TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: UTILITIES
DATE: JANUARY 28, 2002 CMR: 122:02
TITLE: UTILITIES DEPARTMENT LEGISLATIVE PRIORITIES

This is an informational report and no Council action is required.

BACKGROUND
The Utilities Department advocates energy and water-related issues at federal and state legislative forums in order to meet its strategic mission of building value for its citizen owners, providing dependable returns to the City and citizens of Palo Alto and being the preferred full service utility provider while sustaining the environment. These priorities are meant to be very broad as the issues may change during the year, thus requiring mid-course corrections. These priorities were presented to the Utilities Advisory Commission (UAC) at its December 5, 2001 meeting. Comments from the UAC are included in this report.

As in past years, action on some of these priorities may require active involvement of Palo Alto elected officials. Elected official participation in Washington D.C. and in Sacramento has proved invaluable during last year’s energy crisis. For example, progress on building Path-15, a congested electric transmission corridor in Central California, was influenced by the active advocacy of Palo Alto’s elected officials in conjunction with the efforts of elected officials from other Northern California cities. There was also increased responsiveness from San Francisco Public Utility Commission related to rebuilding the regional water system when Palo Alto elected officials took a lead role in meeting with the mayor of San Francisco last year.
Some of the issues being considered could have a tremendous impact on the cost and quality of utility commodities. For example, increasing the speed at which the SFPUC repairs the regional water delivery system could result in tens of millions of dollars of savings to Palo Alto residents from increased reliability and lower costs. Another example is maintaining the Western contract at cost-based rates; in the last year, Palo Alto customers saved more than $50 million.

**DISCUSSION**
The following are the priorities, resources and venues related to the Utilities Department legislative priorities.

**Water**

*Priorities*
1. Advocate for regional system governance that enhances the reliability of the water supplies for Palo Alto citizens.

2. Work with Assemblymen Lou Papan, Joe Simitian, and others who are proposing legislation in the next session (Jan/Feb 2002) to speed completion of needed improvements and change governance as necessary for more effective regional system management

3. Support allocation of funds for increasing the security of infrastructure

4. Support the development of a regional crisis management plan since fixes to the regional system will take years to implement and there are great risks in the intervening time

5. Support increased state and federal grant funding for increased water efficiency projects.

*Resources*
1. Advocate positions mainly through the Bay Area Water Users Association with additional support from Palo Alto staff

2. Advocate that joint resources through BAWUA be increased to support the advocacy (and especially the legislative) efforts underway
3. Ensure the support and active involvement of elected officials since that is one of the only sources of power BAWUA agencies have given our contract status with San Francisco and lack of governmental representation

4. Leverage the influence of trade groups and individual customers

Venue: Mainly at the state level with some advocacy at the federal level

Gas

Priorities
1. Support efforts to clarify IRS regulations to allow for pre-pay of gas commodity purchases using tax-exempt financing.
2. Support allocation of funds for increasing the security of infrastructure
3. Support ability of municipal utilities to develop their own public-benefit programs
4. Support efforts to increase the reliability of the gas transmission system
5. Protect value of existing contracts and regulatory regimes in a PG&E Bankruptcy Reorganization Plan
6. Support increased state and federal grant funding for gas efficiency projects.

Resources
1. Advocate these positions mainly through the American Public Gas Association with minor support from Palo Alto staff
2. Involve elected officials
3. Leverage the influence of trade groups and individual customers

Venue: Primarily at the federal level with negligible advocacy at the state level

Electric

Priorities
1. Protect status of Western PMA and cost-based rates
2. Protect value of existing contracts and regulatory regimes in a PG&E Bankruptcy Reorganization Plan
3. Improve reliability and equitable cost allocation of the regional electric system:
(a) Special emphasis on encouraging transmission, generation and demand-reduction projects that enhance the reliability of the Bay Area and the peninsula.

(b) Promote development of Regional Transmission Organizations (RTO’s) that would increase reliability and reduce market power

(c) Promote legislation that decreases the likelihood of congestion zones being created in the Bay Area

4. Protect against imposition of state-owned electric contract costs on municipal utility customers

5. Protect ability of municipal utilities to exercise local control
   (a) Support ability of municipal utilities to set their own renewable portfolio standards
   (b) Support ability of municipal utilities to develop their own public-benefit programs
   (c) Allow for municipal utilities to develop their own policies regarding the appropriate interconnection and economic standards in this area

6. Support allocation of funds for increasing the security of infrastructure

7. Promote funding for distributed generation

8. Support state and federal grant funding for increased electric efficiency projects.

Resources
1. Advocate mainly through Northern California Power Agency, California Municipal Utilities Association, and American Public Power Association, with additional support from Palo Alto staff

2. Leverage the influence of trade groups and individual customers

3. Involve elected officials

Venue: Active at both federal and state level

**RESOURCE IMPACT**
There is no incremental resource impact associated with advocating these legislative priorities.
POLICY IMPLICATIONS
These priorities are consistent with the Council approved Utilities Strategic Plan.

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