RESOLUTION NO
RESOLUTION OF THE COUNCIL OF THE CITY OF PALO ALTO
APPROVING THE UTILITIES’ LEGISLATIVE PRIORITIES FOR
2008

WHEREAS, the City of Palo Alto Utilities Strategic Plan ("Strategic Plan"), approved by the Council of the City of Palo Alto on March 7, 2005, [CMR 148:05] provides a set of Key Objectives for the City of Palo Alto Utilities Department (CPAU) to follow in the areas of customer satisfaction and utility infrastructure, employment of balanced environmental solutions, provision of fair and reasonable returns to the City and competitive rates to customers through municipal ownership, and assurance of a safe and engaged workforce; and

WHEREAS, CPAU annually identifies Utilities’ Legislative Priorities that facilitate the Strategic Plan’s Key Objectives; and advocates utility-related issues at Federal and State legislative forums in furtherance of those objectives; and

WHEREAS, in December 2007 CPAU staff updated the 2008 Legislative Priorities to respond to recent legislative and regulatory trends, in particular the increasing emphasis on climate change at both the State and Federal level; and

WHEREAS, the 2008 Legislative Priorities also support the City Council’s inclusion of “Global Climate Protection” in the 2007-08 Council Top 4 Priorities, and the recommendations of the Mayor’s Green Ribbon Task Force on Climate Protection; and

WHEREAS, action on some of these issues may require active involvement of Palo Alto elected officials; and

WHEREAS, Section 2.23.050(b)(3) of the Palo Alto Municipal Code states that the Utilities Advisory Commission (UAC) shall “Formulate and review legislative proposals regarding the electric utility, gas utility, water utility, and any recycled water operation to which the City is a party or in which the City has an interest; and

WHEREAS, the Utilities’ Legislative Priorities for 2008 were presented to the UAC at its January 9, 2008 meeting, and the UAC voted unanimously to recommend that the City Council approve the Utilities’ Legislative Priorities,

NOW, THEREFORE, the Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. The Council hereby adopts the resolution approving the Utilities’ Legislative Priorities for 2008.

SECTION 2. The Council finds that any revenue derived from the authorized adoption enumerated herein shall be used only for the purpose set forth in Article VII, Section 2, of the Charter of the City of Palo Alto.
SECTION 3. The Council finds that the adoption of this resolution does not constitute a project under Section 21065 of the California Environmental Quality Act (CEQA) and the CEQA Guidelines, and therefore, no environmental assessment is required.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

APPROVED AS TO FORM:

Deputy City Attorney

APPROVED:

City Manager

Director of Utilities

Director of Administrative Services
Utilities' Legislative Priorities for 2008

ALL UTILITIES

Goals

1. Preserve/enhance local flexibility in the control and oversight of matters impacting utility programs and rates for our customers.


3. Support efforts to maintain or improve the reliability of the supply, transmission and distribution infrastructures.

4. Maintain CPAU’s ability to provide reliable, sustainable, and competitively-priced utility service.

Trends

1. Increasing local, State and Federal emphasis on climate change.

2. Increasing conflicts between energy sectors over Green House Gas (GHG) controls (e.g. the north/south differences in the state and east/west coast differences over coal vs. natural gas; role of hydro and nuclear power; also allocation of targeted emissions reductions between industry sectors).

3. Increasing commodity prices and price volatility.

4. Rising labor and construction costs, along with legislative pressures that are forcing increased costs or standards for construction such as for solar facilities or reliability purposes.

5. Increased decision-making and jurisdictional control for FERC from EPA Act 2005.

6. Increasing fragmentation of state energy policies, such as between renewable resource mandates and system reliability.

7. Continued attempts to erode local flexibility and oversight.

8. Continued efforts to force municipal resource and environment policies in line with state programs for the Investor Owned Utilities (IOUs).

Venue

Federal, State, Local

Federal and State

Federal and State

Federal and State

Federal

State

State
<table>
<thead>
<tr>
<th>Legislative Priorities</th>
<th>Venue</th>
<th>Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Communicate with Legislature, California Energy Commission (CEC), and Natural Resources Defense Council (NRDC) via California Municipal Utilities Association (CMUA), and Northern California Power Agency (NCPA) regarding the City’s record on environmental and energy efficiency programs.</td>
<td>State</td>
<td>1. Local Control ✓ 2. Climate Protection ✓ 3. Reliability &amp; Infrastructure</td>
</tr>
<tr>
<td>3. Support legislation that will result in the most cost-effective reduction of GHG emissions, recognition of early action, and inclusion of more efficient solutions, such as cogeneration, distribution resources, and demand control programs, in integrated resource plans.</td>
<td>Federal State, and Regional</td>
<td>1. Local Control ✓ 2. Climate Protection ✓ 3. Reliability &amp; Infrastructure</td>
</tr>
<tr>
<td>4. Oppose onerous, costly and time-intensive legislative and regulatory reporting requirements.</td>
<td>State</td>
<td>1. Local Control ✓ 2. Climate Protection ✓ 3. Reliability &amp; Infrastructure</td>
</tr>
<tr>
<td>5. Oppose cost shifts from Federal or State budgets, and California Public Utilities Commission (CPUC) jurisdictional utilities through active participation in CMUA and NCPA legislative activities.</td>
<td>Federal, State, and CPUC</td>
<td>1. Local Control ✓ 2. Climate Protection ✓ 3. Reliability &amp; Infrastructure</td>
</tr>
<tr>
<td>6. Advocate for and request State and Federal grants for local and regional applications of energy efficiency, conservation, renewable resources, and recycled water projects.</td>
<td>Federal and State</td>
<td>1. Local Control ✓ 2. Climate Protection ✓ 3. Reliability &amp; Infrastructure</td>
</tr>
</tbody>
</table>
Legislative Priorities

WATER

Goals

1. Increase the security and reliability of the regional water system owned and operated by the San Francisco Public Utilities Commission (SFPUC).
2. Maintain the provision of an environmentally sustainable, reliable supply of high quality water at a fair price.
3. Support ability of municipal utilities to develop and manage their own public-benefit programs and retain control of ratemaking options, including the imposition of non-volumetric customer meter or infrastructure charges for water service.
4. Support conservation and recycled water programs in order to minimize the use of imported supplies.

Trends

1. Increasing awareness of impacts to fisheries of water diversions from rivers and, especially, the San Francisco Bay and Delta.
2. Increasing water and power alliances.
3. Increased interest from environmental groups in long-term demands and conservation and recycled water plans.

Venue

<table>
<thead>
<tr>
<th>Trends</th>
<th>Venue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>State</td>
</tr>
<tr>
<td>2.</td>
<td>State</td>
</tr>
<tr>
<td>3.</td>
<td>Local, Regional, and State</td>
</tr>
</tbody>
</table>

Venue

<table>
<thead>
<tr>
<th>Legislative Priorities</th>
<th>Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Advocate goals through active participation in the Bay Area Water Supply and Conservation Agency (BAWSCA) with support from Palo Alto staff for BAWSCA and the San Francisco Bay Area Regional Water System Financing Authority (RFA).</td>
<td>Local and Regional</td>
</tr>
<tr>
<td>2. Participate in California Urban Water Conservation Council (CUWCC) Best Management Practice (BMP) revisions and development to ensure that proposals are reasonable, achievable, and cost-effective.</td>
<td>State</td>
</tr>
<tr>
<td>3. Advocate to ensure that legislative actions regarding the Hetch Hetchy Reservoir include the following requirements: • timely rebuilding of the regional water system; • maintains the quality of delivered water; • minimizes any increase in the cost of</td>
<td>Local, Regional &amp; State</td>
</tr>
</tbody>
</table>
Legislative Priorities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Advocate for interpretations or implementation of Water Code provisions (such as those enacted by AB 1823 (2002), AB 2058 (2002) and SB 1860 (2002)) that maintain or reinforce the authorities and protections available to the City and BAWSCA members outside of San Francisco.</td>
<td>Local, Regional, and State</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>5. Support provision of sufficient resources for BAWSCA to enable it to advocate for:</td>
<td>Local and Regional</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• an environmentally sustainable, reliable supply of high quality water at a fair price;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• preservation of Palo Alto’s existing contractual water allocation and transportation rights on the SFPUC Hetch Hetchy system;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• regional planning for conservation and recycled water projects.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Support infrastructure security and reliability including equitable allocation of funds for increasing the security of infrastructure, development of a regional crisis management plan, and an interconnection between the SCVWD West Pipeline with the SFPUC’s Bay Division Pipelines 3 and 4.</td>
<td>Regional, and State</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Legislative Priorities

GAS

Goals

1. Increase the security and reliability of the gas supply and transmission infrastructure. This includes retaining access to intra- and interstate gas transmission systems to reliably serve customers.

2. Protect/enhance the ability of municipal utilities to develop their own public-benefit programs, alternative gas supplies, and rate structure.

3. Support efforts to reduce greenhouse gas emissions and protect the environment.

4. Preserve just and reasonable utility rates/bills.

Trends

1. Increasing emphasis on energy efficiency and solar hot water heating programs.

2. Conflicting goals to increase domestic gas supplies while maintaining the environment and restricting domestic drilling.


6. Favorable economics for gas pre-pay transactions.

Venue

State

Federal and State

State

Local

Federal

Legislative Priorities

Venue

Goals

<table>
<thead>
<tr>
<th>legislative priorities</th>
<th>1. Reliability of Infrastructure</th>
<th>2. Local Control</th>
<th>3. Environment</th>
<th>4. Cost Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advocate most of these goals mainly through the American Public Gas Association (APGA) with minor support from Palo Alto staff.</td>
<td>Primarily federal with minor advocacy at state level</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Support increased production/incentives for renewable gas supplies.</td>
<td>Federal and State</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Support incentives for energy efficiency measures.</td>
<td>Federal and State</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Support maintenance of incentive for municipal utilities to enter into pre-pay transactions for gas supplies.</td>
<td>Federal</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ELECTRIC

Goals

1. Protect ability of municipal utilities to exercise local flexibility and oversight over matters impacting customer service, programs, and rates.
2. Protect/enhance the reliability and security of infrastructure.
4. Preserve just and reasonable utility rates/bills.

Trends

1. Local, State and Federal focus on climate change.
2. Increasing legislation for GHG emissions.
3. Increasing commodity prices and price volatility.
4. Continuing recovery of Salmon and crisis in Delta Smelt.
5. Recognition of the need to build more transmission.
6. Increasing recognition of the need for regional grid solutions.
7. Increasing regulation over procurement practices for resource adequacy and grid reliability.
8. Increasing pressure from state and federal interests to design one-size-fits-all solutions to reliability issues.
9. Western: More agency and legislative reception to cost reduction proposals.
10. Decreasing Central Valley Project (CVP) electric resources.
11. Increased FERC decision-making and jurisdiction over grid reliability from EPAct2005.
12. Pay-as-you-go requirements for Federal bills putting pressure on bills that increase costs or reduce revenues.
13. Increasing fragmentation of state energy policies, such as conflicts between grid reliability requirements and the state’s mandates on renewable portfolio standards (RPS).
14. Continued attempts to erode local flexibility and oversight.
15. Continued efforts to force municipal resource and environment policies in line with state programs for IOUs regarding RPS, energy efficiency and local reliability requirements.
16. Increasingly onerous and prescriptive requirements (e.g., SB1, AB2021).

Venue

Federal, State, Local
Federal and State
Federal and State
Federal and State
Federal and State
Federal and State
Federal and State
Federal, State,
Federal
Federal
State
State
State
## Legislative Priorities

<table>
<thead>
<tr>
<th>1. Advocate goals through Northern California Power Agency (NCPA), California Municipal Utilities Association (CMUA), American Public Power Association (APPA), Transmission Agency of Northern California (TANC), and Bay Area Municipal Transmission Group (BAMx) with support from Palo Alto staff to speak with a coordinated voice.</th>
<th>Venue: Federal and State</th>
<th>Goals:</th>
<th>1. Local Control</th>
<th>2. Reliability</th>
<th>3. GHG Reduction</th>
<th>4. Cost Control</th>
</tr>
</thead>
</table>
| 2. Support/advocate for legislation/regulation that permit solutions tailored to local needs through NCPA and CMUA on:  
- clean distributed generation and cogeneration projects, and standards for connecting such resources to the local distribution system;  
- renewable portfolio standards;  
- provision of reliable and competitively priced service to customers;  
- allocation of public benefit funds (as allowed in AB1890 (1996)). | Venue: Federal and State | Goals: | ✓ | ✓ | ✓ | ✓ |
| 3. Support/encourage transmission, generation, and demand-reduction projects and solutions that:  
- enhance/ensure reliability;  
- ensure equitable cost allocation (including protection against imposition of state-owned electric contract costs on municipal utility customers);  
- improve procurement flexibility (e.g. resource adequacy rules that ensure reliability and provide flexibility or use of “Green Tags” in meeting State renewable portfolio standards);  
- improve market transparency (particularly transparency of IOU’s transmission and procurement planning and implementation activities);  
- lower the environmental impact of the Bay Area and the Peninsula. | Venue: Local, State, and Federal | Goals: | ✓ | ✓ | ✓ | ✓ |
### Legislative Priorities

<table>
<thead>
<tr>
<th></th>
<th>1. Local Control</th>
<th>2. Reliability</th>
<th>3. GHG Reduction</th>
<th>4. Cost Control</th>
</tr>
</thead>
</table>
| 4. Advocate for Congressional, legislative, or administrative actions on matters impacting costs or operations of the Western Area Power Administration such as:  
  - support of Congressional Field Hearings to explore modernizing flood control strategies, river regulation and generation strategies at CVP plants to enhance generation, water delivery, flood control and fisheries;  
  - protection of the status of Western Power Marketing Administration (PMA) and cost-based rates;  
  - provisions for preference customers first take at land available with economic potential for wind farms. | Federal, State and Regional | ✓ | ✓ | ✓ |
| 5. Work with California Independent System Operator (CAISO) or through FERC:  
  - to give buyers of renewable intermittent resources relief from imbalance penalties;  
  - to promote financial and operational changes that result in timely and accurate settlement and billing;  
  - to protect value of existing contracts and local regulatory approvals of such contracts. | Federal and State | ✓ | ✓ | ✓ |
MEMORANDUM

TO: Utilities Advisory Commission
FROM: Utilities Department
SUBJECT: Utilities’ Legislative Priorities Report
AGENDA DATE: January 9, 2008

REQUEST
Staff requests the Utilities Advisory Commission recommend that the City Council approve the attached report on Utilities’ Legislative Priorities.

SUMMARY
Section 2.23.050 (b) (3) of the Palo Alto Municipal Code states that the Utilities Advisory Commission shall “Formulate and review legislative proposals regarding the electric utility, gas utility, water utility, and any recycled water operation to which the city is a party or in which the city has an interest.”

The Utilities Department’s legislative priorities are being updated to respond to recent legislative and regulatory trends, in particular the increasing emphasis on climate change issues at both the State and Federal level. The proposed legislative priorities are also intended to be in line with the City Council’s inclusion of “Global Climate Protection” in the 2007-08 Council Top 4 Priorities, and the recommendations of the Mayor’s Green Ribbon Task Force on Climate Protection.

Attachment A lists the Utilities Department’s legislative priorities in the areas of Electric, Gas, and Water for the coming year.

ATTACHMENT
A: Utilities Legislative Priorities 2008

PREPARED BY: DEBRA LLOYD
Senior Resource Planner

REVIEWS BY: JANE RATCHYE
Assistant Director, Resource Management

APPROVED BY: VALERIE O. PONG
Director of Utilities
Utilities' Legislative Priorities for 2008

ALL UTILITIES

Goals
1. Preserve/enhance local flexibility in the control and oversight of matters impacting utility programs and rates for our customers.
3. Support efforts to maintain or improve the reliability of the supply, transmission and distribution infrastructures.
4. Maintain CPAU's ability to provide reliable, sustainable, and competitively-priced utility service.

Trends
1. Increasing local, State and Federal emphasis on climate change.
2. Increasing conflicts between energy sectors over Green House Gas (GHG) controls (e.g. the north/south differences in the state and east/west cost differences over coal vs. natural gas; role of hydro and nuclear power; also allocation of targeted emissions reductions between industry sectors).
3. Increasing commodity prices and price volatility.
4. Rising labor and construction costs, along with legislative pressures that are forcing increased costs or standards for construction such as for solar facilities or reliability purposes.
5. Increased decision-making and jurisdictional control for FERC from EPAct2005.
6. Increasing fragmentation of state energy policies, such as between renewable resource mandates and system reliability.
7. Continued attempts to erode local flexibility and oversight.
8. Continued efforts to force municipal resource and environment policies in line with state programs for the Investor Owned Utilities (IOUs).

Venue
Federal, State, Local
Federal, State
Federal and State
Federal and State
Federal
State
State
<table>
<thead>
<tr>
<th>Legislative Priorities</th>
<th>Venue</th>
<th>Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Advocate goals through active participation in joint action efforts.</td>
<td>Federal, State, and Regional</td>
<td>✓</td>
</tr>
<tr>
<td>2. Communicate with Legislature, California Energy Commission (CEC), and Natural Resources Defense Council (NRDC) via California Municipal Utilities Association (CMUA), and Northern California Power Agency (NCPA) regarding the City’s record on environmental and energy efficiency programs.</td>
<td>State</td>
<td>✓</td>
</tr>
<tr>
<td>3. Support legislation that will result in the most cost-effective reduction of GHG emissions, recognition of early action, and inclusion of more efficient solutions, such as cogeneration, distribution resources, and demand control programs, in integrated resource plans.</td>
<td>Federal State, and Regional</td>
<td>✓</td>
</tr>
<tr>
<td>4. Oppose onerous, costly and time-intensive legislative and regulatory reporting requirements.</td>
<td>State</td>
<td>✓</td>
</tr>
<tr>
<td>5. Oppose cost shifts from Federal or State budgets, and California Public Utilities Commission (CPUC) jurisdictional utilities through active participation in CMUA and NCPA legislative activities.</td>
<td>Federal, State, and CPUC</td>
<td>✓</td>
</tr>
<tr>
<td>6. Advocate for and request State and Federal grants for local and regional applications of energy efficiency, conservation, renewable resources, and recycled water projects.</td>
<td>Federal and State</td>
<td>✓</td>
</tr>
</tbody>
</table>
WATER

Goals

1. Increase the security and reliability of the regional water system owned and operated by the San Francisco Public Utilities Commission (SFPUC).

2. Maintain the provision of an environmentally sustainable, reliable supply of high quality water at a fair price.

3. Support ability of municipal utilities to develop and manage their own public-benefit programs and retain control of ratemaking options, including the imposition of non-volumetric customer meter or infrastructure charges for water service.

4. Support conservation and recycled water programs in order to minimize the use of imported supplies.

Trends

1. Increasing awareness of impacts to fisheries of water diversions from rivers and, especially, the San Francisco Bay and Delta.

2. Increasing water and power alliances.

3. Increased interest from environmental groups in long-term demands and conservation and recycled water plans.

Venue

State

Local, Regional, and State

Legislative Priorities

<table>
<thead>
<tr>
<th>Venue</th>
<th>Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local and Regional</td>
<td>✔</td>
</tr>
<tr>
<td>State</td>
<td></td>
</tr>
<tr>
<td>Local, Regional</td>
<td>✔</td>
</tr>
</tbody>
</table>

1. Advocate goals through active participation in the Bay Area Water Supply and Conservation Agency (BAWSCA) with support from Palo Alto staff for BAWSCA and the San Francisco Bay Area Regional Water System Financing Authority (RFA).

2. Participate in California Urban Water Conservation Council (CUWCC) Best Management Practice (BMP) revisions and development to ensure that proposals are reasonable, achievable, and cost-effective.

3. Advocate to ensure that legislative actions regarding the Hetch Hetchy Reservoir include the following requirements:
   - timely rebuilding of the regional water system;
   - maintains the quality of delivered water;
   - minimizes any increase in the cost of
### Legislative Priorities

|---------------------------|----------------------|-----------------|-------------------|

- water;
- creates no additional exposure to more frequent or severe water shortages;
- supports the existing water system and its operation.

4. Advocate for interpretations or implementation of Water Code provisions (such as those enacted by AB 1823 (2002), AB 2058 (2002) and SB 1860 (2002)) that maintain or reinforce the authorities and protections available to the City and BAWSCA members outside of San Francisco.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local, Regional, and State</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

5. Support provision of sufficient resources for BAWSCA to enable it to advocate for:
- an environmentally sustainable, reliable supply of high quality water at a fair price;
- preservation of Palo Alto’s existing contractual water allocation and transportation rights on the SFPUC Hetch Hetchy system;
- regional planning for conservation and recycled water projects.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local and Regional</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

6. Support infrastructure security and reliability including equitable allocation of funds for increasing the security of infrastructure, development of a regional crisis management plan, and an interconnection between the SCVWD West Pipeline with the SFPUC’s Bay Division Pipelines 3 and 4.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional, and State</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
GAS

Goals

1. Increase the security and reliability of the gas supply and transmission infrastructure. This includes retaining access to intra- and interstate gas transmission systems to reliably serve customers.

2. Protect/enhance the ability of municipal utilities to develop their own public-benefit programs, alternative gas supplies, and rate structure.

3. Support efforts to reduce greenhouse gas emissions and protect the environment.

4. Preserve just and reasonable utility rates/bills.

Trends

1. Increasing emphasis on energy efficiency and solar hot water heating programs.

2. Conflicting goals to increase domestic gas supplies while maintaining the environment and restricting domestic drilling.


5. Favorable economics for gas pre-pay transactions.

Venue

State

Federal and State

State

Local

Federal

Legislative Priorities

Venue

Goals

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Advocate most of these goals mainly through the American Public Gas Association (APGA) with minor support from Palo Alto staff.</td>
<td>Primarily federal with minor advocacy at state level</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>2. Support increased production/incentives for renewable gas supplies.</td>
<td>Federal and State</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>3. Support incentives for energy efficiency measures.</td>
<td>Federal and State</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>4. Support maintenance of incentive for municipal utilities to enter into pre-pay transactions for gas supplies.</td>
<td>Federal</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>
ELECTRIC

Goals

1. Protect ability of municipal utilities to exercise local flexibility and oversight over matters impacting customer service, programs, and rates.
2. Protect/enhance the reliability and security of infrastructure.
4. Preserve just and reasonable utility rates/bills.

Trends

1. Local, State and Federal focus on climate change.
2. Increasing legislation for GHG emissions.
3. Increasing commodity prices and price volatility.
4. Continuing recovery of Salmon and crisis in Delta Smelt.
5. Recognition of the need to build more transmission.
6. Increasing recognition of the need for regional grid solutions.
7. Increasing regulation over procurement practices for resource adequacy and grid reliability.
8. Increasing pressure from state and federal interests to design one-size-fits-all solutions to reliability issues.
9. Western: More agency and legislative reception to cost reduction proposals.
10. Decreasing Central Valley Project (CVP) electric resources.
11. Increased FERC decision-making and jurisdiction over grid reliability from EPA 2005.
12. Pay-as-you-go requirements for Federal bills putting pressure on bills that increase costs or reduce revenues.
13. Increasing fragmentation of state energy policies, such as conflicts between grid reliability requirements and the state’s mandates on renewable portfolio standards (RPS).
14. Continued attempts to erode local flexibility and oversight.
15. Continued efforts to force municipal resource and environment policies in line with state programs for IOUs regarding RPS, energy efficiency and local reliability requirements.
16. Increasingly onerous and prescriptive requirements (e.g., SB1, AB2021).

Venue

Federal, State, Local
Federal and State
Federal and State
Federal and State
Federal and State
Federal and State
Federal and State
Federal, State
Federal
Federal
State
State
State
**Legislative Priorities**

<table>
<thead>
<tr>
<th>1. Advocate goals through Northern California Power Agency (NCPA), California Municipal Utilities Association (CMUA), American Public Power Association (APPA), Transmission Agency of Northern California (TANC), and Bay Area Municipal Transmission Group (BAMx) with support from Palo Alto staff to speak with a coordinated voice.</th>
<th>Venue</th>
<th>Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal and State</strong></td>
<td>1. Local Control</td>
<td>2. Reliability</td>
</tr>
<tr>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

| 2. Support/advocate for legislation/regulation that permit solutions tailored to local needs through NCPA and CMUA on:  
- clean distributed generation and cogeneration projects, and standards for connecting such resources to the local distribution system;  
- renewable portfolio standards;  
- provision of reliable and competitively priced service to customers;  
- allocation of public benefit funds (as allowed in AB1890 (1996)). | Federal and State | **Goals** |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

| 3. Support/encourage transmission, generation, and demand-reduction projects and solutions that:  
- enhance/ensure reliability;  
- ensure equitable cost allocation (including protection against imposition of state-owned electric contract costs on municipal utility customers);  
- improve procurement flexibility (e.g. resource adequacy rules that ensure reliability and provide flexibility or use of “Green Tags” in meeting State renewable portfolio standards);  
- improve market transparency (particularly transparency of IOU’s transmission and procurement planning and implementation activities);  
- lower the environmental impact of the Bay Area and the Peninsula. | Local, State, and Federal | **Goals** |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
4. Advocate for Congressional, legislative, or administrative actions on matters impacting costs or operations of the Western Area Power Administration such as:
   - support of Congressional Field Hearings to explore modernizing flood control strategies, river regulation and generation strategies at CVP plants to enhance generation, water delivery, flood control and fisheries;
   - protection of the status of Western Power Marketing Administration (PMA) and cost-based rates;
   - provisions for preference customers first take at land available with economic potential for wind farms.

<table>
<thead>
<tr>
<th>1. Local Control</th>
<th>2. Reliability</th>
<th>3. GHG Reduction</th>
<th>4. Cost Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal, State and Regional</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

5. Work with California Independent System Operator (CAISO) or through FERC:
   - to give buyers of renewable intermittent resources relief from imbalance penalties;
   - to promote financial and operational changes that result in timely and accurate settlement and billing;
   - to protect value of existing contracts and local regulatory approvals of such contracts.

<table>
<thead>
<tr>
<th>1. Local Control</th>
<th>2. Reliability</th>
<th>3. GHG Reduction</th>
<th>4. Cost Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal and State</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
ITEM 1: ACTION ITEM: Utilities' Legislative Priorities Report:

Staff answered questions on the Utilities' Legislative Priorities for 2008. Director Valerie Fong opened by stating that ongoing monitoring activities by staff were not included in the legislative priorities. Fong also noted an error on page one: item two of the legislative trends should be "east/west coast differences" not "east/west cost differences".

Regarding the Water Legislative Priorities No. 5, Commissioner Bechtel asked if Palo Alto has any ownership or contractual rights on the SFPUC Hetch Hetchy system. Assistant Director Jane Ratchye replied that the City does not have rights per se, but that the SPPUC has an obligation to provide water deliveries to the City and its water customers.

Commissioner Bechtel then followed up on the Water Legislative Priorities and asked if Palo Alto had ever worked with other local agencies in its advocacy efforts for water utility issues, and should there not be an item under the Water Legislative Priorities allowing such actions. Staff stated that such collaboration occurs with BAWSCA and pointed out 1) that the list was intended to identify priority issues and did not necessarily preclude other actions; and 2) that under the general "All Utilities" section there is a Legislative Priority to advocate for goals through joint action efforts.

Commissioner Melton noted that there were a large number of legislative priorities listed and could staff indentify two or three of the most pressing issues. Senior Resource Planner Debra Lloyd
responded that Green House Gas (GHG) regulation and the allocation of emission allowances would continue to be a major issue, along with efforts to keep municipal utilities independent from CPUC regulation and program requirements.

Commissioner Keller asked for further explanation of the conflicts between energy sectors over GHG controls. Staff explained that while the State had set goals for reducing GHG emissions, how these reductions would be “shared” amongst industry sectors (e.g., the reductions that the electricity sector will have to make, vs. manufacturing, vs. transportation) has yet to be settled. It can be expected that each sector will try and minimize their costs of compliance, but reducing the burden on one sector will necessarily shift the burden, or cost, to other sectors. Even within the electricity sector there are conflicts between utilities with large hydro portfolios and those with relatively large amounts of coal in their portfolios (which generally splits geographically between the hydro intensive utilities in the north of the State and the more coal intensive utilities in the south). The model currently being developed in California would allocate emission allowances between Load Serving Entities (LSEs that include the large IOUs such as PG&E and municipally owned utilities). The method for allocating allowances will have significant impacts on the cost of compliance for each individual LSE. For example, if allowances are allocated based on retail sales LSEs, such as Palo Alto, with a lot of hydro electricity or other zero GHG emitting resources, could be allocated more allowances than needed to cover their emissions and will be able to sell these excess allowances and use the revenue to help pay for further reductions in GHG emissions from their portfolios, thus giving recognition for early investment in clean generation. If allowances are based on past emissions then the LSEs that have had the highest emissions rates will receive the most allowances, and, depending on the base period that is used to determine the past emission rate, the historically lower emitting LSEs may have to purchase allowances from the higher
emitters. There are arguments for and against both models, but it comes down to how will the state pay to reach the GHG goals and how will the costs be allocated between and within industry sectors? Similar conflicts are likely to arise between the coal intensive and hydro intensive states under a federal mandate to reduce GHG emissions.

Commissioner Bechtel moved to recommend that the City Council approve the Utilities' Legislative Priorities. Commissioner Keller seconded the motion. The motion passed unanimously.