FINAL

UTILITIES ADVISORY COMMISSION
MINUTES OF NOVEMBER 7, 2007

CALL TO ORDER
Chairman Rosenbaum called to order at 7:05 P.M. the scheduled meeting of the Utilities Advisory Commission.

Present: Commissioners George Bechtel, Dexter Dawes, Marilyn Keller, John Melton, Dick Rosenbaum

ORAL COMMUNICATIONS
NONE

APPROVAL OF THE MINUTES
The minutes from the September 5, 2007, were unanimously approved.

AGENDA REVIEW
The order of the agenda items was changed so that Item 3 - Utilities Water, Gas and Electric Efficiency Programs and Services for FY 2007-09 would be discussed before Item 2 – Quarterly Risk Management Report.

REPORT FROM COMMISSION MEETINGS/EVENTS
Commissioner Bechtel attended the Northern California Power Agency (NCPA) Annual Meeting in Monterey, California, and commented that the focus was on compliance with Assembly Bill 32, the “Global Warming Solutions Act of 2006,” and how to reduce greenhouse gas emission. He noted that the costs to comply are potentially very high and that there is much uncertainty with regards to the rules and regulations that will be put into place at both the state and federal levels.

UTILITIES DIRECTOR REPORT
Valerie Fong, Utilities Director, noted the passage of two ballot measures: the advisory vote on the Emergency Water Supply Project, and the vote on the Transient Occupancy Tax.
Fong then introduced two new employees: Joyce Kinnear, the new Manager of Utility Marketing Services, who was most recently with Silicon Valley Power, and Marites Ward, the new Administrative Assistant, who was most recently with Alameda. Fong also acknowledged Bruce Lesch for his excellent work as Interim Utilities Services Manager, and Jennie Castellino and Melody Vega as Interim Administrative Assistants.

1. Resource Adequacy Capacity: Fong gave an update on of the California Independent System Operator’s (CAISO) - Market Redesign and Technology Update tariff and the Local Resource Adequacy Capacity requirement which staff estimates to be roughly $4 million per year. Fong noted that during the evaluation process of local generation, the long-term costs of capacity-only products were incorporated. Fong also noted that the PLUG-IN local cogeneration incentive program incorporated elements of long-term capacity costs into the buy-back rates, and that these costs were further included in the evaluation of renewable energy projects. Fong noted that staff is in the process of purchasing the capacity-only product from other NCPA members, especially Alameda (14 MW at $40/kW-year), and has registered the emergency generators with the CAISO as local capacity. Fong recognized the efforts of Electric Systems Supervisor Norm Brown, his team in Operations, and Shiva Swaminathan in getting the generators CAISO-registered.

2. Fong gave a quick update on Assembly Bill 1470, the “Solar Water Heating and Efficiency Act of 2007,” which requires that all retail gas utilities in the state, including municipal gas utilities like Palo Alto, implement and finance a solar water heating system incentive program, with the goal of installing 200,000 solar water heating systems by 2017 at a program cost of $250 million. Fong remarked that implementation of a gas utility funded solar heating program was already included in the Ten-Year Energy Efficiency Portfolio Plan and identified Palo Alto’s proportionate share of the statewide goal to be approximately 500 systems.

3. Fong gave a quick update on the issuance of $1.5 million in “Clean Renewable Energy Bonds” (CREBs), which had been allocated by the IRS to Palo Alto to finance its portion of the cost of the solar photovoltaic demonstration project with an effective ten-year zero interest loan. Fong recognized the efforts of Nancy Nagel and Joe Saccio from the Administrative Services Department.

UNFINISHED BUSINESS

NONE
NEW BUSINESS

ITEM 1: INFORMATION ITEM:

Utilities Report

Water Report:
Commissioner Keller asked about the nature of the comments on the Draft Program Environmental Impact Report (PEIR) on San Francisco Public Utilities Commission’s (SFPUC’s) Water System Improvement Program (WSIP). Jane Ratchye, Assistant Director – Resource Management, responded that although there is broad support for completing the seismic improvements, the overwhelming comment is to stop any additional diversions from the Tuolumne River.

Commissioner Melton asked what San Francisco will do. Ratchye explained that San Francisco’s Planning Commission (Planning Commission) is scheduled to certify the Final PEIR, which will contain the responses to the comments submitted on the Draft PEIR, in May 2008. Any appeals to the Planning Commission’s actions will be considered by the San Francisco Board of Supervisors. After the Final PEIR is certified, the SFPUC will adopt the Water System Improvement Program (WSIP), including level of service goals. Then remaining planning, design, and construction on the projects can proceed. At this time, we do not know exactly what projects will be built and how any other arrangements such as agreements with Modesto or Turlock Irrigation Districts will proceed.

Commissioner Bechtel asked how the 70 shutdowns will affect Utilities operations. Ratchye replied that the shutdowns are designed to not result in any loss of service, however, the system will be losing redundancy, and, therefore, be vulnerable to unplanned emergencies, during the shutdowns.

Melton asked about the timeline for the City’s Emergency Water Supply and Storage project. Fong stated that the project is anticipated to be completed in 2012 with construction forecast to take about two years, following a project design phase estimated to take 18 to 24 months.

Chairman Rosenbaum asked about the status of any agreements with Stanford on the lease for the reservoir project. Fong said that staff is working on this, but there is nothing to report at this time.
Gas Report:
Rosenbaum asked why the gas meter exchanges are below the goals for each month of the fiscal year. Tom Auzenne, Assistant Director Administrative Services, noted that manpower issues have slowed the ability to meet the monthly goal, but that staff is working to improve performance in this area.

Electric Report:
Bechtel asked whether staff believes that the transmission cost upgrade will be as expensive as estimated. Fong acknowledged that high cost and noted the preliminary nature of the estimate. Fong indicated that staff is continuing to work with PG&E to refine the cost estimate which may or may not reduce with refinement.

Rosenbaum asked why the costs for the NCPA Green Power Pool (NGPP) were so high. Tom Kabat, Senior Resource Originator, responded that the cheapest projects are done and that it's now a seller's market, possibly due to the state Renewable Portfolio Standard (RPS) mandate. Rosenbaum remarked that the City may want to re-evaluate the standard in light of the fact that costs of electric supply are an issue as will be discussed later.

Commissioner Dawes asked whether the increased costs associated with generation capacity could be applied to the incentives for local generation, and whether that would provide a greater incentive for projects to be more likely to happen.

Karl Knapp, Senior Resource Planner, stated that the generation capacity and associated market design costs are included in the electric buyback rates, and would be adjusted in response to the costs facing the utility. The potential to recoup some of the fixed costs through a capacity charge that reflects those high costs would be likely to push some projects into economic feasibility that may not otherwise be economic, which would reduce the risk associated with the initial capital cost.

Financial Report:
Dawes asked whether the fiber project has repaid the electric fund for the initial start-up funds and whether the City pays for the fiber it uses. Auzenne replied that loan has not been paid back yet, but it will likely be repaid in FY 08-09 and that yes, the City does pay for use of fiber at its facilities – about 22% of the fiber revenues are from the City itself.
ITEM 3: INFORMATION ITEM:
Utilities Water, Gas and Electric Efficiency Programs and Services for FY 2007-09

Staff presented the Utilities Water, Gas and Electric Efficiency Programs and Services informational report for FY 2007-2009 to the UAC. Auzenne stated that this was a report providing supporting detail to the Council-approved "Ten Year Energy Efficiency Portfolio Plan." There was no presentation, but staff could be asked clarifying questions.

Keller asked whether portables at the school district were included in the efficiency programs, if schools were considered to be commercial or residential customers, how the City was working with the schools to ensure trees could be watered (paving was cutting off trees from water sources), and whether irrigation programs were available to City facilities. Auzenne replied that: 1) portables are included in efficiency programs, they are often inefficient, but staff is working with the school district to ensure new structures are efficient; 2) schools are "commercial customers" for rebates; 3) CPAU staff works with both the school district and the city to make buildings as water and energy efficient as possible; and 4) irrigation programs were available to schools, and CPAU would look into the water accessibility problem for tree locations at schools. Keller also requested clarification on the definition of "negawatts," which Auzenne explained was another way of having third parties bid to provide energy and demand savings at customer sites.

Dawes requested definition for "evapotranspiration" controller for watering and why the utilities are working with the Santa Clara Valley Water District (SCVWD) on these water efficiency programs. Auzenne explained that an evapotranspiration, or ET or ETO, controller senses ground moisture to prevent overwatering. He also explained that the SCVWD partners with the Utilities to co-fund water efficiency services as part of their county-wide services. Rachye explained that the City gets good value for its money on the water efficiency programs through the SCVWD, as the district delivers programs and pays half the costs of administering and delivering the programs, while the City only has to reimburse the district for half the cost of the customer programs. Dawes remarked that he wanted to make sure that the City was not just paying for the SCVWD to deliver programs that the utilities would not otherwise deliver. With no further comments, Rosenbaum moved to the next item on the agenda.

ITEM 2: INFORMATION ITEM:
Quarterly Risk Management Report
Energy Risk Manager, Karl Van Orsdol, presented his quarterly risk management report.

Dawes asked if the negative mark-to-market value of the Calaveras project included the subsidy provided from the Calaveras Reserve. Van Orsdol explained that the mark-to-market of the project did not include that reserve transfer, but was only the total costs (debt service and variable and fixed O&M charges) less the market value of the energy produced.

Rosenbaum remarked that he liked the appendix with all the transaction details that has appeared in past reports. Van Orsdol promised to include the detailed appendix in the report on a twice per year basis.

ITEM 4: ACTION ITEM:

Resource Planner, Monica Padilla presented her report on cost increases to the electric supply fund due to the current drought compared to the budgeted costs for FY 2007-08, conceptual budget for FY 2008-09, and the 5-year Financial Plan developed in January 2007. Since that time, reduced estimates for hydroelectric supplies have necessitated purchases from the market resulting in costs being over budget by $11 million for FY 2007-08 and $8.4 million for FY 2008-09. Given the retail rate projections contained in the 5-year Financial Plan, the ending balance of the Electric Supply Rate Stabilization Reserve (E-SRSR) is expected to be below minimum guideline levels as of June 30, 2009. If dry conditions continue, the reserve could be exhausted by June 30, 2009.

Padilla showed that planned rate increases would bring the E-SRSR balance above minimum by FY 2011-12.

Padilla noted that staff considered alternatives, including:

1. A 10% mid-year rate increase effective February 1, 2008, which would bring revenues more quickly in line with costs and let reserves climb above minimum levels by FY 2011-12.

2. Re-evaluation of the 5-year Financial Plan and possible recommendation of an increase higher than the 10% approved-in-concept rate increase effective July 1, 2008.
3. Utilization of the Calaveras Reserve, which was established to recover "stranded costs" and subsidize rates through FY 2031-32 to reduce rate increases.

4. Implementation of a rate adjustor that could be applied with supply cost increases or decreases to more quickly reflect the impacts of dry or wet hydro conditions.

Padilla reviewed Staff's recommendation as follows:

1. No mid-year rate increase for FY 2007-08.

2. Modifications to the 5-year Financial Plan in the FY 08-09 budget and rate setting process.

3. Evaluation/recommendation of funding levels for the Electric reserves, including the Calaveras ("stranded cost") Reserve.

4. Implementation of an automatic rate adjustor mechanism only after the billing system upgrade is complete.

Padilla noted that staff plans to return to the UAC in December with an assessment of and recommendations for use of the electric reserves; in February, 2008 with an updated 5-year Financial Plan; and in March, 2008 with a rate increase proposal as part of the FY 08-09 budget process.

Melton noted that the information staff presented made a compelling case for a mid-year rate increase, and that without a mid-year increase, the increase that may be needed in July 2008 could be very large. Fong responded that staff believes it has an obligation to look at all resources and reserves closely before recommending an electric rate increase outside of the normal budget and rate setting process.

Dawes agreed with Melton on the need for an interim increase noting that a decision to forego an increase now makes him very nervous. Dawes cautioned that without a mid-year increase, revenues could get too far behind costs resulting in the need for a series of dramatic increases as happened with gas costs and rates in 2001. Dawes noted that the high cost of renewable resources also increases cost pressures.

Bechtel commented that he generally agreed with Melton and Dawes and questioned whether the 5-year Financial Plan needs to be updated in order to make a decision on rates in the short-term due to cost increases caused by the drought. Bechtel indicated his understanding of the need for more analysis, but advised it was still possible to implement an increase effective in February 2008 if analysis is brought to the UAC in December. He noted that a 5-year forecast is not needed to make a decision on rates now.
Dawes commented on the need to re-look at the Calaveras debt service and the need for the money in the Calaveras Reserve.

Melton noted that the Calaveras Reserve can’t be changed before FY 2008-09, but also noted that implementing a rate increase in February 2008 doesn’t mean an automatic rate increase in July 2008. Prior to the budget process, Melton posed that there would be more information on the status of hydro conditions, and a wet hydro year could mean no additional rate increase in July, 2008.

Rosenbaum supported staff’s recommendation. He noted that requesting a mid-year rate increase indicates an emergency, which is not the case.

Melton moved that the UAC recommend that Council approve a 10% electric rate increase effective February 1, 2008. The motion died for lack of a second.

Bechtel asked why this report was prepared as an action item instead of an informational report. Fong noted that staff wanted a mechanism to show the Council the information and to give it a heads-up that the July 2008 may be higher than projected last year.

The UAC chose to take no action and make no recommendation to Council. Staff will return to the UAC with a new recommendation and analysis of the reserves at the December 5, 2007, meeting.

Rosenbaum requested that staff compare Palo Alto’s rates to Roseville’s and Silicon Valley Power’s and not just PG&E’s. He expressed concern over costs rising at a fast rate due to Palo Alto’s reliance on Western hydro power. Rosenbaum also noted that a rate adjustor mechanism can be quite simple if adjusted annually based on hydro year conditions, and that a drought reserve could be maintained at a certain level with the adjustor raised or lowered to maintain a balance in the reserve.

Meeting adjourned at 8:55 P.M.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities
FINAL

UTILITIES ADVISORY COMMISSION
MINUTES OF DECEMBER 5, 2007

CALL TO ORDER
Chairman Rosenbaum called to order at 7:00 P.M. the scheduled meeting of the Utilities Advisory Commission.

Present: Commissioners George Bechtel, Dexter Dawes, Marilyn Keller, John Melton, Dick Rosenbaum, and Council Liaison, Beecham

ORAL COMMUNICATIONS
NONE

APPROVAL OF THE MINUTES
The minutes from the November 7, 2007, were unanimously approved.

AGENDA REVIEW
Chairman Rosenbaum requested that item 1 – Climate Protection Plan be moved to after the other four agenda items to accommodate Commissioner Bechtel who had to leave early and wanted to be there for item 4, an action item.

REPORT FROM COMMISSION MEETINGS/EVENTS
There were no reports.

UTILITIES DIRECTOR REPORT
Jane Ratchye, Assistant Director for Resource Management, conveyed the regrets of Valerie Fong, Director of Utilities, who couldn’t be here tonight. Ratchye provided the UD report summarized below:

Council adopted the Climate Protection Plan at its December 3 meeting, which will be presented as Item 1.
Palo Alto received notification on December 3 that the City successfully completed the California Climate Action Registry’s greenhouse gas inventory certification process for 2006, earning the registry’s “Climate Action Leader” status for the second year in a row. The emissions inventory is for all municipal government operations, and is available to the general public on the Registry’s website.

At a December 4 ceremony yesterday, the Alma substation was electrically disconnected. The equipment will be decommissioned in the coming weeks and the property will be vacated before the end of the year.

The City is in the process of negotiating two contracts to meet City’s share of the Local Capacity for calendar year 2008.

The market for renewables has moved to prices that exceed the $70/MWh price cap in the original NCPA Green Power Pool (NGPP) agreement. To improve chances of success and customized participation, the NCPA Commission on November 29 approved a resolution to amend the NGPP agreement with four changes: 1) Removal of the $70/MWh price cap; 2) Project by project opt out provisions so members can opt out of projects in which they are not interested; 3) Clean up of accounting language to make opt out provisions clear; and 4) Clarification of language related to development activities where NCPA may develop the renewables. For the amendment to be effective, all NGPP participants must have it approved by their Councils by January 31, 2008. Palo Alto’s Council will consider a resolution approving execution of the amended NGPP agreement on December 18. The Palo Alto resolution has an average new renewable price cap provision of $118/MWh set to keep the retail price impact of meeting the additional 13% of our portfolio needs within the one half cent/kWh Council-approved rate impact cap for attaining 33% renewables by 2015.
NCPA’s Annual Strategic Planning Meeting will be held in Sacramento on January 23-25. CMUA’s Capitol Day will be held on Monday, January 14 in Sacramento. This meeting starts with a legislative briefing in the morning followed by visits to legislators and their staff in the afternoon. Utilities encourages one or two UAC Commissioners to attend these meetings.

Staff changes in the Resource Management Division include: 1) Ipek Connolly is the new Senior Resource Planner responsible for rate making – taking over these duties after Lucie Hirmina’s retirement; 2) Nicolas Procos is a new Senior Resource Planner joining Palo Alto last week. Nico will be focusing on water issues and also will be involved in other gas and electric resource planning activities; and 3) Debbie Lloyd was promoted to a Senior Resource Planner in October and will continue in her role as the point person on legislative and regulatory issues for the department.

UNFINISHED BUSINESS

NONE

NEW BUSINESS

Jane Ratchye explained that items 2, 3, and 4 would be taken together and discussed in a combined presentation.

ITEM 2: INFORMATION ITEM: Update of Utility Reserves: Refer to Item 4.

ITEM 3: INFORMATION ITEM: Strategies to Manage the Calaveras Reserve: Refer to Item 4.

ITEM 4: ACTION ITEM: Recommendation to Utilize Funds from the Electric Supply Rate Stabilization to Reserve, Instead of a Mid-Year Rate Increase, to Offset Electric Supply Cost Increases in FY 2007-08
Shiva Swaminathan, Senior Resource Planner, made a combined presentation to cover agenda Items 2, 3 and 4. He presented the balances for the Utilities reserves funds as of June 30, 2007. Anticipated changes to the reserves in FY 07-08 include budgeted draw downs and mid-year changes which will leave reserves within Council-approved reserve guidelines by June 30, 2008.

The Calaveras Reserve was established by Council in 1996 to prepare the City for competitive retail electric markets by pre-collecting above market costs of the Calaveras hydroelectric project, the California Oregon Transmission Project (COTP), and the Seattle City Light (SCL) contract. Forward market costs at the time were between 2¢ and 4¢/kWh over 30 years and the Calaveras reserve was fully funded in 1999 at $71 million. At that time, Council approved a drawdown schedule allowing the reserve to be fully depleted in 2032 when the Calaveras debt is due to be paid-off. Over the next 15 years, the transfers from the Calaveras Reserve are $5-6 million/year, which effectively reduces retail rates by 0.5¢/kWh, or by 5%.

Staff conducted a preliminary assessment of stranded costs with updated electric forward prices over the next 25 years of between 7¢ and 13¢/kWh. The estimated stranded cost at these prices is about $24 million, of which $3 million is for the Calaveras project, $20 million is for COTP, and $1 million is for the SCL contract. The stranded cost estimate is highly sensitive to market prices. For example, if market prices fall by 25%, then stranded cost would double – to $48 million. If market prices fall by 25% and long-term hydroelectric production falls by 10% (perhaps due to effects of climate change), then the stranded cost estimate is about $57 million.

Options to manage the Calaveras Reserve include: 1) do nothing – maintain the 1999 Council approved schedule to deplete reserves by 2032; 2) deplete Reserves More Quickly than Scheduled – either through a one-time transfer to electric SRSR (e.g. $20M) or withdrawal over a period of time (e.g. $5M/year over 4
years); and 3) borrow from (and repay to) Calaveras Reserve to cover extreme events (e.g. multi-year drought, natural disaster) so that the reserve acts as a secondary buffer to the E-SRSR.

Drawing down ahead of the schedule from the Calaveras Reserve has pros and cons. The pros include that it: provides the ability to have more gradual rate increases, returns money to customers earlier - customers who contributed towards the fund in 1996-99, and so that customers enjoy a lower retail rate in the short-term. The cons of early drawdown include that it: reduces competitiveness of electric rate in the long run, eliminates a secondary reserves buffer to cover higher cost in the event of a prolonged drought, reduces financial flexibility in the future (e.g. potential to fund major capital expenditure, natural disaster), and has the potential to adversely affect the City’s credit rating.

Based on the information provided, staff recommends that the E-SRSR be used to cover increased supply costs in FY 07-08 due to the drought instead of a mid-year rate increase. Staff will return to the UAC to discuss the 5-year financial forecast in February and to request approval of the FY 08-09 retail rates in March. Those discussions will include recommendations for the use of the Calaveras Reserve.

Following the presentation, Commissioner Dawes suggested an evaluation of utilizing the surplus Calaveras reserves towards other Utilities capital projects such as local generation. He characterized the Calaveras Reserve as a capital reserve tied to bond repayment as opposed to an operating reserve. Staff also mentioned that the City’s financial advisors had recommended that the City look at the feasibility of paying down Calaveras debt with the surplus funds. Commissioner Melton, supported Commissioner Dawes’ ideas and expressed reluctance to utilize the Calaveras reserve to pay operating expenses under the present circumstances.
Council Member Beecham asked how reserves are really managed – for example, if a reserve is established for drought and the drought occurs, does the money get used, or does the reserve just get replenished immediately. If the latter is the case, then what's the use of the reserve? Beecham also commented that he generally would like to see reserves returned to ratepayers and, more specifically, to those ratepayers who paid into the reserve.

Rosenbaum suggested that staff evaluate the stranded cost reserve at an appropriate price level and mentioned 5¢/kWh as an example, midway between prices in 1999 and today. He also suggested that staff explore the possibility of using the surplus reserves to set up a new reserve dedicated to cover hydro production risks. Rosenbaum also suggested that a separate reserve could be established specifically for drought. Staff noted that the E-SRSR is maintained for uncertainties including drought.

Bechtel requested staff look at two additional options when developing a recommendation for alternate uses of the Calaveras Reserve: 1) investment in other capital projects; and 2) pay off some of the Calaveras or COTP debt.

Dawes does not support subsidizing the current operating expenses with the Calaveras Reserve. He noted that price increases projected are moderate and we should “tough it out” and re-evaluate its use next year when money is still in the E-SRSR. Melton agreed that it is too early to move Calaveras Reserve funds in to the E-SRSR.

Dawes moved and Bechtel seconded the motion to "Recommend to Council to utilize funds from the Electric Supply Rate Stabilization to Reserve, instead of a mid-year rate increase, to offset electric supply cost increases in FY 2007-08." Melton opposed the motion arguing that a mid-year rate increase would send the
proper signal to ratepayers that there are costs associated with dry hydro conditions. Dawes countered that a mid-year increase is not warranted given the reserve level forecasts for June 2008.

The Commission voted 4-1 to approve the motion, with Melton in opposition and reiterating that a delay will result in a larger rate increase in July 2008.

ITEM 1: INFORMATION ITEM:

Climate Protection Plan

Karl Van Orsdol, Energy Risk Manager and Karl Knapp, Senior Resource Planner, presented a summary of Palo Alto's Climate Protection Plan, which had been approved by Council on Monday, December 3, 2007. The presentation by Van Orsdol was essentially the same information presented at the Council study Session on November 26, and Knapp added several slides to highlight the utilities' chapter in particular.

Van Orsdol described the community-wide greenhouse gas emissions inventory that was conducted for 2005, and the rationale for the emissions reduction goals, with the key long-term goal to achieve 15% reductions from 2005 levels community-wide by mid-2019. Cost-effectiveness of a number of proposed actions were reviewed, grouped into short-term, medium-term, and longer-term potential. Van Orsdol summarized with a list of exactly what it was that Council approved.

Knapp highlighted the utilities chapter of the plan, which consists largely of existing programs, but tied together with the common theme of climate protection. The proposed actions, primarily energy efficiency, renewable energy, and cogeneration have the potential to reduce carbon dioxide emissions associated with electricity and natural gas use by approximately 50% from 2005 levels by 2020. Knapp summarized the emissions reduction potential of each major category and their associated costs per ton of emissions reduced, with an expanded
slide illustrating the cost-effectiveness evaluation of photovoltaics (which was corrected the next day to show that the Utility Rate Perspective should be a $165/ton cost instead of a $35/ton savings). Knapp concluded with a list of items yet to be evaluated, which may have additional potential for utilities and its customers to address climate protection.

Keller asked staff to clarify how the implementation of the plan actually happens, including who one calls at City hall to find out about trees or solar panels. Van Orsdol explained that a key part of the overall plan is to engage the community, and in particular the school district. Knapp described the importance of having champions for different initiatives throughout the City, and that some of the tasks will take a while to get going. Van Orsdol followed up by explaining that the city's sustainability website will be including a lot of the information in the plan, and that the longer-term plan is also to replace the four half-time team members with one full-time dedicated individual to champion the plan, but pointed out that it will still be everyone's responsibility to make good on the plan, not just the Environmental Coordinator.

Dawes commented that the municipal hydro energy recovery project sounded promising, and asked for an explanation of how the $20/ton greenhouse gas adder worked. Knapp responded that the adder is intended for long-term energy purchases that are not being purchased at a premium for some other reason, such as for PaloAltoGreen or the renewable portfolio standard. The adder is a placeholder that reflects the financial risk associated with taking on a long-term potential emissions liability, and will be replaced with the actual costs of allowance or credits once the state settles on a cap and trade system design. For now, the adder is used to compare energy purchases from two different sources; if one emits 1000 lbs of CO2 per MWh and another emits zero, the low or zero carbon resource would be selected as long as its price is no more than $10/MWh higher.
Beecham added that some of the least expensive opportunities are right now, and that perhaps taking a longer-term view of reducing total carbon over a long time horizon might work out to be far more cost-effective to invest in offsets right now rather than waiting for a decade or two when they could be very expensive. Staff agreed that such an approach is worth evaluating when looking at potential reduction projects and offsets.

Meeting adjourned at 9:20 P.M.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities