TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DATE: APRIL 28, 2008

SUBJECT: APPROVAL OF TWO CONTRACTS WITH 3DEGREES GROUP, INC. FOR (1) ELECTRIC GREEN ENERGY PROGRAM SERVICES IN AN AMOUNT NOT TO EXCEED $1,200,000 FOR A TERM OF UP TO FIVE YEARS, AND (2) FOR NATURAL GAS GREEN ENERGY PROGRAM SERVICES IN AN AMOUNT NOT TO EXCEED $250,000 FOR A TERM OF UP TO FIVE YEARS

RECOMMENDATION

Staff recommends that City Council:

1. Approve and authorize the City Manager to execute the attached contracts with the 3Degrees Group, Inc. for Electric and Natural Gas Green Energy Program Services; and
2. Authorize the City Manager to extend the contract annually for up to four additional years, subject to Council approval of funding.

BACKGROUND

The City established PaloAltoGreen in April 2003 (CMR:230:03). Within two years, the program achieved the highest participation rate of any voluntary green power program in the nation, reported by the U.S. Department of Energy’s National Renewable Energy Laboratory. The program continues to maintain its number one status and recently surpassed the 20% participation rate milestone. PaloAltoGreen sales are about 4% of all electric sales. As part of its Climate Protection Plan (CMR:435:07), the City has set a goal of increasing this to 5% of annual energy sales by 2010 and 10% by 2020, and developing and implementing a voluntary non-fossil natural gas program, also included in the Gas Utility Long-Term Plan (approved Feb 11, 2008 CMR:134:08).

DISCUSSION

The current contract for marketing support and program administration for the City of Palo Alto’s Green Pricing Program, PaloAltoGreen, will expire on April 30, 2008. In December 2007, the City issued a Request for Proposals (RFP) seeking proposals from organizations interested in providing marketing and administration services for both the existing electric green power program, PaloAltoGreen, and in developing a similar program for biogas customers.
Selection Process
The RFP was mailed to 28 firms and organizations that might have this service or know of companies who do. The list included: Green Power Network, California Municipal Utilities Association, the Center for Resource Solutions, Northern California Power Agency, California Energy Commission, and Hometown Connections of the American Public Power Association. These firms are all known to offer relevant services. In addition, the RFP was advertised via the Green Power Network. Two firms responded to the RFP.

The primary goal of the two programs is to improve customer satisfaction by achieving high participation rates, measured as a percentage of customers participating in the program. A staff committee reviewed each firm's proposal, qualifications and submittal in response to the RFP relative to the following criteria: references; qualifications of principals and staff; familiarity with the City; financial stability; price range; completeness of proposal; proposal clarity; methodology; marketing support; program development; and completeness of response to scope of services.

The committee recommended the use of a blended approach using both consultant expertise and in-house resources. This blended approach reduces costs for the program by increasing participation rates and reducing the need for additional internal staffing, as well as reducing the total cost of sales support, marketing communication materials, and program advertising.

Based on the rankings of the selection committee, 3Degrees Group, Inc. (3Degrees), a California energy service provider serving retail corporate, non-profit and residential customers with renewable energy certificates as well as verified emissions reduction credits, was selected as the sole consultant for the electric and gas programs. Due to its history in creatively marketing highly performing voluntary green energy programs, 3Degrees is the most qualified to provide these services cost-effectively in such a highly specialized field. 3Degrees provides services for five green pricing programs or similar programs across the U.S. 3Degrees will provide services in the following areas:

1. Marketing support and Green-e energy certification;
2. Renewable energy certificates, verified emission reduction credits; and
3. Development and implementation of a voluntary natural gas green energy program.

RESOURCE IMPACT
Since PaloAltoGreen is a cost pass-through voluntary program, there is no net impact on City financial resources. Extra costs paid by customers for the program through their rates will go to fund the purchase of renewable energy and any renewable energy credits required to achieve 100% of customer energy usage. No change in Council approved fees for PaloAltoGreen are requested at this time. Funds for FY07/08 and 08/09 are included in the electric and natural gas fund budgets. Funds for subsequent years will be subject to appropriation of funds in subsequent budgets.

Currently over 20% of electric customers are participating in PaloAltoGreen. Staff anticipates that this will increase to 25% to 30% during the course of the contract. For the PaloAltoGreen
Biogas program, a recent survey of current PaloAltoGreen customers indicated that roughly
60% of the respondents would be likely to join. Based on these results, staff anticipates that 4%
to 10% of natural gas customers would likely participate, leading to additional premium revenues
and equivalent expenditures of up to $50,000 annually.

Table 1. Staff five-year estimate of contract cost and retail electric revenue.

<table>
<thead>
<tr>
<th>MWhs</th>
<th>Palo Alto Revenue</th>
<th>3Degrees Contract</th>
<th>Net PA Revenue</th>
<th>Average % Enrolled</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 07-08</td>
<td>49859</td>
<td>$ 747,884</td>
<td>$ 261,759</td>
<td>$ 486,125</td>
</tr>
<tr>
<td>FY 08-09</td>
<td>57338</td>
<td>$ 860,067</td>
<td>$ 172,013</td>
<td>$ 688,053</td>
</tr>
<tr>
<td>FY 09-10</td>
<td>63072</td>
<td>$ 946,073</td>
<td>$ 182,215</td>
<td>$ 756,859</td>
</tr>
<tr>
<td>FY 10-11</td>
<td>68748</td>
<td>$ 1,031,220</td>
<td>$ 206,244</td>
<td>$ 824,976</td>
</tr>
<tr>
<td>FY 11-12</td>
<td>72185</td>
<td>$ 1,082,775</td>
<td>$ 216,555</td>
<td>$ 866,220</td>
</tr>
<tr>
<td>FY 12-13</td>
<td>75794</td>
<td>$ 1,136,910</td>
<td>$ 227,382</td>
<td>$ 909,528</td>
</tr>
</tbody>
</table>

Table 2. Staff five-year estimate of contract cost and retail gas revenue.

<table>
<thead>
<tr>
<th>Therms</th>
<th>Palo Alto Revenue</th>
<th>3Degrees Contract</th>
<th>Net PA Revenue</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 08/09</td>
<td>519800</td>
<td>$ 571,780.00</td>
<td>$ 31,188.00</td>
<td>$ 540,592.00</td>
</tr>
<tr>
<td>FY 09/10</td>
<td>1039600</td>
<td>$ 1,143,560.00</td>
<td>$ 62,376.00</td>
<td>$ 1,081,184.00</td>
</tr>
<tr>
<td>FY 10/11</td>
<td>1559400</td>
<td>$ 1,715,340.00</td>
<td>$ 93,564.00</td>
<td>$ 1,621,776.00</td>
</tr>
<tr>
<td>FY 11/12</td>
<td>2079200</td>
<td>$ 2,287,120.00</td>
<td>$ 124,752.00</td>
<td>$ 2,162,368.00</td>
</tr>
<tr>
<td>FY 12/13</td>
<td>2599000</td>
<td>$ 2,858,900.00</td>
<td>$ 155,940.00</td>
<td>$ 2,702,960.00</td>
</tr>
</tbody>
</table>

POLICY IMPLICATIONS
The recommended contract supports the Council-approved Gas Utility Long-Term Plan, the
Long-term Electric Acquisition Plan, and the Comprehensive Plan Goal N-9. Furthermore,
renewable energy plays an important role in achieving greenhouse gas reduction targets reflected
in California Climate Action Team goals and AB 32 (California Global Warming Solutions Act
of 2006), and identified in the Palo Alto Climate Protection Plan.

ENVIRONMENTAL REVIEW
These services do not constitute a project for the purposes of the California Environmental
Quality Act (CEQA) pursuant to California Public Resources Code Section 21065, thus, no
environmental assessment is required.
ATTACHMENT

A. Agreement Between the City of Palo Alto and 3Degrees Group, Inc. for Professional Services

PREPARED BY:  
BRIAN WARD  
Utilities Account Representative  
JOYCE KINNEAR  
Manager, Utilities Marketing Services

DEPARTMENT HEAD:  
VALERIE O. FONG  
Director of Utilities

CITY MANAGER APPROVAL:  
EMILY HARRISON  
Assistant City Manager