

DRAFT

UTILITIES ADVISORY COMMISSION MINUTES OF SPECIAL MEETING, FEBRUARY 12, 2007

CALL TO ORDER

The Utilities Advisory Commission met on this date in the Council Chambers at 9:20am.

Present: John Melton, Dick Rosenbaum, Marilyn Keller.

ORAL COMMUNICATIONS

NONE

I. NEW BUSINESS

FIRST ITEM OF BUSINESS

Final Environmental Impact Report (FEIR), City of Palo Alto Emergency Water Supply and Storage Project: The Utilities Advisory Commission will make a recommendation to the City Council on the Emergency Water Supply & Storage Project.

In response to questions, staff explained the matter of preferred sites and the use of alternate sites if the preferred sites have to be eliminated for any reason; the intent of the water supply project as an 8-hour emergency supply source; the ability to extend the water supply beyond the 8-hour time period with conscientious conservation; the timing for negotiations over land with property owners such as Stanford (which will not occur until the EIR is approved).

Rosenbaum moved approval and Keller seconded staff's draft memorandum to the City Council.

Melton suggested some wording changes to the memorandum which Staff agreed to make

Motion was passed on voice vote.

SECOND ITEM OF BUSINESS:

5 Year Cost Trends and Drivers Report:

Tom Auzenne (Assistant Director, Customer Support Services) gave an overview of the cost drivers. Auzenne explained that costs will increase for the water, gas and wastewater utilities. Items driving costs in all the utility funds include: general fund transfers which increase 3% annually, and retiree medical cost and workers' compensation costs will temporarily increase in the next three years from 40 to 50 % to cover the cost of required accounting changes.

Water Utility Cost Drivers: Total expenses are projected to increase from \$25 million in FY 2006-07 to \$32 million in FY2011-12 a representing 29% increase based on:

1. Flat or declining water sales.
2. Customer price sensitivity which leads customer to invest in conservation. Currently, water bills are based entirely right on volumetric calculations; during a dry winter sales go up during a wet winter sales go down. Staff will be proposing a monthly fixed charge per distribution that will mitigate the wide variation in swings from volumetric consumption calculations for water. Similarly, gas and electric rates will be re-designed to include fixed charges to cover fixed costs.

In response to questions from Rosenbaum and in confirming Rosenbaum's observation that a big cost driver for water will be the wholesale cost from San Francisco, Auzenne explained that staff attempted to project the costs and timing of such costs in the revenue requirements, but that refinements will be made as information is available.

Natural Gas Utility Cost Drivers: Total expenses are projected to increase from \$42 to \$47 million for a 12% increase. Sales also continue to be flat; supply cost remains vulnerable but mitigated by the current laddering strategy; any cost-effective natural gas efficiency investments will be pursued which could include solar thermal programs –such as solar hot water heaters. Annual CIP costs are projected to remain relatively flat just from inflation going forward into the future.

In response to questions from Rosenbaum, staff explained that while gas prices will be volatile, the three-year laddered purchasing strategy provides costs with a good level of certainty for the next three years; operating budgets should be fairly flat, and the CIP budget after FY2007-08 will

probably be very flat with the caution that materials costs have been increasing at a faster than anticipated rate.

Electric Utility Cost Drivers: Total expenses are projected to increase from \$121 million in FY2006-07 to \$141 million in FY2011-12 or 17%. Sales are forecast to be flat or slightly declining. Over the last 6 years; electric sales have declined equaling 3%. Supply expenses related to market purchases, renewable energy, transmission capacity requirements, ISO and other resource adequacy costs will increase overall supply costs by approx. 25% over the five year period. Hydroelectric and market risks remain larger supply costs uncertainties.

Wastewater Collection: Expenses are projected to increase from \$15 million to \$17 million over the five year period for an 8% increase. The treatment cost from the Water Quality Control Plant is the major driver in the Operating Budget and those are projected to increase 2 % annually beginning in FY2007-08. We have given our projections for gas and electric costs for the next two year budget to the Water Quality Control Plant so that they can sit there and roll those into their operating budget as well. Annual CIP cost is projected to remain relatively flat as the waste water utility continues its main replacement

Rosenbaum requested the five-year forecast. Auzenne affirmed that the 5-year forecast will be provided. Rosenbaum also requested information on reserves, and Auzenne explained the annual risk assessment work that is currently underway and the staff memos on reserves targets and revenue requirements that will be submitted for UAC information in March.

Rosenbaum requested a list of supply costs. including the cost of hydro, the market cost, the renewable energy cost, transmission, ISO, and NCPA costs ... all the things that go to determine the total supply cost.

In response to a discussion about rates and any increases staff might propose, staff indicated rates will be brought to the UAC for its action in April as a result of mandated noticing requirements that must be observed prior to putting rates into effect. Staff further committed to meeting with

Commissioners Bechtel and Dawes, to the extent schedules permit, to present the same cost drivers information that they missed because they were not able to attend this special meeting.

No other items. Meeting adjourned at 10:20 a.m.

Respectfully submitted,

Jennie Castelino
City of Palo Alto Utilities