

**REGULAR MEETING  
July 15, 2008**

Chairperson Morton called the meeting to order at 7:15 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Burt, Morton (chair), Schmid, Yeh

Absent: None

1. Oral Communications

None

2. Recommendation to City Council to Adopt a Resolution Authorizing the City Manager to Execute Agreements for Short Term Assignment of the City's Share of Entitlements on the California-Oregon Transmission Project to other Members of the Transmission Agency of Northern California

Valerie Fong, Director of Utilities, noted that temporarily assigning Palo Alto's interest in its transmission asset was being pursued to save costs for the electric portfolio. She also noted that Staff will discuss three agreements that are part of the overall plan, but that only one agreement is presented for approval at this time.

Shiva Swaminathan, Utilities Senior Resource Planner, discussed the California-Oregon Transmission Project (COTP), which was developed by a group of Municipal Utilities, the Transmission Agency of Northern California (TANC).

- Palo Alto owns 50 MW of the 1600 MW transmission line, which was operational in 1993, to access energy supplies in the Pacific Northwest.
- Palo Alto originally decided to become one of the owners of COTP as the COTP transmission line was the only way to access Northwest energy supplies during a time when investor-owned utilities enjoyed a monopoly on transmission access. Now, under Federal rules,

transmission access must be open equally to all market participants, so that the need to own the transmission line is not required to gain access to the Northwest energy markets.

- In FY 07-08, 18% of Palo Alto's annual supplies were from the northwest and utilized the COTP. This is higher than usual due to the dry hydro year.
- COTP costs about \$2 million per year of the \$80 million annual electric supply portfolio cost. However, the value received was only \$800,000 in FY 07-08.

Mr. Swaminathan explained the three agreements associated with the COTP assignment. Agreement Number One is a 15-year assignment of COTP to three other TANC members (Sacramento, Turlock, and Modesto). The City of Roseville is also assigning its share to these three entities. This agreement is expected to come before the Council in October 2008. Since this agreement is taking longer than expected to finalize, Staff is pursuing Agreement Number Two, which is a bridging agreement to take effect from August 1, 2008 until Agreement Number One is in effect (expected to be November 2008).

Council Member Yeh asked whether it was possible that more flexibility could be needed beyond January 2009, due to a delay in the negotiations, resulting in delays to finalizing the 15-year assignment.

Mr. Swaminathan suggested that Staff did not anticipate delays beyond the January 2009 timeframe, but if it became apparent that there would be further delays, Staff would return for approval of any extensions of the short-term assignment.

Council Member Yeh also asked how the savings from the assignments would be reflected in the budget.

Lalo Perez, Administrative Services Director, explained that any savings would be reflected at the end of the year in the electric fund reserves.

Council Member Schmid asked where replacement supplies would come from if purchasing of the electric commodity is shifted from the Northwest to Northern California.

Mr. Swaminathan explained that the purchases in the past 12 months reflected the dry hydro conditions, and that normally, purchases from the market would be much less than experienced in the past 12 months. He stated that market purchases are not tied to a specific generation source,

and that some of the generation behind the generic market purchases could indeed be coal.

Council Member Schmid noted that on a net present value basis, the anticipated savings are substantial, and asked whether such economic advantage should be transferred to a capital investment.

Ms. Fong concurred that the savings would provide some additional freedom to consider capital investments, and also noted that owning the COTP did not preclude consideration of capital investments.

Chairperson Morton asked whether it is possible for benefits provided by COTP to exceed COTP costs. He noted that having access to Northwest electric supplies could prove valuable, especially in dry times.

Debra Lloyd, Utilities Senior Resource Planner, explained that the value would only be there if there were basis (price) differential between Northwest and Northern California supplies.

Mr. Swaminathan agreed that there are times when the benefits provided by the COTP are greater than the cost of ownership (particularly during the 2000-2001 energy crisis) but indicated Staff's assessment that this is unlikely to occur again over a prolonged period of time because of new transmission access being proposed to the Northwest by others.

Council Member Burt asked whether costs for Palo Alto increased in 2005 when the of the COTP was moved from the California Independent System Operator (CAISO) control area to the SMUD control area.

Mr. Swaminathan confirmed there was some cost increase for Palo Alto.

Ms. Lloyd explained that the reason other entities such as SMUD value the COTP differently and much more highly than Palo Alto is SMUD is responsible for reliability in its own control area, that the COTP is one tool used to increase reliability in the SMUD control area, and the SMUD can avoid CAISO charges by buying and selling within its own control area.

Council Member Burt indicated his appreciation for the presentation of a very involved and complicated set of transactions, and congratulated Staff on finding ways to reduce costs in an environment of rising electricity costs and rates. He requested that Staff add the PowerPoint presentation to the Council report.

**MOTION:** Council Member Schmid moved, seconded by Council Member Burt, that the Finance Committee recommend to the City Council to adopt

the attached resolution authorizing the City Manager or his designee to execute Agreements for the short term assignment of the City's share on the electric high voltage California-Oregon Transmission Project (COTP) to the Turlock Irrigation District (TID) and the Sacramento Municipal Utility District (SMUD), thereby lowering the cost to serve the electric utility customers of the city.

### **MOTION PASSED 4-0**

3. Request to Preliminarily Approve 2007-08 Re-appropriation Requests.

Lalo Perez, the Director of Administrative Services, explained the year-end financial process. He stated that after the budget is approved, and commitments are made, it is entered as an encumbrance transaction which becomes a legal obligation. Typically, auditors do not want us to encumber funds, when there is no vendor selected, so the unassigned funds are carried on as re-appropriations to the next fiscal year. He added that tonight he is discussing the General Fund and Enterprise Fund. He stated that the Enterprise Fund has no re-appropriation carrying forward, but the General Fund has \$647,719.00 being recommended to carry forward. He added that in previous years we used to come to this process in December, however, it would cause delays in commencing the project, since it would be processed in the middle of the fiscal year. Staff is asking for preliminary approval in the fiscal year, to use those funds. He noted the following projects are carrying forward: 1) \$81,000.00 for the Climate Protection Plan, 2) \$30,919.00 for Document Archiving and Library Plan and Public Safety Building, 3) \$60,800.00 for Study of Parking Permit Program for College Terrace, and 4) \$475,000.00 salary contingency for Management and Professional group, which is setting the adjustment of 0.5% for last fiscal year and 0.5% the prior year that will be completed in 2008-09, and the second part of it is for Fire Chiefs Association who will be receiving a salary increase.

Council Member Schmid asked about the Budget Book and where the numbers could be found in that book.

Mr. Perez replied that the Adopted Budget Book will come out in the August 4, 2008 packet and he referred to Appendix One, page 2 on Non-Departmental Section of the Proposed Budget Document.

Council Member Schmid asked about the impact of the re-appropriation.

Mr. Perez answered that the Council would see the changes in the first quarter update. The re-appropriation amount of \$687,000.00, would transfer in and show the increase in the non-departmental budget.

Council Member Yeh questioned about the implementation of SAP and how it is implemented.

Mr. Perez replied that the system had been recently upgraded and staff is starting the implementation of the Utilities module.

**MOTION:** Council Member Yeh moved, seconded by Council Member Schmid, that the Finance Committee recommend that Council preliminarily approve the FY 2007-08 re-appropriations.

**MOTION PASSED 4-0**

4. Discussion for Future Meeting Schedules and Agendas  
September 23, 2008

ADJOURNMENT: The meeting adjourned at 7:59 p.m.