



City of Palo Alto

City Council Staff Report

(ID # 5709)

Report Type: Consent Calendar

Meeting Date: 5/11/2015

Summary Title: Utilities Strategic Plan Modifications

Title: Utilities Advisory Commission Recommendation that Council Approve Changes to the Performance Measures and Strategic Initiatives of the 2011 Utilities Strategic Plan

From: City Manager

Lead Department: Utilities

Recommendation

Staff and the Utilities Advisory Commission recommend that Council approve changes to the Performance Measures and Strategic Initiatives in the 2011 Utilities Strategic Plan (Attachment A).

Executive Summary

Staff regularly reviews the strategic objectives, performance measures, and strategic initiatives of the Utilities Strategic Plan and recommends any appropriate updates. The changes recommended do not represent a major shift in strategic direction, but are updates to the plan to clarify certain objectives, remove completed strategic initiatives, and add new initiatives. The changes recommended do not represent a major shift in strategic direction, but are updates to the plan to clarify certain objectives, remove completed strategic initiatives, and add new initiatives.

In addition, this report is the semi-annual status report of the Utilities Strategic Plan for the period from July through December 2014 (Attachment B). The Council-approved Utilities Strategic Plan uses a Balanced Scorecard concept with four main perspectives (“Four Perspectives”) with strategic objectives to be achieved for each. To translate these objectives into plans for action, performance measures were identified for each objective. The changes are described in more detail in this report. A summary of the performance measures and status for each of the Four Perspectives is shown below:

Performance Measures Summary (July - December 2014)

Internal Business Process Perspective		People & Technology Perspective	
<i>Performance Measure</i>	<i>Status</i>	<i>Performance Measure</i>	<i>Status</i>
Interruption Duration	Met	Employee Satisfaction	Not yet met

Emergency Response Time	Met
Gas Incident Rate	Met
Gas Safety Awareness	Met
Infrastructure Backlog	N/A
Call Wait Time	Met
Billing Adjustments	Met
Emergency Notification	Met
Program Participant Satisfaction	Met
Competitive Commodity Bids	Met
Unaccounted Gas & Water	N/A
Full Value from Redwood Gas	Met
	Not yet met
Strategic Initiatives	met
Electric Portfolio Carbon Intensity	Met
Electric Efficiency Achievement	N/A
Gas Efficiency Achievement	N/A

Certification & Training	Met
IT Service Needs	Not yet met
New Technology Evaluation	Met

Financial Perspective	
Performance Measure	Status
High Credit Ratings	Met
Maintain Reserves	Met
Fixed Charges Recovered	Not yet met
Returns to Community	Met

Customer & Community Perspective	
Performance Measure	Status
System Interruptions	Met
Service Restoration	Not yet met
Satisfaction	Met
Competitive Bill	Met
Rate Change	Met
PaloAltoGreen Participation	N/A

Background

On July 18, 2011, the Council approved the 2011 Utilities Strategic Plan (Staff Report 1880). On August 5, 2013, the Council approved changes to the performance measures and strategic initiatives in the Utilities Strategic Plan (Staff Report 3950). In implementing the Utilities Strategic Plan, staff regularly reviews the objective measures and initiatives and recommends any appropriate updates on an annual basis. In addition, on a semi-annual basis, staff reports progress on implementation of the plan to the UAC and Council.

The Balanced Scorecard tracking methodology was chosen by staff to assist in performance measurement and to promote better understanding of the City of Palo Alto Utilities' (CPAU) strategic business processes. These updates help keep staff on track, but not all measures may have progress to be reported semi-annually either because updated data is not yet available or because the data is more meaningful as an annual measurement. Utilities managers meet on a regular basis to review the overall Utilities Strategic Plan and evaluate the strategic objectives, performance measures, and targets, and strategic initiatives. From time to time, management will recommend changes to keep the Utilities Strategic Plan aligned with changing environments and priorities.

With this report, staff is proposing changing certain performance measures, removing several completed strategic initiatives, and adding several new strategic initiatives.

The Four Perspectives used in the Strategic Plan are:

- Customer and Community
- People and Technology
- Finance

- Internal Business Processes

Each of the Four Perspectives represents a specific viewpoint and ensures CPAU's business activities are aligned with the Strategic Plan. The Customer and Community Perspective represent customer satisfaction and delivery of services to stakeholders. The Internal Business Processes Perspective covers operational goals and outlines the key processes necessary to deliver services to customers. People and Technology includes employee training and development as well as keeping pace with technological advancements in the utilities industry. The Finance Perspective focuses on CPAU having a strong financial base and delivering cost-effective services.

Each of the Four Perspectives of the Utilities Strategic Plan includes strategic initiatives which are key programs or projects required to achieve one or more objectives and the overall strategic plan. Many of the original strategic initiatives were completed and two new ones were added when Council approved updates to the Strategic Plan in August 2013, resulting in 9 active initiatives. Strategic initiatives aim to significantly change the way CPAU does business, require significant resources to complete, and have a defined timeline.

Discussion

A summary of performance under each of the Four Perspectives as well as explanations for the proposed changes to the Utilities Strategic Plan follows.

CUSTOMER AND COMMUNITY PERSPECTIVE

Four categories are measured from this perspective, namely service reliability, customer satisfaction with CPAU's responsiveness, competitive bills compared to neighboring communities and care for the environment. CPAU has achieved four performance measures, one measure was not met, and one measure is being proposed to be replaced.

Customer and Community Perspective Recommended Changes to Strategic Plan:

- C1.2: For target, reduce the number of electrical service interruptions for average customer from "3.0" to "0.9".
- C3: For strategic initiative, replace "mobile app capabilities" to "online capabilities".
- C4.1: For performance measure, replace "PaloAltoGreen" with "PaloAltoGreen Gas" and change target from "Top rank nationally" to "20% of customers".
- C4.2: Add a second performance measure "Percentage of greenhouse gas reductions" with target of "10% GHG reductions".
- C4: For strategic initiative, replace "Redesign the PaloAltoGreen program by January 2014" with "Reevaluate the cost-effectiveness of electrification especially for new construction and evaluate whether new programs or incentives can and should be offered, consistent with all applicable legal requirements."

Performance Measures

Service reliability performance measure targets:

- C1.1: an average restoration time after an outage of 90 minutes or less per interrupted customer
- C1.2: an average number of 3 or fewer interruptions per customer per year

Proposed Change:

- *C1.2: an average number of 0.9 or fewer interruptions per customer per year*

Staff proposes reducing the C1.2 performance measure target for the number of electrical service interruptions for the average customer from 3 or fewer to 0.9 or fewer. The previous measure of 3 or fewer is based on the Institute of Electrical and Electronics Engineers (IEEE) standard 1366-1998, the median duration in hours for total customer interruptions. The proposed value of 0.90 or fewer represents the top quartile and is based on an updated IEEE standard 1366-2003. This updated standard is named System Average Interruption Frequency Index (SAIFI) and measures the average number of times that a customer will experience an interruption during a specific time frame. This measure is a more consistent and impactful reliability index because it factors in the total number of customers impacted by major events. CPAU will update the historical performance measure results based on the new standard.

Between July and December 2014, CPAU experienced 5 isolated outages which impacted 58 customers in total. CPAU's performance measurement for number of interruptions per average customer of 0.002 was significantly lower than the proposed target of 0.9. CPAU did not meet the performance target of less than 90 minutes to restore service for interrupted customer. A couple of the outages were due to faulty transformers. Service restoration for unplanned transformer replacement requires significantly more time because it involves a full crew and delivery of a new transformer. The average time to restore service per interrupted customer was 114 minutes.

Customer satisfaction performance measure target:

- C2: to be rated 85% or higher in overall customer satisfaction

The most recent customer satisfaction survey was conducted by ESource, a market research agency specializing in utilities. The survey was geared towards large customers and key accounts. CPAU was ranked fourth out of 25 utilities and received an overall satisfaction and value rating of 87%. CPAU received high marks in trustworthiness and reliability. The recommended actions to improve customer satisfaction included providing customers with more energy advice, increasing the number of on-site visits and providing more resources on managing energy costs.

Customer paying a reasonable bill performance measure targets:

- C3.1: bill is less than the average bills in neighboring communities
- C3.2: rate increases are less than 10% (electric, gas, wastewater) and 20% (water)

CPAU met the “reasonable bill” performance target, with the total average residential bill for electric, gas, water and wastewater services in Palo Alto being \$176.81, which is 6% below the average bill of \$187.05 in neighboring jurisdictions (i.e. Menlo Park, Mountain View, Santa Clara and Redwood City). CPAU’s bill for electric and wastewater is below the average of neighboring cities; however, CPAU’s water bill is higher and CPAU’s gas distribution costs are currently higher than PG&E’s while both PG&E and CPAU’s gas commodity rates vary month to month depending on the market price of gas.

CPAU also met the performance measure of a “less than 10%” rate increase for electric, gas, and wastewater and a “less than 20%” rate increase for water. For FY 2015, there were no rate adjustments for electric, gas, water and wastewater services.

PaloAltoGreen performance measure target:

- C4: top rank nationally

Proposed Changes:

- *Change from PaloAltoGreen to PaloAltoGreen Gas and add new performance measure targets:*
 - *20% of customer participation*
 - *10% greenhouse gas reductions*

Staff proposes replacing “PaloAltoGreen” with “PaloAltoGreen Gas” in the performance measure and replacing the performance target for customer participation from “top rank nationally” to “20% of customers”. Staff also proposes adding a new performance measure target: “Percentage of greenhouse gas reductions” with performance target of “10% greenhouse gas reductions”. These changes are recommended since PaloAltoGreen (PAG) Electric program has been terminated for residential customers as a result of the City’s adopted electric carbon neutral portfolio. The voluntary PAG Gas program (approved by Council on April 21, 2014 (Staff Report 4596) allows customers to eliminate or reduce greenhouse gas emissions associated with their natural gas use. The proposed PAG Gas target of 20% customer participation is the same as what the PAG Electric program achieved. Since the program was launched in January 2015, over 750 customers have enrolled in PAG Gas.

Strategic Initiatives

Under the Customer and Community perspective, the Utilities Strategic Plan identified four strategic initiatives. The following gives the status of these initiatives.

Two initiatives are underway and ongoing:

- C2: To establish more mechanisms for eliciting feedback from customers. Utilities will continue to develop in-house surveys and other market research mechanisms to better evaluate the effectiveness of community outreach and City services. CPAU is encouraging customers to contact us with suggestions or feedback through various communication channels: City's webpage, My Utilities Account customer portal, Palo Alto 311, Our Palo Alto neighborhood discussions, community events, workshops, direct mail and social media. The City is also exploring analytical tools to evaluate the effectiveness of different channels of customer communications.
- C3: Improving the electronic bill presentment, payment functionality, and enhancing the utility's mobile app capabilities.

Proposed Change:

- *C3: Improving the electronic bill presentment, payment functionality, and enhancing the utility's online capabilities*

Staff recommends replacing "mobile app capabilities" with "online capabilities". CPAU conducted an in-house My Utilities Account (MUA) survey and participated in the ESource residential website assessment. MUA customers ranked user friendly display and presentation of the website significantly higher than being mobile friendly. CPAU's website was ranked in the bottom quartile in the ESource review for functionality and usability. Some of the recommended changes include simplifying the home page, adding more outage-reporting functionality, and expanding energy-use information. In the spring of 2015, a comprehensive third-party review of the City's ERP and Utilities Billing System is planned with the objective to assess the system's business requirements, identify key improvements and determine the best approach to enhance. This includes reviewing MUA online customer portal and payment functionalities for the Utilities Billing System.

One initiative is proposed to be replaced since it was completed:

- C4: To redesign the PaloAltoGreen program. The PAG Electric program was suspended in September 2013 when the City adopted the carbon neutral plan (Staff Report 4041). The residential program was eliminated and the commercial program was reinstated by Council on June 9, 2014 (Staff Report 4718). The new PAG Gas program was approved by Council on April 21, 2014 (Staff Report 4596) and launched in January 2015.

Proposed Change:

- *C4: Reevaluate the cost-effectiveness of electrification especially for new construction and evaluate whether new programs or incentives can or should be offered, consistent with all applicable legal requirements.*

Because the PaloAltoGreen program has been re-designed and the new PAG Gas program was launched in January 2015, staff recommends the following new initiative to evaluate the cost-

effectiveness of fuel-switching, or “electrification” especially for new construction. Since the City’s electric supply is 100% carbon neutral, reduction in the City’s greenhouse gas (GHG) emissions must come from reductions in the community’s use of natural gas and transportation fuels. Another way to reduce GHG emissions is to replace gas appliances (hot water heaters, space heaters, clothes dryers, and stoves/ovens) with electric appliances or to replace gasoline-powered vehicles with electric vehicles. Installing 100% electric appliances in a new home or major remodel has the potential to be more cost-effective than the retrofit of existing gas appliances. With the California state goal of net zero energy for newly constructed residential buildings by 2020, the City may consider developing fuel-switching, or “electrification”, incentives for residential new construction projects. Staff is tentatively scheduled to provide the UAC and Council an update of the cost effectiveness of electrification in the spring of 2015. In addition to evaluating cost-effectiveness, any proposed electrification incentives or programs must be specifically analyzed and considered in the context of all applicable legal, statutory and regulatory requirements and guidance, including, for instance, constitutional limitations on utility rates imposed by Californians when they adopted Proposition 26, obligations set forth in the Cap-and-Trade regulations adopted by the California Air Resources Board, and other miscellaneous requirements embedded in the California Public Utilities Code.

UTILITIES INTERNAL BUSINESS PROCESS PERSPECTIVE

Under this perspective, CPAU covers operational safety and reliability goals, communication and delivery of services to customers, and environmental sustainability. The largest number of performance measure targets fall under this perspective. Eleven were met, one was not met and four were unavailable because they are annual targets.

Internal Business Process Perspective Recommended Changes to Strategic Plan:

- BP1.2 – Add strategic initiative “Complete the Water Integrated Resource Plan (WIRP) including a comprehensive evaluation of the use of groundwater by end of CY2015”
- BP3 – For objective, replace “electric service” with “utility services”; replace “reducing the backlog and replaces infrastructure systems” with “reducing any backlog of infrastructure work and replace infrastructure systems”; and add “when possible” in spreading expenses across multiple years.
- BP3 – For performance measure, replace “Backlog of infrastructure elements whose age is beyond its useful life” with “Backlog of infrastructure elements whose ages are beyond their useful lives.”
- BP3 – Add strategic initiative “Complete long range Gas and Water master infrastructure plans by end of CY2015.”
- BP5 – For objective, remove “For example, Palo Alto’s gas rate stability is something customers should be educated about as it differentiates CPAU from PG&E.”
- BP5 – For performance measure, replace “at least 500 customers or any sensitive major customers” with “all sensitive major customers”
- BP7 – Replace strategic initiative “Pursue gas prepay transactions to leverage the City’s low cost of capital and tax exempt status to acquire lower cost gas supply resources” with “Participate actively in Northern California Power Agency’s (NCPA) on-going

allocation of cost, including new cost allocation studies if undertaken, to ensure that the City's costs are fair. Evaluate alternative providers for services provided by NCPA as appropriate."

- BP8 – Add strategic initiative "Complete water benchmarking study by end of FY2015."
- BP11 – Replace performance measure "Carbon intensity of the electric portfolio" with "Meet the state's 20% per capita water use reduction by 2020 target"; Replace target of "80% of baseline (2005) level" with "20% by 2020"
- BP11 – Add strategic initiative "Complete EIR and financial plan for expanding recycled water system."
- BP12.1 – For target, replace "goals set in May 2010" with "goals Council set in December 2012".
- BP12.2 – For target, replace "goals set in January 2011" with "goals Council set in December 2012".
- BP12 – Add strategic initiative "Include all cost-effective water efficiency measures in 2015 Urban Water Management Plan (UWMP)"

Performance Measures

Ensure a reliable supply of utility resources

- BP1.1: Restoring electrical power in less than 60 minutes
- BP1.2: Responding to emergency calls in less than 30 minutes

Both of these performance measures were met. The duration of electric system electric interruption per average customer was 23 minutes. The average response time to emergency calls was 20 minutes.

Operate the utility systems safely

- BP2.1: Zero reportable gas incidents
- BP2.2: Customer awareness of gas safety issues is 90% or greater

Both these performance measures were met. There were zero reportable gas incidents. In the annual gas safety awareness survey, 95% of the respondents believe they have adequate information about natural gas safety.

Replace infrastructure before the end of its useful life

- BP3: Backlog of infrastructure elements whose age is beyond its useful life

Objective Statement: We will continue to implement a long-term strategy for replacing infrastructure before the end of its useful life. Reliable delivery of electric service to our customers is critical for the success of business and the quality of life for our residents. To accomplish this, we will focus on reducing the backlog and replacing infrastructure systems in a manner that spreads the expense across multiple years resulting in program with even expenditures patterns in future years.

Proposed Change:

- *BP3: We will continue to implement a long-term strategy for replacing infrastructure before the end of its useful life. Reliable delivery of utility services to our customers is critical for the success of business and the quality of life for our residents. To accomplish this, we will focus on reducing any backlog of infrastructure work and replacing infrastructure systems in a manner that spreads the expense across multiple years resulting in program with even expenditures patterns in future years when possible.*

Staff recommends revising the description of the strategic objective to include all utility services including electric, gas, water, wastewater collection and fiber. CPAU will continue to serve the community by protecting consumers and ensuring the provision of safe, reliable utility services and infrastructure at reasonable rates.

For performance measure BP3, staff recommends replacing “Backlog of infrastructure elements whose age is beyond its useful life” to “*Backlog of infrastructure elements whose ages are beyond their useful lives.*”

Deliver customer service promptly and completely

- BP4.1: Average phone wait time in less than 90 seconds
- BP4.2: Number of annual billing adjustments is less than 2,958

Both these performance measures were met. In the first half of FY 2015, the average phone time wait is 61 seconds and CPAU has processed 849 billing adjustments.

Communicate proactively to all stakeholders

- BP5: Report significant disruptions within 60 minutes

All recent major disruptions have been reported to the public and media via phone, website, and social media within 30 minutes or less.

Offer programs to meet customer and community needs

- BP6: At least 90% of surveyed customers satisfied with program experiences

CPAU hosted a couple of workshops to raise awareness about water efficiency as well as ongoing drought conditions. There were 40 customers in attendance for the “From Gray Water to Green Garden” workshop which taught residents the logistics of implementing a gray-water system in their homes. There was high engagement amongst the 50 attendees in the “Alternatives to Lawn” workshop which introduced residents to water-conserving lawn alternatives. Both workshops received a high level of customer satisfaction averaging 95%.

Negotiate supply contracts

- BP7: Receive at least three competitive bids for electric fixed-price purchases

Maximize value of existing generation assets

- BP9: Receive full value from Redwood gas pipeline

Both performance measures BP7 and BP9 have been met.

Manage implementation of strategic plan

- BP10: 100% of strategic initiatives completed

This performance measure has not yet been met. Strategic initiatives are specific programs or projects required to achieve key objectives in the overall strategic plan. Strategic initiatives are updated and re-prioritized as business needs change over time. When the strategic plan was developed in 2011, CPAU identified 17 initiatives. Since then, 12 of the initial 17 initiatives have been completed including redesign of PaloAltoGreen, reassessment of gas laddering strategy, development of communications plan, implementation of new technologies program and re-evaluation of Calaveras Reserves. One new initiative, development of a comprehensive financial policy, was added in the 2013 strategic plan update and has been completed. Staff proposes to replace or add eight new initiatives in this update as described in this report.

Increase environmental sustainability

- BP11: Carbon intensity of the electric portfolio

Proposed change:

- *Meet the state's 20% per capita water use reduction by 2020 target*

Since the City adopted a 100% carbon neutral electric supply portfolio, the carbon intensity of the electric portfolio is zero. Staff proposes to replace this measure with "Meet the state's 20% per capita water use reduction by 2020 target." The 2010 Urban Water Management Plan (UWMP) includes a plan to meet the requirement to reduce per capita water usage by 20% by 2020 under the Water Conservation Act of 2009 (SBx7-7). Some of the demand side management programs include water audits, plumbing retrofits, landscape conversion, rebates, and educational workshops.

The following performance measures were not updated because these measures are only meaningful as an annual measurement:

- BP3: Backlog of infrastructure beyond its useful life
- BP8: Lost and unaccountable volumes of gas and water
- BP12.1: Electric energy efficiency achievement
- BP12.2: Gas energy efficiency achievement

Strategic Initiatives

There are two strategic initiatives for the internal business process perspective.

One initiative is underway:

- BP1.1: Develop a plan to complete a new electric transmission interconnection. The City continues to have ongoing discussions with Stanford, SLAC National Accelerator Laboratory, the Department of Energy, Pacific Gas and Electric, and the California Independent System Operator to evaluate alternative transmission connections. The parties are awaiting the results of further studies, anticipated to be completed by the spring of 2015, to evaluate other reliability options and approaches.

One initiative is completed and is proposed to be removed:

- BP7: Pursue gas prepay transactions to leverage the City's low cost of capital and tax-exempt status to acquire low cost gas supply resources. Gas prepay transactions offer an opportunity for CPAU to reduce gas commodity costs. Council approved a long-term prepay transaction with MuniGas on September 15, 2014 (Staff Report 5006). The MuniGas program has very low risk and takes advantage of the City's tax-exempt status to achieve a discount on the commodity cost for all CPAU gas rate payers. This program also meets the Council-approved Gas Utility Long-term Plan (GULP) objectives.

Staff proposes adding the following six new strategic initiatives:

- BP1.2: Update the Water Integrated Resource Plan (WIRP) including a comprehensive evaluation of the use of groundwater by end of CY 2015. The WIRP provides a detailed evaluation of current and potential resources and policies and provides a blueprint to guide resource procurement and optimization for the future. Groundwater is an important water supply resource in California, particularly in periods of drought, and this resource will be included in the updated WIRP.
- BP3: Complete the long range Gas and Water master infrastructure plans by end of calendar year (CY) 2015. Engineering is updating the 20-year master infrastructure plan. The gas study will assess the condition of the polyvinyl chloride (PVC) and polyethylene (PE) materials in the City's natural gas distribution system, evaluate risks associated with the materials, and determine the appropriate annual infrastructure replacement rate. As a result of the 1991 gas distribution assessment, CPAU launched an aggressive gas main replacement plan to replace acrylonitrile butadiene styrene (ABS) mains and services. All known ABS material is scheduled to be replaced with polyethylene (PE) by March 2015.

The water system master plan will identify areas requiring capital improvement and determine the annual main replacement rate necessary to ensure safe and reliable levels of service to the existing distribution and transmission conveyance system. The assessment will serve as the long-term capital improvement plan and replace the 1986 water main replacement plan. Furthermore, the new study may result in a re-prioritization of the rehabilitation and/or replacement of the remaining cast iron and asbestos cement pipe in the system based on current conditions.

- BP7: Participate actively in Northern California Power Agency's (NCPA) on-going allocation of cost, including new cost allocation studies if undertaken, to ensure that the City's costs are fair. Evaluate alternative providers for services provided by NCPA as appropriate. NCPA has fixed costs associated with Power Management services (i.e. real-time dispatching, scheduling, contract management, trading, risk management, settlements, billing). In FY 2015, CPAU is expected to contribute approximately \$1.5M, or 15% of the total Power Management allocation costs. The current cost allocation methodology is based on load, number of schedules, number of contracts, resource capacity and other direct services. NCPA is reviewing its cost allocation model to ensure it is reflective of actual effort expended by NCPA. CPAU also plans to evaluate alternative scheduling service providers for its renewable energy contracts.
- BP8: Complete Water benchmarking study by end of FY 2015. CPAU customers have higher water bills than residents in neighboring cities due to rising commodity purchase, capital improvement, and operating costs. The benchmark study will compare water usage, cost drivers, and bill differentials between Palo Alto, Mountain View, Redwood City, Santa Clara and Hayward, as well as differences in cost allocation between these agencies.
- BP11: Complete environmental impact report (EIR) and financial plan for expanding recycled water system. The City continues to explore the possible expansion of the existing recycled water delivery system to serve customers primarily located near Stanford Research Park. The City is the lead agency under the California Environmental Quality Act (CEQA) for the recycled water project. In addition, the Bureau of Reclamation is the lead agency for the project under the National Environmental Policy Act (NEPA). The City is currently collaborating with the Bureau of Reclamation to prepare a joint CEQA/NEPA document for the project. Preparation of the Environmental Impact Report is currently underway. Identifying funding sources either in the form of a grant or other type of financing arrangement is a critical component of the expansion.
- BP12: Include all cost-effective water efficiency measures in 2015 Urban Water Management Plan (UWMP). CPAU is required to update and submit the UWMP to the California Department of Water Resources every five years. The next update is due June 2016. The UWMP will assess the reliability of the City's water sources, support long-term resource planning, and ensure adequate water supplies are available to meet existing and future water demands. CPAU will update the 25 cost-effective water efficiency programs described in the 2010 UWMP that the City plans to implement over the next 20 years. These demand management measures are critical to the City's success to meet the state's 20% per capita water use reduction by 2020 target.

PEOPLE AND TECHNOLOGY PERSPECTIVE

CPAU measures attraction and retention of employees, training and development, and implementation and evaluation of technologies. So far, CPAU has met two performance measures and two measures have not been met in these categories.

People and Technology Perspective Recommended Changes to Strategic Plan:

- PT1 – For performance measure, replace “2011 baseline” with “*prior year’s*” level.
- PT2 – For strategic initiative, replace “Develop a” with “*Update the*” 5-year succession plan.
- PT3 – For performance measure, replace “Technology needs being met based on Utilities specific IT strategic plan” with “*Employees have adequate tools and training to perform their jobs*”; replace target of “100% for all Utilities work groups” to “*100% of employees*”.
- PT3 – For strategic initiative, change “IT strategic plan” to “*smart grid and IT strategic plan*”.

Performance Measures

Employee attraction and retention performance measure target:

- PT1: Improvement from 2011 baseline employee satisfaction survey

CPAU conducted its fourth annual employee satisfaction survey in January 2015. The annual employee satisfaction survey consists of ten brief questions addressing career development, training, technology needs, recognition, communication, and stress at work. There were 110 participants in the survey which is approximately a 50% response rate. For employee satisfaction, 62% of the employees reported being either “very satisfied” or “satisfied” and 15% reported being “neutral”. This is the first time in three year the satisfaction score was below the baseline of 63% set in 2011. Areas of improvement identified in the survey were improved communication across divisions in Utilities and across departments in the City, competitive compensation, the need for new mobile devices for the field, replacement vehicles, and career development opportunities. CPAU will work with the appropriate divisions and departments to address these areas of improvement. As a result of prior surveys, CPAU has increased training, provided rotational and cross-training assignments, developed new job classifications, and enhanced the Fred Eyerly employee recognition program.

Proposed change:

- *PT1: Improvement from prior year’s employee satisfaction survey.*

As recommended by the UAC, staff proposes changing this performance measure to compare Utilities employees’ overall satisfaction rating of “Very Satisfied” and “Satisfied” to prior year’s level instead of the 2011 baseline level. The year-to-year comparison is a more meaningful metric and would provide management a more effective tool to measure itself because it reflects the current workplace conditions and environment.

Training and development performance measure targets:

- PT2: 100% of Operations personnel have the appropriate certification and training for their assigned work area

CPAU is committed to provide ongoing training and development for all employees to ensure safety and best practices are implemented in each employee's current job. Talent development for succession planning continues to be one of the key focuses for senior management. CPAU is also working with the City to create an environment for continuous learning including self-directed webinars, mentoring program, instructor-led classes with eLearning, academies, and department-specific training. CPAU met its performance target of having 100% of Operations personnel with the appropriate certification and training required for working in their assigned areas.

Ensuring workgroups have necessary tools and technologies performance measure target:

- PT3: All employee technology needs are being met

Proposed change:

- *PT3: Employees have adequate tools and training to perform their jobs.*

Staff proposes changing this performance measure to "Employees have adequate tools and training to perform their jobs." CPAU will provide tools and training to employees immediately based on job requirements instead of providing technologies identified in the IT strategic plan. The Utilities-specific IT strategic plan is a long-term plan and is being addressed separately as a strategic initiative. A comprehensive assessment of the City's SAP Enterprise Resource Planning (ERP) system including Utilities billing and customer information systems was recently completed. The evaluation identified the effectiveness and deficiencies of the current system at meeting business needs. The ERP assessment will be presented to City Council in March 2015.

Evaluation of new technologies performance measure target:

- PT4: Evaluate at least three new technologies per year

The CPAU Program for Emerging Technologies (PET) provides the opportunity for local businesses and organizations to submit proposals for innovative and impactful products to CPAU for review and potential pilot testing. CPAU met the performance measure by evaluating 7 new applications between July and December 2014. As of December 2014, CPAU has received 35 applications. Thus far, five projects have been completed including light optimization in parking structures; a customer application that helps reduce energy demand in large facilities, a fast and dynamic reactive power regulator to enhance reliability and efficiency of the power grid, solar photovoltaic (PV) modules installed on street lights, a carbon calculator for cities and small businesses and energy efficiency software for data centers.

Strategic Initiatives

Under this perspective, the Strategic Plan identified four strategic initiatives. Staff proposes changes to two initiatives that are underway and ongoing.

- PT2: Develop a 5-year succession plan for each division.

Proposed change:

- PT2: Update the 5-year succession plan for each division.

This change reflects the fact that CPAU developed a succession plan, but intends to continue updating since it is a critical component of being prepared and responsive to the changing industry environment and employee retirements. An organizational chart and matrix was developed to identify skill set gaps as well as employees who are currently or soon to be eligible for retirement. CPAU will update the five year succession plan for each division. Utilities across the nation are facing an aging workforce phenomenon and anticipate losing 30 to 50 percent of their workforce within the next decade. As of December 2014, 37% or 81 CPAU employees are eligible for retirement. An additional 19% or 41 more employees will be eligible for retirement within ten years. Workforce development and succession planning continues to be a top priority for the City and for CPAU. The department has initiated cross-training and rotational assignments to develop employee skill sets and provide growth opportunities and plan to continue this practice as these opportunities arise.

- PT3: Develop a Utilities-specific IT strategic plan.

Proposed change:

- *Develop a Utilities-specific smart grid and IT strategic plan.*

Staff proposes to add smart grid related projects to the IT strategic plan. A high-level Utilities IT Systems Review recommended approximately 40 Utilities technology related projects to increase operational efficiency, enhance customer services and advance smart grid capabilities in the next 5 to 10 years. Currently, staff anticipates that within the next 5 to 10 years, Palo Alto's metering systems will migrate from the current system in place to smart metering systems. CPAU will coordinate with the City's IT Department to develop a smart grid/Utilities Technology strategic plan by the end of CY 2015. The plan will identify CPAU's vision and properly prioritize the outstanding list of technology projects. In the meantime, staff will internally prioritize the projects that need to be completed within the next 6 to 12 months.

FINANCIAL PERSPECTIVE

Under this perspective, the performance measures involved maintaining financial strength, designing rate structures that balance costs of service with the promotion of conservation and providing an investment return to the community. CPAU has thus far met three of the four performance measures under this perspective.

Financial Perspective Recommended Changes to Strategic Plan:

- F2 – For performance measure, replace “Rate Stabilization” with “Operations” Reserve levels; replace 2015 target from “Adequate to cover cost uncertainties over a two-year period while meeting rate stability objective” with “Within guidelines in Council-adopted long-term Financial Plans”.
- F2 – Remove strategic initiative “Develop a comprehensive Utilities financial policy by January 2014 to provide direction for future cost of service studies and rate setting priorities” since the initiative is complete.
- F3 – For strategic initiative, replace “By the end of 2011, evaluate the appropriate fraction of fixed costs that should be collected by fixed charges versus volumetric charges” with “Complete Electric cost of service analysis (COSA) by end of CY2015.”
- F4 – Remove the entire strategic objective “Provide a fair return to the City” along with the associated objective statement, performance measure, and target.

Performance Measures

High credit rating performance measure targets:

- F1.1: At least AA by Standard and Poor’s (S&P)
- F1.2: At least Aa3 by Moody’s

CPAU continues to maintain high credit ratings. CPAU has not issued any new bonds since 2009 when it issued bonds for the Emergency Water Supply project. In 2012, S&P affirmed its “AAA” long-term rating on the Palo Alto, California series 1995A bonds, issued for the City’s electric, gas, water, sewer treatment, sewer collection, and storm drainage utilities. In 2015, S&P will be conducting a rating review of the gas and water systems. The review will cover future bond issuances, capital projects, and financial projections.

Maintain adequate rate stabilization reserves for utilities performance measure targets:

- F2 Measure: Rate Stabilization Reserve levels
- F2 Target: Adequate to cover cost uncertainties over a two year period while meeting rate stability objective.

Proposed changes:

- *F2 Measure: Operations Reserve levels*
- *F2 Target: Within guidelines in Council-adopted long-term Financial Plans.*

Consistent with the new financial plans and reserve structure, CPAU proposes replacing the reserves referred to in the performance measure from the Rate Stabilization Reserves to the Operations Reserves. In addition, the proposed new performance target refers to the guidelines in the Council-adopted long-term financial plans. In June 2014, Council approved the new Utilities Financial Plans for the Electric, Gas, Wastewater Collection and Water Funds (Staff Report 4799) including changes to the reserves management practices. This change will ensure that the Utilities Strategic Plan is consistent with the reserves structure and guidelines in the Financial Plans.

Strategic Objective

Staff proposes removing one strategic objective and performance measure under this perspective.

- F4 Objective: Provide a fair return to the City.
- F4 Measure: Equity transfer to the City's General Fund.

Proposed change:

- Staff proposes to remove Item F4 "Provide a fair return to the City" from the Utilities Strategic Plan. The City's current equity transfer methodology was adopted in 2009. The methodology remains unchanged since adoption, and is derived through a formula that requires no strategic actions by staff, making continued monitoring unnecessary.

Strategic Initiatives

There are two strategic initiatives under the financial perspective and staff recommends removing one since it has been completed and amending the other.

- F2: Develop a comprehensive Utilities financial policy by January 2014 to provide direction for future cost of service studies and rate-setting priorities. Staff proposes removing this strategic initiative since it has been completed. In June 2014, Council approved the new Utilities Financial Plans for the Electric, Gas, Wastewater Collection and Water Funds (Staff Report 4799) including long-term financial forecasts and changes to the reserves management practices. Consistent with the City Auditor's Reserve Audit recommendation, CPAU has established formal and comprehensive policies and procedures for reserves management.
- F3: By the end of 2011, evaluate the appropriate fraction of fixed costs that should be collected by fixed charges versus volumetric charges.

Proposed change:

- F3: Complete Electric cost of service analysis (COSA) by end of CY 2015.

Staff proposes changing this objective to be more consistent with current requirements that rates be supported by cost of service studies. Staff proposes replacing the initiative with "Complete Electric cost of service analysis (COSA) by end of CY 2015." COSAs have recently been completed for the gas, water, and wastewater utilities. However, an electric COSA has not been completed recently and electric rates have not been changed since July 1, 2009.

Commission Review and Recommendation

On March 4, 2015, the Utilities Advisory Commission (UAC) reviewed and supported the staff recommendations on changes to the Utilities Strategic Plan. The UAC proposed one change to the performance target for the employee satisfaction survey. The employee satisfaction

improvement will be measured against prior year's rating instead of the 2011 baseline because the year-to-year comparison will be a more effective measure reflecting the current workplace environment. The changes recommended do not represent a major shift in strategic direction, but are updates to the plan to clarify certain objectives, remove completed strategic initiatives, and add new initiatives.

Resource Impact

There is no resource impact associated with the proposed changes to the Utilities Strategic Plan. The changes were anticipated and were incorporated into CPAU's work plans.

Policy Implications

The recommendations described in this report represent changes to the Council-approved Utilities Strategic Plan.

Environmental Review

Neither the proposed changes to the Utilities Strategic Plan, nor the receipt of the six month Utilities Strategic Plan performance update is subject to California Environmental Quality Act review because they do not meet the definition of a "project" under Public Resources Code Section 21065.

Attachments:

- Attachment A: 2011 Utilities Strategic Plan as Updated of Dec 2014 (PDF)
- Attachment B: Balanced Scorecard Performance Measure Results_Jul-Dec2014 (PDF)

Utilities Strategic Plan – Strategic Objectives

Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
Customer and Community Perspective				
C1. “I receive safe and reliable service.”	Customers expect that Utilities services are provided on a continuous basis, without interruption. In addition, customers expect that the Utilities delivery systems are safe and will not harm them or put them in any danger. We will listen to our customers and seek to understand their reliability and safety concerns and implement programs and projects to address them.	Average time to restore service per interrupted customer	Less than 90 minutes	
		Number of electric system interruptions per year for average customer	Ranks in the top quartile nationwide (less than 0.9)	
C2. “Be responsive to all my utilities-related service needs.”	We understand that the customer wants clear, accurate bills with easy methods of payment; access to usage history and enough understanding to efficiently manage usage; to feel quickly and completely “taken care of” when they have concerns, questions or requests and to be communicated with effectively both as individuals and as CPAU’s owners. One of the ways to achieve this is to elicit feedback from customers to help improve service.	Customer satisfaction scores on annual surveys for overall value. Residential and commercial surveys alternate every other year.	Ranking in the top two utilities statewide	Establish mechanisms to elicit customer feedback on their satisfaction with all interactions with CPAU.
C3. “I expect to pay a reasonable bill”	We understand that customers expect their bills to be comparable to those in surrounding communities and do not expect to pay more than PG&E customers. Customers believe it is reasonable to pay slightly more in exchange for increased reliability, safety and protection of the environment. However, customers’ overall bills for Utilities services must remain reasonable and be reasonably stable and should not increase significantly in any one year. Customers also want their bills to provide useful information about their consumption of resources in addition to the rate so that they can	The average combined residential customer bill for electricity, water, gas, and wastewater services	Less than the average of bills for comparable services in nearby communities (MP, MV, SC, Hayward, RC, Roseville, and Alameda).	Improve the electronic bill presentment, payment functionality and enhance the utility’s online capabilities.

Utilities Strategic Plan – Strategic Objectives

Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
	understand how they can influence their total cost for Utilities services. For natural gas service, Palo Alto’s supply cost has been relatively stable due to a laddered gas portfolio purchasing strategy; however, this strategy needs to be re-evaluated as gas prices are currently low and are projected to stay low for the foreseeable future. Although, the average bill for all services should be comparable to those in surrounding communities, staff will continue to monitor and report the bills for each service separately on a quarterly basis.	Annual rate change	Maximum of 10% per year for electric and wastewater services. Maximum of 20% per year for water service.	
C4. “Care for our environment”	Our community wants its customer-owned utility to offer choices for them to manage their resource use in ways that reflect their environmental values. Utilities will improve existing programs and develop new programs to meet customer needs and allow customers to manage their own environmental footprint.	Percentage of customers participating in the PaloAltoGreen Gas program	20% of customers	Re-evaluate the cost-effectiveness of electrification especially for new construction and evaluate whether new programs or incentives can or should be offered, consistent with all applicable legal requirements.
		Percentage of Greenhouse gas reductions	10% GHG reductions	
Internal Business Process Perspective				
Safety and Reliability				
BP1. Ensure a reliable supply of utility resources	We will implement strategies that ensure the reliable supply of utility resources to meet present and future needs. To provide opportunities for economic development within Palo Alto, we must provide sufficient resources that meet the short and long-term needs of our customers. To achieve this we will maintain the utility system components, and provide for	Duration of electric system interruption per year for average customer	Ranks in the top quartile nationwide (less than 60 minutes per customer)	Develop a plan to complete a new electric transmission interconnection.

Utilities Strategic Plan – Strategic Objectives

Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
	adequate utility resource supplies to our current and future customers. We will also develop new management practices and organizational structure to ensure compliance with regulatory requirements.	Response time to all emergency calls	Under 30 minutes	Complete the Water Integrated Resource Plan (WIRP) including a comprehensive evaluation of the use of groundwater by end of CY 2015.
BP2. Operate the utility systems safely	We will continue to ensure the safety of our customers, employees and the community by the ongoing implementation of a safety programs. Protecting customers and employees from injury and customer’s property from damage is essential for delivering quality utility services to our customers. The safety programs will be implemented by updating safety procedures, educating customers via outreach materials and workshops, correcting system deficiencies, operating in accordance with existing safety rules, and ensuring that products delivered to customers are safe.	AGA (American Gas Association) Incidence Rate	Zero reportable incidents	
		Customer awareness of gas safety issues	90% of customers responding to annual gas customer safety awareness survey	
BP3. Replace infrastructure before the end of its useful life	We will continue to implement a long-term strategy for replacing infrastructure before the end of its useful life. Reliable delivery of utility services to our customers is critical for the success of business and the quality of life for our residents. To accomplish this, we will focus on reducing any backlog of infrastructure work and replace infrastructure systems in a manner that spreads the expense across multiple years resulting in program with even expenditures patterns in future years when possible.	Backlog of infrastructure elements whose ages are beyond their useful lives.	Zero	Complete long range Gas and Water master infrastructure plans by end of CY2015.
Customer Service Excellence				
BP4. Serve customers promptly and	We will provide customers with the highly responsive service they desire. We will do this by reviewing and improving our processes for managing accounts, handling payments, resolving billing issues, responding to	Average phone wait time	Less than 90 seconds	

Utilities Strategic Plan – Strategic Objectives

Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
completely	information and field service requests and notifying customers during service disruptions. We will identify ways to streamline these processes and implement changes. Specifically, we will review, document and improve business processes that have been identified as having long customer response times.	Number of billing adjustments	10% reduction from number in 2009.	
BP5. Communicate clearly and pro-actively with all our stakeholders	We will proactively communicate with all our stakeholders, including all customer groups, civic leaders, community groups and the press. To achieve this objective we will provide the information needed for our stakeholders to effectively access, understand and utilize all utilities services and programs. In addition, we will design communication vehicles and dissemination processes that will enable our residents to be educated owners of their municipal utilities system.	Time until informing the public and local media of a disruption affecting all sensitive major customers	Less than 60 minutes after becoming aware of a disruption	
BP6. Offer programs to meet the needs of customers and the community	We will assist customers to lower their cost of utilities services and support the environment. We will assist customers facing economic hardship by offering bill payment assistance programs. We will educate customers on the reasons for and their means of compliance with our safety and regulatory requirements. We will also identify all customer groups, identify any gaps in service provision to those customers, and propose new programs or changes to existing programs to close those gaps.	Participant* satisfaction with Utilities programs (*rebate recipients, workshop attendees, callers, etc.)	At least 90% of program participants satisfied with their experience	

Utilities Strategic Plan – Strategic Objectives

Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
Reduce Costs				
BP7. Negotiate supply contracts to minimize financial risk	We will continue to negotiate supply contracts to acquire supply resources while managing supply portfolio cost uncertainty to meet rate and reserve objectives and following sound risk management practices. To ensure that we are buying commodities at as competitive prices as possible, we will negotiate contracts with new counterparties to continue to have a sufficient set of credit-worthy trading partners. We will continue to develop long-term acquisition policies and plans (LEAP) and update those plans at least every three years. We will also determine all that is necessary to execute a gas prepay transaction as that is one clear way to lower the cost of gas supply resources.	Number of competitive bids received for each fixed-price transaction.	Minimum of three bids for electric power	Participate actively in Northern California Power Agency’s (NCPA) on-going allocation of cost, including new cost allocation studies if undertaken, to ensure that the City’s costs are fair. Evaluate alternative providers for services provided by NCPA as appropriate.
BP8. Reduce cost of delivering service through best management practices	We will reduce the cost of delivering service to customers. We will identify opportunities to better coordinate between Utilities and other City departments to improve efficient delivery of services. We will perform benchmarking studies to identify potential modifications to procedures, practices, materials, and plans and to ensure that we are following best practices. One best practice is to increase calibration and replacement schedules for gas and water meters since the meters slow over time causing actual usage to be under-recorded, resulting in lost revenue.	“lost and unaccounted for” volumes of gas and water	80% of 2009 levels.	Complete Water benchmarking study by end of FY 2015.

Utilities Strategic Plan – Strategic Objectives

Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
BP9. Maximize value of existing generation assets	Palo Alto owns significant supply resource assets including a portion of the Calaveras Hydroelectric Project, a contract with the Western Area Power Administration, a permanent allocation of water from the regional water system managed by San Francisco, and allocated capacity on a gas transportation pipeline. We will seek out both daily and operational and long-term opportunities to optimize the value of these assets to enhance revenue and/or to reduce costs. We will work with joint-owners of our resource assets to leverage those resources and advocate to maintain or improve the value of existing resources into the future (LEAP and GULP strategies).	Value harvested from Redwood gas pipeline capacity	100%	
BP10. Manage implementation of strategic plan	Completing the strategic plan is only the beginning of getting value from the strategic planning process. Ongoing management of the strategies and initiatives and reporting on progress of those initiatives is essential to achieving positive results from the strategy. We will report to the UAC and Council on this plan’s progress twice annually and we will review and revise the objectives and develop new initiatives on an annual basis.	Number of strategic initiatives completed	100%	
Environmental Sustainability				
BP11. Increase the environmental sustainability of all Utilities activities	Adding sustainable resources to the supply portfolios will help the City meet its Climate Protection Plan goals by reducing the carbon footprint of the utility services provided to our customers. We will achieve this by acquiring renewable resources and promoting the development of local renewable resources within the rate objectives in the Long-term Electric Acquisition Plan (LEAP). Sustainable practices will be pursued not just for the supply portfolios, but across all the Utilities day-to-day operations.	Meet the state’s 20% per capita water use reduction by 2020 target	20% by 2020	Complete EIR and financial plan for expanding recycled water system
BP12. Promote efficient use of resources	Resource efficiency programs meet our customers’ desire for environmental solutions that save money as well as contributing towards the Climate Protection Plan goals. We will promote resource efficiency by dedicating the tactical staffing and budgetary resources necessary to reach maximum	Actual electric energy efficiency achievement	At least as high as goals Council set in December 2012	Include all cost effective water efficiency measures in 2015

Utilities Strategic Plan – Strategic Objectives

Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
	deployment of economically feasible resource efficiency. We will revise and document our long-term efficiency strategies by updating our 10-year Energy Efficiency goals every three years and updating our water efficiency goals every five years in the Urban Water Management Plan. To maximize the savings potential for new development, coordinate with the City's Economic Development Manager to ensure that new developments incorporate energy saving features in the design phase.	Actual gas energy efficiency achievement	At least as high as goals Council set in December 2012	Urban Water Management Plan (UWMP).
People and Technology Perspective				
PT1. Be an attractive place to work	We will create a positive values-based work environment which attracts and retains qualified staff. To achieve this objective we will try to better understand employees desires and incentives, and will articulate our values both internally and as we recruit.	Employee satisfaction rating	Improvement from prior year's level	
PT2. Obtain, develop and train employees to ensure an adequate and qualified workforce	A properly sized, trained and certified workforce is essential to our effectiveness. We will identify skill and staffing gaps at the individual and organizational levels and seek to fill those gaps through the effective use of opportunities including hiring, mentorship programs, role rotations, knowledge transfer opportunities, long-term developmental assignments and both internal and external training opportunities. We will plan for workforce succession and provide cross-training opportunities for employees to improve employee satisfaction and build a more robust work force.	Percentage of operations personnel that has appropriate certification and training required for working in all areas they may be assigned	100%	Update the 5-year succession plan for each division.
PT3. Ensure employees have adequate tools to perform job duties	As major users of technology assets, we must have access to quality and timely delivered IT services. We must build and maintain an effective relationship with the City's IT division that includes clear, frequent communication as well as productive coordination. We will collaborate with IT to identify barriers to providing support for technology projects and remove them. In those instances in which our immediate technology needs cannot be addressed by the City's IT division in a timely or sufficiently-comprehensive fashion, we will utilize external expertise.	Employees have adequate tools and training to perform their jobs	100% of employees	Develop a Utilities-specific smart grid and IT strategic plan.

Utilities Strategic Plan – Strategic Objectives

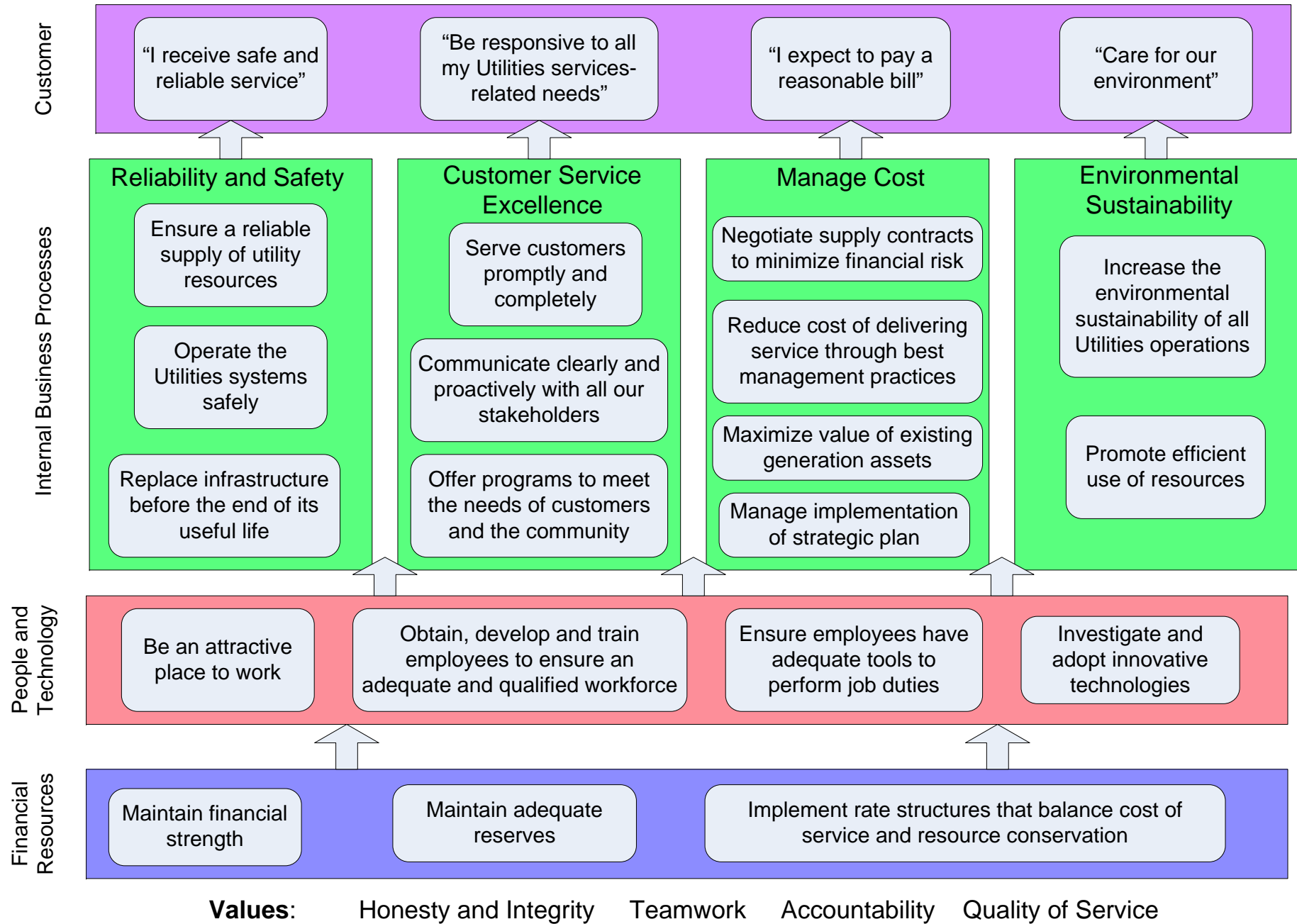
Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
PT4. Investigate and adopt innovative technologies	Our customers value Utilities embracing new technologies that will help reduce costs and/or meet Climate Protection Plan goals. We will innovate by researching technologies and cultivating relationships with entrepreneurs and academics to identify new cost-effective and environmentally sustainable technologies to consider adopting. New technologies, programs, and projects identified in the smart grid strategic plan will be implemented.	Number of new technologies evaluated per year by an in-depth study or pilot project	Three	
Financial Perspective				
F1. Maintain financial strength	Maintaining a high credit rating reduces the cost of borrowing if needed for capital projects. We will continue best practices for financial management, adhere to energy risk management policies and guidelines to minimize financial risk, and maintain sufficient reserves to cover debt obligations as required to retain CPAU’s current favorable bond rating so that the cost of capital is low for any bond funded capital projects.	Credit rating	At least AA as determined by Fitch Ratings or Standard and Poor’s or at least Aa3 as determined by Moody’s	
F2. Maintain adequate reserves	Maintaining adequate cash reserves contributes to maintaining our overall financial health and retaining our current favorable bond rating. We will maintain Rate Stabilization Reserves levels within Council-approved guidelines and sufficient to provide rate stability as desired by ratepayers. During the annual budget and rate setting process, the risks that each Utilities fund is exposed to will be identified along with the trajectory of costs and revenues to allow Council to determine appropriate reserve levels and rate adjustments.	Operations Reserve levels	Within guidelines in Council-adopted long-term Financial Plans	

Utilities Strategic Plan – Strategic Objectives

Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
F3. Implement rate structures that balance cost of service and resource conservation	Retail rates should be designed so that the revenues from a customer group match the cost to serve those customers. Rates consist of fixed charges and volumetric charges, which are based on usage. Fixed costs consist of customer-related costs (meter reading, billing, etc.) and costs related to capital projects and operations while variable costs include the cost of buying supplies (water, gas, or electricity). When fixed costs are recovered through charges based on usage, costs will not be recovered if customers reduce usage more than projected. To address this problem we will examine alternate rate structures that strike a balance between the two competing objectives (cost of service and resource efficiency) to ensure that certain fixed costs are recovered with a fixed charge, but other costs are recovered with charges that vary depending on usage (volumetric charges).			Complete Electric cost of service analysis (COSA) by end of CY 2015.

Vision: We Deliver Extraordinary Value to Our Customers

Strategic Destination: We will earn the high satisfaction of our customers with our cost-competitive provision of safe, reliable and environmentally sustainable utility services



Measure ID	Strategic Objective	Objective Statement	Performance Measure	2015 Target	Measure Goal Value	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	July - Dec FY 2015	Score (Values: +, -, TBD)
Customer and Community Perspective												
C1.1	C1. "I receive safe and reliable service."	Customers expect that Utilities services are provided on a continuous basis, without interruption. In addition, customers expect that the Utilities delivery systems are safe and will not harm them or put them in any danger. We will listen to our customers and seek to understand their reliability and safety concerns and implement programs and projects to address them.	Average time to restore service per interrupted customer	Less than 90 minutes	<90	132 min	161 min	113 min	139 min	38.69	114.38	-
C1.2			Number of electric system interruptions per year for average customer	Ranks in the top quartile nationwide (less than 3)	<0.9	0.39	0.41	0.13	0.25	0.41	0.002	+
C2	C2. "Be responsive to all my utilities-related service needs."	We understand that the customer wants clear, accurate bills with easy methods of payment; access to usage history and enough understanding to efficiently manage usage; to feel quickly and completely "taken care of" when they have concerns, questions or requests and to be communicated with effectively both as individuals and as CPAU's owners. One of the ways to achieve this is to elicit feedback from customers to help improve service.	Customer satisfaction scores on annual surveys for overall value.	Ranking in 85-90%	≥85%	78% Commercial	65% Residential	81% Commercial	86% Residential	80% of all Water Customers	87% Commercial	+
C3.1	C3. "I expect to pay a reasonable bill"	We understand that customers expect their bills to be comparable to those in surrounding communities and do not expect to pay more than PG&E customers. Customers believe it is reasonable to pay slightly more in exchange for increased reliability, safety and protection of the environment. However, customers' overall bills for Utilities services must remain reasonable and should not increase significantly in any one year. Customers also want their bills to provide useful information about their consumption of resources in addition to the rate so that they can understand how they can influence their total cost for Utilities services.	The average combined residential customer bill for electricity, water, gas, and wastewater services.	Less than the average of bills for comparable services in nearby communities (MP, MV, SC, Hayward, RC, Roseville, and Alameda).	Total bill calculation for each month for CPAU and for comparator agencies - this changes every year so Measure Goal Value is not a constant	CPAU: E - \$42.76 G - \$51.03 W - \$43.89 WW - \$24.65 Tot - \$162.33 Nearby community average: \$142.34	CPAU: E - \$42.76 G - \$51.03 W - \$43.89 WW - \$24.65 Tot - \$162.33 Nearby community average: \$152.00	CPAU: E - \$42.76 G - \$51.03 W - \$51.19 WW - \$27.91 Tot - \$172.89 Nearby community average: \$158.93	CPAU: E - \$42.76 G - \$37.49 W - \$62.16 WW - \$29.31 Tot - \$171.72 Nearby community average: \$166.35	CPAU: E - \$42.76 G - \$38.89 W - \$67.35 WW - \$29.31 Tot - \$178.31 Nearby community average: \$177.06	CPAU: E - \$42.76 G - \$37.39 W - \$67.35 WW - \$29.31 Tot - \$176.81 Nearby community average: \$187.05	+
C3.2			Annual rate change	Maximum of 10% per year for electric, gas, and wastewater Utilities service. Maximum of 20% per year for water Utility service.	≤10% for E, G, WWC <20% for W	Effective 7/1/09: E +10% G -10% W +5% WW +5%	Effective 7/1/10: E 0% G 0% W 0% WW 0%	Effective 7/1/11: E 0% G 0% W 12.5% WW 0%	Effective 7/1/12: E 0% G 0%* W -10%* WW 5% *Gas supply rates change monthly	Effective 7/1/13: E 0% G 0%* W 7% WW 0% *Gas supply rates change monthly	Effective 7/1/14: E 0% G 0%* W 0% WW 0% *Gas supply rates change monthly	+
C4	C4. "Care for our environment"	Our community wants its customer-owned utility to offer choices for them to manage their resource use in ways that reflect their environmental values. Utilities will improve existing programs and develop new programs to meet customer needs and allow customers to manage their own environmental footprint.	Percentage of customers participating in the PaloAltoGreen program	Top rank nationally	Top rank nationally	22%	21%	24%	18% - top rank nationally	18% - top rank nationally	N/A	N/A

Measure ID	Strategic Objective	Objective Statement	Performance Measure	2015 Target	Measure Goal Value	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	July - Dec FY 2015	Score (Values: +, -, TBD)
Internal Business Process Perspective												
Safety and Reliability												
BP1.1	BP1. Ensure a reliable supply of utility resources	We will implement strategies that ensure the reliable supply of utility resources to meet present and future needs. To provide opportunities for economic development within Palo Alto, we must provide sufficient resources that meet the short and long-term needs of our customers. To achieve this we will maintain the utility system components, and provide for adequate utility resource supplies to our current and future customers. We will also develop new management practices and organizational structure to ensure compliance with regulatory requirements.	Duration of electric system interruption per year for average customer	Ranks in the top quartile nationwide (less than 60 minutes per customer)	<60	52 min	66 min	15 min	34 min	15.78 min	23 min	+
BP1.2			Response time to all emergency calls	Under 30 minutes	<30m	31 min	27 min	22 min	23 min	22 min	20 min	+
BP2.1	BP2. Operate the utility systems safely	We will continue to ensure the safety of our customers, employees and the community by the ongoing implementation of a safety programs. Protecting customers and employees from injury and customer's property from damage is essential for delivering quality utility services to our customers. The safety programs will be implemented by updating safety procedures, educating customers via outreach materials and workshops, correcting system deficiencies, operating in accordance with existing safety rules, and ensuring that products delivered to customers are safe.	AGA (American Gas Association) Incidence Rate	Zero reportable incidents	0	0	1	0	0	0	0	+
BP2.2			Customer awareness of gas safety issues	90% of customers responding to annual gas customer safety awareness survey	>90%	97.70%	97.50%	96.70%	96%	96%	94.6%	+
BP3	BP3. Replace infrastructure before the end of its useful life	We will continue to implement a long-term strategy for replacing infrastructure before the end of its useful life. Reliable delivery of electric service to our customers is critical for the success of business and the quality of life for our residents. To accomplish this, we will focus on reducing the backlog and replaces infrastructure systems in a manner that spreads the expense across multiple years resulting in program with even expenditures patterns in future years.	Backlog of infrastructure elements whose age is beyond its useful life	Zero	E - \$0 G - \$0 W - \$0 WWC - \$0	NA	E - \$6M G - \$12M W - \$3.1M WW - \$8.5M	E - \$7M G - \$1M W - \$3M WW - \$5M	E \$7M G \$0M W \$7M WC \$5M	E \$6.4M G \$0M W \$4M WW \$3M	Annual Measure	N/A

Measure ID	Strategic Objective	Objective Statement	Performance Measure	2015 Target	Measure Goal Value	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	July - Dec FY 2015	Score (Values: +, -, TBD)
Customer Service Excellence												
BP4.1	BP4. Serve customers promptly and completely	We will provide customers with the highly responsive service they desire. We will do this by reviewing and improving our processes for managing accounts, handling payments, resolving billing issues, responding to information and field service requests and notifying customers during service disruptions. We will identify ways to streamline these processes and implement changes. Specifically, we will review, document and improve business processes that have been identified as having long customer response times.	Average phone wait time	90 seconds or less	<90 sec	70 sec	90 sec	134 sec	107 sec	63 sec	61 sec	+
BP4.2			Number of billing adjustments	10% reduction from number in 2009	FY09 - 3286 90% - 2,958	2,313	909	1,365	1,340	2,743	849	+
BP5	BP5. Communicate clearly and pro-actively with all our stakeholders	We will proactively communicate with all our stakeholders, including all customer groups, civic leaders, community groups and the press. To achieve this objective we will provide the information needed for our stakeholders to effectively access, understand and utilize all utilities services and programs. In addition, we will design communication vehicles and dissemination processes that will enable our residents to be educated owners of their municipal utilities system.	Time until informing the public and local media of a disruption affecting at least 500 customers or any sensitive major customers	Less than 60 minutes after becoming aware of a disruption	<60m	< 90 min	< 90 min	< 90 min	<30 Min	<30 Min	<30 Min	+
BP6	BP6. Offer programs to meet the needs of customers and the community	We will assist customers to lower their cost of utilities services and support the environment. We will assist customers facing economic hardship by offering bill payment assistance programs. We will educate customers on the reasons for and their means of compliance with our safety and regulatory requirements. We will also identify all customer groups, identify any gaps in service provision to those customers, and propose new programs or changes to existing programs to close those gaps.	Participant* satisfaction with Utilities programs (*rebate recipients, workshop attendees, callers, etc.)	At least 90% of program participants satisfied with their experience	≥90%	N/A	95%	Average of all workshops: 94%	Average of all workshop: 95%	Average of all workshop: 95%	Average of all workshop: 95%	+
Reduce Costs												
BP7	BP7. Negotiate supply contracts to minimize financial risk	We will continue to negotiate supply contracts to acquire supply resources while managing supply portfolio cost uncertainty to meet rate and reserve objectives and following sound risk management practices. To ensure that we are buying commodities at as competitive prices as possible, we will negotiate contracts with new counterparties to continue to have a sufficient set of credit-worthy trading partners. We will continue to develop long-term acquisition policies and plans (LEAP) and update those plans at least every three years. We will also determine all that is necessary to execute a gas prepay transaction as that is one clear way to lower the cost of gas supply resources.	Number of competitive bids received for each fixed-price transaction.	Minimum of three electric bids	≥ 3	E - 3.0 bids G - 2.7 bids	E - 2.5 bids G - 1.9 bids	E - 2.75 bids	E - 2.4	E - 3.5 bids	E - 5.0 bids	+
BP8	BP8. Reduce cost of delivering service through best management practices	We will work towards reducing the cost of delivering service to customers. We will identify opportunities to better coordinate between Utilities and other City departments to improve efficient delivery of services. We will perform benchmarking studies to identify potential modifications to procedures, practices, materials, and plans and to ensure that we are following best practices. One best practice is to increase calibration and replacement schedules for gas and water meters since the meters slow over time so that the actual usage is under-recorded, resulting in lost revenue.	"lost and unaccounted for" volumes of gas and water	80% of 2009 levels.	2009 G - 2.6% W - 5.0%	G - 3.2% W - 7.6%	G - 2.9% W - 8.2%	G - 2.8% W - 8.2%	G-2.1% W-7.8%	G-2.5% W-8.6%	Annual Measure	N/A

Measure ID	Strategic Objective	Objective Statement	Performance Measure	2015 Target	Measure Goal Value	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	July - Dec FY 2015	Score (Values: +, -, TBD)
BP9	BP9. Maximize value of existing generation assets	Palo Alto owns significant supply resource assets including a portion of the Calaveras Hydroelectric Project, a contract with the Western Area Power Administration, a permanent allocation of water from the regional water system managed by San Francisco, and allocated capacity on a gas transportation pipeline. We will seek out both daily and operational and long-term opportunities to optimize the value of these assets to enhance revenue and/or to reduce costs. We will work with joint-owners of our resource assets to leverage those resources and advocate to maintain or improve the value of existing resources into the future (LEAP and GULP strategies).	Value harvested from Redwood gas pipeline capacity	100%	100%	97%	99%	99%	100%	100%	100%	+
BP10	BP10. Manage implementation of strategic plan	Completing the strategic plan is only the beginning of getting value from the strategic planning process. Ongoing management of the strategies and initiatives and reporting on progress of those initiatives is essential to achieving positive results from the strategy. We will report to the UAC and Council on plan progress twice annually and we will review and revise the objectives and develop new initiatives on an annual basis.	Number of strategic initiatives completed	100%	100%	N/A	3	8	8	10	13	-
Environmental Sustainability												
BP11	BP11. Increase the environmental sustainability of the supply portfolios	Adding sustainable resources to the supply portfolios will help the City meet its Climate Protection Plan goals by reducing the carbon footprint of the utility services provided to our customers. We will achieve this by acquiring renewable resources and promoting the development of local renewable resources within the rate objectives in the Long-term Electric Acquisition Plan (LEAP).	Carbon intensity of the electric portfolio	80% of baseline (2005) level (320.9)	256.7	331.9	159.8	182.1	249.9	0 (due to implementation of Carbon Neutral Plan)	0 (due to implementation of Carbon Neutral Plan)	+
BP12	BP12. Promote efficient use of resources	Resource efficiency programs meet our customers' desire for environmental solutions that save money as well as contributing towards the Climate Protection Plan goals. We will promote resource efficiency by dedicating the tactical staffing and budgetary resources necessary to reach maximum deployment of economically feasible resource efficiency. We will revise and document our long-term efficiency strategies by updating our 10-year Energy Efficiency goals every three years and updating our water efficiency goals every five years in the Urban Water Management Plan.	Actual annual energy efficiency achievement as percentage of electric and gas load	E - At least as high as annual electric efficiency goal G - At least as high as annual gas efficiency goal	E - 0.60% G - 0.50%	E - 0.47% G - 0.28%	E - 0.55% G - 0.40%	E - 1.52% G - 0.73%	E - .85% G - 1.13%	E - .87% G - 1.16%	Annual Measure	N/A

Measure ID	Strategic Objective	Objective Statement	Performance Measure	2015 Target	Measure Goal Value	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	July - Dec FY 2015	Score (Values: +, -, TBD)
People and Technology Perspective												
PT1	PT1. Be an attractive place to work	We will create a positive values-based work environment which attracts and retains qualified staff. To achieve this objective we will try to better understand employees desires, work with City management to establish sufficient compensation, benefits, and incentives, and will articulate our values both internally and as we recruit.	Employee satisfaction rating	Improvement from 2011 baseline level	100%	N/A	N/A	62.7% - Satisfied 12.7% - Neutral	66.3% - Satisfied 12.5% - Neutral	72.5%- Satisfied 5%- Neutral	62.4%- Satisfied 15.6%- Neutral	-
PT2	PT2. Develop and train employees to ensure a qualified workforce	A properly trained and certified workforce is essential to our effectiveness. We will identify skill gaps at the individual and organizational levels and seek to fill those gaps through the effective use of opportunities including mentorship programs, role rotations, knowledge transfer opportunities and both internal and external training opportunities. We will plan for workforce succession and provide cross-training opportunities for employees to improve employee satisfaction and build a more robust work force	Percentage of operations personnel that has appropriate certification and training required for working in all areas they may be assigned	100%	100%	100%	100%	100%	100%	100%	100%	+
PT3	PT3. Ensure employees have adequate tools to perform job duties	As major users of technology assets, we must have access to quality and timely delivered IT services. We must build and maintain an effective relationship with the City's IT division that includes clear, frequent communication as well as productive coordination. We will collaborate with IT to identify barriers to providing support for technology projects and remove them. In those instances in which our immediate technology needs cannot be addressed by the City's IT division in a timely or sufficiently-comprehensive fashion, we will utilize external expertise.	Technology needs being met	100% for all Utilities work groups	100%	N/A	N/A	N/A	N/A	N/A	N/A	-
PT4	PT4. Investigate and adopt innovative technologies	Our customers value Utilities embracing new technologies that will help reduce costs and/or meet Climate Protection Plan goals. We will innovate by researching technologies and cultivating relationships with entrepreneurs and academics to identify new cost-effective and environmentally sustainable technologies to consider adopting. Review of Utilities Technology needs was completed in 2014 and a technology strategic plan is expected to be completed by the end of CY 2015. New technologies, programs, and projects identified in the plan will be implemented in the subsequent years.	Number of new technologies evaluated per year	Three	>3	N/A	N/A	N/A	13	15	7	+

Measure ID	Strategic Objective	Objective Statement	Performance Measure	2015 Target	Measure Goal Value	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	July - Dec FY 2015	Score (Values: +, -, TBD)
Financial Perspective												
F1	F1. Maintain financial strength	Maintaining a high credit rating reduces the cost of borrowing if needed for capital projects. We will continue best practices for financial management, adhere to energy risk management policies and guidelines and maintain sufficient reserves to cover debt obligations as required to retain CPAU's current favorable bond rating so that the cost of capital is low for any bond funded capital projects.	Credit rating	At least AA as determined by Fitch Ratings or Standard and Poor's or at least Aa3 as determined by Moody's	<=AA or <=Aa3	S&P = AAA Moody's = Aa3	S&P = AAA Moody's = Aa2	S&P = AAA Moody's = Aa2	S&P = AAA Moody's = Aa2	S&P = AAA Moody's = Aa2	S&P = AAA Moody's = Aa2	+
F2	F2. Maintain adequate reserves	Maintaining adequate cash reserves contributes to maintaining our overall financial health and retaining our current favorable bond rating. We will maintain Rate Stabilization Reserves levels within Council-approved guidelines and sufficient to provide rate stability as desired by ratepayers. During the annual budget and rate setting process, the risks that each Utilities fund is exposed to will be identified along with the trajectory of costs and revenues to allow Council to determine appropriate reserve levels and rate adjustments.	Rate Stabilization Reserve levels	Adequate to cover expected costs over a two-year period while meeting rate stability objective	Above rate stabilization reserve levels	All RSRs are above minimum guideline levels.	All RSRs are above minimum guideline levels.	All RSRs are above minimum guideline levels.	All RSRs are above minimum guideline levels.	All RSRs are above minimum guideline levels.	All RSRs are within Operations reserve guideline levels.	+
F3	F3. Implement rate structures that balance cost of service and resource conservation	Retail rates should be designed so that the revenues from a customer group match the cost to serve those customers. Rates consist of fixed charges and volumetric charges, which are based on usage. Fixed costs consist of customer-related costs (meter reading, billing, etc.) and costs related to capital projects and operations while variable costs include the cost of buying supplies (water, gas, or electricity). When fixed costs are recovered through charges based on usage, costs will not be recovered if customers reduce usage more than projected. To address this problem we will implement rate structures that strike a balance between the two competing objectives (cost of service and resource efficiency) to ensure that certain fixed costs are recovered with a fixed charge, but other costs are recovered with charges that vary depending on usage (volumetric charges).	Fixed charges on Utilities rates	By 2013, adequate to cover 100% of the fixed costs of meter reading, billing, and other customer-related costs	E - 100% G - 100% W - 100% WWC - 100%	N/A	E - NA G - NA W - 50% WWC - 100%	E - NA G - 100% W - 100% WWC - 100%	E - NA G - 100% W - 100% WWC - 100%	E - NA G - 100% W - 100% WWC - 100%	E - NA G - 100% W - 100% WWC - 100%	-
F4	F4. Provide a fair return to the City	CPAU provides an equity transfer to the City of Palo Alto's General Fund which provides a return on the City's original investment in the Utilities and reflects the City's ultimate responsibility for Utilities operations. Council approved the current equity transfer method in May 2009. The equity transfer is used by the General Fund as determined by the City Council and supports activities such as fire, police and library services to the City residents and businesses. This benefit, along with favorable rates and utility services, is a key value provided to the community from municipal ownership of Utilities.	Equity transfer to the City's General Fund	100% of the transfer as calculated by the Council-approved equity transfer methodology and permitted by law.	100%	100%	100%	100%	100%	100%	100%	+