning this study as well as to R. W. Beck, Henwood, and Flynn for pulling this together as we have heard several times tonight. Having the policy options laid out comprehensively with pros and cons for each hopefully will go a long way towards informing the political debate that occurs at the Board of Supervisors about what kind of initiative we're going to see on the November ballot. It seems that whatever comes out of that debate, whatever we see heading towards the November ballot, there might be a lot of value in using this report as a springboard towards having a more flushed out, quantitative feasibility study. The only actual comment that I had on this draft was that it would be nice if whatever model is in front of the Board of Supervisors in terms of governance, in terms of is it called the Public Utilities Commission, the SFPUC, that it would be good if that actual model were in here. It seems to be a hybrid of a couple of options as far as governance and whether or not it is a separate agency or the PUC itself.

Mr. Mellor stated, we wrestled with what you call it. As I said at the outset, we will look for something that works. I have a little bit of trouble with the Water and Power in the name because it suggests that it has to be a combination of water and power. I don't

think you need that. I prefer to see a name that doesn't have water in it. But, if what you want to see is a model that is based on reconfiguring the PUC and calling it Water and Power, that works just fine.

Chairperson Gonzalez stated, I think the other point that Mr. Stout was making was a concern that in that conglomeration whatever you call it, you may have really different entities or that the nuances between those entities that you are including in one umbrella might not allow you to show some of the relative advantages of one or the other.

Mr. Mellor stated, one of the only differences between the two is an appointed governing body versus an elected governing body or one that is more broadly appointed such as what is in the current draft. It would be a lot easier to write this report if we only had two options, PG&E versus a public agency, and we knew what that public agency was. Having to distinguish, and we were following your direction when we did it to have either a new municipal utility or the SF PUC. If we were able at any stage in this draft to say there's only one municipal option, it would simplify the readability of this report. We could go back and maybe clarify it in a way that would help. If you want to give us that direction, that would be fine at least with me.

Mr. Bell stated, what I was going to suggest in the course over the next couple of weeks as we continue the work on the report that we work with the Task Force on that particular issue. I think it clearly needs to be addressed and fortunately we have the time over the next couple of weeks to do so.

Commissioner Fellman stated, with respect to what Mr. Stout commented on. I believe, at least the way I heard the concern is specifically addressed to, are we looking at in this report the type of entity that is being discussed in the ballot measure? Is that correct? I think this is chicken and egg kind of problem because the report was going forward and then a concurrent process brought a merged ballot measure or a proposal for a ballot measure. I think what we can do is incorporate what is being proposed into the kinds of structures, but there's really a limitation on how much you can do the circle. I think what we want to talk about is the types of formations or entities that we have already identified and then maybe reorganize it slightly. But really I think we have to stick with what's in there in terms of the discussion and the ballot measure. If we need to do a specific analysis on that, then that would be a separate specific piece of work.

Mr. Bell stated, we will do the best that we can at this point in time recognizing that this may evolve as time and public input presents itself moving forward.

Commissioner Fellman stated, and the question that we have looked at is the status quo versus what would happen with some form of municipal entity and then dividing it, as Ken has mentioned, between do we have an all out municipal entity and we will look at what we call that. It's sort of a distribution owner versus a reformed PUC. I think that's really where we will go. If the Commission will allow us, the Task Force can work on honing that concept.

Mr. Bell stated, in some sense that's why you may recall in one of those slides where we expressed some concern about the new utility model might be more preferable to the PUC. Obviously, since the time that has been drafted, there have already been moves to make some changes in that regard. I think the suggestion is a good one, and we can work on that particular issue as we finalize that report.

Mr. Mirkarimi stated, I just want to follow up on my feel-good comments before with the suggestion of let's not lose sight of the opportunity of pursuing a feasibility study especially about acquisition. I kid you not. I am extremely sensitive to the question of the economics of what may be presented to us by Beck, which is a roll of the dice. Considering that if the economics does not show in our favor, that is not an argument that I would be happy about that would fall in the hands of our potential opposition. I think though that they have set the stage now with a good first step that (unclear) the question for this body to push for feasibility in determining what would it be before San Francisco's best option in either owning the system up front as Prop F had suggested last November or through its incremental stages. That is an unknown at this time.

Chairperson Gonzalez stated, it seems what I find very interesting about the role of the LAFCo is that this whole business of being an agency that's willing to inquire into the formation of a new agency in many ways needs direction. It either needs direction from the legislative branch in the municipality that says gee, now that we see the options that you have, we want to give you a directive to continue pursuing exploring this particular thing because we are making a policy decision that that is what we want explored. Or, from the electorate. Because the electorate passes let's say a measure which would be a Water and Power Authority, let's say, where in conjunction with that new authority, we undertake the responsibility of doing that. The part that I am pretty confident about that isn't included in that is the creation of that new authority or reconfiguration of an existing authority can have within it a charge that allows it to continue the inquiry into those other areas. I wouldn't be that excited about going to the voters and waging a campaign and all of that simply to have questions about local control left out under some theory that it has never been studied.

Mr. Mirkarimi stated, no let's not go into a campaign unprotected. We have barreled through that experience last November, and we have lessons learned from that regard. We are trying to shepherd this process so that the legislative here within the same building is sending signals to LAFCo to suggest the direction to go. If for some reason, those signals become blurred, then lo and behold us from the electorate and advocates are also here to help fortify that particular message. But, timing is everything. The timing that is before this particular body presents opportunity that has now been ignited by the Beck report. It gives in my opinion political ammunition because despite what I thought was a somewhat academic presentation on the pros and cons, almost nonpartisan, reading that report, the propensity stands pretty clear that San Francisco is poised to go for public power. We have to decide if this particular juncture at what strength the public power do we want to move forward on. If in fact, we go for as some have said an incremental approach, okay. So we may be able to bite that or may not,

but let's in order to prepare for that with the economics and the feasibility to support that claim because I anticipate a dis-information campaign that is before us. If we go for the full strength, that too has to be followed up with that much more analysis.

Mr. Mosgofian stated, in listening to the presentation, I think that there was only one place I found in the Executive Summary where it is spelled out. I have several specific and distinct points to make. The first point that I want to make is that when there were discussions on the twenty or twenty-five percent savings that would eventually be afforded to folks and businesses in San Francisco, it seemed a little cloudy to me in the presentations as to where that money was coming from.

Chairperson Gonzalez asked, Mr. Mosgofian, would you submit these thoughts in writing?

Mr. Mosgofian stated, I will but since there were these discussions, I would like to make my comments very brief. It's on a page without a number on the bottom. It says "lower cost of distribution due to PG&E burden of thirty percent for combined taxes and profits." The point that I want to make is that the initial savings, the savings that we can be assured that will go in the public direction and that tells us that we are right is that we don't have a profit problem, we don't have a profit goal, and we don't have profits to worry about in a public entity. That wasn't really focused on either in the report that I read or in the discussions here. They only talked about the financing burden, the cost of financing, the taxes, and the lack of tax-exempt status. It seems to me that the biggest part of that even if you were to take 25 or 30 percent, is you are looking at least at a 14 percent profit for PG&E plus an extraordinary level of executive salaries. The next point that I thought was really well made was, I think it was made by Mr. Bell. SMUD and other public entities go way beyond what is required in taking care of their own community, which leads then to the question of governance and how do you assure for accountability to your community? It seems to me that point should be emphasized in the report. How will San Francisco be assured that there is accountability to those who are being governed by the Board of Directors or whoever it is? Finally, one last point, if there is no AB 117, and I am fairly convinced there will be no AB 117 this year and therefore, no community aggregation this year--how does the report then suggest that San Francisco would be best served in terms of power and public power going forward if it can't count on the presumption of community aggregation?

Chairperson Gonzalez stated those are all good points. Mr. Bell, could we address those points in the report?

Mr. Bell stated, I believe the first two points we've discussed and will incorporate in the final draft. With regard to AB 117, we really believe that some form of aggregation will come about in time. It may not be that particular bill. The provisions of that bill and the community choice and the opt-out provisions would make it much easier to establish that type of a program, but the fact remains that there are substantial interests that are influencing the legislature to reinstate aggregation in one form or another. It may not

be AB 117 that does it, but it is likely to happen in time in one form or another. That is why we separated the AB 117 discussion out, because that is a unique bill that is out there. It would provide certain benefits if it were passed.

No further Public Comment

Public Comment closed.

Ms. Young stated the next meeting date is June 28th. At that time we will be talking about the Draft Plan, the next steps, and also we will be talking about the community outreach issue. There are a number of continued items from the previous meeting.

Chairperson Gonzalez stated, gentlemen, I would like to thank you for the hard work on the Draft. Notwithstanding some of the criticism, tonight you heard a lot of praise, and I think it was all well deserved.

4. Adjournment

The meeting adjourned at 9:51 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, June 28, 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 2:15 p.m.

Members Present: Chairperson Gonzalez, Vice-Chairperson McGoldrick;
Commissioners Ammiano, Hall, and Fellman (noted present at 2:58 p.m.).

Members Absent: Commissioner Schmeltzer

2. Approval of the Minutes of the Commission Meeting of June 7, 2002 (Action Item).

No Public Comment.

Commissioner Hall moved to approve the minutes; Vice-Chairperson McGoldrick seconded. No objection. Minutes unanimously approved.

3. Discussion and Action regarding Outside Legal Counsel versus City Attorney's Office support to the San Francisco Local Agency Formation Commission (SF LAFCo).

Theresa Mueller, Deputy City Attorney, City Attorney's Office stated, as you know, the City Attorney's Office would be happy to represent the LAFCo. You have a letter that the City Attorney sent you last month, and it sets out what we believe would be necessary parameters for that. Once we know what you wanted us to do, we could develop a transition plan, we could work with your existing attorneys to make sure that you are well represented in any transition, and we could provide you with a budget once we knew what you had in mind. It is not entirely clear to us now exactly what you anticipate the LAFCo doing going forward so it's really hard to say what kind of budget would be required.

Chairperson Gonzalez stated, I think that's a fair point and thank you for coming and expressing that. My own sense is that once we have the finalized Energy Services Study, there probably will be some discussion among the members of the LAFCo about what the next steps would be. It might be useful if you had a preliminary meeting with Ms. Young and our current counsel in anticipation of what that might look like. I know that you can't take into account all the possibilities, but you could certainly have a preliminary discussion. That way as we make our decisions what path we might want to take after we receive the Final Study, we can be informed of some of the things to keep in mind related to the relationship with counsel.

Vice-Chairperson McGoldrick stated that this issue was discussed at the last LAFCo meeting.

Ms. Mueller stated, we read the transcript of your last meeting, and I think that sounds fine. We are happy to do that.

Public Comment

Mr. Ow stated, two years ago when LAFCo tried to put forth an initiative for the people to vote on, the City Attorney opposed it all the way. We are going to have a public power initiative in the coming November election. I suggest that you retain outside counsel until the people vote up or down on public power. There is a potential conflict of interest between the PUC and this LAFCo. If this will be passed, PUC will be out of existence, so I urge you to consider retaining your own counsel, so that your own counsel will do the best they can with loyalty to this Commission. We just heard the City Attorney say that the City Attorney will consider it. That means there will be a negotiation. The City Attorney representing this Committee all the way is in doubt.

No further public comment.

Public comment closed.

Chairperson Gonzalez stated, I don't think we need to say anything more on this item and that everyone is in agreement.

4. Discussion and Action regarding Public Outreach for the Energy Consultant Study and Possible Community Meetings.

Gloria L. Young, Executive Officer stated, through the Chair to the Committee, that did in fact indicate as we were going through the process of reviewing the Draft Energy Study, that there was discussion about the possibility of having outreach into the neighborhoods to discuss the Draft Energy Study. You asked that I get some cost estimates from the consultants. We've been told by Mike Bell, R. W. Beck, that the cost would be \$216.00 to \$259.00 per hour and if you needed our legal counsel there, it would be their hourly cost. I would suggest that we continue to have the hearings at this facility as opposed to having them outside in the community, but that we do a good job of outreach in our outreach newspapers and other possible advertisement to let folks know that we are discussing the Energy Plan. The concern that I have after discussing this with Ed Smeloff is that the outreach that they did for the PUC Energy Draft did not produce a great deal of public participation in the community, but the cost for us having consultants might be steep for such a process. Unless, you wanted to have maybe one or two. But if we wanted to do one for each district or have several, it could be costly.

Mr. Mike Bell, Client Services Director, R. W. Beck stated, what we have done in some other cases is simply just be available should there be specific meetings where the consultants are required or requested. We're open to whatever would work best for the City in this regard. Sometimes clients hold meetings without the consultants present in smaller groups, and sometimes they will have fewer meetings with the consultants present. We stand ready whatever your desire is.

Chairperson Gonzalez stated, I don't think this is a decision that we have to make now. As long as all the parties are giving it some thought, I can't imagine that we wouldn't have some kind of public outreach with the findings.

Vice-Chairperson McGoldrick stated, that pretty much echoes what I raised at the last meeting and what our Executive Officer just reiterated again. It is the fact that we should be very careful how we spend our money. PUC spent a lot of money and didn't get many people out there recently for the Water Bond meetings. Four people from the public and five PUC staff turned out. I think there are better ways to do it, and we can learn from this too for not just this Commission but in fact for another venue, the Board of Supervisors where we also wear the other hat. How we might do it in some way with the lists that we have, the mailings that we can do to meet both the spirit and the letter of any kind of codes or guidelines by using those lists and maybe consulting with other departments. Using the resources we have there are probably four or five departments that do a lot of outreach, and we could

probably name them and ask them if they can send us their lists. That is public property and we can make use of it.

Ms. Young stated, in terms of at least getting feedback for the Final Plan, we could revise the previous notice asking for written comments, send it to a number of departments that have their outreach efforts, and ask them to include it as we include it in ours as well. We have also placed it on the web as you will find out today. We haven't gotten any written comments yet on the Plan, and we did a pretty good outreach as of June 17th when we had the meeting here. I think you can leave it open as there is no need for a decision today.

Vice-Chairperson McGoldrick stated and we can consult later. Some of the departments that are required to do a public outreach and public notification, the Planning Department and the Department of Building Inspection are the first two that come to my mind, and I think they have fairly extensive lists.

Ms. Young stated, most departments because of the inexpensive costs that we use with our outreach advertising will send their non-legal ads or notices to us. That is in the control of the Clerk of the Board's Office. We will in fact send that kind of a notice out as a part of our outreach in terms of our next meetings on the Final Plan. We plan to do that as our next outreach effort, and we did the same thing with the first Draft.

Public Comment

No public comment.

Public comment closed.

Chairperson Gonzalez stated I think we could defer action on this item until we have the Study. At that time, we can have Ms. Young re-calendar the item and put together however small a proposal of her thoughts of different ways we can go and the number of meetings in mind. One meeting here in City Hall, three or four meetings, eleven meetings, just different alternatives as Ms. Young sees it.

5. Report by Commissioner Ammiano regarding the public power authority measure (Continued from the June 7, 2002 Meeting).

Commissioner Ammiano stated, there have been a lot of hours and discussion about the drafting of this item. As always, there is some contention that the two issues that we will be dealing with on July 5th at the Rules Committee meeting are the governance issues elected, appointed. Supervisor Gonzalez has some amendments in regard to that. Also, the actual issue of grid acquisition when, where details of that are still to be brokered. Hopefully, we'll come up with a version that will pass mustard not only at the Board of Supervisors, but in terms of the voter. Trying to get all of the stakeholders involved in our Board sometimes is an intricate

process. I think you colleagues know that having been involved in drafting legislation and charter amendments. Certainly, labor is an important issue. No surprise that PG&E will come out again to this issue. I had a meeting with them just to share the draft and the ideas so that was I suppose you could say self-evident that that was going to happen. So, we're almost there and hopefully, the process in and around certifying the final version will happen, and we can put the item on the ballot and have a campaign that is successful.

Public Comment

Chairperson Gonzalez stated, I think what Commissioner Ammiano is also trying to communicate is that this item will be heard at the Rules Committee on July 5.

Mr. Hunter Stern, resident of San Francisco and representative of the Local Brotherhood of Electrical Workers, IBW, the union that represents the utility workers here in San Francisco. We would just like to say that we are interested and have been engaged in some discussions with Supervisor Ammiano and look forward to working with the Supervisor and also Supervisor Gonzalez's amendments, we would like to have some discussions around that. We look forward to having a chance to speak more fully on the measure when it comes up in the Rules Committee next week.

Vice-Chairperson McGoldrick asked, were you able to catch our last meeting in which there was a discussion we had with Mr. Mellor from R. W. Beck. The discussion was around this issue. In their studies, they found no municipalization efforts in which any unionized workers had ever been in any way hurt.

Mr. Stern stated, we are interested in continuing to work on the Draft, which we find very favorable in its premise. But of course with some fine tuning, we're interested. We have been involved in two specific takeovers by Municipal Utility Districts, Lassen and Sacramento, in which some of our members chose not to work for the new Municipal Utility District. That was in Sacramento and the other Lassen, in which some did. Our issues are with our membership as a whole, many of whom work in San Francisco, many more who do not.

Vice-Chairperson McGoldrick asked, are you the Local who pulled out of the Labor Council?

Mr. Stern stated, Local 1245.

Vice-Chairperson McGoldrick stated so you had folks who chose not to, but indeed the testimony before us from R. W. Beck was that in their experience, no union workers had ever been disfavored or hurt in any way.

Mr. Stern stated, I think the issues that we have are peculiar to the work environment here in San Francisco as well as where our members live and work and

because of our labor contract with PG&E, and the effect of people who are displaced into locations that may be far from where they live. I think it is reasonable for the Beck group to come to that conclusion in terms of the bottom-line wages and benefits. I'm also certain that that would not be the case with our members, and that is why we have had an interest in this proposal for some time.

Vice-Chairperson McGoldrick asked, what was your concern last time when this was on the ballot?

Mr. Stern stated, the principal concern was that the measure on the ballot last fall was focused only on the acquisition and did not address fully the generation side of the equation, which is in our view the fundamental problem. The City of San Francisco and its residents need a cost-reliable source of electricity and the utility because of deregulation may not any longer be a good source of that. The proposal that was on last November's ballot focused almost exclusively on the takeover of the utility, which as I said before has some adverse effects to our membership.

Vice-Chairperson McGoldrick asked, what are the adverse effects?

Mr. Stern stated, it is a little bit complicated. It does derive in the number of people that work in San Francisco, which are about 1,000 for PG&E and the effect of their displacement into work locations which may be far from where they live. They could end up as far away from here as Bakersfield in the south, and up to the Oregon border in the north. Some people may approve of that, but a majority of them like working and living in this area.

Vice-Chairperson McGoldrick asked, is there some language in your discussions that would be able to satisfy these concerns?

Mr. Stern stated, yes, we have had some discussions with Supervisor Ammiano's office.

Vice-Chairperson McGoldrick stated, I would like to see those concerns addressed. I am the president of a Local myself and have a lot of empathy with the Brotherhood and Sisterhood. I would like to see us resolve it, and I know we have a strong position to wanting to support working brothers and sisters. I think it is very important that those issues be specified and get the language in there that you need.

Mr. Stern stated, and we look forward to arriving at something that is suitable for everyone.

Chairperson Gonzalez stated, I am reading a history book that discusses labor at the early part of the twentieth century, and labor has not been a monolith in this town. There was a story told of how even back then the building trades when unions got together to march in the May Day labor parade, they would assemble in the middle of Market street and essentially march in different directions because they felt such

antagonism toward one another. I don't mean to suggest that that is what 1245 is doing.

Mr. Stern stated, I think it's an interesting and somewhat archaic view of the labor movement given the time, but not necessarily inappropriate on any one issue. What we've tried to do in the last eighteen months is to educate primarily. Because we represent not only the utility workers here in San Francisco which are PG&E employees, but utility workers in public agencies throughout Northern California, we wanted to educate folks as much as possible to the changes of the industry and why it is important for cities to try and take control of their generation assets as much as possible.

No further public comment.

Public comment closed.

Chairperson Gonzalez stated, Commissioner Ammiano, we will take up the item on July 5th.

6. Discussion regarding San Francisco LAFCO's Future Work Plan (Continued from the June 7, 2002 Meeting).

Ms. Young stated, I would defer to Commissioner McGoldrick. This was his item in terms of wanting to have a discussion at this Commission about the future plan.

Chairperson Gonzalez stated, I think we were all kind of in the context of talking about who would take over the attorney work, and we started into the dialogue about what we are going to be doing in the future. I am wondering, Ms. Miller, if you could help me with one question—is there any prohibition under Sunshine laws from the Chair of the LAFCo meeting with the individual members to discuss future possibilities? I know there are prohibitions on the seriatim meetings. Would there be a prohibition from simply discussing what individual members are interested in doing?

Nancy Miller, Esquire stated, there is prohibition against serial meetings, like with you meeting with each one to reach a consensus on a work plan. But you could meet with just one. Or you could designate a committee to come up with a work plan. Or you could ask your Executive Officer to gather input from the different Commissioners and have that be an agenda item and report back to you in terms of if there are different things that your Commissioners want as a work plan. We don't really have any other work plan other than the study right now. We have money in the budget right now to finish up with the electric study and come back for one or two more meetings. Beyond that, we don't really have guidance or issues that we are dealing with.

Chairperson Gonzalez stated, I think it is important that we be thinking about this for the future. Once we have the final report, hear from the public, and start considering the future, there will be some issues related to financial constraints, the need to go to the Board and deal with supplemental requests in the event there is something that we need. There might be a time period where we decide to reconvene after the end of the year. There are a lot of different ways this thing can unfold.

Commissioner Ammiano stated, I was thinking of a conversation I had with a leading local public power advocate. We talked about LAFCo and if the ballot measure is successful, what role LAFCo might have. I personally have been thinking we would continue for a very long time, but then that was something that we "noodled" around a little bit. Maybe there would be life after LAFCo that LAFCo would continue even with public power in place if that happens. We have some scenarios to explore and develop in that way.

Chairperson Gonzalez stated, I hadn't thought about this prior to this item being called in the meeting. I know that Supervisors McGoldrick and Daly have the public advocate and Auditor General proposals pending. I know they very well may be on the November ballot. The LAFCo does have rather broad powers to go into the creation of agencies, it goes into government efficiency. It could very well be a place where we could try to flush that out. The Controller made available to us at the Rules Committee a law review article written in part by Mark Green who was the public power advocate related to the history of the public advocate. I just got ten pages into it, and I think it is a fascinating issue. So, we can explore.

Ms. Young stated, since the Chairperson is prohibited from meeting with you individually, one suggestion is that Nancy Miller and I meet with each one of you and discuss some of the broad responsibilities associated with LAFCo, collect your ideas and thoughts and bring it back to you for discussion.

Chairperson Gonzalez stated, I think that is a good possibility. I do want to quarrel with the advice because I don't think I am prohibited from meeting with the individual members. I am prohibited if I go to each of the individual members and talk about my idea about what I want to do to try to build consensus. But if I go to Commissioner Hall and say, what do you want to do with this agency and then go to Commissioner McGoldrick and ask him the same question, that is okay.

Ms. Miller stated, you cannot just seek consensus. But, if you are going to seek input, you could definitely do that and then come back. Your Commission Executive Officer could as well. As a LAFCo, if you remain constituted, there are certain statutory requirements you have. Basically, they are called service reviews. You are supposed to constitute and run service reviews of public agencies within your jurisdiction, and you can be aggressive about that or as non-aggressive as you choose to be. Some LAFCo's are very aggressive about that, and others are not.

Chairperson Gonzalez asked, can we change the name of the LAFCo and call it the Department of the Auditor General? I know we are all incredibly busy, but I would appreciate it if folks meet with your respective aides and give some thought to what we might do in the future. Maybe, each member here could communicate that to Ms. Young. I would be glad to meet with you and we could certainly have a presentation. It might be helpful if Ms. Young could make the language available to the members of the Commission as to what our charge is under state law.

Ms. Young stated, I was just having a discussion with our attorney that we would scope out a fact sheet that would give you some information about what the possibilities are, what some of the charges are so that could be a prompter for your discussions with your staff. Then you can get back to me with your comments.

Commissioner Hall stated, that is what I was going to ask for. I would like you to set up a meeting with Sean and myself.

Ms. Young concurred.

Vice-Chairperson McGoldrick stated, we have the potential to do a lot of good things here. That is all I wanted to do and to bring up the possibility that we would have some other tasks before us which would promote the general welfare of the City including ideas such as what Chairperson Gonzalez just expressed are things to think about. I am on board for keeping our ears and eyes open.

Public Comment

No further public comment.

Public comment closed.

7. Discussion regarding the Draft Energy Services Study.

Chairperson Gonzalez stated, I was interested in maybe having a few of Ms. Young's thoughts, to hear from Mr. Bell. I was hoping to have Mr. Bell address some of the points that Mr. Maynor raised. I don't know if Mr. Bell has seen his remarks. For the benefit of the Commission, maybe you could just go down them and summarize and give us your thoughts in the event the Commissioners have not had a chance to familiarize themselves with those remarks. Certainly, to open it up to any other concerns.

Ms. Young stated, I would defer to Mr. Beck. I did in fact concur with the comments that were made by our legal counsel, Don Maynor. It is my understanding that Mike had a conference call with Commissioners Hope Schmeltzer and Diane Fellman yesterday with respect to the comments they had as well as the ones that Don Maynor had presented to Mike Bell. I would defer to him since he has the most recent information.

Mr. Bell stated, why don't I start by taking a moment to describe what we've done since the last public hearing. What we've attempted to do is take the discussion and the comments from that hearing and work those thoughts and ideas into this next draft. Also, we have been working the last couple of weeks with the Task Force receiving written comments back from Task Force members and addressing those written comments. The comments that you referred to from Mr. Maynor are, as we speak, being worked into the draft. We had, as Ms. Young pointed out, a conference call yesterday afternoon with the Task Force specifically with regard to those comments and the comments of the other Task Force members. Mr. Maynor's comments essentially go back to the last public hearing and also attempt to bring out the issues in the Executive Summary with regard to energy pricing, reliability, and local control. The suggestion that he had in terms of developing a matrix that shows how each of the different options would affect pricing, reliability, and local control is what we are working into the Executive Summary of the next draft. He also had several other good comments that are also being worked into the draft as well as comments from other Task Force members. We are on schedule, and I expect that we will deliver the report as agreed to.

Chairperson Gonzalez stated, this is a point Commissioner Schmeltzer brought up previously, the importance of keeping in mind as much as possible the unique characteristics of San Francisco. I know that you have done that, but I did concur with Mr. Maynor that that was something to keep at the forefront because we certainly want that in the document.

Mr. Bell stated, that is a very good point and that really came out in the public hearing. What we have done is taken some of those comments and moved them right up to the front of the report. The other thing that we've done is add a new section in the report that identifies next steps for these options, the amount of time, and budget estimate of what it would take should the LAFCo decide to move forward with any of these options.

Chairperson Gonzalez stated I also thought Mr. Maynor's remarks about the effort at trying to assign some kind of cost of acquiring distribution, but really almost like a comparative analysis of what had happened in other jurisdictions. I thought that was a novel way of trying to "skin the cat."

Mr. Bell stated, what we have attempted to do in the new section is come up with a bar chart that would identify what those costs might be with a couple of different scenarios. Obviously, there hasn't been a great deal of time or budget to quantify that in extreme detail, but from what we know and what we have done in this area, we have been able to take a crack at putting that together. What we are doing with regard to the draft is circulating a revision today to the Task Force that incorporates the comments that I have just addressed. All of that has worked into this draft which we are delivering to the Task Force today.

Vice-Chairperson McGoldrick stated, during Public Comment, Mr. Brugmann stated he was interested in exploring some deeper more detailed kind of analysis. Mr. Mellor indicated that would take a lot more work. The scoping for that would be much deeper, and that would be something that you would need a work order for that. That is not part of your work order or program. I just want to get an idea of how long that would take you to do if you were asked to do something deeper and more detailed in terms of a more complete package of acquisition of the grid, generation issues, or deeper transmission issues.

Mr. Bell stated, within the context of what we discussed in terms of coming up with dollar estimates and more thorough analysis of the costs of acquisition, we estimate it would take about three months to complete that work. That would be physically looking at portions of the system and so on, evaluating them, coming up with cost estimates. The cost of that would be in the range of about \$150,000 to \$200,000. That is incorporated into this next draft of the report as one of those potential next steps.

Public Comment

Mr. Stern, Local 1245 IBW, stated, several comments and observations based on our experiences in the past with all three types of utility employers, municipal public agencies, private utilities, and private energy generation companies. The first is that it is our view that the timeframe that the Beck Company was allotted to perform the study was really too short, and it is difficult for them to put together a full and incredible study. We think they have done rather well with the timeframe, but there are some things that would probably need further study and further detail. Particularly, the specifics of San Francisco load projections. We do keep track of our estimates of the state load need for various reasons. We have various utility union groups that we associate with. Our estimates for load growth and this is for the state of California indicate that there will an increased load at a faster rate than what the Beck study shows. Because Beck and the study correctly identifies the transmission or location problems in San Francisco that exist, because of the problems of getting electricity to San Francisco that does put the City at a greater risk at a faster point in time.

There are also two other things that are not inaccurate, but perhaps somewhat misleading. Table 4.2 identifies comparison of distribution services between public utilities and Investor Owned Utilities (IOU's). The language says both adhere to General Orders 95 and 128, and this is very important to our members. In fact, the investor owned utilities or the private utilities are required to adhere to General Orders 95 and 128. These are state-mandated work orders. The public agencies are not required. They generally do on their own, but they don't have to. We have gotten into some discussions with our public agencies and at times have had disagreements about whether they are properly adhering to what we consider to be reasonable safety work practices. Also, the rates and pricing, and this I think a true statement, but somewhat misleading--historical prices have averaged 20 percent

below IOU's for similar customer segments. We think that is correct. I think the difference in what we see as the difference now is the access to federally subsidized or low-cost federal hydro power is not available. In fact, we have an interesting situation with our employer, SMUD, in which we have been in contract negotiations for some time. They have taken a rather large hit during the recent spike in prices where they had to buy electricity on the spot market, and they are feverishly trying to develop new sources of generation for themselves. These are things that we are concerned about that the City and the LAFCo understand about the current environment in which to go forward and acquire municipalization.

Chairperson Gonzalez stated, perhaps Mr. Stern can speak to Mr. Bell and he could confer with you. I am sure that he would be glad to do that. I think that while I acknowledge we've certainly asked much of our consultants, they have a very fine reputation, and I doubt that they would be interested in publishing a document that they weren't comfortable with and would rather miss a deadline than publish inaccuracies.

Mr. Stern stated, I am not suggesting that they are. I don't think I found anything inaccurate. I think there are just some things that probably could use a little bit more flushing out.

Commissioner Gonzalez asked, Mr. Bell, could you have a talk with Mr. Stern? He seems to have some ideas.

Mr. Bell stated, I would be happy to speak with Mr. Stern regarding all of the issues he mentioned, growth projections which actually have been part of the Henwood section part of the work, but also Beck has worked in conjunction with them on that. The General Order 95 and 128 issues are probably more semantics than anything else. The publicly-owned systems as Mr. Stern identified largely do follow those regulations. I am not aware of any that don't, but we can take a look at that language in the report. Perhaps I can identify with Mr. Stern where the comments with regards to rates are identified in the report. I believe that what we have commented on is the comparison of a new utility that is just forming to those that have been in existence for 100 years clearly creates types of situations that he has just described. I would be more than happy to meet with Mr. Stern and discuss his comments and questions regarding the report.

No further public comment.

Public comment closed.

8. Future Agenda Items

Chairperson Gonzalez stated, I think we have touched on this agenda item with Item Nos. 3, 4, 5, and 6.

Ms. Young stated, we do have one additional item. We would ask for a closed session at the next meeting to further discuss our potential litigation.

Chairperson Gonzalez stated, colleagues, if there is not an objection, we will schedule this item.

Public Comment

No public comment

Public comment closed.

Chairperson Gonzalez stated, we will follow the recommendation of Ms. Young

9. Public Comment on Items not on the Agenda

Mr. Charles Kalish stated, I apologize for being late, but the item on the agenda that had to do with outreach is what I tried to get here for.

Chairperson Gonzalez suggested that Mr. Kalish speak to Ms. Young about this item. What we have essentially done is we are going to delay final decision-making on that until we have a final report. Ms. Young is going to prepare alternative things that we might do.

No further public comment.

Public comment closed.

Ms. Young asked if we should set up the next meeting so we can direct Mr. Bell for coming back with the Final Plan. I was suggesting July 19th that would give enough time for the Plan to be done. Mr. Bell has agreed to that date, Ms. Miller, and Mr. Maynor can be here as well.

Commissioner Fellman stated that she would be on vacation on that date and to check with Commissioner Schmeltzer to see if she can attend.

Ms. Young stated, if not, we would poll the Commissioners for another meeting date.

10. Adjournment

The meeting of the San Francisco Local Agency Formation Commission adjourned at 3:02 p.m.

