I. Review policy issues coming before the UAC and City Council in Fiscal Year 2012

The following issues are already planned to come before the UAC and the Council in the coming year.

There are several policy issues that the Council has recently, or soon will, take up related to Utilities. In March 2011, Council approved the Gas Utility Long-term Plan (GULP) and the Long-term Electric Acquisition Plan (LEAP) and, on July 18, Council will consider the new Utilities Strategic Plan. In addition, the Council recently adopted updated long-term gas and electricity energy efficiency goals and the Urban Water Management Plan with updated water savings goals. These plans contain several tasks and initiatives that will come before the UAC and the Council in Fiscal Year (FY) 2012:

1. **Renewable Energy and/or Carbon Goal:** The City’s goal, as articulated in the LEAP, is for renewable energy sources to supply 33% of the City’s electric needs by 2015 while limiting the rate impact to 0.5 cents/kWh. Renewable supply acquisitions since 2003, in addition to aggressive energy efficiency goals and programs to reduce energy demands, are expected to allow the City to achieve the LEAP goal in the near future. The City’s renewable energy supplies, along with its hydroelectric contracts, result in a very “clean” (low carbon) electric portfolio. In November, the UAC is scheduled to review revisions to the goals in the broader context of achieving the greenhouse gas (GHG) emissions reduction goals articulated in the
City's Climate Protection Plan. A LEAP initiative requires staff to evaluate the establishment of a GHG goal for the electric supply portfolio. This discussion will include consideration of the State's activities to develop regulations to implement a cap-and-trade system for GHG emissions. By the end of the fiscal year, the UAC will consider another LEAP task to review the advisability of continuing the award-winning voluntary PaloAltoGreen program as the portfolio's carbon-free resource content climbs.

2. **Gas Purchasing Strategy:** At its July 20 meeting, the UAC will consider staff's new proposal to implement a major change to the way the City purchases natural gas. The change would lead to gas retail rates which change monthly based on the market price of gas. Following the UAC's review, the Finance Committee and the Council will be asked to provide policy direction on this strategy.

3. **Fiber Optic Fund:** City Council directed staff to explore the use of the Fiber Optics Fund reserve (approximately $11 million by the end of FY 2012) to independently proceed with a phased build-out of the existing fiber optic backbone network. In June, the UAC reviewed recommendations prepared by consultants retained to develop a business plan for the Citywide Ultra High-Speed Broadband System Project. The two primary components of the business plan are: 1) evaluation of potential fiber network extensions; and 2) preparation of a phased “conceptual plan” for Fiber-to-the-Premise (FTTP). The UAC and Council will review the business plan in the fall of 2011.

4. **Calaveras Reserve:** Reviewing the purpose and use of this reserve is an initiative in the proposed Utilities Strategic Plan. The UAC is scheduled to consider a change to the current reserve guidelines at its July 20 meeting.

5. **Test Bed/Innovation Fund:** This fall, the UAC is set to take up the question of how much money the City is willing to allocate to promote emerging technologies.

6. **Recycled Water Project:** Staff is evaluating the expansion of the existing recycled water delivery system. The Environmental Impact Report (EIR) for the project is expected to be considered by the Council by the end of the year. After completion of the EIR, the project may be eligible for state and federal grants and loans, which will be required for the project to be cost effective. Staff estimates that a recommendation to proceed (or not) with the project may be developed by the end of FY 2012.

7. **Electric Utilities Undergrounding:** The underground program is continuing in areas that meet AT&T's criteria for full participation. AT&T's current criteria does not allow for undergrounding in most residential neighborhoods. The UAC is scheduled to discuss these constraints and the potential development of a new set of policies related to continuation of the undergrounding program.

II. **Discuss other potential issues for UAC review**

With the understanding that both the UAC and staff have workload and resource constraints, the UAC is interested in learning if there are additional issues or questions that should be priorities for the UAC in the coming year, but are not already on the work plan. Here are examples:

1. **Water and Energy Efficiency:** The City's historic focus has been on incenting customers to save resources by offering a broad range of efficiency programs. In
addition, recent updates to the building codes have increased water and energy efficiency requirements for new buildings and remodeling projects. The City could move to increase the requirements for existing buildings by taking a number of steps including: 1) mandating disclosure of a building’s past energy use upon change of title; 2) requiring property owners to implement specific measures to reduce energy and water use upon change of title; and 3) requiring commercial building owners to provide visibility of building energy use. These measures could result in significant energy and water savings since much of the community’s energy is used in homes and buildings.

2. **Carbon content of the gas portfolio**: Reducing the carbon content of the gas portfolio would increase costs (and rates) since renewable gas supplies cost significantly more than fossil-fueled based natural gas. Alternately, promotion of fuel-switching from gas to electric to reduce gas needs could achieve significant GHG reductions for the City since the electric portfolio is relatively clean (with a low carbon content).

3. **Conservation Rates Guideline**: Incorporation of conservation costs or incentives with rates for Utilities services.

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