

DRAFT

UTILITIES ADVISORY COMMISSION MINUTES OF MAY 2, 2007

CALL TO ORDER

Chairman Melton called to order at 12:00 noon the regular scheduled meeting of the Utilities Advisory Commission.

Present: Melton, Rosenbaum, Bechtel, Dawes, Keller and Council Liaison, Beecham

ORAL COMMUNICATIONS

NONE

APPROVAL OF THE MINUTES

Minutes of the April 4, 2007 meeting were unanimously approved.

AGENDA REVIEW

NONE

REPORT FROM COMMISSION MEETINGS/EVENTS

NONE

UTILITIES DIRECTOR REPORT

Fong presented the following report:

- 1) Pamphlets about the Utilities are ready for distribution. They will be made available for customers and posted on our website. The pamphlets give the history of the Utilities and show where we are today with respect to costs and revenues. Thanks was given to Utilities staff, ASD and Public Work's teams and Linda Clerkson for their significant contribution to this project. More pamphlets can be made available to UAC members if needed.
 - 2) Fong, Beecham and Debra Lloyd, Resource Planner, attended the NCPA Washington D.C. Federal Policy Conference last week. There were a number of speakers who provided updates on the federal legislative front. The key message was that Congress is engaging in the debate on climate change. The vehicle to implement these policies is at the forefront of this debate. The two main alternatives are a carbon tax or a cap and trade emissions market. The carbon tax is probably not likely. There will be activities to create a federal renewable portfolio standard. Congress is likely to go after fuel efficiency incentives. One of the major challenges is the "pay as you go" policy which requires that any new spending not add to the federal deficit. There were a number of meetings and we were able to meet with Representatives Eshoo and Honda, FERC Commissioners Kelly and Spitzer and Minority Staff Director Weaver.
 - 3) SFPUC has indicated that this is not a good hydro year. Discussions between SFPUC and BAWSCA will begin in terms of how the SFPUC will manage its water during this forecasted shortage period. The first meeting will be held tomorrow and this will be an ongoing process as we move into the summer and next year.
 - 4) There has been significant State legislative activity around climate protection, water conservation and electric system reliability. Bills are being presented at the State Legislature with quick turn around times on comments or concerns regarding proposed language in the bills.
 - 5) The readings for the Emergency Water Supply Project had their first reading at Council.
 - 6) The second reading for the Park Improvement Ordinances will be May 21st.
 - 7) The CEQA process for the EIR is complete. There were no protests filed with any State agencies.
 - 8) Seven electric master agreements will be presented to Council for approval on Monday night.
 - 9) Council approved the Recycled Water Project for Palo Alto. We are beginning work with a contractor to assess financial feasibility and stakeholder support.
 - 10) The Utilities budget is on the May 8 Finance Committee meeting agenda. Chair Melton will be there to represent the UAC.
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There were a few questions on the Recycled Water Project. Fong said the State grant had been granted for \$75k. We have contracted with a vendor to help look at the financial feasibility of the project, to see who funding partners might be and to establish stakeholder support, stakeholders being the public, water users, customers. This project is just for Palo Alto and does not include the million dollar pipeline expansion project with Mtn. View. Fong understands the bids received for the Mtn. View project were favorable. This will be managed out of the Public Works Department.

UNFINISHED BUSINESS

NONE

NEW BUSINESS

ITEM 1: ACTION ITEM:

Approval of Congestion Revenue Rights (CRR) product to manage electric transmission congestion cost exposure

Debra Lloyd and Shiva Swaminathan, Senior Resource Planner, went through the highlights of the slides provided to the Commissioners as part of the UAC report. They explained the need for the CRR product within the larger context of the new transmission market design. Commissioner Dexter inquired about the mechanics of how the product would work and observed that the example provided in the report was helpful; he also requested that staff report back on the performance of these products upon implementation next year. Staff agreed. Commissioner Rosenbaum observed that the cost/value associated with the CRR product at hundreds of thousands of dollars was small compared to the \$100 million electric budget. He also requested that it will be helpful for him to see a more comprehensive description of the CRR product. Valerie Fong agreed to share the Council report with Commissioner Rosenbaum. Commissioner Bechtel inquired about information that needs to be provided to the CAISO and regarding electrical losses associated with transmission.

Council Member Beecham provided his perspective as the NCPA Commissioner. He outlined the various interventions and filings made by NCPA and City staff on various aspects of this market

design at the FERC and US Congress. The final market design, now contemplated for implementation in January 2008, was a product of a highly involved process.

Staff recommendation was approved unanimously by a 5-0 vote by the Commissioners.

ITEM 2: ACTION ITEM:

Review of Proposed CIP for 2008-2012 and Proposed Operating Budget for 2007-08 and 2008-09

Fong gave an overview of each utility fund starting with the Electric Fund, followed by the Gas, Wastewater Collection, and closing with the Water Fund. Commissioners and Councilmember Beecham asked questions as the presentation moved from Fund to Fund.

Electric:

Chair Melton asked about the impact of low hydro conditions and the status of the Supply Rate Stabilization Reserve resulting in an \$11 million drawdown for commodity expenditures. Swaminathan explained that costs for 07-08 have gone up \$5 million since the earlier budget projection, and that staff would constantly assess the situation and return with a mid-year rate increase request if necessary. Fong also noted that the low hydro reports are not as impactful for the NCPA/Western hydro power resources as they do not draw water from the SFPUC's Hetch Hetchy system which is facing more severe shortfalls.

Beecham asked if there other City departments use the Utility's Fiber Optics system. Rosemary Ralston, Senior Management Analyst noted the increase of close to \$160K in new projects. Fong added examples of new projects (Foothills Interpretive Center, Police, and Fire) which explain some of the additional Fiber income.

In response to questions from Bechtel, Fong explained the retirement plan, "2.7 @ 55" which was noted as one of the reasons for the increase in salaries and benefits.

Dawes asked whether Futures would be purchased as the hydro supply declines, or whether the shortfall would be purchased on the open market. Fong noted that the commodity portfolio and commodity purchases are reviewed and modified in accordance with updated information on resources. Dawes asked whether prices for power have increased as a result of reduced hydro availability outlook. Swaminathan replied that prices are still under \$100 on- peak.

With regard to electric undergrounding projects, Dawes inquired into cost-sharing agreements with the Phone Company. Tomm Marshall, Assistant Director, informed him that we do have an agreement on the next underground district but additional districts are still up for discussion. Fong noted the California Public Utilities Commission has regulatory oversight and that there are very explicit cost-recovery guidelines under which it permits cost recovery. Dawes requested an update on the undergrounding effort at a future meeting.

Regarding funds for the SAP upgrade, Dawes asked if the costs are fair and appropriate. Fong explained that the current Customer Information System (CIS) is no longer being supported by the vendor. Beecham assured the commissioners that from his talks with the City Auditor the SAP costs are fair and appropriate.

Regarding Contract Services and General Expenses in Resource Management, Bechtel asked why the budget jumped up. Ralston explained the creation of the two new cost centers under Alternative Resources, for the purpose of handling incentives and consulting fees to cover investments in supply-funded energy efficiency, solar, and distributed generation incentives to comply with the City's Ten Year Energy Efficiency Plan.

Regarding employee count, Rosenbaum asked if the total Full Time Employees (FTE) count is going down by two. Ralston explained that the level of staff is the same as last year, but that two Utilities members were moved from Utilities to the City Manager's Office, and that some reclassifications from one work group to another, to reflect workloads, occurred. Ralston also

noted that a few staff are in other departments but paid for by Utilities. Ralston also confirmed that the FTE count did not increase.

In a discussion on Reserves levels, Beecham asked whether the minimum guidelines are appropriately set. Fong noted that staff revisits the reserve guidelines annually and that some cost drivers, specifically the Retiree Medical, are of a one-time nature as a catch-up.

Gas:

Bechtel asked for an update on the Gas Main Replacement Capital Improvement Projects. Roger Cwiak, Acting Assistant Director in Engineering, gave an overview of the Gas Main Replacement Project, and explained that the ABS mains project will be complete in 2010-2011, following which, smaller pipeline installation projects will be budgeted. So that by the 2011/2012 time period, costs will go down significantly. Cwiak pointed out that polyethylene pipe has a service life of 100 years, and that the pipe has a higher chance of damage by third-party dig-ins than by failure prior to end of design life.

Wastewater:

Cwiak provided some information regarding the cost reductions for the Wastewater Projects that will occur over the next ten years.

Water:

During a discussion on the Emergency Water Supply Melton acknowledged that the CEQA process was completed, and Fong informed the commissioners that the Council will be asked to approve the second readings of the Park Improvement Ordinances on May 21. Fong also noted that in November, at the request of Council, there will be an Advisory Vote. Fong noted that a negative vote will not preclude the project from moving forward but that the purpose is to get an indication of voters' support for the project. Bechtel referenced the \$40 million cost for the entire project, and suggested a review of all project alternatives as the alternatives may be cheaper than the project given the significant costs associated with the project. Cwiak clarified that the advisory vote is on the use of El Camino Park, and further clarified that the cost for construction and materials for the underground reservoir have doubled since first talks in 2000 and 2001 and that a similar cost

increase would likely apply to any project alternatives. Melton remarked on Stanford's apparent preference for the El Camino Park site over the other sites being considered and Cwiak confirmed this information, noting that the project did look at a number of alternatives for the emergency water supplies. Cwiak also noted that the budget reflects the estimated costs associated with the project. Dawes suggested the Commission examine the cost breakdown of the \$40 million project and asked whether Council and UAC will get to look at the in its entirety at some point soon. Cwiak noted that the project budget for each year will be reviewed by the UAC and Council at budget time. Bechtel stated that Cwiak had adequately put forth the necessary information needed by the Commissioner at this point, and that the Finance Committee is the appropriate place to start a discussion.

Melton addressed his colleagues and reviewed the information needed for the Finance Committee which he will attend as the UAC Chair. To obtain the necessary cost information on the Emergency Water Supply Project, Melton requested a meeting with staff prior to the Finance Committee.

Action:

Bechtel moved staff's recommendation and Rosenbaum seconded. Motion approved 4-0 with Commissioner Keller absent.

Meeting adjourned at 2:22 p.m.

Respectfully submitted,

Melody Vega

City of Palo Alto Utilities