

DRAFT

UTILITIES ADVISORY COMMISSION MINUTES OF APRIL 4, 2007

CALL TO ORDER

Melton called to order at 7:00 pm the regular scheduled meeting of the Utilities Advisory Commission.

Present: Melton, Dawes, Bechtel, Rosenbaum

ORAL COMMUNICATIONS

Mrs. Carlstead made comments before the Rates discussion (see below).

APPROVAL OF THE MINUTES

Approval of the minutes of March 7 was made with the following change and comments:

Bechtel asked for clarification on page 3, paragraph 1 of the March 7 draft minutes. He asked whether it was 11.4 percent cost per kWh or if it should be 11.4 cents cost per kWh. Tom Auzenne, Assistant Director, said that it should be cents. Bechtel also requested there be more specifics and details to the sense minutes rather than just saying there was "comments and concerns" brought up in the meeting.

Dawes said he would like more explanation on the \$40 million dollar cost of the Reservoir Project. There was a similar project 4 years ago which cost around \$15 or \$16 million. He also wondered

why “including land” wasn’t explained further in the minutes. Melton said he did not think there had been discussion of the term “including land” at the meeting and that is why there was nothing in the minutes.

Chairman Melton: Moved approval, Dexter Dawes Seconded. Motion passed with four ayes and one absent.

AGENDA REVIEW

Valerie Fong, Utilities Director, pointed out that Item 2 on the agenda (Ten-Year Energy Efficiency Portfolio Plan) was an Action item, not an Informational item.

REPORT FROM COMMISSION MEETINGS/EVENTS

NONE

UTILITIES DIRECTOR REPORT

Fong presented the following report:

- 1) The Emergency Water Supply Project Notice of Determination was filed on March 9. The CEQA process will be complete, if there are no protests, by April 11.
- 2) A CMR will go to Council next week to notify them that more time is needed for the FEIR cost allocation schemes and will be brought forward in May. The 2nd reading of the Park Ordinances will also take place in May.
- 3) Water system flushing notices will go in the Palo Alto Weekly and Palo Alto Daily. The flushing will take place the week of Apr 22.
- 4) There will be a Federal Policy Conference in Washington D.C at the end of April. Val will attend with Council member Bern Beecham and Resource Planner Debbie Lloyd.
- 5) The next UAC meeting will be a day meeting on May 2.
- 6) There is a conflict regarding the July 11 UAC meeting date as a Hetch Hetchy tour is scheduled for the same date. Fong asked if July 19 might work as the Chambers are not

available on July 18. Staff was asked to see if a conference room, other than the Chambers, might be available on July 18. Fong said we would look into that option.

7) The Mayor is sponsoring a session on Stanford University's Green Transportation Program. This will take place Apr 5, 4:00 – 5:30 pm in the Council Chambers.

8) There will be a Special Meeting of Council (study session) on April 11 at 2:00 pm in the Council Chambers. Lt. Governor John Garamendi will speak on the issue of Climate Change.

UNFINISHED BUSINESS

Rosenbaum asked about the overhead for the Green Project and how it was calculated. Assistant Director, Customer Services Tom Auzenne explained that based on the 11.5 cent cost for Palo Alto Green, our overhead was 4%. Rosenbaum then asked what percentage of the \$500,000 premium represented. Auzenne said 33%. Auzenne also said that based on an Oct., 2006 publication from the National Renewable Energy Laboratory, the average marketing and administration expenses for the top ten renewable programs in the country was 29%. Palo Alto Green is the number one program in the country and the marketing and administrative costs are in line with the average noted in the study, so Auzenne concluded that our marketing works.

NEW BUSINESS

ITEM 1: INFORMATION ITEM:

2006 Statewide and Palo Alto Residential Customer Satisfaction Survey Results

Senior Resource Planner Karl Knapp presented a summary of the main findings of a residential customer survey conducted by RKS Consulting. The survey is conducted every other year for CMUA and CPAU, and is used to compare CPAU customer attitudes and utility performance in a number of areas, and enables CPAU to benchmark performance against California municipal and investor-owned utilities.

The survey was conducted in October and November of 2006. CPAU's overall Value Rating remains high, which is a composite score of several different areas. CPAU continues to perform well in the areas of overall customer satisfaction, price/value performance, power delivery, and there is growth in users of the website and participation in the green energy option. There was a slight decline in scores on trust, overall feelings, and to some extent, communication effectiveness.

The consultant report indicates that these declines are not statistically significant, but may be consistent with changes that take place after rate increases.

Palo Alto residents differ significantly from other California utility customers in three main areas: high awareness of the seriousness of the California energy situation, global warming, and a strong preference for using the internet to obtain information and pay bills. CPAU customers are more aware and concerned about global warming, but are not sure about CPAU's involvement, and express a willingness to pay more to fund solutions.

Main areas for improvement noted by the consultant report were to enhance the website and web-based services, and to embrace the global warming issue. Knapp pointed out that the entire City web page is undergoing a major conversion to an entire new database structure and that no big changes are being made until that effort is completed.

Melton asked whether the report indicated dissatisfaction with the website and whether RKS asked about specific improvements that customers would like to see. Knapp/Auzenne replied that customers did indicate dissatisfaction with the website and that a table listing responses for how to make the website better is contained on page 14 of the consultant report.

Dawes asked whether customers were asked about bank drafting.

Knapp/Auzenne explained that while bank drafting was not specifically included in the survey, a high percentage of customers use CPAU's bank drafting program.

Rosenbaum asked why credit card payment options are not shown on web. Auzenne explained that CPAU does do credit card payment in-house, is developing ability to pay using a credit card by phone, and is also working on getting the technology and infrastructure in place to handle web-based credit card payments. Additionally, Auzenne noted that information about all payment options in marketing materials and as the web will be updated.

Melton noted that it appears that more people apparently believe that they are green power customers than actually are. Bechtel suggested a more direct question be included in the next survey regarding incurred PAGreen costs. Staff agreed it would make such a suggestion.

ITEM 2: ACTION ITEM:

Ten-Year Energy Efficiency Portfolio Plan

Knapp presented a brief summary of the proposed ten-year energy efficiency plan. Adoption of a 10-year plan is required by AB2021 passed last year. The Plan includes all of the elements required by the new statutory requirement. Energy efficiency is the highest priority resource for CPAU, with renewable energy second and conventional supply last. The Plan sets energy efficiency targets that are based on the technical and economic potential study conducted by the Rocky Mountain Institute in 2005, seeking to achieve at least half of the estimated economic potential. AB2021 also requires that utilities “treat energy efficiency as a supply investment”. The Plan proposes to fund the efforts needed to achieve the targets by including approximately \$2.6 million over two years in the electric and gas supply budgets, which when added to the existing Public Benefits efficiency budgets would bring the two-year efficiency programs total to \$7 million. The Plan will be staffed with existing positions. The estimated financial impacts are a potential rate increase of 0.5-1.0% with an average bill decrease of 2.5-3%. Six of the main near-term efforts were described, including revamping existing programs and establishing new programs that address underserved segments such as new construction and remodeling.

Dawes asked whether the Plan costs are identified as a line item in financial reports and included in the long-term financial forecasts and rate projections. Staff responded affirmatively and explained that a new Fund Center has been created and all of the Plan costs are included in the proposed budget.

Melton asked whether the Plan takes a stepped approach, going after the “low-hanging fruit” that is on the cheaper end of the scale first. Staff replied that it will be emphasizing the “low-hanging fruit”, but that much of the proposed plan will be approaching things more holistically and not simply more of the same prescription-style rebates. Staff noted that the law and our own policies require that CPAU pursue all cost-effective energy efficiency opportunities, and not just the cheapest ones.

Dawes noted that the rate of return of 1.6% described in the report is low and asked if there is a mandated minimum spending threshold requirement. Staff explained that the very low IRR cited reflects the added cost of the many required reporting and verification elements of the energy efficiency program, so that while the incentives alone might have an estimated 10.6% return, the other reporting requirements eat up nearly all of that benefit, dropping the payback to only 1.6%. The cost effectiveness tests described in the plan state that energy efficiency that costs less than energy from the market is a preferred investment, consistent with the higher priority of efficiency over supply dictated by the resource loading order.

Dawes asked whether small customers will fail to benefit if they do not participate. Knapp explained that one of the main tenets of the Plan is to ensure that there are programs available for all customers to be able to participate. Staff feels that the rigorous and industry-standard cost-effectiveness testing and criteria described in detail in the Plan along with follow-up using independent verification of program results (as required by law) provides the necessary financial controls to ensure that energy efficiency investments are selected judiciously.

Melton noted that the Plan does appear to offer opportunities for residential customers.

Bechtel asked for an explanation of the carbon adder methodology. Knapp explained the proxy value of approximately \$10/ton of carbon dioxide used by California's investor-owned utilities when making energy procurement decisions. A GHG adder is used in evaluation criteria for purchasing decisions to encourage choosing the lowest cost resource, including the adder.

Dawes asked what staff will do next year that is not being done now. Staff explained that in the near term, the main activities will be adding programs to target areas not currently addressed such as new construction and remodeling, coordinating with the Green Building efforts in the Planning Department, supporting both end-user efficiency and supply-side efficiency, third-party programs like "Right Lights", and joint action with other agencies.

Rosenbaum moved approval of staff recommendation that UAC recommends that Council approve the ten-year energy efficiency portfolio plan. Bechtel seconded. Motion passed with three ayes, one abstained, and one absent.

PUBLIC COMMENT:

Prior to the discussion of utility rate increases, Mary Carlstead (resident) spoke regarding how increases, especially those from bond measures, affect the senior/fixed/low income populations adversely. Parcel taxes are increasing, and are not deductible. Her feelings were that Palo Alto was creating a "perfect storm".

ITEM 3: ACTION ITEM:

Recommended FY 2007-08 Water Rate Increase

Auzenne stated that the Fiscal Year 2007-08 (FY07-08) water system average rate was \$4.59 per one hundred cubic feet (ccf), and presented a slide titled "Components of System Average rate FY 2007-08", which shows the breakdown of costs. For FY07-08, a 10 percent or \$2.2 million increase was proposed (Item A), as well as another 10 percent increase in Fiscal Year 2008-09 (FY08-09) (Item B). Also included was the discontinuance of a price discount for irrigation customers on W-7 (Item C) and the introduction of the fixed charge "customer Charge" (Item D). Customer charges will provide revenue stability, and reduce the need for rapid increases in the future due to fact that sales volume depends on weather and economic factors. Charges for small customers are being phased in, as to limit the overall impact to customers.

Bechtel commented on how he appreciated the charts, and would like to be emailed copies. The concept of customer charges appeared rational, so he had no questions regarding these. He did question whether supply/distribution breakdowns were displayed on the customer bills. Auzenne stated that they were not, but it would be an option to be reviewed in the future.

Dawes stated that there does need to be an explanation of where costs come from, and the charts showed this well, especially in light of customer questions (such as Ms. Carlstead). There was some question as to how current costs would compare to costs five years ago, but it was not a request to produce data. He stated he was ready to approve the issue.

Rosenbaum stated that Item B related to FY08-09 rate approval had not been done by the UAC in the past, and questioned whether it made sense. As costs are too variable, he considered striking Item B from all proposals. Auzenne commented that as this represent a two-year budget process, something regarding FY08-09 should be added. However, rate changes would be re-evaluated during FY 08-09 budget process.

Rosenbaum countered that it is a question of emphasis. While the future increases are in the budget, they are conceptual. He did not think that the UAC should add their imprimatur to items beyond the immediate budget year in their recommendations to Finance/Council.

Dawes had a question as to the total bill, and wished to see how the proposed rates compare with the current rates for water commodity. Auzenne explained the current vs. proposed bill effects.

Melton asked for staff's anticipation of the length of the phase-in period for the customer charge to go from roughly 50% to 100%. Auzenne indicated a 3 to 4 year time frame.

Dawes pointed out that rents, general fund transfers, and other transfers are a large portion of the water budget, and that these are the items that the public needs to know about when rate increases are proposed.

Melton mentioned that conceptual approval of the second year increases had been brought up before in memoranda, although not as formally currently proposed by staff as an explicit item for approval. Rosenbaum generally agreed that the "approve in concept" request was more explicit than in the past.

Bechtel moved to recommend the water proposal as worded. Melton seconded.

Rosenbaum asked if a friendly amendment eliminating Item B (approving year two rate increase in concept) would be entertained. Bechtel declined to accept the friendly amendment and instead indicated a strong preference and obligation to advise the Council of potential increases in the

2008-09 budget year. However, Dawes indicated his concurrence with Rosenbaum on the removal of Item B.

Rosenbaum proposed an amendment to strike Item B. Dawes seconded. Melton noted the substitute motion. Three Commissioners voted in favor of the amendment (Melton, Dawes, Rosenbaum), one voted against (Bechtel), with one absent (Keller). Motion passed.

Rosenbaum commented on how he understood the concerns raised by Carlstead, however, he also noted the UAC's obligation to look out for the utilities businesses on behalf of the City. He acknowledged that it will be difficult for Palo Alto to go forward with bonds, but was unsure of what else could be done.

A motion was made to approve the Water proposal with the removal of Item B. It passed unanimously (Rosenbaum, Dawes, Bechtel, Melton), with one absent (Keller).

Dawes mentioned that while he understood that there was a two year budget process, the second year was too much of an estimate. The UAC would reserve its judgment on such issues.

ITEM 4: ACTION ITEM:

Recommended FY 2007-08 Electric Rate Increase

Auzenne stated that with this proposal, every customer class receives the same 5 percent increase in FY07-08, and no customer charges were proposed. He presented a slide titled "Components of System Average Rate FY 2007-08". Melton questioned whether a "Customer Charge" would be considered in the future. Auzenne said not at this time, as usage/weather variability was not as much of an issue with electricity as with water and natural gas.

Dawes had concerns regarding future hydro projections, and asked for any update on the water situation. Auzenne stated that the last data he had heard was 43 percent of normal snow-pack levels. Dawes commented that this was very serious, and as such, Item B regarding FY08-09 rate increases should also be removed in this case.

Rosenbaum stated his agreement with the 5 percent increase at this time because of the hydro situation, even though the reserves are large.

Bechtel moved approval for staff's recommendation to increase Electric rates in FY 2007-08 with the removal of Item B (approval in concept of an electric rate increase in FY 2008-09). Rosenbaum seconded. Passage was unanimous (Rosenbaum, Dawes, Bechtel, Melton), with one absent (Keller).

ITEM 5: ACTION ITEM:

Recommended FY 2007-08 Gas Rate Increase

Melton commented that the structure of the increase was similar to water. Auzenne concurred, commenting how gas usage was quite variable based on weather effects. He presented a similar slide titled "Components of Average System Rate FY 2007-08".

Fong mentioned that, because of the laddering of gas purchases, future costs were better known. However, staff was still amenable to removal of Item B (approval in concept of gas rate increases for FY 2008-09).

Melton question how long it would be before customer charges were up to cost of service recommendations. Auzenne and Fong commented it was a function of reserve depletion.

Auzenne clarified that although 9.5 percent increase was an overall figure, the allocations to individual customer classes would be different.

Dawes questioned whether, with increased efficiency measures; measures were made using heating degree data. Auzenne confirmed that such comparisons were made. Dawes felt we should publish our efficiency metrics.

Bechtel questioned whether the wording regarding the increase should include a mention that it is a 9.5 percent system average increase. Fong agreed.

Melton commented that the UAC is in essence recommending the rate schedules. Auzenne stated that this would be clarified in the transmittals to the Finance committee.

Rosenbaum moved to recommend the Gas increase with Item B removed. Dawes seconded. Passage was unanimous (Rosenbaum, Dawes, Bechtel, Melton), with one absent (Keller).

Meeting adjourned at 9:35 p.m.

Respectfully submitted,

Melody Vega

City of Palo Alto Utilities