

# FINAL

## UTILITIES ADVISORY COMMISSION MINUTES OF JANUARY 7, 2009

### CALL TO ORDER

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Chair Dawes called to order at 7:00 P.M. the scheduled meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Dexter Dawes, Marilyn Keller, John Melton, Dick Rosenbaum, Asher Waldfogel and Council Member Yiaway Yeh

### ORAL COMMUNICATIONS

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NONE

### APPROVAL OF THE MINUTES

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The minutes from the December 3, 2008, were unanimously approved.

### AGENDA REVIEW

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No changes to the agenda were requested.

### REPORT FROM COMMISSION MEETINGS/EVENTS

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NONE

### UTILITIES DIRECTOR REPORT

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Director Valerie Fong provided the following oral report:

All City departments are undertaking initiatives to reduce the City's 2009 Green House Gas emissions by 5% below 2005 emission levels. This initiative was contemplated in the City's December 2007 Climate Protection Plan. One of the main aspects of this initiative is to increase the awareness among all employees of ways to reduce their energy consumption and to encourage recycling. The actual achievement will be measured at the end of the year based on actual electricity, gas, fuel, and paper use by the City, along with solid waste generated and employee commute mile estimates.

In news from Utility Marketing Services:

- Roche's PV is up and running. It was completed and permitted on schedule to allow Roche and their contractor, Solar Power Partners, to receive their tax credit (the law required construction to be completed by the end of the calendar year).
- The Residential New Construction Program has been developed in coordination with the City's Development Center staff and requirements of the Green Building Ordinance brochure.
- The joint project of water conservation programs at Lytton Gardens, Residential Energy Assistance Program, and Right Lights+ has resulted in a great synergy of savings for this low-income senior

center. The old, water-wasting toilets have already been changed out and lighting fixtures in both the residents' rooms and central hallways are to be replaced in February.

- PaloAltoGreen now has a Facebook account and a MySpace page. Both are accessible from the Utilities website at <http://www.cityofpaloalto.org/depts/utl/residential/programs.asp>

To clarify discussion from last week's UAC meeting, contracts for renewable energy that emanate from the NCPA Green Power Pool (NGPP) process do not go to the UAC for review or recommendation. These contracts are executed under the authority granted by the Council and are in compliance with all guidelines set by the Council.

Chair Dawes asked about the reporting period for the Climate Protection Plan. Staff clarified that the goal for 2008 is a 5% reduction in greenhouse gas emissions from 2005.

Commissioner Waldfoegel asked why renewable contracts are not brought to the UAC as it seems to be part of the UAC's charter to review the supply sources. Fong explained that this particular renewable contract with NCPA stems from a 2007 solicitation and that, as long as the terms of the contract are consistent with those adopted by the Council, then contract does not need UAC review or approval. In fact, the maximum price for these NGPP contracts was increased with the Council's prior approval.

Commissioner Rosenbaum asked about the item on the January 12 Council agenda regarding the emergency water storage project. Fong said that she would forward a link to the report to the UAC when it becomes public, which is expected to be by Friday, January 9.

## **UNFINISHED BUSINESS**

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NONE

## **NEW BUSINESS**

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### **ITEM 1: INFORMATION ITEM: Natural Gas Prepay Transactions Market Update**

Senior Resource Planner Karla Dailey provided a summary of the overall concept of natural gas prepay transactions and introduced Sandra McDonald of McDonald Partners, who was engaged to assist the City in the evaluation of gas prepays.

Sandra McDonald explained how the current credit climate renders gas prepay transactions uneconomic. She emphasized that new municipal bond buyers, the supply of fixed rate bonds and the improvement in municipal credit spreads must all occur for gas prepay transaction to resume. McDonald predicted that future transactions will be shorter in term, smaller in dollars, and discounts will be lower than those realized in the past two years. She summarized the case study of a gas transaction that unwound due to the collapse of Lehman Brothers, the guarantor of municipal bonds used for the prepay. McDonald explained that the deal was terminated in accordance with the structure of the agreements in place and that the municipal utilities paid only for gas received.

Council Member Yeh asked about how gas prepays are affected by the credibility of credit ratings, in light of the reliability of the underlying ratings given the recent track record of the rating agencies. McDonald replied that there is pressure on the ratings agencies to change how they do business and that there is a high likelihood that new regulations will be put into place. She also conjectured that there would conceivably be competition amongst the rating agencies with market participants relying on other smaller or independent rating agencies or doing their own more rigorous counterparty credit assessments. Yeh asked about the financial health of gas suppliers. McDonald noted that many suppliers are doing very well,

including JPMorgan, Merrill Lynch (as part of Bank of America) and BP. Yeh, noting that Ms. McDonald stated that in the future, gas prepay transactions are likely to be smaller than they have been in the past, asked how much smaller she expects them to be. McDonald responded that will be in the range of \$400 million, instead of \$1 billion.

Commissioner Rosenbaum asked about the \$700M municipal bond guaranteed by Lehman Brothers. McDonald explained that the parties who stand to lose money as a result of the default are the bond holders, who are now in line, with Lehman's other creditors, to receive some fraction of the termination payment that is owed to them, and the municipal utilities did not have any obligation to pay the bond holders.

Commissioner Dawes asked about the impact of a large gas prepay bond on a municipality's credit rating. McDonald explained that most prepay deals are achieved through a financing authority, or conduit, that is separate from the municipal entity. In that case, the annual payment would be treated like any other operating expense and the transaction would have no impact on the City's credit rating.

## **ITEM 2: INFORMATION ITEM: Annual Report on Efficiency, Conservation, and Renewable Programs**

Utility Marketing Services Manager Joyce Kinnear provided an update on the energy efficiency and water conservation programs as of the end of Fiscal Year 2007-2008. The update included status updates on program effectiveness compared to the Ten Year Energy Efficiency Program goals and the 2005 Urban Water Management Plan. Also included in the report was information on the programs' successes which will be provided to the California Energy Commission by March 2009, as required by state law, and to the California Urban Water Conservation Council during January 2009.

When reviewing the quantitative goals for the programs, Commissioners Waldfoegel and Keller asked for clarification about the meaning of the term "lifecycle savings". Kinnear explained that different items have a different projected lifetime, and the lifecycle savings are those savings expected over the lifetime of an item replaced during a particular year. Chair Dawes further clarified that in any one year there are pieces of equipment replaced. And that the entire lifetime savings for those items replaced in a year are that year's lifecycle savings.

In discussions of the 2005 Urban Water Management Plan and the reporting of Best Management Practices, Commissioner Keller asked if the programs deal with residential gray water. Kinnear stated that customers are allowed to use gray water systems, but no program is currently provided and customers are encouraged to talk with the Development Center to properly install gray water systems to avoid health concerns. The stormwater program does have a rebate for rain barrels. Commissioner Keller further requested clarification on the water conservation goals, asking why the conservation goals were less than 10% of total consumption (as requested in the current drought), and whether savings should be reported on a per capita basis to account for increases in population. Assistant Director Jane Ratchye explained the process of developing the 2005 Urban Water Management Plan and the current effort underway to update the consumption forecast and savings goals for the 2010 Plan. Ratchye detailed some of the history behind water conservation in Palo Alto and explained the differences between ongoing "passive" conservation from plumbing code changes and "active" conservation due to implementation of programs. Population growth is embedded in the consumption forecasts and the goals and projections for conservation. Kinnear further stated that Palo Alto is a high achiever in the Santa Clara Valley Water District (SCVWD) water programs, but every effort is being made to enhance and improve customer information about the programs as we move into the third low water year, which may be declared a

drought. Commissioner Dawes wanted to know if the SCVWD programs included new construction. Kinnear stated that they do not include new construction, but that staff has assisted customers in these situations and will continue to do so.

When reviewing the historical expenditures on efficiency and conservation programs, Commissioner Dawes asked how much of the program funding comes from standard rates and how much from the state required Public Benefit collection. Kinnear replied that the majority of electric Demand Side Management programs are funded from Public Benefits, with the exception of about \$1 million in fiscal year (FY) 2007-08 from the supply business unit. This additional money comes from rates. Water and Gas funding for programs all comes from rates. Dawes further requested information on whether these programs have higher benefit than cost. Kinnear stated that for the energy programs being reported to the Energy Commission, program benefits exceed costs on a 3 to 1 basis (under the Total Resource Cost Test).

Commissioner Rosenbaum asked how low income programs fit into Demand Side Management. Kinnear explained how the Residential Energy Assistance Program provides replacements and repairs to refrigerators, furnaces, lighting fixtures, and weatherization to low income residents. This causes a reduction in energy usage, which benefits all rate payers. Because most low income customers are in the Rate Assistance Program which is subsidized by all customers, the lower the bills for low income residents, the less other customers must subsidize them.

Commissioner Keller stated that she was impressed with the number of programs for customers. She wondered if residential programs could be increased as a percentage of total savings if more work was done in schools, particularly in giving students workbooks on the environment. Kinnear replied that workbooks used to be given to schools, but at this point, the utility works with the school district to provide an annual grant of \$50,000 to allow the district to enhance its water and energy education program. She added that if Commissioner Keller knew of any teachers who desired workbooks, they could be provided. Kinnear concluded by remarking that there is less opportunity for residents to save on energy in Palo Alto, as there is little air conditioning load in comparison to Central Valley utilities. Since the majority of electric sales are to businesses, the majority of the opportunity to reduce waste is there, as well.

Finally, Commissioner Rosenbaum noted that the MSC PV trackers are in the null position and do not appear to be working. Kinnear advised that she would look into the matter.

### **ITEM 3: ACTION ITEM: Utilities' Legislative Priorities Report**

Senior Resource Planner Debra Lloyd provided an oral overview of the written report on legislative priorities. This is an update to the 2008 report to respond to recent legislative and regulatory trends. The report is grouped in five sections: the first listing goals, trends and priorities that are common to all utilities (electric, gas, water, wastewater, and fiber), and the following four sections identifying goals, trends and priorities that are specific to water, wastewater, gas or electric. Climate protection and green house gas emissions reduction were identified as the most important issues for the coming year, particularly concerning implementation of AB 32, along with the impacts of the current economic crisis and an anticipated economic stimulus bill.

Chair Dawes stated that the report seemed like a scattershot of goals and did not provide priorities. Director Fong replied that it is not intended to be used in that way, rather the report states the overall goals so that the City's policy direction is used when staff reviews proposed legislation in order that a position can be developed that is in alignment with the goals. Commissioner Waldfoegel added that the report is not

useful for him as he can't tell whether the City would support a particular support or oppose position, but rather that it seems to be constructed to support any position. Fong noted that the document is not meant to establish positions on specific legislation, that legislation is often fast moving, and that the policies and goals listed are used by staff to evaluate potential positions and proposed modifications to pending bills. Chair Dawes replied that legislative process is slow and that there is usually adequate time to take pieces of legislation to the UAC for development of positions. Fong disagreed with this assessment and noted that in many cases, the time to submit comments or prepare letters in support or opposition is exceedingly short.

Council Member Yeh suggested that in order to better educate the UAC on legislative issues (and regulatory initiatives such as AB32 implementation), certain NCPA materials could be shared with the UAC. Commissioner Waldfogel noted that the municipal code said that the UAC should formulate and review legislative proposals and asked how the UAC can fulfill this responsibility without reviewing actual proposed legislation. Commissioner Rosenbaum noted that the code is old (prepared in 1990) and doesn't reflect current times. Waldfogel stated that the code could be updated, but that it currently is what it is. Assistant Director Jane Ratchye offered that her interpretation of the municipal code section was that it was intended when the City planned to sponsor legislation, and that were the City of Palo Alto Utilities to propose any new legislation, such a proposal would be brought to the UAC for discussion and review.

Commissioner Melton stated that he viewed the report as an overarching policy document and recommended that it be renamed the Legislative Policy Guidelines instead of Legislative Priorities, as this is more reflective of its purpose. Melton also requested that staff provide the UAC information about the top issues and pending legislation. Fong noted that the information is already provided to the UAC in the quarterly updates.

Commissioner Rosenbaum moved staff's recommendation that the UAC recommend that the City Council approved the Utilities Legislative Policy Guidelines for 2009. Commissioner Melton seconded the motion. The motion passed 4-1 with Commissioner Waldfogel voting against the motion.

Chair Rosenbaum asked that staff include more detail about the purpose of the Legislative Policy Guidelines in the CMR to Council.

#### **ITEM 4: ACTION ITEM: Selection of Topic(s) to be Agendized for Discussion at Future UAC Meetings**

Chair Dawes introduced this item by asking that the commissioners review the list of topics and declare which they would each like to request be agendized for the future.

Commissioner Keller stated that she was interested in an overview of smart grid and wanted an understanding of whether it was cost-effective if implemented in Palo Alto.

Commissioner Melton advised that, for whatever topic(s) selected, staff resources should first be used prior to engaging consultants for additional research. Chair Dawes agreed that examination of some of the items would be a multi-step process with the first step being an evaluation by in-house staff before determining whether to proceed to a next step. Commissioner Waldfogel stated that some of the items on the list are fairly straight-forward to analyze, while others may need outside expertise to evaluate. He noted that there are relatively local experts on smart grid that could be asked to provide the UAC an informational presentation.

Chair Dawes stated that his top two items, which could actually be combined into one, are local and/or distribution clean generation or co-generation and increasing the price cap of 0.5 cents per kilowatt-hour on renewable energy for RPS or other rate structures to encourage more local solar installations. These items are basically focused on increasing local generation, either gas-fired or renewable. Commissioner Rosenbaum commented that rooftop solar PV was a terrible waste of resources and that he would not encourage additional incentives to expand those installations.

Commissioner Melton agreed that local generation was important and wanted to investigate installing baseload generation locally. Commissioner Waldfogel stated that local generation should be compared to transmission upgrades as there could be tradeoffs and the evaluation should be viewed from a big picture to determine the overall impact. Commissioner Keller wondered whether there was tolerance for the siting of local generation. Commissioner Dawes said that a central plant that produces steam and electricity could be sited in the Stanford Research Park to serve more than one company.

Commissioner Melton noted that the last two items on the list (purchase of land from the City which the electric utility currently rents and loans to other Utilities funds and/or the City General Fund in order to save refinancing costs on a capital project that would otherwise have sought bond financing) would happen regardless of what the UAC does if the opportunity arises.

Chair Dawes asked for each commissioner's priorities. Commissioner Rosenbaum stated that his priority is local generation and cogeneration. Commissioner Waldfogel agreed, stating that he put cogeneration and local generation above smart grid. Chair Dawes asked how soon staff could agendize a local generation item. Fong replied that it could be tentatively scheduled for July 2009. She noted that staff could provide a review of what's been done already and what's on the future work plan in this area for the commission to discuss.

Chair Dawes moved to request that the local generation be added to a future UAC meeting agenda. Commissioner Rosenbaum seconded the motion. The motion passed unanimously (5-0).

Commissioner Waldfogel asked whether a study session could be agendized in the future to review the municipal code regarding the role of the UAC. He advised that there should be a common understanding of the obligations and responsibilities of the UAC. Fong stated that this item could be added to a future agenda.

Meeting adjourned at 9:15 P.M.

Respectfully submitted,  
Marites Ward  
City of Palo Alto Utilities