

# FINAL

## UTILITIES ADVISORY COMMISSION MINUTES OF APRIL 1, 2009

### CALL TO ORDER

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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

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None

### APPROVAL OF THE MINUTES

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

### AGENDA REVIEW

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None

### REPORT FROM COMMISSION MEETINGS/EVENTS

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No report.

### UTILITIES DIRECTOR REPORT

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

#### 1. **Hydro Conditions:**

For Northern Sierra to date, precipitation is at 95% of average, snowpack is at 85% of average, and Western's reservoirs are at about 65% of permitted levels. Except for the bright spot of Folsom reservoir at 1% above its permitted level. April through July runoff is forecast at about 80% of average with median precipitation. The Western Base resource is forecast to provide low generation levels as the Central Valley Project attempts to refill reservoirs for the next two years. Things look somewhat better at Calaveras with snowpack about 90% of average and runoff forecast to be about 93% of average.

#### 2. **Water Supply Shortages and Mandatory Rationing:**

On March 24, the board of the Santa Clara Valley Water District called for mandatory rationing of water supplies to reduce consumption by 15% effective immediately. In addition, it asked for water retailers to implement certain water use restrictions – some on a permanent basis and some on an emergency basis due to the water shortage.

The San Francisco Public Utilities Commission (SFPUC) has not yet called for increasing its request for 10% voluntary water use reductions. The SFPUC may update its request after reviewing the results from the April 1 snow survey.

### 3. **Utilities Rates and Reserves:**

At its March 31 meeting (last night), the Finance Committee agreed to recommend that the Council:

- Change the Calaveras Reserve guidelines according to the UAC and staff recommendation
- Change the Rate Stabilization and Emergency Plant Replacement Reserves according to the UAC and staff recommendation
- Change the equity transfer method according to staff's (but contrary to UAC's) recommendation
- Adjust rates effective on July 1, 2009 as follows:
  - Water rates up 5%;
  - Wastewater collection rates up 5%;
  - Electric rates up 10%; and
  - Gas rates down 10%.

Chair Dawes spoke at the Finance Committee meeting. Finance Committee Chair Burt suggested that the UAC consider adopting a schedule of official spokespersons for each month of the year, similar to what the Planning Commission's past practice has been. Commissioner Rosenbaum suggested that the implied spokesperson is usually the Commission Chair, however, that generally, no explicit action has been taken to designate a spokesperson. Commissioner Waldfogel suggested that this be a topic for possible future agendas that could be discussed at the end of the evening under the last agenda item.

Commissioner Waldfogel asked if streetlight assets were included in the Utilities rate base for purposes of the equity transfer. Staff indicated that it would have to return with the answer to that question. Chair Dawes noted that he felt that staff's explanation that the Utilities Enterprise Method (UEM) was similar to the method used by the investor-owned utilities (IOUs) was not completely accurate. He said that the IOUs used a return on equity for ratemaking purposes and that a separate decision was made by a different body to determine the return to stockholders. Fong concurred, and asked whether it could be considered that the City Council has the dual role of both regulator and Board of Directors as it sets both rates and the equity transfer. Dawes also noted that tax rates for IOUs are fairly low since they purchase tax credits for such things as low-income housing.

### 4. **MRTU Begins:**

The California Independent System Operator's MRTU is up and running as of April 1<sup>st</sup>. Thus far, everything seems to be working.

### 5. **Marketing:**

Staff has a presentation on the results of the CEC report on energy efficiency programs and the outcome of the third party Measurement & Evaluation study. Other efficiency programs are ongoing. Marketing and Customer Services are involved in the upcoming transition to the SAP system. Many staff members are receiving training, so response times to customer telephone calls has slowed. This should hopefully improve after the new system is implemented in May.

### 6. **Economic Stimulus Package:**

The City has been allocated \$663,000 under the Energy Efficiency and Conservation block grant program of the Stimulus package. The City is in the process of identifying programs that could benefit from these funds. Utilities Department has been designated the coordinating department to apply, receive and manage the grant.

### 7. **Street Light Pilot:**

The City plans to install and test a number of LED and Induction street lighting fixtures along Colorado Avenue, Amerillo Avenue and around City hall this Summer. The City was successful in receiving technical

assistance from Pacific Northwest national Labs to assist us with this Pilot project. LED lighting fixtures offer the promise of higher efficiency, better light distribution, and truer color rendition. The Pilot is expected to last a year, with interim study results expected toward the end this year.

**8. Demo of the new My Utilities Account coming up.**

At the April 13 City Council meeting the SAP team will do a project update and demonstration of the new My Utilities Account online services, which include paperless billing and online bill pay.

**9. Ox Mountain Landfill:**

Palo Alto's 6 MW 20 year power purchase agreement with Ameresco Ox Mountain (Half Moon Bay) landfill gas electric power plant began commercial operation today. Ameresco is planning a ribbon cutting event on Wednesday May 27 at 10:30 a.m. Invitations and event details will be forthcoming.

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

**UNFINISHED BUSINESS**

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**Final Facility Plan for Recycled Water Project (Information)**

Assistant Director Jane Ratchye summarized the Recycled Water Facility Plan. The project is the third phase of the regional water recycling program with the first phase being existing uses in Palo Alto including the municipal golf course, Greer Park, duck pond and uses at the Regional Water Quality Control Plant (RWQCP). The project would deliver about 900 acre-feet per year (AFY) with the "target area" being the Stanford Research Park. Usage is primarily landscape irrigation. Ratchye summarized the benefits to the City (reliable, locally-controlled supply that is available even in droughts) and to other stakeholders (contributes to Santa Clara Valley Water District goals, reduces reliance on imported water, reduces effluent discharges from the RWQCP). The biggest barrier to implementation of the project is the project cost, which is estimated at \$33.5 million plus \$200,000/year for operations and maintenance (O&M). This would cost about \$2,700 per AF using conventional bond 30-year bond financing compared to expected cost of water from the San Francisco Public Utilities Commission of \$1,600/AF by 2015.

Ratchye stated that the project is difficult to justify unless outside agencies can cover some of the costs. If the cost could be covered by grants from the state and federal government, the cost to Palo Alto could be from \$1,300 to \$1,700/AF. One potential source of funding is other BAWSCA member agencies that may want to pay for part of the project in exchange for some of Palo Alto's unused supply assurance. In addition, there is the possibility of accessing money from the federal stimulus package. However, to access these funds, the project must be fast-tracked and be completed so quickly that the project would require it to be delivered with a design-build approach, rather than the conventional design followed by construction bid approach. Ratchye stated that the timeline is still being developed, but that staff may seek Council approval to proceed IF stimulus funds can be secured. If these monies cannot be procured, the project will revert to the original timeline.

Commissioner Keller asked if the plants to be irrigated with recycled water are tolerant of the recycled water quality. Keller expressed concern about the impact on plants and trees.

Commissioner Waldfogel asked if there was adequate demand in perpetuity for the project. He also asked about the term of a loan. Ratchye verified that the loan would be for 30 years. Waldfogel asked if the cost with a zero interest loan would be \$700,000. Ratchye indicated that this would be the case for a 30-year loan.

Chair Dawes asked whether a decision regarding Palo Alto selling some of its unused supply assurance would be vetted by the UAC. Ratchye agreed that this would have to be the case as this is a major policy issue. Dawes indicated that the timing for this project is problematic for such major policies issues.

Public Speakers:

Catherine Martineau, the Executive Director of Canopy, indicated that Canopy would provide comments on the Mitigated Negative Declaration (MND). She indicated that the MND addresses the environmental impacts of project construction, but does not adequately address the effect on trees. Canopy's mission is to protect the canopy of trees. She argued that there is a measurable economic payback in the investment in trees. She supports conservation but is concerned with the project because it raises questions about salinity that will negatively impact trees. Canopy advocates drought resistant trees and climate appropriate trees, but Palo Alto currently has a mature and thirsty urban forest. Canopy asks that the risks of the project be assessed before going forward with the project. Risk assessment should include identifying the number of trees in the area, the number that are currently protected under the municipal ordinance, the estimated value of the trees, and the estimated replacement costs. With regard to adaptive management, the risks should first be assessed, and the costs of implementing the adaptive management plan should be reflected in the O&M costs for the project. She suggested that a study is needed. Commissioner Keller asked how long a study would take and if there are any salt tolerant trees. She asked if gypsum could be used to mitigate the salinity levels in recycled water used to water trees. Martineau indicated that a study would take a few months; she was not sure about gypsum but trees in Greer Park have suffered as a consequence of recycled water salinity.

Herb Borak, resident, first indicated that wastewater is not in the UAC's purview. He also said that staff should not separate the environmental review from the facility plan; it should be combined. He indicated that there are already rates for recycled water and it costs \$1.0 per 1,000 gallons. He said staff should present the costs of recycled water compared to retail recycled water rates. He doesn't want to see subsidization of irrigators in the Stanford Research Park.

Commissioner Rosenbaum indicated that Stanford has pursued water conservation in the Research Park as it attested to in its letter attached to the report on the Water Supply Assessment for the Stanford expansion projects. He asked how Stanford's conservation efforts and current water usage compare to the forecasts contained in the recycled water plan. Ratchye indicated that she examined the last 12 months of actual water use and found, in general, for the addresses cited by Stanford, that the facility plan does not overstate usage. Rosenbaum said that in his recent tour of the Research, he found that while there is evidence of installed water conservation measures, there is much more that can be done to convert the landscape to a drought resistant landscape. It would make more sense to reduce demand instead of applying for and spending \$37 million on the recycled water project. If, instead of a demand of 900 AFY, the demand was 500 AFY, then the cost would rise to \$4,500/AF. At that price, the project is far too expensive and is an embarrassment, a "bridge to nowhere."

Commissioner Rosenbaum asked about whether the recycled water used at Greer Park and the Golf Course was a blend of recycled water and Hetch Hetchy water. Ratchye indicated that both sites blend the water, but she didn't have the blending fraction for each location. Rosenbaum indicated that he would vote against the project when brought to the UAC for action.

Commissioner Keller asked how much water could be used for toilet flushing at these sites. She asked what would be the impact of requiring dual plumbing on the project. Ratchye indicated that the City has already adopted an ordinance requiring dual plumbing for new buildings or major remodels, so that the demand for recycled water for these uses should increase.

Commissioner Keller indicated that there was not much certainty in the demand projections. She wondered about some of the projections for demand for schools. Keller indicated that she was for resource conservation and wondered if there could be smaller project built first, such as just to serve Mitchell Park. Keller said she was concerned about the impacts on trees and knows that trees are important for many things, including flood control. She wondered what impact high speed rail would have on the project.

Commissioner Waldfogel indicated that fast-tracked design/build is the right way to go, but need better demand numbers. He indicated that the City should line-up purchase commitments before committing to the project.

Commissioner Melton was worried about the salinity problem and wondered what the RWQCP was doing to solve the salinity problem. Ratchye said that the RWQCP was working to reduce salinity levels and had been successful and expects further improvements. Melton agrees with Keller in thinking that the value of fresh water is very high to state of California and that it may be worth paying a premium to reduce fresh water usage for things that can be done without potable water. He also agrees with Rosenbaum regarding affordability of project. Only way to afford the project is to use other people's money. He indicated that it might be worth more to use federal/state monies to fix a levee in the Delta than to build this project.

Chair Dawes indicated that he was concerned about state of water in the future and that recycled water has a place. However, the demand forecast is fuzzy given the plans to convert to zeriscaping in the Stanford Research Park. He said that it would be a travesty to accept economic stimulus monies for a totally uneconomic project.

Commissioner Waldfogel asked if recycled water has any value in emergencies, such as an earthquake. Ratchye indicated that, although it couldn't be used for drinking water, it could be used for fire suppression.

## **NEW BUSINESS**

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### **ITEM 1: PRESENTATION: UAC Role on L&R Activities/Municipal Code**

Amy Bartell, Deputy City Attorney, explained the background of January 2009 UAC Meeting when staff presented the "Legislative Priorities Report". The report was intended to provide a broad overview of the City's policy goals for UAC consideration and Council adoption. The goal was for Staff, City Management and Council to refer to these goals when reviewing various bills throughout the year, and deciding whether to oppose or support.

At the January 2009 meeting, questions arose regarding meaning of Muni. Code Section 2.23.050(b) cited in report; particularly over the purpose of the UAC with respect to legislative and regulatory activities. This code section states that the UAC shall "formulate and review legislative proposals" regarding the covered utility enterprises. Bartell also reviewed Muni Code Sec. 2.23.050(a), and discussed how this section of code was a good fit with staff's intent because it states that the "purpose of the UAC shall be to advise the city council on long-range planning and policy matters" related to the utility enterprises that the UAC has purview over.

Bartell suggested that in the future, Sec. 2.23.050(a) be relied upon when staff seeks UAC input on long-range legislative priorities. Sec. 2.23.050(b)(3) is a good fit for situations in which staff and the UAC seek to draft legislation 'in-house'. Bartell also noted that at the February 2009 Council meeting, some Council members expressed an interest in engaging the UAC more on legislative and regulatory issues. The City

Manager and Utilities Director are currently formulating a plan for doing this, and expect to return to Council in the coming months.

Commissioner Waldfogel asked how “formulate and review legislative proposals” should be interpreted. Bartell noted that it can be interpreted in more than one way. Waldfogel asked why it was drafted the way it was. Bartell responded that the only way to know the intent is to ask the original drafters. Absent that, it must be interpreted. Waldfogel noted that this doesn’t oblige the UAC to do anything; rather, it is passive. He asked whether there was any duty for the UAC. Bartell responded that the duty of the UAC is to advise Council.

Chair Dawes asked his fellow commissioners if they feel that the code should be revisited; he asked if it needs to be clarified or does it work as it is written. He asked if what’s written jibes with what is done by the UAC. Bartell said that she thinks UAC action is consistent with what’s written.

Council Member Yeh noted that the Policies and Transportation Commission went through a process and added some depth by developing a procedures manual. Bartell noted that the UAC does not have bylaws, but could develop them if it wants to. Bartell added that she does not see a pressing need for improvement in the code section related to the UAC duties.

**ITEM 2: INFORMATION ITEM: Annual Report to the California Energy Commission on Energy Efficiency in California’s Public Power Sector and Result of Third Party Review of Program Effectiveness**

Utility Marketing Services Manager Joyce Kinnear presented a brief overview of two reports recently completed: the third annual California Municipal Utilities Association report to the California Energy Commission on utility electric efficiency results and the third party Evaluation, Measurement, and Verification of CPAU’s efficiency program results. She also gave a brief overview of two new efficiency programs currently in contract discussions and scheduled to go to Council for approval in May. These two programs (provided by vendors Enovity and National Resource Management) will expand programs available to businesses beyond quick payback lighting to process/HVAC and kitchen programs.

Chair Dawes asked about CPAU’s demand response programs by noting that the report mentions the four COBUG (cooperatively-owned back-up generators) units as being available for demand reduction. Assistant Director Jane Ratchye said that COBUG has four units. Dawes wanted to know if the units are ever run. Senior Resource Planner Shiva Swaminathan said that the units are run weekly for testing purposes. Ratchye clarified that the units have limited run approvals from the Bay Area Air Quality Management District. Dawes wanted to know if these units could be run more often, as Silicon Valley Power runs its system. Kinnear pointed out that SVP’s unit is highly efficient. Chairman Dawes asked what value the COBUG units have. Swaminathan said that these units are available for local generation, for which we avoid having to make other purchases. This has a value of about \$150,000 per year.

**ITEMS 3: INFORMATION ITEM: Summary Report on Draft New Water Supply Agreement Between San Francisco and BAWSCA Agencies**

Assistant Director Jane Ratchye summarized the new Water Supply Agreement. Almost all of the 11 objectives that were set out at the beginning of the negotiations were achieved. One of the major items was agreement that the SFPUC’s Water System Improvement Program (WSIP) would be completed on time. Ratchye explained that the interim limit on deliveries that the SFPUC adopted in the environmental phase of the WSIP approval would be implemented in the new agreement. The interim limit on water deliveries from the SFPUC watersheds is a total of 265 MGD with SF having a limit of 81 MGD and the

BAWSCA agencies having a limit of 184 MGD. The 184 MGD for the BAWSCA agencies would be divided between the agencies by SFPUC by December 2010 unless the agencies reach consensus before then on how it would be divided. One of the remaining open issues is the term of the agreement. The other is how damages would be calculated for non-performance under the contract. The timeline is that SFPUC is scheduled to act on the contract on April 28. The contract will go to the UAC in May so that the Council can consider it before it expires on June 30, 2009.

Commissioner Rosenbaum asked how is debt service cost for the WSIP would be allocated amongst the different agencies. Ratchye indicated that this doesn't change from the current contract; costs are split between BAWSCA and SF based on water used, not on entitlements. How SF plans to recover these costs, whether on demand or on supply assurance has yet to be determined. SF has the unilateral ability to set rates, as in the current contract. Ratchye agreed that wholesale rates have the potential to have a major impact on the agencies. If the recovery mechanism is not reasonable, agencies can sue to have it changed, as was done in the past.

**ITEM 4: ACTION ITEM: Recommendation on Changes to Utilities Rate Schedules C-1, E-16 and W-2**

Senior Resource Planner Ipek Connolly was available to answer questions on the staff report.

Commissioner Waldfoegel noted an error on the draft rate schedule E-16 section D.a.3. Director Fong thanked him for pointing it out and noted that it will be corrected.

Commissioner Keller asked if there were any way to soften the blow for the large increase in the cost to turn power back on after turnoff for nonpayment. Fong noted that the rates reflect costs. Keller asked that Utilities consider communicating this cost to customers in advance of a shut-off.

ACTION: Commissioner Rosenbaum moved the staff recommendation. The motion was seconded by Commissioner Waldfoegel. The motion carried unanimously.

**ITEM 5: DISCUSSION ITEM: Selection of Topic(s) to be Agendized for Discussion at Future UAC Meetings**

Item identified for May meeting: Pre-designation/Identification of official UAC spokesperson(s) for balance of fiscal year.

Meeting adjourned at 9:43 P.M.

Respectfully submitted,  
Marites Ward  
City of Palo Alto Utilities