

FINAL

UTILITIES ADVISORY COMMISSION MINUTES OF MARCH 4, 2009

CALL TO ORDER

Chair Dawes called to order at 7:05 P.M. the scheduled meeting of the Utilities Advisory Commission (UAC).

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

ORAL COMMUNICATIONS

NONE

APPROVAL OF THE MINUTES

The minutes from the February 4, 2009 UAC meeting were unanimously approved.

AGENDA REVIEW

Commissioner Melton moved that agenda item #7, Final Facilities Plan for the Recycled Water Project, be continued to the April UAC meeting as the March agenda was full and he expected that there would be public comment on the item. Commissioner Rosenbaum seconded the motion. The motion carried unanimously.

REPORT FROM COMMISSION MEETINGS/EVENTS

No report.

UTILITIES DIRECTOR REPORT

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

1. **Hydro Conditions:**

- a. Recognizing that we are experiencing the 3rd dry year in a row, the governor declared that the state was in a drought emergency on February 27, 2009.
- b. Good news at Calaveras: the snowpack water content is about 100% of normal to date as of February 28. The Spicer Reservoir is still low compared to average.
- c. Decent news at Western: The precipitation through March 2 was 95% of average. The 3-month precipitation forecast based on Pacific Ocean surface temperatures is normal for mid-Feb to mid-May. The northern Sierra snowpack water content was 85% of average as of March 2. The groundwater aquifers are still recharging and that is expected to keep runoff below average. As of February 22, the CVP reservoir storage is half of average volumes for the date. Reservoir and power models predict minimum releases for the balance of the year and low releases following in a multiyear effort to refill the reservoirs. Higher precipitation in the near term will do more to improve the generation in the outer 2-3 years, before they will improve the current year.
- d. **For the Hetch Hetchy system**, February precipitation was much better than the very dry January, but it is too early to tell how the water year will end up. The SFPUC is monitoring the situation and will make a determination sometime in late March regarding the need to implement mandatory water rationing.

2. Utilities Bill "Sticker Shock":

You have heard from many customers that their bills this December were particularly high. This December was colder than normal. The high bill complaints were triggered mainly by the natural gas portion of customers' bills.

Commissioner Waldfoegel asked that median usage, as well as mean usage, be provided.

3. MRTU:

April 1st is actually looking like a go for implementation of the CAISO's new market structure (MRTU). The concern we hear from NCPA, as our scheduling coordinator, is that based on the results of market simulations NCPA has participated in, there is a clear potential that the MRTU software will produce charges that are far in excess of historical charges. Extreme price increase occurred during the California energy crisis of 2000-2001, but this time our hedged energy portfolio can not protect us as we have no alternative to scheduling across the CAISO grid.

The California Municipal Utilities Association (CMUA) has proposed an interim payment option, or safety net, that would allow a scheduling coordinator to defer payment for extraordinarily high charges while settlement disputes are pending (the current CAISO Tariff requires scheduling coordinators to pay in full now and dispute later). Such an option may be exercised if an invoice exceeds 200% of the invoice for a comparable prior year period, and instead of paying the current invoice amount, the scheduling coordinator would pay at least 125% of the invoice amount for the comparable prior year period. We are currently waiting to see if this proposal gets CAISO or FERC support.

On a brighter note, NCPA has informed us that they have the software and staff in place to respond in a timely way to market price indicators, and they are working closely with CAISO staff to resolve software and model problems as they arise. The CAISO also claims that the current price "outliers" are largely a result of the limitations of the simulation platform and will not occur once MRTU goes live.

4. Marketing Update:

Again this year we will have a spring lighting program. This year customers will be able to purchase dimmable compact fluorescent light "PAR" lights (for down canisters) and LED under-cabinet "puck" lights for \$2 each at three area hardware stores in March and April or until supplies run out. The information on this program is in the March utility bill insert. The insert in March will be in a different format for Earth Day and is set up to provide information on a variety of City-wide sustainability programs.

Utilities is ramping up marketing for water conservation programs for the summer and the water shortage. The final Evaluation, Measurement, and Verification report from the 3rd party consultant has been received and forwarded to NCPA for inclusion in the state-wide publicly owned report to the California Energy Commission. The report found that efficiency programs are well run and savings as reported by the utility are accurate. A few modifications to process and addition of new efficiency programs were included in the recommendations.

5. Economic Stimulus Package:

On February 17, 2009 President Obama signed the American Recovery and Reinvestment Act (ARRA). As of Friday February 27, funding for the following projects is being pursued by the Utilities Department:

- Administrative Services and Utilities are pursuing \$65 million from the US Department of Commerce - National Telecommunications and Information Administration through the Broadband Technology Opportunities Program for Fiber to the Premises.

- Utilities is pursuing \$310,000 from the Environmental Protection Agency through the California Department of Public Health to install SolarBee™ reservoir mixing systems.
- Utilities is pursuing \$37 million from the State Water Resources Control Board under the State Revolving Fund program. This existing program was recently augmented with ARRA funding.

6. **UAC Calendar:** Rolling calendar of upcoming items for UAC meetings.

UNFINISHED BUSINESS

NONE

NEW BUSINESS

ITEM 1: INFORMATION ITEM: Utilities Quarterly Report: Water, Gas, Electric, Efficiency Programs and Financial Issue Updates

Staff announced that it had no presentation, but would answer questions on this item.

Commissioner Melton asked how the gas purchasing strategy was going. Assistant Utilities Director Jane Ratchye said that in the months that are nearest, there is no deficit requiring purchases and these months are the ones with the lowest priced gas. In the outer months, staff has been purchasing gas and the prices have dropped from several months ago, but they aren't as low as in the nearest months.

Commissioner Rosenbaum asked what the solar project proposals were for the NCPA Green Power Pool (NGPP). Senior Resource Originator Tom Kabat explained that there are two types of solar projects proposed (flat plate cells and concentrating cells). Council Member Yeh asked where the NGPP projects are located. Kabat replied that they are in the Northern California CAISO area. There also is a landfill project in the North Bay and a biomass project in the Central Valley. Commissioner Keller asked how large the projects are. Kabat replied that one of the solar projects is sized at 5 average megawatts (MW), the landfill gas project is 2 MW and the biomass project is 30 MW.

Chair Dawes asked if the legislature had made any different proposals for the treatment of hydroelectric resources in the proposals for a new, higher Renewable Portfolio Standard (RPS). Fong said that she has heard of no new proposals to include old large hydro projects, but that hydro resources will help to meet the carbon reduction targets in the greenhouse gas reduction statute, AB32.

Chair Dawes asked for more details of the displacement contract. Fong said that there are increased costs to cross over control area boundaries that are an issue since the Western Base Resource is in the Western/SMUD control area and the California Independent System Operator (CAISO) is planning to change the delivery point, which is expected to increase costs for Palo Alto and other Western customers in the CAISO control area.

Commissioner Keller asked if the Acterra event was successful. Utilities Marketing Services Manager Joyce Kinnear explained that the program started at the beginning of the year and Acterra has already had over 100 calls for the free audits. The results will be included in the next quarterly report.

Chair Dawes asked whether the large water operating expenses in Table 10 in Attachment E relate to the bonds for the water reservoir and wells project. Staff stated that this was correct.

ITEM 2: INFORMATION ITEM: City of Palo Alto's Energy Risk Management Report for the Second Quarter, Fiscal Year 2009

Risk Manager Karl Van Orsdol stated that he had no presentation, but was available to answer any questions.

Commissioner Waldfogel asked about changes since the last report. Van Orsdol replied that there is more credit stability than there was last quarter.

Commissioner Keller asked what a "shadow price" was. Van Orsdol explained that it is used to assign a value for something that doesn't (yet) have a real market price. In this case, it is expected that, under a cap-and-trade system for carbon, a market value, or price, for carbon emissions will develop. Until that happens, one can assume some value for carbon emissions and use it as a price to make investment decisions.

Chair Dawes asked if the green power contracts were marked to the green power market. Van Orsdol said that green power contracts are marked to the brown power market as the green power market is too thin to reliably establish a forward curve for the purposes of marking them to market.

Chair Dawes noted that the Calaveras project mark to market was negative and asked whether this was for the long-term. Van Orsdol replied that the mark-to-market calculation was only for the 12 months period.

ITEMS 3: ACTION ITEM: Changes to Certain Utilities Reserve Guidelines

Utilities Assistant Director Jane Ratchye stated that this proposal was first mentioned at the February meeting and that the proposal was to align the long-term Rate Stabilization Reserve (RSR) guideline levels with the short-term risk assessment values that have been done for the last three years.

Commissioner Waldfogel asked why the guidelines for the Electric Supply RSR were not recommended to be changed. Ratchye explained that the minimum guideline for that reserve was already roughly equal to the short-term risk assessment value, so that a change did not seem warranted. She also noted that the Electric Supply RSR has the highest guidelines levels due to the high level of risk associated with the hydroelectric generation.

Chair Dawes asked if there is enough experience with doing the risk assessment calculations to know if the guideline levels are sufficient. Ratchye noted that for the Gas and Electric Distribution, Water, and Wastewater Collection RSRs, the risk assessment is based on changes in demand levels. Dawes indicated that he was more interested in the Gas and Electric Supply RSRs. Ratchye indicated that the short-term risk assessment numbers haven't changed much in the three years that they have been calculated, but acknowledged that this was the extent of the applicable history. She explained that the short-term risk assessment is what is used to help determine adequate reserves in the short-term, but that the long-term guidelines are used for longer-term financial planning.

Council Member Yeh asked how ratings agencies view lowering reserve levels given that the Water Fund is planning to issue debt in the short-term. Administrative Services Director Lalo Perez replied that the rating agencies have taken a more proactive approach to review financial conditions of municipal governments and that the City is interested in maintaining adequate reserve levels. Historically, the City has been viewed as being fiscally prudent and has been seen to be able to maintain reserves and make rate adjustments as appropriate.

ACTION: Commissioner Rosenbaum moved the staff recommendation to recommend that Council approve the changes to the Emergency Plant Replacement Reserves and the Rate Stabilization Reserves, as proposed. Commissioner Melton seconded the motion. The UAC voted to approve the motion unanimously (5-0).

ITEM 4: ACTION ITEM: Changes to Utilities Equity Transfer Methodology

Budget Manager Sharon Bozman summarized the written report, providing the history of the transfer mechanism, noting that the City's practice of periodically reviewing the methodology makes sense so that it can ensure that the methodology remains fair and appropriate. She noted that the original letter from RW Beck contained an error as it omitted depreciation of the current year's assets. Bozman then stepped through the proposed mechanism.

Chair Dawes asked if the method was similar to that used by the investor-owned utilities (IOUs). Bozman responded that she wasn't sure, but that the City used guidelines from the Federal Energy Regulatory Commission (FERC) to capitalize and depreciate electric assets. For the Gas Fund, the City uses guidelines from the National Association of Regulatory Utilities Commissioners (NARUC). Utilities Director Fong added that PG&E also follows FERC accounting rules.

Commissioner Melton asked whether new assets are added on a cash flow basis, or are they added only when they are completed. Bozman responded that they are added on an ongoing basis. Chair Dawes asked whether projects under construction were counted in the rate base. Bozman replied that they were added before they were complete.

Commissioner Melton asked for clarification as to whether the methodology would change the rate of return when PG&E's allowed return on equity was changed. Bozman replied in the affirmative – the method depends on whatever PG&E's allowed return on equity is. It is not stuck at the current rate of 11.35%.

Chair Dawes asked how the method would take into account the issuance of new debt. Bozman replied that it would be a good idea to treat debt differently.

Commissioner Waldfoegel asked why the CIP additions were stretched across so many different years and whether it was possible to simplify the formula. Bozman replied that adding the ½ year of capital additions was a way to develop an estimated rate base for the mid-point of the fiscal year, rather than the very start of the fiscal year. Commissioner Melton asked why the formula adds in another ½ year of capital additions as that seems like using budgeted CIP additions for 1 and ½ years inflates the rate base too much.

Chair Dawes asked whether property that Utilities rents from the City was included in the Utilities net assets. Administrative Services Director Lalo Perez said that the City's owned assets are included in the General Fund asset base, not Utilities.

Chair Dawes asked why operating expenses were included in the rate base. He noted that operating expenses are already recovered from ratepayers and that they don't belong in the rate base calculation. Bozman noted that the cash, or working capital, needed to pay operating expenses was included in the rate base. Commissioner Melton agreed that operating expense working capital was simply cash, and a Utilities asset, that should be in the rate base.

Commissioner Rosenbaum recalled that the last time the equity transfer method was changed, that there was extensive debate and a lengthy process of almost 2 years. RW Beck recommended the Utility Enterprise Methodology (UEM), but the City went forward with a different recommendation. He asked why

the UEM is a better method now than it was when examined in detail in 2000. Perez said that staff felt it needed stability in the method and that the recommendation implemented in 2001 using 14.5% and 15% of adjusted sales revenues for gas and electric, respectively, was changed after one year to a 3% per year increase method because of market price spikes due to the energy crisis, which would have resulted in highly variable transfers.

Commissioner Rosenbaum noted that when RW Beck's 2000 study contained a comparison of methods used by other municipal utilities. He asked how the proposed method compares now. Bozman said that RW Beck was asked the same question this time as well. RW Beck indicated that cities use many different methods and that it was difficult to make comparisons. Rosenbaum asked why the estimates provided to the UAC were so different from those being proposed tonight. Perez stated that the City developed preliminary numbers based on the method used prior to 2000 while vetting the method and did not want to return to the UAC with higher numbers. Rosenbaum noted that in 2000, the Directors of Utilities and Administrative Services expressed different objectives and negotiations on the method were arms-length. He asked how the negotiations went this time. Perez said that he believes that the method is reasonable and it is based on factors that are independent from the General Fund. Fong noted that she was looking for an understandable and explainable method that was based on actual rate base information, and not on an arbitrary method. Fong noted the current 3% escalation, while at some point in time might have had some rational basis, at this point appeared to be arbitrary. Rosenbaum commented that it was hard to escape the feeling that this is clearly tied to the deficit situation in the General Fund due to the timing of the new proposal.

Commissioner Melton commented that the concept of a rate of return on assets is a reasonable way to determine an appropriate transfer to the General Fund from Utilities. He noted that it was a much better way than the 3% annual increase that is currently in use.

Chair Dawes noted that stability was an issue raised in the debate in 2000 and that consideration is still valid. He agreed that the method is reasonable, but that there may be a way to add stability to the method. He suggested that adding a "collar" on the annual change of up or down 5% might be considered.

Commissioner Keller said that she has heard negative comments from citizens on why the General Fund is taking their Utilities rate revenue for non Utilities expenditures.

Commissioner Waldfogel said that he liked the proposed method in general, but thinks it needs to be tweaked to improve it and the years used for the calculation. Commissioner Melton said he supported the RW Beck proposal, but would drop the ½ of the future year's CIP. In addition, he advised taking into account what would be done in the event of debt issuance. Commissioner Waldfogel said that he agreed that the ½ of future year's CIP should be removed, but he also thinks the working capital elements should be removed as well. Chair Dawes agreed with Waldfogel, but wants the method to exclude any debt-funded assets since Utilities would be paying a rate of return to bond holders. Bozman noted that the debt-funded assets would have to be phased in to the asset base.

Commissioner Rosenbaum did not support the proposed higher transfers and wanted to continue with the current policy of increasing the transfers by 3% per year.

ACTION: Commissioner Melton made a motion that the UAC recommend that Council approve the methodology proposed by staff modified by removal of 50% of the future year's budgeted CIP and by an appropriate asset base in the event of debt issuance. Chair Dawes proposed that the motion be amended so that the UAC recommend that Council approve the methodology proposed by staff modified by:

1. Removal of 50% of the future year's budgeted CIP;
2. Removal of the operating expense working capital;
3. Require that the annual transfer cannot change by plus or minus 5 %; and
4. Require debt-funded assets to be appropriately characterized in the rate base recognizing that a rate of return is being paid to bond holders on such assets.

Chair Dawes seconded the motion. The motion carried (3-1-1) with Commissioner Rosenbaum voting no with a comment that the method is a blatant attempt for the General Fund to take more dollars from Utilities. Commissioner Keller abstained, saying that she did not understand the method.

ITEM 5: ACTION ITEM: Rates Proposals for Fiscal Year 2010

Senior Resource Planner Ipek Connolly reviewed where we are in the budget process. In February, the UAC reviewed the long-term financial projections and this month, it will review the proposed rate adjustments for FY 2010. The rate proposals will be considered by the Council Finance Committee on March 31. The budget will be considered by the UAC in May and by the Finance Committee on May 19. Council adoption of the budget is scheduled for June 8. Connolly listed the assumptions used to prepare the financial projections used to develop the rate projections. The assumptions that have changed since the UAC saw the financial projections in February include the proposed changes in the equity transfer method (Item #4 discussed tonight), and additional savings identified in supply and distribution operating budgets. Savings estimates for operating budgets total \$354,000. In addition, although labor negotiations are not complete for FY 2010, if there were no cost increases for salaries and benefits for FY 2010 compared to FY 2009, then savings would total \$1,326,000. These savings are not incorporated into the cost projections at this time, but can be considered.

Chair Dawes asked Director Fong if she had looked closely at headcount. Fong responded that she has looked closely, but that there are many regulatory compliance and reporting requirements that require staff to complete. These include the Department of Transportation, the Federal Energy Regulatory Commission, the California Energy Commission, State and County Department of Health, Regional Water Quality Control Board, and the California Public Utilities Commission. In addition, she scrutinizes the justification to fill any vacancy and noted that there is a rigorous city-wide process that any vacancy must go through before filling. Commissioner Waldfoegel felt that the director should look at all programs and cut the lowest value projects and programs.

Connolly presented the impact on the average residential total bill for gas, water, electricity and wastewater if the proposed rate adjustments were adopted by Council. Although water, wastewater, and electric rates are proposed to be increased, the proposed gas rate decrease cancels almost all the other rate increases so that, on an annual basis, the average residential bill will increase only 7 cents per month.

Chair Dawes asked if staff had done any benchmarking or examination of best practices for utilities. He asked if NCPA has started a study to help the member agencies institute best management practices. Fong said that this much coordination between agencies, including the evaluation of pooled resources where feasible and bulk buying of supplies with other agencies.

Commissioner Waldfoegel said that across the board, there is a need to acknowledge the state of the economy with salary cuts, layoffs, drop in the value of homes and investments. He advised that Utilities must ensure that all the fat is cut off and that we need to proceed to cut into the bone at this point.

5a. Water:

Senior Resource Planner Ipek Connolly presented the Water Fund costs and revenue projections and staff's recommended water rate increase for FY 2010 of 5%. She noted that the recommended water rate increase would be applied for residential customers on the second tier of water use. The rate for the first tier is not proposed to change so that low water users would not have an increased bill.

Commissioner Rosenbaum asked whether City was really planning to sell water bonds and begin debt service in FY 2010. Connolly said that this was the plan and noted that even if the bond financing doesn't occur on schedule; we know that water supply costs are increasing in the future.

Commissioner Waldfogel noted that there is a 16% increase in commodity cost, but only a 5% increase in the water rate, which he felt was good.

Chair Dawes noted that the Water Fund Rate Stabilization Reserve (RSR) would be above the maximum guideline level after a 5% rate increase in FY 2010. He suggested that a lesser increase may make sense, especially since we're not sure when the water bond would be sold. Commissioner Melton noted that the proposal involves an attempt to ensure that future rate increases can be kept below 10% due to continued cost increases expected.

ACTION: Commissioner Melton moved the staff recommendation to recommend that Council: 1) approve a 5 percent increase to water retail rates effective July 1, 2009, which will increase annual revenues by \$1.4 million; and 2) approve the changes to the Water Utility Rate Schedules (W-1, W-4 and W-7), as proposed. Commissioner Rosenbaum seconded the motion. The UAC voted to approve the motion unanimously (5-0).

5b. Wastewater Collection:

Senior Resource Planner Ipek Connolly presented the Wastewater Collection Fund costs and revenue projections and staff's recommended wastewater rate increase for FY 2010 of 5%. After the proposed rate increase, the Wastewater Collection Fund Rate Stabilization Reserve would be between the minimum and maximum guideline levels. She noted that the recommended wastewater rate increase would be applied evenly across all customer groups.

Commissioner Waldfogel asked if any wastewater collection system CIP projects could be deferred. Assistant Director Tomm Marshall replied that recently all wastewater collection lines have been videotaped and there are areas that have been identified that are in need of repair. Marshall noted that there are liabilities that the City would face if projects were deferred, including the cost of lawsuits for sewer backups and fines from regulatory agencies for noncompliance with regulations or sewage spills.

ACTION: Commissioner Rosenbaum moved the staff recommendation to recommend that Council: 1) approve a 5 percent increase to wastewater retail rates effective July 1, 2009, which will increase annual revenues by \$684,000; and 2) approve the changes to the Wastewater Collection Utility Rate Schedules (S-1 and S-2), as proposed. Commissioner Keller seconded the motion. The UAC voted to approve the motion unanimously (5-0).

5c. Gas:

Senior Resource Planner Ipek Connolly presented the Gas Fund costs and revenue projections and staff's recommended gas rate decrease for FY 2010 of 10%. After the proposed rate decrease, the Gas Fund Supply and Distribution Rate Stabilization Reserves would be between the minimum and maximum guideline levels and above the risk assessment level. However, if the five-year cost projections hold, then

a rate increase of 15% in FY 2011 would result in reserve levels moving to minimum levels. She noted that the recommended gas rate increase would be applied on an equal amount per therm basis for all customer groups.

Commissioner Rosenbaum noted that a rate reduction of 14% would be possible if the equity transfer to the General Fund did not increase so dramatically from FY 2009 to FY 2010.

Commissioner Melton said that the five-year financial plans show that if there is a 10% rate reduction in FY 2010, there would have to be a 15% increase in FY 2011. This is counter to the goal to stabilize rates. If, instead, a 5% reduction were implemented, then the FY 2011 increase would only have to be 9%. He advised against a plan that contains double-digit increases in the future. Chair Dawes had the same reaction as Melton originally, but he thought that FY 2011 costs would be less than the budget projections. Staff agreed that cost projections have declined since the budget projections were prepared, but that there is no guarantee that natural gas costs would stay low.

Commissioner Rosenbaum noted that if the equity transfer increased only 5%, then the rate reduction could easily be the proposed 10%.

Commissioner Keller stated that she did not like rates to “ping-pong” down and up since it leads to customers feeling that they have no control over their costs. Referring to recent complaints about high bills in December and January, Keller recommended that the City offer free energy audits to those with high usage. She said that if there were no rate reduction, then the money could be used to encourage more efficiency improvements. She advised that people are more likely to invest in efficiency improvements if they can rely on stable rates.

Commissioner Melton said that if he had a high degree of certainty that there would not be a 15% decrease in FY 2011, he would be comfortable with a 10% decrease in FY 2010.

ACTION: Commissioner Rosenbaum moved the staff recommendation to recommend that Council: 1) approve a 10 percent decrease to natural gas retail rates effective July 1, 2009, which will reduce annual revenues by \$4.6 million; and 2) approve the changes to the Gas Utility Rate Schedules G-1, G-2, G-3, G-4, G-6, G-10, G-11, and G-12. Chair Dawes seconded the motion. The UAC voted to approve the motion by a 3-2 vote with Keller and Melton voting no.

5d. Electric:

Senior Resource Planner Ipek Connolly presented the Electric Fund costs and revenue projections and staff's recommended electric rate increase for FY 2010 of 10%. Despite a 10% rate increase, electric revenue will still not cover projected costs. Connolly noted that an extra transfer from the Calaveras Reserve would be required in order to have only a 10% rate increase. After the proposed rate increase and the extra transfer from the Calaveras Reserve, the Electric Fund Supply and Distribution Rate Stabilization Reserves would be slightly below the minimum guideline levels. Connolly noted that the recommended electric rate increase would be applied on an equal amount per kilowatt-hour basis for all customer groups.

Chair Dawes asked what hydroelectric generation assumptions are used in the budget year and the five-year projections. Assistant Director Ratchye replied that lower than average generation is assumed since, even if median precipitation occurs from now on, average generation won't return until after three years.

Commissioner Melton said that drought means a power shortage, not just a water shortage, for Palo Alto, and that a 10% rate increase is insufficient since we know hydrogeneration is lower than average. Melton

recommended that the rate increase should be 15%, not 10%. Melton also said that the UAC and Council have agreed that the Calaveras Reserve should not be used for rate relief. Instead there should be a rate increase that helps to align revenues and expenses. Commissioner Keller stated that she was upset to see the proposed use of the Calaveras Reserve to reduce the rate increase proposal. She reiterated the UAC's clear opposition to the use of the Calaveras Reserve for this purpose.

Commissioner Waldfogel agreed that the Calaveras Reserve should not be used for lowering the rate increase, but wanted to look closely at reducing expenses before increasing rates more than 10%. He asked whether there were any CIP projects that could be deferred. Assistant Director Tomm Marshall said that he didn't support deferrals in the proposed CIP projects. He indicated that the City was looking at funding several new programs, including components of smart grid and LED streetlights. Commissioner Melton noted that if there are good projects such as those mentioned, they should be proposed for funding from the Calaveras Reserve. Melton noted that this was the process established for the use of the Calaveras Reserve. Director Fong said that she understood that this was the process for the use of the Calaveras Reserve, but that staff felt that the economic conditions were so extraordinary that it was unacceptable to propose a rate increase in excess of 10% due to the impact on ratepayers.

Commissioner Rosenbaum moved the staff recommendation to recommend that Council: 1) approve a 10 percent increase to electric retail rates effective July 1, 2009, which will increase annual revenues by \$10.3 million; 2) approve a total transfer of \$9.4 million from the Calaveras Reserve for fiscal year (FY) 2010, which is \$6.8 million in addition to the \$2.6 million minimum transfer amount established by the proposed Calaveras Reserve Guidelines; and 3) approve the changes to the Electric Utility Rate Schedules E-1, E-1-G, E-2, E-2-G, E-4, E-4 TOU, E-4-G, E-7, E-7 TOU, E-7-G, E-14, E-16, E-18, and E-18-G, as attached. Chair Dawes seconded the motion. The UAC voted to defeat the motion by a 2-3 vote with Keller, Waldfogel and Melton voting no.

Commissioner Waldfogel made a motion to postpone consideration of the electric rate adjustment until the UAC considers the budget at its May meeting. The motion received no second.

Commissioner Melton made a motion to increase electric rates by 15% and only make the minimum transfer from the Calaveras Reserve of \$2.6 million for FY 2010. The motion received no second.

Since no further motions were attempted, Chair Dawes stated that the UAC was unable to make a recommendation to the Council on the FY 2010 electric rate adjustment.

ITEM 6: ACTION ITEM: Approval of the Water Supply Assessment for the Proposed Stanford University Medical Center Facilities Renewal and Replacement Project and the Simon Properties Stanford Shopping Center Expansion Project

Assistant Director Jane Ratchye summarized the report noting that state statute requires that projects of a certain size be evaluated by the local water supply agency to determine if there is sufficient water for the project. This is the first project that is large enough to require this process since the statute was put into place in 2002.

The overall conclusion of the Water Supply Assessment (WSA) for the Stanford Projects is that there is enough water for the projects in normal years. There are not sufficient water supplies with or without the projects in drought years. The additional deficit in drought years due to the projects is small and that there are measures that are identified in the City's 2005 Urban Water Management Plan that can be implemented to achieve the required additional water savings needed due to the projects.

Bill Phillips with Stanford spoke to say that the WSA is well-done and makes a supportable conclusion. In addition, groundwater supplies that are available are not necessary to meet the required drought-time deficits. In addition, the amount needed for the projects is 500 acre-feet per year, which is the amount of groundwater that could sustainably be used on an ongoing basis.

Commissioner Melton asked if there were any problems with the agency that will review the report. Ratchye noted that the City Council is the governing body to make the determination that the conclusions are acceptable – it doesn't get reviewed by an outside agency.

Commissioner Keller asked how successful the City has been in achieving reductions in past droughts. Ratchye responded that in the last drought from 1988 to 1992, the City was very successful in reducing water usage and reduced water usage by over 30%. She noted that permanent improvements have been installed since the drought so that these levels of savings may not be achievable currently or in the future. Ratchye noted that in future droughts, landscaping uses would be targeted and that Palo Alto has relatively high per capita water usage.

Mark Bruner, with Bingham McCutcheon, noted that the WSA calls for reductions that are much lower than were reduced in the past. Bill Phillips said that the WSA assumes a "business as usual" amount of water use for the projects, but "above and beyond" measures are being proposed for the projects. This would bring water use for the hospital down by 20% and for the shopping center down by 25%. Therefore, the projected water use is very conservative in the WSA.

Commissioner Keller stated that she was impressed with the conservation measures and asked if the projects could use recycled water. Staff and Stanford representatives noted that the new buildings for the project and in the Stanford Research Park must be dual-plumbed to accept recycled water per City ordinance. However, Ratchye noted that the recycled water project is targeted to serve the Research Park and a pipeline to serve the new projects is not in the current plans.

Commissioner Rosenbaum stated that he thought the report was well prepared and commended the Attachment B that describes the conservation features for the project and Stanford's efforts to reduce water use in its buildings in the Stanford Research Park. He asked that the irrigation use estimates be reviewed again to be compared with the irrigation estimates used in the recycled water facility plan (to be discussed in April).

ACTION: Commissioner Rosenbaum moved to recommend that Council approve the WSA for the Stanford Projects. Commissioner Keller seconded the motion. The motion passed unanimously (5-0).

ITEM 7: INFORMATION ITEM: Final Facility Plan for the Recycled Water Project
Item continued to the April UAC meeting.

Meeting adjourned at 10:40 P.M.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities