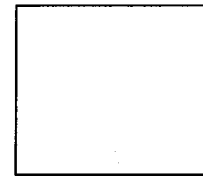


TO: HONORABLE CITY COUNCIL



FROM: CITY MANAGER

DEPARTMENT: UTILITIES

DATE: MARCH 8, 2010

CMR: 153:10

REPORT TYPE: INFORMATIONAL

SUBJECT: Utilities Department Activities and 2010 Initiatives

This is an informational memorandum updating Council on Utilities Department activities and initiatives. The memorandum will be posted on the City's website to inform the community on Utilities issues.

During the course of this year, Utilities Department staff will engage with department staff and the community in developing a strategic plan for Council's approval. In order to be able to effectively set the stage for the effort, Utilities staff has either set in motion or recently completed a number of initiatives.

Below is some background information highlighting some of the recent efforts as well as a brief overview of continuing and new initiatives. These recent efforts permit a sound starting point for the strategic planning activities about to be undertaken. The strategic planning effort, to be initiated during the current fiscal year and anticipated to be done in close coordination with members of the Utilities Advisory Commission, will focus on the road map that will take Utilities from today into the future in support of Palo Alto's various efforts on the environmental, business and technology fronts while maintaining safe and reliable services to the community.

Background

A majority of Utilities staff are involved in the day-to-day management and provision of electric, natural gas, water, fiber optics and wastewater collection services and the long-term planning of infrastructure improvements and modifications. With the exception of fiber optics, the electric, natural gas, water and wastewater collection businesses are highly regulated businesses with significant regional, state and federal oversight. Complex regulatory requirements create a need for trained workers and current compliance programs. They also require constant reporting to the regulatory agencies on many issues, and filing regular updates on Utilities compliance programs.

Gas System Operator Program

Last year, the Federal Department of Transportation (DOT), which regulates the City's natural gas utility, initiated a highly publicized investigation into the qualifications of Utilities gas

system workers. That investigation entailed several on-site visits by DOT representatives who spoke with employees, and reviewed files, work practices and work sites. In response to questions raised by the investigation, Utilities undertook a rigorous program to ensure that all of its gas system workers are qualified, that the gas system infrastructure is sound, and that responsibilities and procedures used to qualify the workforce comply with regulations. Steps taken included the following:

- Reviewed and updated the Operator Qualification Program.
- Retested and requalified all employees working on the gas system well in advance of the qualification timeline.
- Improved record keeping and clear controls on testing
- Conducted a comprehensive city-wide survey of the City's gas distribution system to identify any leaks in the system that require repair.

Other Utilities Operations

Work on the electric, water, wastewater collection and fiber system operations has also recently involved program improvements, increased reporting requirements, focused attention on all required worker training, and maintenance work, whether planned or unplanned, due to outages or damage to the system caused by third parties.

Capital Improvement Projects

In addition to the daily operations functions, last year Utilities pursued many major capital improvement projects including:

- Undergrounding of approximately one mile of electric overhead lines in the downtown area.
- Conversion of the electric 4 kilovolt system to 12 kilovolts to improve system reliability and efficiency.
- Updating and rebuilding the underground electric system in business areas to improve system reliability.
- Replacement of gas mains in accordance with replacement schedule.
- Replacement of water mains in accordance with replacement schedule and on-going design and construction efforts of the Emergency Water Supply projects. Current updates have been posted on the project website: <http://www.cityofpaloalto.org/knowzone/news/details.asp?NewsID=691&TargetID=58>.
- Replacement of 3.49 miles of wastewater collection system mains in accordance with replacement schedule.
- Construction of components of the Emergency Water Supply System Project to increase local water supply sources for emergency use.

SAP Customer Billing and Information System

Utilities, in conjunction with the Administrative Services Department, replaced the outdated customer billing information system with a new SAP-based customer information system to better integrate the customer billing information system with the City's SAP-based financial system. Although the new billing system experienced its share of challenges when launched on May 4th, 2009, it appears that the system is stabilizing and that the City's customer "call center"

is making improvements in its response times to customer calls and complaints. More recently, on January 4th, the SAP Team was able to launch the on-line customer information system which permits on-line payments of utilities bills.

Customer information and usage history has been successfully and securely transferred to the new billing system and it is configured for the existing Utilities rate structures and schedules. The new SAP-based billing system is flexible and will allow Utilities to offer and implement new and innovative rate structures. These upgrades and the ability for customers to view additional information on their bills are planned upgrades in FY 2011 with the goal to provide customers the information and incentives to use resources efficiently.

Water Supplies

All potable water supplies are purchased from the San Francisco Public Utilities Commission. Palo Alto is a member of the Bay Area Water Supply and Conservation Agency (BAWSCA), an agency that represents the 26 entities that purchase water from San Francisco. The new 25-year Water Supply Agreement between each BAWSCA agency and San Francisco, which became effective on July 1, 2009, limits future water supply to the BAWSCA agencies and San Francisco. How those limited supplies will be allocated between the agencies, and the plan for allocation of water during water shortages, such as droughts, are among staff's critical work activities in 2010. Staff is actively developing water savings goals and will incorporate such goals into the 2010 Urban Water Management Plan for City Council's approval and submission to the state by December 31, 2010. Staff is also continuing to work on expanding the recycled water delivery system to serve customers in the Stanford Research Park and along the pipeline route. In 2010, staff hopes to complete the environmental review of the recycled water project and develop a recommendation for funding the project. When the environmental documents are complete for the recycled water project, staff will apply for federal and state grant funds to reduce the City's effective cost for the project.

Staff is also working on a long-term plan to implement water efficient measures to achieve reductions in water use of 20 percent by 2020.

Gas Supplies

Gas supplies are purchased from a group of pre-qualified suppliers to ensure that gas is purchased at competitive prices. The gas supply portfolio is managed according to the Council-adopted Gas Utility Long-term Plan (GULP) objectives, guidelines, and implementation recommendations. Supplies are purchased for varying terms, from one day up to one year for delivery up to three years in the future in an effort to stabilize costs, and therefore, rates. Staff investigated the feasibility of buying renewable gas supplies and will develop recommendations for updating the GULP guidelines in 2010.

Electric Supplies

The electric supply portfolio is managed according to the Council-adopted Long-term Electric Acquisition Plan (LEAP) objectives and guidelines. In a normal year, half of the City's electric supplies are from hydrologic resources. The last three years have been dryer than average so hydroelectric supplies were low, requiring purchases of supplies from a group of pre-qualified suppliers. Even if hydro conditions improve, staff anticipates that hydro generation will still be

below average since the depleted reservoirs need to refill. In 2009, renewable energy supplies provided 15% of the City's supplies and are expected to provide 19% of the City's supplies in 2010. In April 2010, staff plans to request Council approval of contracts for additional renewable resources that will meet the Council's goal of having renewable supplies to provide 33% of the City's energy needs by 2015. In 2010, staff plans to develop a recommendation on whether to pursue additional renewable supplies above the current goals.

Wastewater System

Staff developed a plan, approved by Council in July 2009, to comply with the State Water Resource Control Board's waste discharge requirements. The focus of the plan is to be proactive in maintenance activities which include inspection and videoing customer's laterals. Two additional Installer Repair positions are being asked to be approved in the 2010-2011 budget to meet the goal of reducing sanitary sewer overflows. In 2009, 137.5 miles of the mainline sanitary sewer system were inspected and cleaned as part of Utilities' on-going maintenance program.

Efficiency/Conservation Programs

Utilities offers a wide range of energy and water efficiency programs to all of its customers. The goals for water efficiency will be updated through the development of the 2010 Urban Water Management Plan. New ten-year gas and electric energy efficiency goals and plans will be developed in 2010. The City updates the 10-year energy efficiency plans every three years and they were last updated in 2007. The new plans are expected to have higher efficiency goals and will require an expansion of programs to meet the new goals.

New Initiatives

First and foremost, Utilities is working directly with the City Manager to better position the department to manage increasing regulatory requirements that include identifying a "Compliance Officer" position to deal with Federal Department of Transportation, California Department of Health Services, California Occupational Safety and Health Administration, Regional Water Quality Control Board, and Federal Energy Regulatory Commission (and Western Electricity Coordinating Council) requirements among others.

Over the next year, staff will also be working on SAP billing system enhancements to permit more utility usage and rate information to be displayed on the bills, new rates to encourage conservation and efficiency, continued improvements to the utilities infrastructure, continued focus on improved communications with Utilities stakeholders on various initiatives, continued improvements in the commodities portfolio design and costs, and increased renewable generation content in the electric supply portfolio to achieve the City's 33% goal by 2015. Staff continues to assess smart grid opportunities, the potential to increase the City's connection points to the electric transmission grid to improve reliability, and to seek local generation options.

Staff will also seek funding for the City's broadband build-out, and state and federal funding for a recycled water project, issued Build America Bonds in conjunction with the Administrative Services Department to finance construction of a 2.5 million gallon water reservoir to increase local emergency water supplies, and will implement large-scale deployment of light emitting diode (LED) streetlights using recently awarded State funds.

Additionally, staff will be updating the strategic plan for Utilities in order to articulate a clear path for the upcoming years. The strategic plan update envisions engaging the Utilities Advisory Commission and members of the business and residential community in developing the proposed plan for Council's approval.

ATTACHMENT

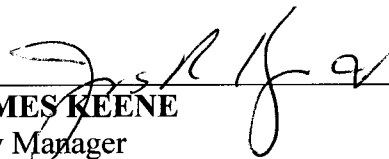
None.

PREPARED BY:



VALERIE FONG
Director, Utilities Department

CITY MANAGER APPROVAL:



JAMES KEENE
City Manager