TO:                HONORABLE CITY COUNCIL
FROM:              CITY MANAGER                     DEPARTMENT: UTILITIES
DATE:              JULY 9, 2007                     CMR:280:07
SUBJECT:           APPROVAL OF CONSULTING CONTRACTS WITH NAVIGANT
                   CONSULTING FOR ELECTRIC REGULATORY AND TECHNICAL
                   CONSULTING FOR A TOTAL AMOUNT OF $325,000; AND $325,000
                   FOR GAS REGULATORY AND TECHNICAL CONSULTING; AND
                   FLYNN RESOURCE CONSULTING INC. FOR ELECTRIC
                   REGULATORY AND TECHNICAL CONSULTING FOR A TOTAL
                   AMOUNT OF $150,000 FOR THE FISCAL YEARS FY2007-08, FY2008-09
                   AND FY2009-10

RECOMMENDATION

Staff recommends that City Council:

1. Approve and authorize the City Manager to execute the attached contracts with Navigant
   Consulting for Electric Technical and Regulatory Consulting Services, Flynn Resource
   Consulting Inc. for Electric Technical and Regulatory Consulting Services, and Navigant
   Consulting for Gas Regulatory and Technical Consulting Services; and

2. Authorize the City Manager to extend the contracts annually for up to two additional
   years, subject to Council approval of sufficient funds.

The annual contract amounts by fiscal year and by fund for the consulting services are as
follows:

<table>
<thead>
<tr>
<th>Contract</th>
<th>FY 07/08</th>
<th>FY 08/09</th>
<th>FY 09/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Navigant Consulting/Electric</td>
<td>$150,000</td>
<td>$100,000</td>
<td>$75,000</td>
</tr>
<tr>
<td>b) Flynn RCI/Electric</td>
<td>$ 50,000</td>
<td>$ 50,000</td>
<td>$ 50,000</td>
</tr>
<tr>
<td>c) Navigant Consulting/Gas</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$125,000</td>
</tr>
</tbody>
</table>
BACKGROUND
For more than a decade, the City has retained consultants to assist staff in the electric and gas regulatory, legislative, and technical consulting areas. The City’s current electric regulatory consultants provide assistance to the City in the area of regulatory and Bay Area transmission planning proceedings at the California Public Utilities Commission (CPUC), California Independent System Operator (ISO), California Energy Commission (CEC), and Federal Energy Regulatory Commission (FERC). The City’s gas consultant provides assistance in regulatory proceedings at the CPUC and with Pacific Gas and Electric Company (PG&E) matters including the Gas Accord IV settlement process.

DISCUSSION

Electric Consulting Services
The California electricity markets continue to evolve, with a new transmission market design expected to be implemented in January 2008. During the next three years, State and Federal electric regulatory proceedings which may affect the City of Palo Alto and its customers, will continue in several major areas. Issues before the regulatory bodies include: new transmission market implementation in 2008 and updates to the design in subsequent periods; long-term transmission grid planning and investment; transmission access charge settlement and implementation; new transmission grid reliability standards with increased regulatory filing requirements for the City as a distribution service provider; and new legislative and regulatory compliance and reporting requirements related to energy efficiency, demand reduction, renewable energy supply, and greenhouse gas emissions.

The City advocates at the state and federal levels for long-term solutions to improve reliability of electricity supply in the Bay Area. The City also works closely with other municipal utilities and electric consumer groups in the Bay Area in planning and advocating for additional new transmission and generation projects.

Consultant assistance is needed to supplement staff resources in conducting technical and economic studies for projects in the areas of cost-effective demand reduction, local distributed cogeneration, renewable energy programs, greenhouse gas reduction and reporting, and enhanced transmission and distribution infrastructure alternatives.

Gas Consulting Services
During the next three years, CPUC proceedings, such as PG&E’s Biennial Cost Allocation Proceeding (BCAP), will be of interest to the City. In addition, because the recently settled Gas Accord IV will expire December 31, 2010, the process for determining the post-settlement rules will begin in late 2009. Other matters of interest to the City may arise at the CPUC or at the FERC that require analysis and/or subsequent action by Council. Consulting assistance is also needed to supplement staff resources in developing programs, projects, and reporting for natural gas energy efficiency, solar hot water and heating, and greenhouse gas reduction.
### Selection Process

In March 2007, a Request for Proposals (RFP) was sent to 16 consulting firms known to offer relevant services. The RFP allowed consultants to respond to any or all of the major sections of the scope of work. These sections were: Electric Technical Consulting and Legislative and Regulatory Services; and Gas Technical Consulting, and Legislative and Regulatory Services. The RFP also stated that more than one consultant firm could be retained to perform tasks outlined in the scope of work.

A total of three firms submitted proposals responding to all or parts of the scope of work. A selection advisory committee consisting of three members of the Utilities Resource Management Division reviewed each firm's qualifications and submittal in response to the RFP. Major evaluation criteria included experience of the firm and the individuals performing the tasks, quality of services to be provided, cost, financial stability of the firm, recent dealings with relevant agencies, and quality and completeness of the proposal.

Navigant Consulting was selected as the sole consultant for the gas regulatory and technical consulting. Navigant Consulting and Flynn RCI were selected for the electric regulatory and technical consulting.

### RESOURCE IMPACT

The total electric budget impact by fund and by fiscal year is show below:

<table>
<thead>
<tr>
<th></th>
<th>FY 07/08</th>
<th>FY 08/09</th>
<th>FY 09/10</th>
<th>3-year total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative and regulatory Consulting</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>Alternative Resource Analysis</td>
<td>$150,000</td>
<td>$100,000</td>
<td>$75,000</td>
<td>$325,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$200,000</strong></td>
<td><strong>$150,000</strong></td>
<td><strong>$125,000</strong></td>
<td><strong>$475,000</strong></td>
</tr>
</tbody>
</table>

The total gas budget impact by fund and by fiscal year is show below:

<table>
<thead>
<tr>
<th></th>
<th>FY 07/08</th>
<th>FY 08/09</th>
<th>FY 09/10</th>
<th>3-year total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative and regulatory Consulting</td>
<td>$ 75,000</td>
<td>$ 75,000</td>
<td>$125,000</td>
<td>$275,000</td>
</tr>
<tr>
<td>Alternative Resource Analysis</td>
<td>$ 25,000</td>
<td>$ 25,000</td>
<td>$ 0</td>
<td>$ 50,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$100,000</strong></td>
<td><strong>$100,000</strong></td>
<td><strong>$125,000</strong></td>
<td><strong>$325,000</strong></td>
</tr>
</tbody>
</table>
Funds for FY07/08 are included in the electric and gas fund budgets. Funds for subsequent years will be subject to appropriation of funds in subsequent budgets.

**POLICY IMPLICATIONS**

This recommendation is consistent with the Council-approved Utilities Strategic Plan to obtain reliable electric and natural gas supplies and to preserve a supply cost advantage compared to the market.

**ENVIRONMENTAL REVIEW**

These services do not constitute a project for the purposes of the California Environmental Quality Act.

**ATTACHMENTS**

A. Contract: Navigant Consulting, Inc. – Electric Regulatory Consulting  
B. Contract: Flynn Resource Consulting Inc. – Electric Regulatory Consulting  
C. Contract: Navigant Consulting – Gas Regulatory Consulting

**PREPARED BY:** KARLA DAILEY  
Resource Planner

**DEPARTMENT HEAD:**  
_________________________  
VALERIE O. FONG  
Director of Utilities

**CITY MANAGER APPROVAL:**  
_________________________  
EMILY HARRISON  
Assistant City Manager