

FINAL

UTILITIES ADVISORY COMMISSION MINUTES OF SEPTEMBER 2, 2009

CALL TO ORDER

Chair Melton called to order at 7:05 p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Ameri, Berry, Eglash, Foster, Melton and Waldfogel, Council Member Yeh

Absent: Commissioner Keller

ORAL COMMUNICATIONS

There were two speakers regarding the Electric Vehicle informational report. The first speaker indicated that there were non-profit agencies willing and able to assist in the introduction of electric vehicles into the community.

The second speaker felt that the harmonic distortion generated by the electric chargers would not have a significant negative impact on the electric distribution system and neutral conductors would not need to be replaced.

APPROVAL OF THE MINUTES

The minutes from the August 10, 2009 UAC special meeting were unanimously approved.

AGENDA REVIEW

Utilities Director Valerie Fong stated that the second item under New Business would be presented before the first item under New Business.

REPORT FROM COMMISSION MEETINGS/EVENTS

Commissioner Melton reported that a meeting of the Council Ad Hoc Subcommittee was held and that a plan was set out, but no decisions were made.

UTILITIES DIRECTOR REPORT

Utilities Director Valerie Fong delivered an oral report on the following items:

1. **Electric-related Hydro Conditions:** No new news to report except that the Central Valley Project reservoirs are 15 to 40% lower than average for this time of year, a several percent improvement compared to last year at this time. Low market prices have caused the Calaveras project to retain water and it has 15% more storage than average for this time of year.
2. **Water Supply Conditions:** As of the first of August, the total water in storage for the regional water system operated by the San Francisco Public Utilities Commission was about 94% of capacity. San Francisco has received about 75% of the water it does in an average water year from runoff in the Tuolumne River watershed for the water year to date (October 1, 2008 to July 31, 2009). Very little additional precipitation or runoff into the system is expected until the winter months.

3. **Marketing:** Staff is developing a business energy efficiency financing (BEEF) program and thanks Vice Chair Waldfogel for assisting in program development and identifying the third-party implementation approach. More information on this program is available in the UAC informational report. Also working with the Bay Area Water Supply and Conservation Agency (BAWSCA) on jointly developed Indoor and Landscape Water Ordinances. The State Department of Water Resources (DWR) has a model landscape water ordinance, which will go into effect for all water agencies, including Palo Alto, as of January 1, 2010 if the City does not pass its own ordinance that is at least as effective. The BAWSCA agencies are working to develop an ordinance that meets the needs of Bay Area communities.
4. **Street Light Pilot:** Staff had a public meeting with residents on August 18th and conducted a walking tour of the Light Emitting Diode (LED) and Induction streetlight fixtures along Colorado and Amarillo Avenue. Approximately 20-25 residents participated and staff received valuable input. Staff is working with Pacific Northwest National Lab to analyze the data and expects to present the results and recommendation for next steps to the UAC by February next year. Commissioner participation by the September 7 deadline in the web-based survey was encouraged. A second pilot test area is around City Hall with two LED fixtures on Bryant Street right at the City Hall garage entrance/exit, and two Induction fixtures at the City Hall garage entrance on Ramona Street.

Smart Grid Evaluation: Staff met with Commissioner Eglash and Vice Chair Waldfogel, along with Don Von Dollen from EPRI who is also the City's smart grid expert advisor to seek input on the City's upcoming RFP for consultants. The purpose of the RFP is to hire a consultant who will help analyze smart grid applications for the City and evaluate the benefits and costs of such applications. The RFP will be issued by the end of this month, and the consultant should be on board towards the end of the year.

5. **Renewable Electric Supplies:** Council approved execution of a 20 year Power Purchase Agreement for 1.4 Megawatts (about 1.1% of our electric needs) of landfill gas fired power located in Gonzales, CA. Remaining renewable energy gap to fill is about 12% by 2015. Staff is negotiating with proposers for additional supplies to fill that gap.
6. **Legislative Update:** AB 162 (Ruskin), the NCPA-sponsored effort to streamline and consolidate the CEC reporting process has made its way through the legislative portion of its journey, and now awaits the signature of Governor Schwarzenegger. The two RPS bills (AB64 and SB14) remain on the table and are set for hearing in the Senate and Assembly respectively. Remaining issue with both these bills is the definition of deliverability of out-of-state renewables. There is wide-spread concern that the deliverability language will severely restrict the ability to count imported renewable power (mostly wind) towards RPS targets, thereby restricting the State's ability to reach its 33% target and increasing costs to ratepayers in California.
7. **Evaluation of Energy Efficiency Potential and EE program status update:** Staff is working with NCPA, NCPA's contractor (Summit Blue) and in-house resources to update the energy efficiency potential. The electric update must be delivered to the California Energy Commission with the annual energy savings report early in 2010. More information on the electric, natural gas, and water potential studies will come to the UAC in the next couple of months. In preparation for reporting to the CEC and others on program results, staff is now beginning the process of analyzing all programs for effectiveness on multiple factors. These draft reports will be available by the end of the calendar year. Finalized reports will be delivered to NCPA by January. A comprehensive NCPA report covering all NCPA members will be filed with the CEC by March 2010.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 2: PRESENTATION ITEM: Gas & Electric Commodity Portfolio

Utilities Director Valerie Fong explained that staff would first present how the gas and electric portfolios are managed according to the policies and guidelines currently in place. After that, staff would present the potential elements of and existing policy drivers for a Rates Policy.

Senior Resource Planner Karla Dailey presented information about the gas portfolio management practices. First she reviewed the Gas utility long-term Plan (GULP) objectives and guidelines. Information was presented on the two portions of the portfolio: the pool and the large customer group. Dailey described how gas is purchased to match the large customers' rate elections and that the laddering strategy is applied to the pool. Gas cost management tools were reviewed and Dailey showed how stable supply costs and stable rates have been achieved through the procurement strategy. It was shown how different PG&E's purchasing strategy is and how Palo Alto's current portfolio strategy will not achieve the objective of rates competitive with PG&E's. The relationship between costs, rates and reserve needs was discussed, and Dailey re-emphasized the need for clear rate objectives in order to design the appropriate procurement plan.

Senior Resource Planner Monica Padilla presented information about the electric portfolio management practices. Padilla first presented major challenges and uncertainties facing the Electric Utility and provided a high-level overview of the Council-approved Electric Utility Long-term Electric Acquisition Plan (LEAP) and its eight guidelines. Padilla's presentation focused on the LEAP guideline related to managing the market cost uncertainty portion of electric portfolio. Specifically, she presented the current short-term laddering strategy which sets load and resource balance bands for the prompt 36 month period. She also discussed the factors considered when deciding how much energy to buy at a fixed-price going forward within the load and resource balance bands. Such factors include; market price uncertainty; hydro supply uncertainty; budget and reserve requirements; and wholesale market conditions and liquidity. Padilla summarized her presentation by showing that the benefits of implementing a laddering strategy are to reduce market cost uncertainty to aid in meeting the Utilities' objective of providing low and stable rates. She also concluded that the laddering strategy does not achieve lower expected cost or reduce cost uncertainty related to hydro supply variability which remains the largest cost uncertainty in the electric portfolio.

ITEM 1: PRESENTATION ITEM (moved to after Item 2): Rates Policy Review Workshop

Senior Resource Planner Ipek Connolly discussed general ratemaking objectives that are widely used by the industry, provided an overview of relevant sections of the current policies and guidelines related to rates (e.g., the City Charter, Municipal Code, Utilities Strategic Plan, Energy Risk Management Policy, and legislation and regulations), provided an overview of rate design options to meet ratemaking objectives and discussed the balancing of the objectives that may be in conflict. In general, documents such as the current Utilities Strategic Plan and the Energy Risk Management Policy refer to the provision of stable rates to Utilities customers. Conflicting objectives must be balanced. For example, pricing that encourages

conservation could be in conflict with a principle to have rates reflect costs. These objectives can be balanced by using tiered pricing to encourage conservation while ensuring that there is no subsidization of costs between customer classes. Also, a stable rate objective may conflict with sending a price signal to customers. These objectives may be balanced by managing the portfolio for stable costs or the use of "hydro cost" or "power cost" adjustments that change as required to pass on a portion of the cost signals sooner.

A list of elements of a draft Rates Policy was presented as follows:

- Required Elements:
 - Recovery of all costs
 - Provision of equitable returns to the City
 - No undue discrimination
 - No subsidization between customer classes
- Key Objectives:
 - Rate and revenue stability
 - Efficient pricing
 - Providing appropriate price signals to encourage efficient use of resources
 - Reflecting marginal costs where applicable (e.g., time-of-use rates or time varying pricing)
 - Reflecting values established by Council
 - With care for fairness and equity
- Desirable Attributes:
 - Simplicity and understandability
 - Easy and low cost to implement

Commissioner Foster asked if the stable rates objective was quantitative or qualitative? Fong answered that it was more qualitative. Chair Melton added that there is some quantitative piece in that the practice has been that rates only change once per year. Fong added that another quantitative component might be that generally rates would not change by more than 10 percent. Foster noted that his assumption is that there isn't a lot of control and that we try to get it as stable as you can given market realities. He also assumes that stable rates do not lead to lower overall prices, but there is an objective to promote lowest cost service understandably. He asked how those two balance against each other. Fong responded that it is indeed a balance. Foster asked if there were any steps we could do in our purchasing strategies to lower cost or is it really that instead we must focus on stability. Fong said that it depends on the commodity. For gas and electric, we bid things out among many qualified counterparties and buy from the lowest cost provider. For water, we only have one supplier and we buy it at the cost. Foster added that he supported the stability objective, but wondered if there was a price to that stability. He asked if it was a fair assumption that over time, having stable costs or buying from the varying market, will result in about the same cost. Or is there a significant price to be paid by buying that stability. Fong said that over time, the cost would be the same whether we purchased on the longer term versus following a PG&E type strategy of following the market prices up and down.

Commissioner Berry asked if the proposed Rates Policy was any different from what it was in the past. Fong said that there hasn't been a Rates Policy in the past and that staff was bringing it forward now as it had promised to have such a discussion with the commission, especially since the City was migrating to a new billing system. Chair Melton offered as historical background for the new commissioners that this has not been reviewed in the past, but that stable rates has been a continuing objective.

Chair Melton asked about the capabilities of the billing and metering systems to implement Time-of-Use (TOU) or time varying rates. Fong responded that there is not yet full deployment of TOU-capable meters citywide.

Vice Chair Waldfogel asked how exposed the City is to peak costs. Padilla said that we are exposed to the spot markets, but we do have the Calaveras Hydroelectric Project that can be dispatched when prices are very high.

Commissioner Eglash asked if the largest commercial/industrial customers have TOU meters. Fong responded in the affirmative.

Chair Melton asked whether there were any constraints deriving from Proposition 218 with respect to ratemaking. Connolly responded that the rates were in compliance with Prop. 218 and that tiered pricing is acceptable as was made clear from a recent court case.

Chair Melton asked the commissioners if they had any advice to offer staff with respect to the Rates Policy. Commissioner Eglash said that rate schedules should be structured so that fixed charges cover all fixed costs and inclining block rates encourage conservation. Vice Chair Waldfogel asked whether there were any directives from the law requiring adoption of a landscape ordinance. Melton said that the rates should provide more incentives for customers to conserve. Melton said that there might be a caveat for residential water use to allow time for residents to transition to new, more water efficient landscaping.

Council Member Yeh asked if the load forecasts include efficiency improvements. Staff advised that the planned efficiency gains are incorporated into the forecasts. Yeh asked if other agencies have Rates Policies. Connolly replied that some do, but many do not and she has not completed her research in this area.

Vice Chair Waldfogel asked about the cost impact of exposure to spot market prices. Staff replied that the exposure is generally small since high prices may only last for a few hours or days for the small volumes that are exposed.

Commissioner Foster noted that he supported maintaining the goal of rate stability. He believes that most would support that strategy if they knew about it. Padilla stated that large customers do know about it and have used available tools to manage their costs.

Chair Melton said that for electric, hydrologic risk is the biggest source of risk and that it is managed by the maintenance of the rate stabilization reserve. It is worth looking at an approved variable rate component, or hydro cost adjustment, to reflect hydro conditions to allow rates to automatically go up in dry conditions and go down in wet conditions. Commissioner Foster asked if the objective would be to lower the reserve or to encourage conservation in dry years. Melton replied that it would be to bring rates more in line with costs. Commissioner Berry said that if that was done and the reserve was reduced, what would be done with the money currently in reserve – how would it be returned to the customers? Melton replied that it could be returned in the form of lower rates.

Commissioner Foster again announced his support for stable rates and asked other commissioners for their input. Melton answered that stable rates was important, but encouraging efficiency is important as

well by sending the proper price signal to customers. Vice Chair Waldfogel said that he was not ready to take a position on stability versus conservation pricing. He asked Council Member Yeh for his advice on the most effective way to get input and establish this policy. Yeh said that the Council Ad Hoc Subcommittee is discussing how to engage the community as effectively as possible, specifically on these policy issues.

ITEM 3: ACTION ITEM: Use of Up to \$2 Million in Calaveras Reserve Funds for an Energy Efficiency Financing Program for Nonresidential Customers

Utility Marketing Services Manager Joyce Kinnear provided a brief history of the development process of a business energy efficiency financing program. She described the objectives of the program and why a third party program provider is being sought. Finally, she pointed out that staff is recommending that the funds for this program come from the Calaveras Reserve.

Commissioner Eglash mentioned that the UAC report suggests that the attorney's office is reviewing whether or not a lien can be placed against the property if a tenant has the loan, but in the meantime the owner will be asked to co-sign a loan. He asked if staff believes that owners will be willing to do so. Kinnear responded that the owners who have spoken with staff have stated that they would due to the fact that they typically have a low vacancy rate, owners would typically want to be involved in a process where modifications are being made to their property, and owners are used to paying the utility bills once a space is vacant.

Commissioner Foster asked if such a program would be helpful to businesses like his, which has a triple net lease where his company pays a percentage of total building utility charges. Kinnear responded that the loan may be helpful for some in a triple net lease, but not all, and staff continues to search for appropriate programs for these types of customers.

Commissioner Berry asked if the program would fund natural gas installations. Director Fong responded that they would not, as the funds would come from the electric utility. Chair Melton wanted to know if staff had reviewed whether other sources of funds were available for this type of program. Kinnear responded that they had, and if the program were to be funded by the public benefit funds, many other programs would have to be eliminated or severely restricted, which was deemed not to be acceptable nor appropriate under current state law and city goals and plans. Commissioner Eglash then asked if it would be legal to have a voluntary additional charge on the natural gas bill to fund such a program, and Kinnear responded that it would.

Lisa Van Deussen, an employee of Wave One (a group working to improve the environmental responsiveness of small businesses) and a resident of Palo Alto, spoke to the program. She praised the program and supported the necessity for operating the program with a third party consultant. She also pointed out that loans currently budgeted for up to a four year period might come early in the program, and the program should be designed with that flexibility.

Action: Vice Chair Waldfogel moved the staff recommendation to recommend Council direct staff to design a financing program for small commercial customers with initial funding of \$2 million from the Calaveras Reserve. Commissioner Eglash seconded the motion. The motion passed unanimously (6-0).

ITEM 4: ACTION ITEM: Staff Recommendation that Utilities Advisory Commission Recommend Council Adoption of a Resolution Approving Changes to the City of Palo Alto Utilities Procedures for Customer Credit Security in Accordance with the Fair and Accurate Credit Transactions Act of 2003

Assistant Director Tom Auzenne said that he was available to answer any questions the UAC might have about the FACT Act or the report. Vice Chair Waldfogel questioned whether the City's procedure could be considered to be a best management practice. Auzenne responded that it could. This process in Palo Alto is a work in process, based on research with many other agencies. Waldfogel then questioned whether NCPA has a reference policy for Palo Alto to use. Director Fong responded that NCPA does not have such a policy for comparison, and that NCPA's customers are other utilities, including the City, and not direct consumers.

ACTION: Commissioner Eglash moved the staff recommendation to recommend Council approve changes to procedures in accordance with the FACT Act. Commissioner Foster seconded the motion. The motion passed unanimously (6-0).

ITEM 5: DISCUSSION ITEM: Potential topic(s) for Discussion at Future UAC Meetings

Director Fong announced that a joint meeting with the UAC and Council was scheduled for October 5, but the agenda would be related to the discussions of the Council's Ad Hoc Subcommittee on the UAC role. Another joint meeting with the UAC and Council has been scheduled for November 9, which will be the normal annual discussion with the Council of the UAC's work plan for the year.

INFORMATIONAL REPORTS

The following reports were provided for information only, but were not discussed by the commission:

- Potential Load Impact of Electric Vehicles on Palo Alto's Electric Distribution System
- 2009 Statewide and Palo Alto Residential Water Customer Satisfaction Survey Results

Meeting adjourned at 10:02 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities