

DRAFT

UTILITIES ADVISORY COMMISSION MINUTES OF MAY 6, 2009

CALL TO ORDER

Chair Dawes called to order at 11:40 A.M. the scheduled meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Dexter Dawes, Marilyn Keller, John Melton, and Asher Waldfogel

Absent: Commissioner Dick Rosenbaum and Council Member Yiaway Yeh

ORAL COMMUNICATIONS

None

APPROVAL OF THE MINUTES

The minutes from the April 1, 2009 UAC meeting were approved after non-substantive errors were identified and corrected.

AGENDA REVIEW

No changes to the agenda were requested. Chair Dawes asked how the request transmitted in a letter to the UAC regarding support of a state legislative resolution on chloramines would be discussed. Utilities Director Valerie Fong indicated that it could be discussed under the last item – Selection of Topic(s) to be Agendized for Discussion at Future UAC Meetings.

REPORT FROM COMMISSION MEETINGS/EVENTS

No report.

UTILITIES DIRECTOR REPORT

Utilities Director Valerie Fong delivered an oral report on the following items:

1. **Hydro Conditions:**

Latest water supply update from the SFPUC shows that precipitation in the mountains is up to long-term average levels with the latest rains. In addition, total water in storage has somewhat increased, but storage totals are still below desirable levels and we continue to urge conservation of this precious resource.

2. **NCPA:**

I attended the NCPA Federal Policy Conference along with Council Member Yeh, who was recently appointed to the NCPA Executive Committee, Jane Ratchye and Debra Lloyd. The purpose of the trip was to come up to speed on regulatory and legislative matters related to public power at the federal level, and to meet with regulators and legislatures on those matters. Representatives from member agencies of both the Northern California Power Agency and the Northwest Public Power Association were in attendance.

The Palo Alto team met with FERC Commissioners Kelly and Spitzer, DOE and Western representatives, the offices of Representatives Honda and Eshoo, a representative of the National Renewable Energy

Laboratory on the Stimulus Program, and Joe Goffman who is the primary author of Senate legislation on Climate Change issues. Council Member Yeh also met with Senator Boxer and Senator Feinstein.

The key messages that we delivered in our meetings were around three major topics: Climate change legislation, promotion of clean energy policies, and Western's Central Valley Project of which Palo Alto is a project participant

3. **Marketing:**

- a. New 3rd party energy efficiency programs going to Council on May 18. These programs would expand and enhance business services to provide more implementation services in natural gas, HVAC, and kitchen areas.
- b. Staff is reviewing the ability of implementing some type of efficiency financing program. Options being reviewed included working with a local bank/credit union, on-bill or off-bill utility financing of efficiency measures, and some type of property tax financing (as is being done in Berkeley).

4. **Economic Stimulus Funding Application:**

- a. **EECBG:** Working on application for \$663,000 in funding. Information is being provided to Council at its May 18 meeting. Requesting funding to install LED street lights and to implement a customer information/comparison package.
- b. **Clean Cities:** The City is applying for grant funding to install approximately 250 electric vehicle charging stations within the City, in a joint application with other Bay Area Cities. The application also requests funding to replace about 10 existing vehicles to EVs.
- c. The City is also collaborating with Better Places in another grant application to the DOE to demonstrate various elements of the EV infrastructure, with a focus on interfacing with the electric grid.
- d. **Safe Drinking Act:** We received confirmation that our application for \$310,000 to install mixers at 6 of our reservoirs to prevent nitrification of the water in the reservoirs has been accepted and is in the queue for consideration.

5. **SAP Launch and My Utilities Account:** The launch of the SAP customer information and billing system went smoothly last weekend. Staff has been using the system for three days now, and so far the system is running well, with only minor issues that have not significantly affected operations and have been quickly resolved. The beta test of My Utilities Account is also in progress, and several beta testers have already signed up and made credit card payments.

6. **Renewable Electric Power RFP:** The RFP netted 16 proposals for new renewable projects to add to our portfolio. These 16 proposals all together would add up to 1,100 GWh of annual renewable energy production, which is over 10 times the amount needed to reach our 33% RPS target.

7. **UAC Calendar:** Rolling calendar of upcoming items for UAC meetings.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: ACTION ITEM: Designation of UAC Spokesperson for Balance of this Fiscal Year

ACTION: Chair Dawes nominated Commissioner Melton to act as the UAC spokesperson for the balance of the fiscal year. Commissioner Keller seconded the nomination. The motion carried unanimously (4-0).

ITEM 2: ACTION ITEM: Proposed Operating and Capital Budgets for Fiscal Year 2010 and Fiscal Year 2011

Senior Administrator Rosemary Ralston provided a presentation of the FY 2010 and FY 2011 budget proposals for the Electric, Gas, and Water Funds. Her presentation noted the changes in revenues, expenditures, CIP projects as well as the ending year reserve balances.

The Electric Fund highlights include:

- Procurement of additional renewable energy supplies to meet the Council-approved targets
- Implementation of the LEAP initiatives will continue, including energy efficiency, ultra-clean small-scale distributed generation, renewable resource power, transmission upgrades, market-based contracts, and climate protection.
- Demand-Side Management programs continue to see significant expansion to reach broader markets. Customers continue to take advantage of efficiency and PV rebates, which help the City meet its Climate Protection Plan goals.
- Solar Water Heating Programs will be marketed more aggressively and contractor involvement increased to raise customer participation levels in these legislatively-mandated programs.
- Upgrade of the Utilities billing system software to SAP will result in even greater system functionality, including more accurate meter inventories, more efficient maintenance scheduling, and consolidation of other functions currently residing in multiple databases.

The Gas Fund highlights include:

- Natural gas efficiency and conservation programs and services will be more closely aligned with supply purchases. The new Solar Water Heating rebate program encourages customers to use less natural gas by harnessing the heat of the sun for hot water.
- Updates to GULP will bring it into alignment with the Climate Protection Plan and the 10 year Energy Efficiency Plan. All of the Gas Fund's energy and demand-side management programs and incentives contribute to the Council's Top Three Priority of Environmental Protection. New initiatives for 2010 include expanding the voluntary green energy program, PaloAltoGreen, to include gas.
- Three-Year Laddering Strategy being used to guide the purchasing of gas has kept the natural gas rates relatively stable despite the rapid upward and downward swings in natural gas and oil prices.

The Water Fund highlights include:

- The Emergency Water Supply and Storage project will proceed in 2010 with the receipt of bond financing to fund future phases of the project.
- City's wholesale cost for water will steadily increase over the next 7 years, increasing by 250% from FY 2009 to FY 2016.
- Water DSM programs will escalate for residential and business customers to encourage the efficient use of water. There will also be a greater emphasis on reducing outdoor water usage. Water rate structures continue to reflect conservation pricing in the form of an inverted rate structure.

The Commission first discussed the Electric Fund budget proposal. Commissioner Waldfoegel noted that the operating budget refers to overall Citywide savings and asked what Utilities has done, in addition, with respect to operating cost savings. Ralston replied that Utilities has made 5% cuts in controllable costs such as travel, training, etc, and held the line on head count. Waldfoegel noted that the General Fund identified savings in the capital budget and asked if Utilities could defer or downsize any CIP projects. Assistant Director Tomm Marshall responded that Engineering reviewed all planned projects. He said that reductions identified were due to timing issues primarily. He also said that fewer customer connections were expected, which lowers cost, but that those costs are reimbursed.

Commissioner Waldfoegel asked why older, existing underground districts were being refreshed before the new underground districts were being completed. Marshall said that the issue of underground districts deserved a longer discussion at another time. He said that the undergrounding program was a very long-term program that would required 60 years to complete and, during that period, older districts would need to be maintained. In addition, there are problems coordinating with AT&T on some areas delaying the completion of new districts. Waldfoegel asked if upgrades to 4KV would be an opportunity to underground. Marshall replied that the decisions are made based on costs.

Commissioner Melton asked why certain positions were moved from the Administrative Services Department (ASD) to Utilities for direct funding instead of remaining in the cost plan. Utilities Director Valerie Fong replied that there was greater transparency by making this change. However, the positions still report to ASD.

Commissioner Melton observed that the Electric Supply Rate Stabilization Reserve (E-SRSR) balance would be below the minimum guideline levels for FY 2010 and FY 2011. Fong affirmed the observation and noted that this was part of the presentation to the UAC in March on rate proposals. Chair Dawes also expressed concern with the levels of the E-SRSR.

Commissioner Keller noted that pages 233 and 234 contain errors on the pie chart. The errors were noted and would be corrected in the final budget document.

Chair Dawes requested that additional metrics be considered for addition to the list on page 245 of the document. He suggested that measures such as salary and benefits costs per kWh sold and O&M costs per kWh sold may be good benchmarks to compare with other agencies. Fong noted that comparisons could be problematic because some NCPA agencies have small staffs, but they extensively rely on NCPA for various services, however, she said staff would give consideration to the suggestion.

Chair Dawes questioned the "adjustments" on pages 247 to 249, which refer to Note 1, which is very opaque, especially on page 249, where the adjustment is over half of the total. He also said that he would like to see new underground districts and was not happy to see that the expenditures for rebuilding existing underground districts is double that of building new districts.

Commissioner Melton asked why debt service goes down \$1.1 million, then back up \$1.1 million a year later. Senior Resource Planner Shiva Swaminathan responded that there was a lower debt service in 2010 due to the layoff of the COTP project, but that debt for the Calaveras Project would increase in 2011.

Commissioner Keller asked what the savings in energy costs were for the DSM programs. Swaminathan said that these figures can be found in the energy efficiency report that was presented in April 2009 to the UAC. He noted that savings are based on the marginal cost of power, which is greater than the average cost of power reflected in retail rates. Keller stated that if consumers knew the higher amount of savings, they may be more apt to save even more energy.

The Commission then discussed the Gas Fund budget proposal. Commissioner Keller asked why gas demand was lower in FY 2011. Assistant Director Jane Ratchye replied that the demand forecast was based on econometric models that indicate lower demands. This is somewhat due to the economy, but also due to customers' efficiency improvements.

Commissioner Waldfoegel asked whether the budget included actual headcount. Fong replied that the actual expenditure based on actual headcount could come in below the budgeted numbers due to vacancies. Dawes said that gas prices are lower than budget estimates and asked how much of the portfolio was hedged.

Ratchye said that, at the time the budget was developed (late November and early December 2008), the portfolio for FY 2010 was at least 50% hedged. She confirmed that prices now are lower than the budget estimates.

The Commission then discussed the Water Fund budget proposal. Commissioner Waldfogel asked why the Water Rate Stabilization Reserve level was so high. Ratchye responded that the proposed 5% water rate increase was not necessary in FY 2010 to maintain adequate reserves, but recommended since wholesale water rates are projected to increase 250% over the next 7 years and staff wanted to keep annual rate increases moderate. Chair Dawes noted that the water reserve was in good shape, but that water rates are high.

Commissioner Keller said she was happy to see the Emergency Water Supply and Storage Project proceeding.

ACTION: Commissioner Waldfogel made a motion that the UAC recommend that the Council adopt the proposed FY 2010/FY 2011 budget for the Electric, Gas and Water Funds with the caution that the Electric Supply Rate Stabilization Reserve levels demands corrective action since projected FY 2011 balance is only half of the minimum guideline level for this reserve. Commissioner Keller seconded the motion. The motion passed unanimously (4-0).

ITEMS 3: ACTION ITEM: Proposed Projects for Calaveras Reserve Funding for Fiscal Years 2010 and 2011

Senior Resource Planner Shiva Swaminathan summarized the written report stating that staff had evaluated several project options and, at this time, request that three projects be funded from the Calaveras Reserve: 1) investment in local, clean generation; 2) investment in transmission upgrades; and 3) investment in advanced metering infrastructure (AMI). He said that staff's recommendation at this time is to fund from the Calaveras Reserve: 1) \$200,000 per year for FY 2010 and FY 2011 for investment in local, clean generation; and 2) \$70,000 for FY 2010 to prepare a road map for implementation of AMI.

Chair Dawes asked why no funding was shown for the 230 kV connection in FY 2010 or FY 2011. Swaminathan stated that if discussions proceed productively with Stanford, additional money may be requested. Commissioner Melton asked about the cross-Bay transmission project. Assistant Director Tomm Marshall said that a connection via a SLAC connection remains a possibility.

Chair Dawes asked if there were "no takers" in line to construct local generation that would comply with the PLUG-In program. Swaminathan confirmed that this is correct.

PUBLIC COMMENT:

Herb Borak said that the report was not clear on how much smart meters would cost and how the costs would be shared between the Electric, Gas, and Water Funds. He wanted a better sense of whether the other funds would be paying their share of the cost and whether the new meters would be "smart", or just used for automatic meter reading.

Chair Dawes said that the AMI work plan was to create a "road map," but he said that the first step should be a study that would determine the return on investment before proceeding with a plan. Commissioner Melton agreed that any "surplus" Calaveras Reserve funds should be used for projects with a good return on investment so that future costs would be reduced. Otherwise, it's better to return the money to ratepayers.

Commissioner Keller asked whether it would be more cost-effective to focus on larger customers for AMI. Utility Director Valerie Fong indicated that this would be evaluated through the study.

Commissioner Keller asked what the benefits are for a transmission upgrade. Marshall stated that the main benefits would be transmission cost savings due to reduced transmission losses. Fong added that reliability was also a benefit. Marshall indicated that staff would be returning with more information if a feasible, cost-effective project materialized from the on-going talks with partners.

Commissioner Keller asked if the PLUG-In program has had any participants. Swaminathan said not at this time. Commissioner Waldfogel asked if only gas-fired projects are eligible for the program. Swaminathan said that the program would accept other energy sources such as wind, but that solar photovoltaic (PV) projects are included in other Utilities incentive programs.

Commissioner Waldfogel advised that the AMI study include a broad discussion and calculation of sustainability factors and customer satisfaction in addition to the costs and savings calculations.

ACTION: Commissioner Waldfogel made a motion that the UAC recommend that the Council fund from the Calaveras Reserve: 1) \$200,000 per year in FY 2010 and FY 2011 for the PLUG-In Program; and 2) \$70,000 in FY 2010 to study the costs and benefits of implementing AMI, ensuring that the study included the evaluation of the economic, sustainability, and customer satisfaction benefits. Chair Dawes seconded the motion. Motion passed unanimously (4-0).

ITEM 4: ACTION ITEM: Recommendation that the Utilities Advisory Commission Recommend that Council Approve 1) the New Water Supply Agreement between San Francisco and Wholesale Customers in Alameda County, San Mateo County and Santa Clara County, and 2) Palo Alto's Individual Water Sales Contract with San Francisco

Assistant Director Jane Ratchye stated that the UAC had received a preliminary report at its April meeting when the contract negotiations were almost final and there were only a few unresolved issues. She also referred to the presentation on the contract made by Art Jensen, General Manager of the Bay Area Water Supply and Conservation Agency (BAWSCA), on May 4. Ratchye advised of a correction to the UAC report on page 4 under the summary of Article 5. The sentence in the report: "The WSA continues this method for existing assets, but replaces it with the "cash method" for new assets." should be replaced with the following: "The WSA discontinues this method and replaces it with the "cash method" for new assets. In addition, the Wholesale Customers will pay their remaining share of existing assets built and in service as of June 30, 2009, through a series of level payments over 25 years."

Chair Dawes asked if the savings to the wholesale customers with the cash versus the utility method will be significant. Ratchye replied that the savings will be significant because if the utility method were to be continued, the SFPUC would have demanded a 3% higher rate of return than used in the current contract.

Chair Dawes asked about the interim supply limitation. Ratchye explained that this limitation is used for the purposes of determining which agencies will be charged an environmental surcharge fee if deliveries exceed 265 million gallons per day (MGD). San Francisco's limit is 81 MGD and the wholesale agency limit is 184 MGD. If the wholesale agencies do not present a plan for how the 184 MGD is split up between the agencies, then, under the contract, San Francisco will split it up by December 2010.

Commissioner Waldfogel asked if there was any cap on costs, or if the wholesale agencies just pay their share of the total costs, regardless of what they are. Ratchye said that this is true and is the same as in the current contract, but there are protections in the form of annual audits of expenses.

Commissioner Keller asked about the negotiation process for the interim supply limitation. Ratchye replied that the wholesale agencies will need to collectively agree or SFPUC will establish the amounts for each agency. The process will be a contentious issue. In addition, there remain many unknowns with the SFPUC retaining full rate setting authority. Ratchye also explained that the SFPUC has the long-term obligation to provide 184 MGD to BAWSCA agencies. Keller remarked that if a dollar value was determined for the supply assurances, then the goal to reduce water supply would be cleaner.

Chair Dawes asked what the value of the review of the budget by BAWSCA is. Ratchye replied that BAWSCA audits the SFPUC's budget and comments on questionable expenses.

Commissioner Waldfogel stated that the SRPUC rate-setting process was out of synch with the City's as the information on wholesale rates is not known at the time budgets are developed. Ratchye replied that this is true under the current contract and that the rate stabilization reserve can be used in the event that the original rate estimate is different from the actual rate adopted.

Commissioner Keller asked what is referred to in the contract regarding water efficiency. Ratchye explained that this refers to the "green option" that was described in the Program EIR in the SFPUC's WSIP, which would involve investment in agricultural districts that also take water from the Tuolumne River. In this way, some of the saved water could potentially be transferred to the SFPUC regional water system.

Commissioner Waldfogel noted that local control is somewhat reduced by the requirement for wholesale customers to join the California Urban Water Conservation Council (CUWCC) or complete CUWCC's Best Management Practices (BMPs). Ratchye noted that this is true, but it is in most wholesale customers' interest to do this as it is a state requirement to get loans, grants, or access to the State Water Bank in times of water shortage.

ACTION: Commissioner Melton made a motion that the UAC recommend that Council approve: 1) the Water Supply Agreement between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo County and Santa Clara County, and 2) Palo Alto's Individual Water Sales Contract with San Francisco as long as the Final Individual Water Sales Contract was not substantially different from the template provided in the Attachment F of the Water Supply Agreement. Commissioner Waldfogel seconded the motion. Motion passed unanimously (4-0).

ITEM 5: ACTION ITEM: Recommendation to Approve Changes to the ProjectPLEDGE Program

Director Fong indicated that there would not be a presentation but that Tom Auzenne, Utilities Assistant Director for Customer Support Services, was there to answer questions.

Director Fong prefaced the discussion by stating that the line between the Rate Assistance Program (RAP), a long-term financial assistance program for those chronically challenged with paying their Utilities bill, and ProjectPLEDGE, a program to assist those with unusual situations, had become blurred over time, making ProjectPLEDGE more difficult to administer.

Commissioner Melton indicated that he was unsure as to whether the proposed program change under "Frequency of Funding" indicated in the table on page 3 ("One Time Only – Including RAP participants after

the Guideline Changes) meant that program recipients were being limited to participating in ProjectPLEDGE only once, forever, or if it meant limited to once per recipient per isolated event, because unusual things can happen years apart. Auzenne replied "once per unique event."

Commission Chairman Dawes indicated that it seemed a positive program, but one he was unfamiliar with due to the lack of outreach since 1996.

Commissioner Waldfogel asked if the proposed changes would lead to increased demand by potential program recipients. Auzenne felt that there would probably be an increase in program demand just because of the economy. Director Fong stated that there would also be increased marketing and outreach to potential donors, once the program guidelines were clarified and distinguished from the long-term financial assistance provided by the Rate Assistance Program (RAP). Auzenne also forecast that the Department was likely to see an increase in Rate Assistance Program applications due to the state of the economy.

Commissioner Keller asked that the "Frequency of Funding" language in the table, as identified by Commissioner Melton, be clarified in the report to Council. Director Fong indicated that it would be clarified.

ACTION: Commissioner Melton made a motion that the UAC recommend that Council approve changes to the ProjectPLEDGE Program as proposed with the additional clarification that the "Frequency of Funding" will be "Once per unique event" and not "One time only". Chair Dawes seconded the motion. Motion passed unanimously (4-0).

ITEM 6: DISCUSSION ITEM: Selection of Topic(s) to be Agendized for Discussion at Future UAC Meetings

Commissioner Melton asked if the Commission should take a position on the proposed state resolution on chloramine, Assembly Member Ruskin's proposal. He asked whether it was worth doing what Ruskin proposed. Utilities Director Valerie Fong said that staff will evaluate the proposal and determine if it fell under the Council-approved Legislative Policy Guidelines and take action as appropriate. Chair Dawes advised that a huge, exhaustive study was not necessary, but that the study should be reasonable. Melton indicated that there was no need to agendize this at this time.

Meeting adjourned at 2:20 P.M.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities