



# FINANCE COMMITTEE MINUTES

Regular Meeting  
Tuesday, August 20, 2013

Chairperson Burt called the meeting to order at 7:00 P.M. in the Council Chambers, 250 Hamilton Avenue, Palo Alto, California.

Present: Burt (Chair), Schmid, Shepherd

Absent: Berman

## AGENDA ITEMS

1. Utilities Advisory Commission Recommendation that the City Council Adopt a Resolution Approving Modifications to the PaloAltoGreen Program and Associated Electric Rate Schedules and Directing Staff to Develop a PaloAltoGreen Gas Program.

Valerie Fong, Director of Utilities, introduced Senior Resource Planner, Monica Padilla to provide an overview of the Staff discussions on PaloAltoGreen.

Monica Padilla, Senior Resource Planner, reviewed the Staff proposals regarding the PaloAltoGreen Program by terminating or modifying the program. The Staff Report included 3 options for modification. Option 1; to terminate the program altogether, 2; to suspend the portions of the program called the full-needs rate and reduce the commerce block rate from 1.5 cents per kWh to 0.2 cents per kWh, and 3; to modify the program for the full-needs customers by changing their rate from 1.5 cents per kWh to 0.2 cents per kWh and purchase only for the large hydro portion of their needs. Staff requested the Finance Committee (Committee) ask Council to direct Staff to develop a PaloAltoGreen Gas Program. The goal of the new program would be to reduce the carbon associated with the natural gas usage. The second recommendation was for Council to direct Staff to return with a plan to allocate excess or accumulative revenues associated with PaloAltoGreen to date. She reviewed the drivers behind the requested modifications to the program; the City would achieve carbon neutrality by the end of 2013, the renewable standard portfolio had been increasing since the initial entrance into renewable long term contracts; by the year 2017 the expectation was to be at 47 percent, and the cost of purchasing renewable energy certificates

# MINUTES

(REC) in California has reduced significantly. Staff had reviewed other options outside of changing the program including solar programs, the promotions of fuel switching or electric vehicles. Staff was directed internally to build a solar sample program and present it to the Utilities Advisory Commission (UAC) for recommendations prior to submission to the full Council. Terminating the program allowed the City to exit on a high note; the program was a national leading program in terms of voluntary renewable programs. One of the issues with terminating the program would be the loss of the national recognition of branding if the program was terminated without reusing the program for something else. Termination also eliminated the option for customers who prefer to say they maintain 100 percent renewable energy.

Council Member Schmid asked for clarification on what the divisions were within the UAC on the matter when it was brought before them for recommendation.

Ms. Fong believed the split amongst the Commissioners was whether or not to maintain the PaloAltoGreen program for residential and commercial customers. There was uncertainty whether the customers had a clear understanding of what they were participating in with the program. The large discussion was whether it was best to stop the program or continue it at a much reduced rate particularly for the residential customers.

Jane Ratchye, Assistant Utilities Director, stated there was a group of Commissioners wanting to alter PaloAltoGreen to a solar program for the schools while the other Commissioners felt they did not have the preview. There was mention of utilizing the accumulative revenues as seed money to start a solar program.

Ms. Padilla mentioned another concern was with greening up large hydro and the message that may send to the community. It was not considered eligible under the state's definition of renewables although it was a renewable resource.

Council Member Schmid understood it was difficult to request customers pay for a renewable energy source that was not considered by the State as a renewable source such as large hydro. From an economist view Palo Alto's role in the market could be harmful to others by continuing to purchase more than necessary resources which then raises the cost for others with respect to purchasing more REC's. The split between full-needs (residential) and blocks (commercial) was how to adequately request donations from both types of participants when the residential side not receiving a benefit but business's comparing the donation cost to their profits. He recalled the

# MINUTES

PaloAltoCLEAN program was a property owner/developer only program. The participants were receiving a subsidy because the rate given was high while they would then be asked to donate more funds. The suspension of the full-needs program for residential customers but requesting donations and continuation of the commercial block where they receive an incentive created a split amongst the division of participants. He felt the clearest case would be to work toward an innovative solution that did not affect the renewable market that did not get bogged down in state definitions. Another issue with the REC's was conversion technology was not included although several southern counties and cities made recommendations to the Governor to assist with gas programs.

Vice Mayor Shepherd mentioned the name on Facebook had changed from PaloAltoGreen to Palo Alto Utilities. She felt that was premature and requested it be reversed.

Ms. Padilla stated her understating of the name change was PaloAltoGreen was a program specifically for Palo Alto participants while the idea was to include all of the sustainability programs the Utilities Department had including energy efficiency.

Vice Mayor Shepherd clarified the program has not changed just the name.

Ms. Padilla said that was correct.

Vice Mayor Shepherd stated she agreed with the UAC recommendation to suspend PaloAltoGreen's full-needs program but maintain the commercial customer block program and reduce the price to 0.2 cents per kWh. She felt if the commercial customers were receiving an added value she did not see the benefit of removing it. She noted there was \$800,000 in the program and she asked how the program started making money when it was down until recently.

Ms. Padilla stated the purchase price of certificates dropped which provided a revenue stream. In 2013 the Utilities Department converted the source of the REC to local California solar which cost more than the traditional wind REC's they had been purchasing. The cost was low compared to the rate being charged.

Vice Mayor Shepherd questioned how in 2011 the revenue was \$80,000 and two years later \$800,000. She asked if the intent was to address the revenue going forward with the development of PaloAltoGreen.

# MINUTES

Ms. Fong felt the UAC attempted to address the revenue in advance by suggesting putting it aside to use as seed money for the program or other programs. Although the Utilities Department agreed with the seed money concept there was a concern with taking the funds and putting it towards an unknown.

Vice Mayor Shepherd said she was impressed by the percentage of people who had bought into the program. She was interested in exploring the Feed-in-Tariff such as solar panels on parking garages and local renewables. Her concern with the recommendation of PaloAltoGreen Gas was scale. It was important to model how a community could have a renewable or carbon neutral portfolio. She was not certain how flipping renewable power into gas in order to neutralize it was the correct manner to transfer people off of gas.

Ms. Padilla believed the intent of developing a PaloAltoGreen Gas program as a separate program. The manner in which to neutralize the gases in one's home or business would be through the use of environmental offsets which are different than REC's; they were an environmental product readily available and used for compliance purposes throughout the country.

Vice Mayor Shepherd asked if it was aligned with the same type of transition as wind power going to electricity.

Ms. Padilla stated yes, the City was not attempting to convert electricity not natural gas.

Vice Mayor Shepherd clarified it would be a completely new and separate program from PaloAltoGreen.

Ms. Padilla answered yes.

Vice Mayor Shepherd asked for clarification on recommendation for the solar donation for schools.

Ms. Padilla said the solar recommendation was completely separate from the PaloAltoGreen electricity or gas programs. Staff's intent was to bring before the UAC and Council by the close of 2013 was a Solar Strategic Plan which would address all of the areas where the City could develop solar power in Palo Alto.

Chair Burt stated his initial reaction was to support recommendation 1 to terminate the PaloAltoGreen program because he felt the City had achieved the full success imaginable. The City consumers were receiving carbon neutral electricity without paying additional funds. He asked for an update

# MINUTES

on the possibility of no rate impact to the rate payers.

Ms. Ratchye clarified there was a cost impact but it was minimal and she believed Council adopted a limit.

Chair Burt stated he was aware of the limit but he asked what that amount was.

Ms. Ratchye said Staff had not completed the cost evaluation but there would be an increased cost because the City was purchasing a product they would not have purchased otherwise. The impact would be under 0.15 cents per kWh.

Chair Burt confirmed there would be no impact above what was authorized under the historic policy.

Ms. Fong clarified the 0.15 was different from the half cent for the City's Renewable Portfolio Standard (RPS). There was a different threshold set for the carbon neutral and Staff did not anticipate a rate increase. The rates were set for Fiscal Year 2013 and would be reviewed again during the next budget cycle to see if there would be a different rate.

Chair Burt asserted renewables provided a potential for better rate stability over other market rate products. The question of what to do with surplus funds came about because of the rapid reduction in the cost of renewables. The understanding of the subscribers was they paid a higher rate for the REC's which would offset for their entire bill. The City unintentionally collected additional funds which belong to the consumer and they should have a say in the distribution of them. He suggested an alternative to allow the funds to stay in the program at the present time with the understanding of their eligibility to be rolled into another program or to have the funds refunded.

Lalo Perez, Administrative Services Director, noted after review of the 2011 program year there was a negative and felt it may be appropriate to take the positives and negatives into account when making a decision.

Ms. Fong said the chart was reflective of the cumulative revenue so the projection was such that any negative numbers would have been forecasted. If the PaloAltoGreen program was to continue as is the Committee should consider there would be a continued over-collection.

Council Member Schmid asked how suspending the full-needs portion of the program and the excess funds were affected by Proposition 218.

# MINUTES

Ms. Fong acknowledged the Propositions would need to be re-worked; 218 was for water and Proposition 26 was for electricity.

Council Member Schmid asked is the City could suspend the program with the excess funds belonging top the participants.

Ms. Fong noted the program was completely voluntary and she was uncertain whether or not Proposition 26 applied.

Molly Stump, City Attorney, stated the area of discussion did not have language in the law. There was an argument with a voluntary program where in the aspect that it was not a utility where people needed to participate to have the necessities of life.

Council Member Schmid felt it would be more transparent to explain to the participants how the funds would be used and that the program was to be suspended prior to taking any action.

Chair Burt noted the cumulative net revenue of \$829,000 was through June of 2013. Presumably the amount has risen to approximately \$900,000 to date. He believed the local Solar Strategy Plan was an exciting direction for the City. Palo Alto currently had 100 percent carbon neutrality with solar throughout the community while many cities were ahead in one or more of those areas. The local renewable portion was not as visible or strong as the totality of the portfolio. There was a strong local interest in participating so reviewing the possibility of a solar coop or other means where the City used public or private lands to leverage the interest in the community with the right location that were cost effective. There were questions surrounding the PaloAltoCLEAN program that had not been fully addressed.

There was a significant program emerging from the Long Island Power regarding expansion of their clean program surrounding a greater resilience.

Ms. Fong mentioned the PaloAltoCLEAN Program was a power purchase type of program not a net metering program. She was not certain how the Long Island program was designed.

Chair Burt stated the Long Island Clean Program was a Feed-in-Tariff program. He was aware of proposals in different locations where they were beginning to monetize the value of shade. Solar panels provide shade to the buildings beneath them and in some cases it has been found that the revenue from monetizing the shade they have found revenue from the solar shade exceeds the revenues from the land lease. It has been noticed that

# MINUTES

the cost of HVAC has dropped significantly when they install solar panels on the roofs. He spoke of a trend nationwide regarding electricity consumption for commercial purposes and in particular for renewable energy generation which was onsite consumption of DC power. When solar power was created on a roof it was generated as DC then fed into the grid to convert to AC and it would be bought back and usually reconverted to DC for use. The discussion around the utilities commissions is the greatest power consumption by 2040 would be DC. There is far better energy efficiency when the solar was generated and used onsite as DC. He believes solar would be the strongest renewable source of energy in Palo Alto although the City should not limit themselves. Fuel cells have been recognized as a viable renewable resource. He wanted to ensure when Staff reviewed local solar strategy or local renewable strategy recognizing in all likelihood the predominant resource would be solar. The reason Palo Alto had a renewable program was because of the climate action plan. He noted there would be an increased electricity demand based on the increased volume of Electric Vehicles being purchased; hopefully the usage would be in the off peak hours. He felt it would be interesting to complete a poll asking customers what the propulsion of the next vehicle they were anticipating buying EV, gas, and hybrid. He asked Staff to return to the Committee prepared to discuss on fuel switching as the next direction.

Ms. Ratchye stated the Utilities Department was working with an intern who had been working on fuel switching. Her report will be reviewed by the UAC at the end of November.

Chair Burt asked if the report and UAC recommendation would be agendized for the Committee.

Ms. Fong said she was uncertain as of yet what the action would be.

Chair Burt felt the Committee should vet the report refer to the full Council.

Council Member Schmid said fuel switching was one of the options being discussed with the new PaloAltoGreen program.

Chair Burt clarified it could be but had not been confirmed.

Council Member Schmid asked whether it should be integrated into that general description.

Chair Burt said his understanding was the City was going to have some element of a plan as to whether it should be a part of PaloAltoGreen or not.

# MINUTES

Ms. Ratchye clarified Staff did not feel fuel switching was a good fit for PaloAltoGreen just yet. There was the intern and 3 groups of Stanford students working on proposed plans, each on a different aspect.

Chair Burt did not expect it would be a part of PaloAltoGreen but with the foundation of 100 percent carbon neutral electricity, the organic trend in the transportation vehicles going from gasoline to carbon neutral electricity, and natural gas.

Council Member Schmid said to put that information in the context of climate and the waste disposal process as the support element.

Chair Burt agreed that action had been approved by Council.

Ms. Fong noted there were additional input needed before Staff could move forward with a fuel switching plan or proposal and involvement from the City Attorney's office for assistance with the Proposition 26 language and legal matters.

Chair Burt added the entire legal and regulatory environment surrounding the changing conditions was in its infancy.

Ms. Stump agreed the City was entering into a new and cutting edge area where creativity was necessary to produce policy within a set of laws that have yet to be applied.

Chair Burt stated Staff and Colleagues should recognize this was a dynamic time in the climate, environment and the City. In the event the City was successful enough in growing their renewable supply then there would be a local grid balancing issue.

Ms. Stump added on the Proposition 26 issue it was helpful to have local legislators looking to partner with Palo Alto in an area where something needed to be put into place.

Chair Burt noted he was less apprehensive about Proposition 26. He understood it may be an issue but not the primary obstacle.

Vice Mayor Shepherd agreed solar energy could be better quantified; although, it was not asked to be part of recommendation.

**MOTION:** Vice Mayor Shepherd moved, seconded by Chair Burt to recommend the City Council adopt the following:



# MINUTES

1. A resolution:
  - a. Suspending the PaloAltoGreen Program's Full-Needs program for all electric customers; and
  - b. Reduce rates for PaloAltoGreen's Commercial Customer Block Program to \$2 per 1,000 kWh block, or 0.2 cents per kilowatt-hour (¢/kWh); and
2. Direct Staff to develop a PaloAltoGreen Gas program and return to the Utilities Advisory Commission and Council with program design details and rate recommendations with a target launch date of July 2014; and
3. Direct Staff to return with a recommendation by March 2014 on how to allocate surplus revenues, if any, associated with the PaloAltoGreen program.

Vice Mayor Shepherd felt the Motion did not address the excitement regarding local solar strategy which was an item she believed could have a positive outcome with an earlier rather than later trajectory. The Motion encompassed the three items that Palo Alto needed to tighten up with respect to the PaloAltoGreen Program. She felt the commercial customers should be notified with the option to opt out of the program. She agreed those participants who assisted in the contribution of the \$830,000 should have the opportunity to receive the benefits of the revenue. She asked who would supply the REC's to the commercial customers.

Ms. Fong stated the Environmental Protection Agency (EPA) was the responsible party for the certificates. The City offered the program that commercial customers could use to achieve their certificates from the EPA.

Vice Mayor Shepherd asked if the notice would be regarding the changes or suspension of PaloAltoGreen or would it be a request to rejoin.

Ms. Padilla said her understanding was the key commercial accounts had already been notified of the upcoming changes. Annually the key account representatives discuss and create a plan for the commercial accounts on the amount they needed to procure in order to meet the minimum qualifications in order to participate in the program.

Ms. Fong said with the Motion of recommending A2 acknowledged the reduced cost from \$15 to \$2.

Chair Burt noted Item C needed to have some alignment with the other actions being taken in the Motion. He asked what the timing would be in the

# MINUTES

process for addressing the development of the recommendation for disbursement of the excess funds and how the funds would be disbursed.

Ms. Ratchye stated her understanding of the Motion was to continue the commercial program and suspend the full-needs portion of the PaloAltoGreen program. Staff would return with a different concept for PaloAltoGreen program for the electric side. Once Staff was ready with the new program plans to share with the Committee or Council that would be the appropriate time to address the disbursement of the excess funds. She agreed the program would still be collecting funds from the commercial customers who were participating.

Chair Burt said there needed to be a determination of the length of time that was appropriate to hold the funds without disbursement. There would be two options; 1) wait and figure out the next generation of the program or 2) offer the current and previous customers a refund. He did not feel it was appropriate to leave that open ended.

Ms. Padilla noted Staff proposed to return before March 2014 with suggestions on the disbursement options. The timeframe was consistent with the time necessary to vet viable options.

Vice Mayor Shepherd asked if the thought was to poll current customers to see how they felt.

Chair Burt stated that was not part of his thought process. He confirmed March 2014 would be the presentation of the recommendation not the implementation.

Vice Mayor Shepherd asked how many residential customers were involved in the program.

Ms. Padilla said approximately 6,000.

Council Member Schmid said if the full-needs portion of the program was being suspended with \$800,000 plus in the account. The commercial block customer cost might be under market thereby taking a subsidy from the cumulative revenues collected. His concern was the commercial subsidy was being taken out of the residential customer's portion. He suggested the Motion include a statement, as of the date of suspension, of what the cumulative reserves were at that date for future decisions.

Vice Mayor Shepherd asked if Staff was aware of who was generating the financial overage, the commercial or residential customers.

# MINUTES

Ms. Fong stated when the cost was \$15 the commercial customers far overpaid because the administrative cost to serve them was less.

Chair Burt said the dollar amount would need to be divided up which was a process Staff would need to calculate based on their contributions. The portion of the program being suspended was the most successful throughout the country performed by residential by threefold. He recommended supplying all participants with a certificate showing the City's appreciation of the success of the program due to their participation.

Council Member Schmid mentioned that the commercial customers accounted for more than half but prior to 2012 it was residential. That implied the residential customers paid a fair amount up to half into the surplus. The notice to the customers should be include the program was being suspended with an asset.

**MOTION PASSED:** 3-0 Berman absent

Ms. Stump asked whether the Committee would recommend to the full Council to consider the Motion as Action or Consent.

Council Member Schmid felt since the action affected 25 percent of the population placing the item on Action for September 9, 2013 was appropriate.

Vice Mayor Shepherd was comfortable with having it under Consent.

Chair Burt believed it warranted going as an Action Item.

## FUTURE MEETINGS AND AGENDAS

Lalo Perez, Administrative Services Director, stated the next regularly scheduled meeting was Tuesday, September 3, 2013. There were currently no items agendized and it was the day after the Labor Day holiday so he recommended cancelling the meeting.

There was full concurrence with the Finance Committee (Committee) members for cancelling the September 3, 2013 meeting.

Mr. Perez stated the September 17, 2013 meeting had three items agendized: cost of service study, 2013 reappropriations, and the library oversight report. The October 1, 2013 meeting had two items agendized:

# MINUTES

development impact fees and infrastructure needs. The November 19, 2013 meeting the agenda would have the financials.

ADJOURNMENT: Meeting adjourned at 8:33 P.M.