

To: South Bay and Westside Cities of Los Angeles
From: W. Kent Palmerton
Date: 16 May 2017
Subject: Letter commending the SBCP draft Business Plan and supporting its Recommendations

I have had the opportunity to read and review the South Bay Clean Power (“SBCP”) draft Business Plan, and offer my endorsement without reservation. The SBCP Plan is the first, of what I hope to be many declarations by new CCA initiatives, to embrace what many are now calling a “CCA 3.0” model in which a regional CCA Joint Powers Agency (“JPA”) provides services to its member CCA organizations.

This enthusiastic endorsement is predicated on my nearly 30 years of service with Municipal Electric Utilities in California where my assignments have been related to, or directly involved with, managing and operating regional JPA’s that provide state of the art, timely and cost-effective services to member organizations¹.

The key component of success for a Regional JPA is that it collectively can provide a much higher degree of service to its members than its members can afford to provide individually. The resulting economies of scale, in both price and service achieved by the JPA, are then used to drive operational costs (and customer rates) down and service levels up for each member organization.

This “Regional JPA” approach makes so much sense that it is universal throughout the Municipal Electric Utility community, both here in California and throughout the US. The SBCP Business Plan is unique in its application of these management principles, due in part to the size and scope of the SBCP CCA, but also because of the vision crafted in the Business Plan.

The CCA industry is undergoing rapid evolution, and the SBCP Business Plan adequately captures, explains and synthesizes best practices for SBCP to launch 'best in class' on a rapid timeline and at minimal cost. I am confident that other CCAs would invariably follow SBCP’s initiative, and join the Regional JPA. It is a sensible ‘win-win’ for all involved.

The SBCP Plan is actionable and not theory. To put it plainly, it focuses on the step-by-step process to hire the best contractors, tasks them with the right set of services, and appropriately incentivizes all actors to ensure their performance.

In my professional opinion, I expect that the Plan will give SBCP industry-leading risk management capabilities across the entire CCA enterprise. This fact alone is worthy of its own endorsement.

I would offer the following additional comments for consideration:

1. Flexibility in governance options is smartly anticipated by the Plan, which provides for the launch of the SBCP JPA in a standalone configuration or via a Regional JPA of CCAs. Each configuration provides

¹ From 1985 to 2000, I held various management positions at the Northern California Power Agency, including serving in the equivalent capacity as Assistant General Manager (as that position is now known today). After five subsequent years working for Williams Energy and Constellation Energy in Vice-President and Directorship positions, I’ve recently completed a ten-year engagement as General Manager of the Power and Water Resources Pooling Authority, a JPA of California Irrigation Districts serving retail electric load in PG&E’s territory. I’ve also been an active participant in the CCA industry: my company Power Choice, Inc. bid and won the right to serve San Francisco’s first CCA initiative, and I’ve subsequently bid on several other CCA service RFP’s. The most recent was with Tanoak Energy Advisors, on a bid to the Redwood Coast Energy Authority JPA (where we employed the same approach as the winning bid, but with a different vendor).

2. for gains in efficiency, cost savings, bond rating acceleration, better services, etc. over a stand-alone (single-municipality) CCA.

That being said, I strongly encourage SBCP to pursue the Regional JPA of CCAs. Key to this “CCA 3.0” model is the ability to preserve local policy control & program administration at the CCA level and leverage the operational excellence available at the JPA level for the mutual benefit of all JPA CCA members.

Designing a Regional JPA well is no mean feat: to be stable, the governance structure has to consider and provide meaningful representation to each member, and apportion shared costs in an equitable fashion. This Plan has demonstrated an expert understanding of the dynamics and design considerations inherent in launching a Regional JPA, and has articulated these in a clear manner.

3. The Business Plan provides a much-needed focus on the JPA’s operational model, and articulates proven models and methods that will ensure SBCP’s power portfolio services — including risk management, long-term planning and renewable & distributed energy integration — are provided with the highest degree of competence.

For a CCA as large as SBCP, this is critical to contract for at the outset. Successfully contracting for this type of highly-technical service is more challenging than providing a high-level overview. It is refreshing to see a Plan that also details the technical scope of services to be requested, the proper RFP structure to be used, and a solicitation process designed to be expertly-informed and transparent.

The Plan also rightly profiles how Silicon Valley Clean Energy and the Redwood Coast Energy Authority CCAs are leading the way — and discovering that there are plenty of competent, cost-effective private companies and public nonprofits that can offer these services upon request.

4. The launch of so many CCAs throughout the state is necessitating changes in the way the industry is regulated. Some of these regulatory changes look to be substantial, particularly how costs and benefits for existing utility renewable contracts are apportioned to CCAs (under the proposal to replace the PCIA with the PAM mechanism). These initiatives are active, and being discussed at the highest level right now.

This Plan has not only articulated key aspects of these initiatives, but has further recommended the correct governance and operational model required for SBCP to rise to the challenge with sophistication and at scale. Given the nature of the industry, it will take several years for significant regulatory changes to fully come into effect. In advising SBCP to set out in the right direction from Day 1, this Plan passes the ‘Wayne Gretsky test’: “Skate to where the puck is going, not where it has been!”

5. The Business Plan offers a clearly-structured disposition of financing strategies, a lucid survey of CCA financing process case studies, and tailored ‘best practice’ strategies for SBCP to limit direct costs to the JPA until the program gets on its feet.
6. An explicit roadmap to build local staff capacity and transition responsibilities to the JPA has been defined, and in sufficient detail to be actionable. This approach feeds into RFP design, so SBCP launches with a comprehensive structure and services in place and grows into itself (instead of waiting for years, or growing ad-hoc like many CCAs to date).

This evolution is critical and will be respected by market participants and service providers who look toward SBCP to be creditworthy, and capable of managing the risks and opportunities of electric market participation without undue support from outsiders.

7. The Business plan defines a very workable, proven approach for the SBCP to issue a "Single RFP for all services". This approach allows market innovation & competition while defining all costs and responsibilities up-front, and uses performance-based contracting to protect local governments.
8. To complement the RFP design, there is a streamlined and explicit (step-by-step) solicitation process, with citizen committees and oversight to ensure fairness & transparency.
9. The Business Plan recognizes the importance of hiring an Executive Director, with appropriate qualifications, before issuing the RFP and choosing contractors. This is a seemingly-minor yet important "get it right" step in the process for ensuring the overall success of the CCA 3.0 model structure and launch.
10. Finally, the Business Plan lays out detailed appendices that will provide critical resources for prospective bidders to successfully understand the needs, wants and desires of the new CCA structure. This information includes the SCE CCA Handbook, details on the emerging utility "exit fee" proposal (PCIA/ PAM), SCE's approach to DER, CCA waterfall design, a list of potential bidders, and the list goes on. Broadening the bidder pool and making it easier for companies to tailor bids appropriately to provide services is one hallmark of a well-designed public solicitation, and this Plan is a strong resource in that regard as well.

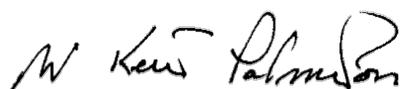
In summary, I'm very encouraged by the depth and breadth of the South Bay Clean Power draft Business Plan. In my 40-year career, I've built Energy Production Cost Models, designed Power Pools and member focused services, developed Risk Management Policies, testified on behalf of the Division of Ratepayer Advocates, lobbied Congress and the State legislatures, been responsible for regulatory issues at the Federal and State level, built power plants, and chaired Committees at the Regional Reliability Council.

For a good portion of those four decades, I also managed almost every aspect of a local Publically-Owned Electric Utility's Power Supply function, including being General Manager of a "Regional JPA" that walks like, and talks like, the very CCA structure envisioned by the Business Plan.

This Plan is timely for SBCP, and overdue for the CCA industry as a whole. The Electric Utility responsibilities inherent in launching a CCA are not to be taken lightly. Power supply, renewable development, Distributed Energy Resource implementation and its integration with our transportation sector are mega-responsibilities and opportunities. From what I can tell, the South Bay Clean Power draft Business Plan is on the right track to achieve success.

Thank you for the opportunity to comment on this important work.

Sincerely,



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