

San Francisco Local Agency Formation Commission

City Hall I Dr. Carlton B. Goodlett Place, Room 244 San Francisco, CA 94102-4689 Tel. 415.554.4441 Fax. 415.554.5163

TO:

SF LAFCo Commissioners

Legal Counsel

FROM:

Gloria Young, Executive Officer

DATE:

October 28, 2002

SUBJECT:

Direction to the Executive Officer to pursue entering into a contract with R. W. Beck to study the follow-up recommendations listed in

the Resolution adopting the Energy Services

As a follow up to the Commission's adoption of the Resolution regarding the Energy Services Study, and its discussions about its Future Work Plan, I met with Kenneth Mellor and Mike Bell from R. W. Beck, and Nancy Miller, our legal counsel, on October 28, 2002, to discuss follow up. Attached is a letter from R. W. Beck reflecting the outcome of that meeting. It includes an outline of the course of action with respect to pursuing further strategic planning studies, sets timelines, and provides more detail.

The SF LAFCO will need to provide directions to the Executive Officer regarding entering into a contract with R. W. Beck to study the follow-up recommendations.

If you have any questions, please feel free to contact me at 554-7747.

Attachment

October 30, 2002

Via E-mail

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Ms. Gloria L. Young Executive Officer

Local Agency Formation Commission

1 Dr. Carlton B. Goodlett Place, Room 244 San Francisco, California 94102-4689

Subject: Strategic Plan for Power Supply, Transmission, and Distribution

Dear Ms. Young:

This letter is in response to your request on September 20 and our discussion on October 28, 2002, for an expression of interest and cost estimate for the implementation of a Strategic Plan for Power Supply, Transmission, and Distribution to the City and County of San Francisco. R. W. Beck, Inc. is very much interested in providing continued assistance to the City and County of San Francisco, as it evaluates its energy options and implements those that provide the highest level of benefits and reduced cost to utility customers in San Francisco.

For the sake of simplicity, we have outlined our estimates to correspond to the seven items contained in the San Francisco Local Agency Formation Commission Resolution Adopting Energy Services Study and Recommendations for Electric Utility Service.

In summary, R. W. Beck is prepared to assist the San Francisco LAFCo in all areas other than Recommendation 4, Monitor and Support Legislative and Regulatory Activities. Our firm does monitor and support regulatory activities, but in order for us to maintain our independence, we do not participate in legislative activities.

1. Development and adoption of conceptual model of governance for the energy future of the City and County of San Francisco.

As the San Francisco LAFCo is aware, based on the recently completed Energy Services Study, there are multiple governance structures available ranging from use of existing departments, such as the SFPUC/SFDOE, to the creation of new City/County entities. To a large extent, the best governance structure will depend on the ultimate course of action (i.e., aggregation versus full municipalization).

R. W. Beck's estimate for the cost of development of the model of governance would not exceed \$25,000 and could be substantially less, depending on your needs.

- R. W. Beck Personnel Assigned: Ken Mellor and Mike Bell
- Timeline: Schedule to be agreed on, depending on San Francisco LAFCo's needs. Based on our discussion, this may follow Tasks 2, 3, and 6. Estimate 30 days.
- 2. Development of an integrated Long-Term Resource Plan, including financial and competitive plans for support.

Given the current reliability problems that are being experienced in San Francisco as a result of insufficient generation and transmission resources in the Bay Area, this component is quite important to relieving reliability problems and, just as important, to protecting San Francisco ratepayers from price exploitation due to the generation and transmission insufficiencies. The SFPUC is on its way to creation of just such a plan. That plan needs to be consistent with, and



integrated into, a comprehensive supply/demand model for use in projecting financial results for different San Francisco utility scenarios.

Assuming that the data and resources of the SFPUC are available to R. W. Beck, our estimate of the cost of producing a Long-Term Resource Plan to support the financial pro forma is \$50,000.

- R. W. Beck Personnel Assigned: Ken Mellor, Mike Bell, Steve Rupp, and Sebnem Tezsezen
- Timeline: 60 days from Notice to Proceed
- 3. Confirmation or modification of the preferred energy supplier role for the SFPUC, including a risk assessment and an evaluation of benefits provided to customers, as compared to costs and services that are likely to be available from competing service providers.

Given the recent passage of AB 117, we would envision an analysis of the potential for consumer savings under a community choice aggregation scenario, as opposed to acquiring PG&E's distribution system. R. W. Beck has assumed that it would work closely with SFPUC staff to ensure that there is no duplication of work effort already performed by the SFPUC.

The estimated cost of this study is \$75,000.

- R. W. Beck Personnel Assigned: Ken Mellor, Mike Bell, Glen Justis, John Wengler, Scott Martin, and Sebnem Tezsezen
- Timeline: 75 days from Notice to Proceed
- 4. Monitor and support legislation and regulatory activities.

As mentioned above, for reasons of independence, R. W. Beck does not support legislative activities.

- 5. Development of a Risk Management Plan for the selected energy service model and development of an Implementation Plan.
 - R. W. Beck has been notified by the SFPUC that it has been selected to assist the SFPUC in developing risk management policies and procedures for its Hetch Hetchy Water and Power Division. Completion of this work will definitely be useful in determining a larger plan for risk management assuming a different energy service model. We estimate the cost of refining the Risk Management Plan to be \$50,000.
 - R. W. Beck Personnel Assigned: Ken Mellor, Mike Bell, Glen Justis, John Wengler, and Scott Martin
 - Timeline: This work schedule will be dependent on work performed for the SFPUC. The current schedule for that project is 90 days, not counting project implementation.
- 6. Consideration of the SFPUC's acquisition of PG&E's distribution system in accordance with the Energy Services Study. Initiation of this task may be dependent on Task 3.

An independent review of the costs/benefits of various energy supplier roles will be critical to objectively determine the future role of the City/County in the provision of energy services. No firm has better experience at evaluating the risks and benefits, quantifying them, and explaining

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conclusions than R. W. Beck. It is anticipated that a budget of \$150,000 will be sufficient to complete recommendations.

- R. W. Beck Personnel Assigned: Ken Mellor, Mike Bell, Nancy Hughes, Glen Justis, Scott Martin, and Sebnem Tezsezen
- Timeline: 90 days from Notice to Proceed
- 7. Development of a Financing Plan to fund the costs of the Energy Services Study recommendations.

This particular aspect of planning is closely aligned with Recommendations 3 and 6. In order to estimate the costs of energy service scenarios, reasonable assumptions regarding financing need to be established. Therefore, most of the framework for Recommendation 7 will be established during the course of work on Recommendations 3 and 6.

We would envision this task as a simple refinement of the plan used in our economic analysis of alternatives, and framing the ultimate Financing Plan for use with potential investors and underwriters, rating agencies, and bond insurers. R. W. Beck has an excellent reputation with each of these based on the complete and thorough work that we perform in this area. Our estimate of cost for this item is \$20,000.

- R. W. Beck Personnel Assigned: Ken Mellor, Mike Bell, and Sebnem Tezsezen
- Timeline: 45 days from conclusion of either Recommendation 3 or 6

As we have identified under several of the recommendations, many of these tasks are interrelated. It may be possible to utilize work performed in one area to reduce cost in another. Given what we know today, this represents our best estimate of the cost of providing for these services. We would not proceed with any task until receiving instructions from San Francisco LAFCo, allowing the Commission to control costs and schedule. The San Francisco LAFCo may wish to select from the following menu of tasks, depending on the outcome of the election:

1.	Conceptual Model of Governance	\$25,000
2.	Long-Term Resource Plan	\$50,000
3.	Preferred Energy Service Provider Role	\$75,000
4.	N/A	
5.	Risk Management Plan	\$50,000
6.	Acquisition of PG&E	\$150,000
7.	Financing Plan	\$20,000

During our discussion on October 28, we discussed the potential value of a projection of PG&E rates to serve as a benchmark for evaluating energy service scenarios. This is a very large effort and not included in the scope for the above tasks. We are seeking participants to spread the costs of such a study and will keep you informed as to our progress.

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Thank you for the opportunity to provide you with our expression of interest and cost estimate. If you have any questions, please do not hesitate to call me at 916-614-8265.

Sincerely,

R. W. BECK, INC.

Michael Q. Sell /. Michael A. Bell

Principal

c: Ken Mellor

Nancy Miller (via e-mail)