TO: HONORABLE CITY COUNCIL  
FROM: CITY MANAGER  
DEPARTMENT: UTILITIES  
DATE: NOVEMBER 6, 2006  
CMR: 406:06  
SUBJECT: UTILITIES ADVISORY COMMISSION RECOMMENDATION TO APPROVE ULTRA-CLEAN LOCAL DISTRIBUTED GENERATION INCENTIVE PROGRAM GUIDELINES  

RECOMMENDATION  
This report requests that City Council approve the program design guidelines for PLUG-In: Power from Local Ultra-Clean Generation Incentive program, and direct staff to develop incentives, rates, and rules for customer-sited small-scale distributed generation.  

PROJECT DESCRIPTION  
The Long-term Electric Acquisition Plan (LEAP) objectives and guidelines set the direction for staff in planning and managing the electric supply portfolio. Council approved the LEAP Objectives and Guidelines in 2001 and 2002 (CMR:425:01 and CMR:398:02). Staff updates the Council at least annually on progress in implementing LEAP. The LEAP implementation tasks were most recently updated in April 2006 (CMR:169:06), including Council approval to redirect the local generation feasibility study efforts toward development and implementation of a comprehensive plan to facilitate and implement clean high-efficiency distributed small-scale cogeneration, and evaluation of power plant ownership opportunities outside of Palo Alto, but within or near the Greater Bay Area. The PLUG-In program will address the first element by establishing incentives, rates, and rules for customer-sited small-scale distributed generation and cogeneration, with an anticipated start date of July 1, 2007. The motivation, principles, and proposed program guidelines are described in the attached UAC report.  

BOARD/COMMISSION REVIEW AND RECOMMENDATIONS  
The UAC discussion focused on the program purpose and the specific implementation process. Key recommendations were to design the implementation plan to ensure equity in rate impacts between customer classes, and to achieve as much net benefit as possible within the financial and technical limits set by the guidelines. Staff will incorporate these recommendations in the program design and implementation. The UAC voted unanimously to recommend approval of the program design guidelines.
RESOURCE IMPACT

The recommended program budget funding for incentives of $5 million over ten years would be funded through electric rates as part of the commodity charge, and projects that qualify as renewable or as R&D demonstration projects would be partly funded by Public Benefits funds of up to $1 million out of the $5 million total. The incentives would be paid initially out of supply rate stabilization reserves, and recovered slowly by the City’s portion of shared savings due to avoided transmission and market power purchase costs. Ongoing costs will be accounted for and reflected in the applicable electric and gas rates. The program is designed to achieve a modest rate reduction over the long run, but in the worst case that the program became fully subscribed but cost savings are not realized, the average $500,000 annual budget would translate to a rate impact of approximately 0.05 cents per kWh, or about one-half of one percent. All projected costs, savings and revenues of the PLUG-In program will be incorporated into future budgets, starting with fiscal year 07/08.

POLICY IMPLICATIONS

This recommendation is consistent with LEAP Implementation Task #6: Clean Distributed Generation, and also supports Tasks #1 (Climate Action Plan), #7 (Natural Gas-Fired Generation), #8 (Greater Bay Area Contracts), #9 (Portfolio Management), and #10 (Risk Management). The plan is also in accordance with the Utilities Strategic Plan, Energy Risk Management Policies, the City’s Sustainability Policy, the Green Government Pledge, and Comprehensive Plan Goal N-9 and Policy N-44 and N-47.

The program supports the California Publicly Owned Electric Utilities’ Principles Addressing Greenhouse Gas Reduction Goals endorsed by Council (CMR:315:06).

In addition, the program supports several California and U.S. energy policies that encourage greater utilization of high-efficiency distributed generation.

NEXT STEPS

Key next steps and anticipated timeline are as follows:

a. Finalize program design and implementation details, including eligibility, incentives, rates, funding, agreements, forms, and process description: Winter 2006/2007.


c. Update zoning requirements to accommodate PLUG-In facilities: Early 2007.

d. Implement program: July 1, 2007.

ATTACHMENTS


B: Draft UAC meeting minutes excerpts October 4, 2006

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