

**San Francisco  
Local Agency  
Formation Commission**

**ITEM NO.** 5

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

**M E M O R A N D U M**

**TO:** LAFCo Commissioners, Legal Counsel

**FROM:** Monica Fish, Commission Clerk

**DATE:** December 16, 2002

**SUBJECT:** Item #5  
Discussion and Approval of the Proposed SFLAFCo's Work Plan  
Approach and Next Steps

The outline of San Francisco Local Agency Formation Commission's (SFLAFCo's) immediate work plan and process for public review and comment (Item 5 on the December 20<sup>th</sup> meeting agenda) is now being transmitted for your review. In addition, SFLAFCo's Resolution adopting a future work plan and letter from R. W. Beck dated October 30, 2002 regarding the strategic plan for power supply, transmission and distribution are also attached.

If you have any questions, please call me at (415) 554-7702.

## MEMORANDUM

**To:** San Francisco LAFCO Commissioners

**From:** Energy Subcommittee

**Date:** December 16, 2002

**Subject:** Outline of Immediate Work Plan and Process for Public Review and Comment

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1. **Background.** On November 8, 2002, the San Francisco LAFCo Commission adopted a Resolution that set forth a Future Work Plan for the San Francisco Local Agency Formation Commission. (See Attached) On November 26, 2002, the San Francisco Board of Supervisors unanimously approved the Commission's Future Work Plan. At the direction of the Commission, the Energy Subcommittee met to determine the necessary next steps to implement the Future Work Plan. The Subcommittee has determined that the scope of work for the next phase of the Work Plan should be refined as follows:

- a. Identify the scope of work for the next study phase by the consultants, R.W. Beck;
- b. Determine the cost of such scope of work;
- c. Identify future potential issues for study including other public service issues;
- d. Incorporate a public review and comment process into the development of the Work Plan to avoid duplication of effort and promote efficient use of LAFCo resources by including interested groups, individuals and stakeholders early in the process.

The Subcommittee intends on providing the Work Plan to interested groups and individuals as well as the Stakeholders to receive input and solicit comments. Additionally the staffs will meet with key interested groups and stakeholders including the SFPUC staff as well as the State PUC staff. These meetings would offer an opportunity for these groups to provide information to the consultants to avoid duplication of work and to promote efficiency of LAFCo's resources.

2. **Scope of Work for R.W. Beck.** The focus of RW Beck's work in the short term will be on what the City/County can do in the near future to improve the availability and reliability of energy resources. The Subcommittee has determined that the focus of the next phase of the RW

Beck study should be slightly modified from the Beck Memo dated October 30, 2002, to focus the work in light of the passage of AB 117 (Author Migden, Stats. 2002) as follows:

- a. Provide a very brief history of the San Francisco energy system, including supply, transmission, and distribution.
- b. Describe the current San Francisco energy status in terms of supply, reliability, distribution and transmission. This should include the current status of the State PUC energy plan.
- c. Provide information as what the State PUC is doing regarding energy issues.
- d. Provide information on the status of the energy plan by the SFPUC and other plans the SFPUC is promoting.
- e. Focus on future energy possibilities and opportunities within the existing government structures.
- f. Provide a public process for review, comment and discussion.
- g. List options for improving energy supply, reliability and availability.

The above would modify the scope of work as outlined by the consultant on October 30, 2002. The emphasis of the study would be on the impacts of newly enacted sections 331.1, 366.2 and 381.1 of the Public Utilities Code permitting community aggregation. Further, the consultant would work with the SFPUC to avoid duplication of work.

The Long Term Resources Plan would identify the components of such a plan and provide information of what the State PUC is currently planning. The Consultant would review the SFPUC as a preferred energy provider, analyzing the potential for consumer savings under a community choice aggregation system. Since RW Beck has been selected by the SFPUC to develop risk management policies and procedures for the Hetch Hetchy Water and Power Division, the study will be modified to avoid duplication and to focus the plan on aggregation issues. The consultant would not address, at this time, acquisition of PG&E assets or a financing plan for such acquisition. These items may be the subject of a future study.

3. **Cost of the RW Beck Study.** Currently, LAFCo has available for Fiscal Year 2002-2003 approximately \$200,000 for professional studies. The Subcommittee anticipates allocating approximately \$100,000 to energy issues and potentially \$100,000 for other study areas as set forth below.

4. **Identification of Other Potential Study Areas.** The Commission has identified other areas for potential study including but not limited to a desalination study, a study of tidal current generation and implementation of a recycled water program. The Commission has also identified the need to review specific public services provided by the City and County of San Francisco through contracts or agreements with non-profit entities.

5. **Public Review process.** The Subcommittee recommends that the public review process be commenced by providing information and setting up meetings with key interest groups and stakeholders (PUC, SFPUC). These meetings will allow for input into the process and identification of other potential issues for review or for deletion from the LAFCO Work Plan.

Information will be disseminated to the public through the web site and by mailings to the interested groups and persons. Additionally, public meetings will be scheduled regularly by LAFCo to discuss the implementation of the work plan. LAFCo will encourage presentations from stakeholders and interested persons similar to those conducted in early 2002 with respect to the energy study. Draft findings and reports will be publicly available prior to final acceptance by the Commission.

1 [SFLAFCo Future Work Plan]  
2

3 **Resolution requesting support of the Board of Supervisors for the Future Work**  
4 **Plan of the San Francisco Local Agency Formation Commission.**  
5

6 WHEREAS, The primary purpose of the San Francisco Local Agency Formation  
7 Commission (San Francisco LAFCo or Commission) under the Cortese-Knox-Hertzberg  
8 Local Government Reorganization Act of 2000 is to review public service needs,  
9 including utility service, and to determine whether new government entities should be  
10 created or changes in existing governments should be made to address the needs of its  
11 citizens;

12 WHEREAS, The Commission adopted by resolution its Energy Services Study  
13 and Recommendations for Electric Utility Service;

14 WHEREAS, The Study indicates that reliable, reasonably priced electric service  
15 is vital to the City's economic health and public welfare;

16 WHEREAS, The San Francisco Local Agency Formation Commission has  
17 adopted a Future Work Plan that includes pursuing a strategic plan for power supply,  
18 transmission, and distribution to the City and County of San Francisco and other work  
19 plan items as follows:

20 1. Development and adoption of a conceptual model of governance for the  
21 energy future of the City and County of San Francisco by:

- 22 a. The SFPUC as an aggregator of retail electricity loads and an Energy  
23 Service Provider (ESP) based on the SFPUC/SFDOE Electricity  
24 Resources Plan published in March 2002, the proposed charter  
25 amendments to restructure the SFPUC, submitted on June 17, 2002,

1 newly enacted sections 331.1, 366.2 and 381.1 of the Public Utilities Code  
2 to permit community aggregation, and the conceptual model for SFPUC  
3 contained in the Energy Services Study; or

4 b. A separate municipal electric utility created by the Board of Supervisors  
5 with an elected governing body or a governing body appointed by the  
6 Mayor or Board of Supervisors;

7 2. Development of an integrated Long-Term Resources Plan, including financial  
8 and competition plans for support;

9 3. Confirmation or modification of the preferred energy supplier role for SFPUC,  
10 including a risk assessment and an evaluation of benefits provided to  
11 customers, as compared to costs and services that are likely to be available  
12 from competing service providers;

13 4. Assuming confirmation of an energy supply role for SFPUC, monitor and  
14 support legislative and regulatory activities that provide for Direct Access and  
15 Community Aggregation (e.g. AB 117);

16 5. Development of a Risk Management Plan for the selected energy service  
17 model and development of an Implementation Plan;

18 6. Consideration of SFPUC's acquisition of PG&E's distribution system in  
19 accordance with the Energy Services Study;

20 7. Development of a Financing Plan to fund the costs of the Energy Services  
21 Study recommendations;

22 WHEREAS, Further the San Francisco Local Agency Commission has approved  
23 as a part of its Future Work Plan the following:  
24  
25





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File No. 2002-04

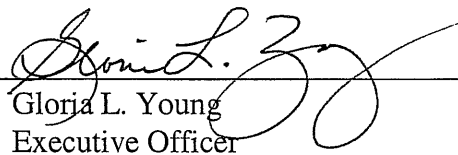
Date Passed: November 8, 2002

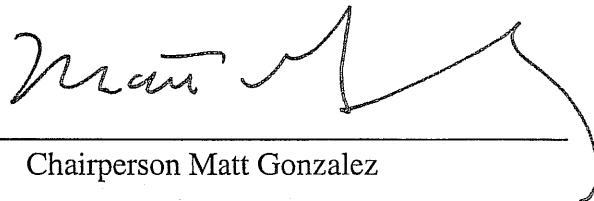
Resolution Amending General Policies and Procedures for Staggered Appointment  
of Commissioners.

Adopted by the following vote: 4-0.

AYES: Vice-Chair Commissioner McGoldrick, Commissioners Ammiano,  
Hall, and Schmeltzer  
NOE: None  
ABSENT: Chair Commissioner Gonzalez

I hereby certify that the foregoing resolution was adopted on November 8, 2002, by the  
San Francisco Local Agency Formation Commission.

  
Gloria L. Young  
Executive Officer

  
Chairperson Matt Gonzalez

Date Approved: 11/20/02



October 30, 2002

Via E-mail

Ms. Gloria L. Young  
Executive Officer  
Local Agency Formation Commission  
1 Dr. Carlton B. Goodlett Place, Room 244  
San Francisco, California 94102-4689

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO

2002 OCT 31 AM 10:17

BY Amc



**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

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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 A. Bell / jmb*  
Michael A. Bell  
Principal

c: Ken Mellor  
Nancy Miller (via e-mail)