

FINAL

UTILITIES ADVISORY COMMISSION MINUTES OF JUNE 3, 2009

CALL TO ORDER

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

Present: Commissioners Dawes, Rosenbaum and Waldfogel with Vice Chair Melton arriving at 7:15 pm and Council Member Yeh arriving at 7:20 pm.

Absent: Commissioner Keller.

ORAL COMMUNICATIONS

None

APPROVAL OF THE MINUTES

The minutes from the May 6, 2009 UAC meeting were unanimously approved.

AGENDA REVIEW

Utilities Director Valerie Fong asked that item #3 (Recommendation on Approval to Proceed with the Palo Alto Recycled Water Project to Expand the Existing Recycled Water Delivery System and Implement Phase 3 of the Water Reclamation Master Plan) be removed from the agenda. Commissioner Rosenbaum asked if removal of the item means that the City will not be seeking stimulus funds for the recycled water project. Fong confirmed that this is the case.

REPORT FROM COMMISSION MEETINGS/EVENTS

No report.

UTILITIES DIRECTOR REPORT

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

1. **Electric-related Hydro Conditions:**

2009 is the third year of below normal Northern California flows. Runoff this water year is forecast at about 70 percent of average by end of September. Large reservoir levels are at about 78% of average for May 31st and the ground is somewhat dry. State Climatologist, Dr. Michael Anderson reviewed previous California droughts and found that four out of the six times we've left a La Nina condition, and moved into an El Nino, as it appears we are setting up to do, we've had another dry year take place. The strength of the El Nino will be the biggest factor in determining its impact to California's precipitation. A weak El Nino is usually drier than normal for us, with a strong El Nino bringing more frequent warm, moist storms, and above-normal winter precipitation.

With low Reservoir levels in the Western system there will be reduced generation as water operators try to conserve water. Calaveras reservoir has fared better and is projected to have near average generation for the rest of the year.

2. **Water Supply Conditions:** According to the hydrologic conditions report from the San Francisco Public Utilities Commission for May, there were significant additions to the water in storage as a result of heavier than normal precipitation and above average snowmelt in May. The final result as we head into the dry season is that storage levels are high at 95% of maximum storage capacity.
3. **NCPA:** Commission approved the Western Displacement Contract, which started June 1st.
4. **Marketing:** Two new 3rd party efficiency programs for businesses are being added in June. These programs will focus on larger businesses and on commercial kitchens. A timeline is being developed to implement a financing program for energy efficiency projects at businesses.
5. **Economic Stimulus Funding Application:**
 - a. **Energy Efficiency Community Block Grant (EECBG):** Council approved applying for LED street lights and Home Energy Reports under the block grant. Of the \$663,000 for which the City is eligible to apply, \$458,000 will be allocated to the LED street light project and \$205,000 will go to the Home Energy Reports project.
 - b. **People Power:** City may send a letter of support for a local company's effort to get stimulus funds to help evaluate the energy savings that could be achieved by customers changing behavior triggered by having in-home real time energy monitoring devices. (the name of the company is People Power)
6. **Street Light Pilot:** We expect to have 2 LED and 2 Induction street lights with dimming controls installed around City Hall by the end this month. LED luminaires will also be installed along Colorado and Amarillo in the beginning of July. We are seeking customer feedback through surveys and other means, and expect to complete the pilot evaluation by Fall 2009. Staff is planning a demo of the streetlights and dimming functionalities to UAC in August when the astronomical twilight (when the sun does not contribute to sky illumination) is before 10pm.
7. **Smart Grid Evaluation:** Following up on the May 11th joint Council/UAC study session, staff is developing an RFP to retain a consultant to help us develop a long term Smart Grid Strategic Plan and do a cost-benefit analysis related to smart meter deployment. We expect to have the results of this evaluation to the UAC in the Spring of 2010.
8. **Renewable Electric Power RFP:** Staff is initiating negotiations with six proposers, putting two more on hold and letting eight others go. Technologies being evaluated include wind, landfill gas, biomass solar PV, solar thermal, and geothermal.
9. **Biomethane RFP:** Palo Alto issued an RFP for pipeline-quality biomethane supplies this week. Responses are due back July 14. The biomethane is intended to serve gas customers who voluntarily opt for a non-fossil fuel gas supply.
10. **Legislative Update:** At the Federal level, the House Committee on Energy and Commerce passed their climate legislation (American Clean Energy and Security Act of 2009 - H.R. 2454) by a 33-25 vote. While still a long way to go, the bill in its present form would distribute a significant number of allowances to the electricity sector for free until 2025. Under its current form, the renewable portfolio standards begin at 6% in 2012, and increase to 25% in 2025, but only apply to those distribution

utilities with annual retail sales of 4 million megawatt hours or more. This threshold would exempt Palo Alto.

At the State level, a letter was sent by the Governor to legislative leaders outlining what he wants to see in a RPS bill. The letter states a strong preference for Senator Rod Wright's bill, SB 805, but still calls for State oversight/authority over publicly-owned utilities regarding RPS implementation and enforcement.

11. **UAC Calendar:** Rolling calendar of upcoming items for UAC meetings. Election of officers to occur at the Commission's August meeting.

UNFINISHED BUSINESS

None.

NEW BUSINESS

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

Staff had no presentation on the item.

Commissioner Waldfoegel stated that he was happy to see the increased reserve level estimates, but felt blindsided by the change since the rates were set based on old information. Assistant Director Jane Ratchye noted that the information available at the time rates were proposed was the best available information at the time and that by the time the budget is adopted in June, the information on which it was based is 6 to 7 months old. The quarterly reports provide the latest information available for both actual usage and costs and projections for the remainder of the year. Commissioner Rosenbaum stated that it was his experience that there is the "pleasant surprise" every year. He said that staff budgets conservatively and that we end up with more in reserves than expected.

Commissioner Rosenbaum asked about the Renewable Portfolio Standard (RPS) target being considered in the legislature where the target is applied to the load net of the hydro production. He said that this was an idea worth pursuing. Utilities Director Valerie Fong said that this was under consideration in the state legislature, but that it was a work in progress. Senior Resource Planner Debbie Lloyd indicated that the governor has signaled support for such an approach. Commissioner Melton asked if federal legislation would override state legislation in the RPS area and that Palo Alto should push for such a solution. Lloyd noted that the current Federal legislation proposed would not preempt State programs, so California could have a higher standard. Ratchye cautioned that, if this approach were used, the RPS targets could be set at a higher level. Lloyd noted that the approach recognizes difficulties with managing portfolios that are hydro heavy and also filled with other intermittent, non-firm resources such as wind and solar.

Chair Dawes encouraged staff to accelerated work on the Emergency Water Supply Project to be able to take better advantage of the current favorable market conditions for doing such a project. Commissioner Melton concurred with Dawes. Staff explained that it was moving forward on the project, and that as part of the project schedule, some related issues need to be considered including down-time for El Camino Park and scheduling the construction at El Camino Park to be coordinated with the availability of alternate park/playing field sites.

Chair Dawes asked why projected activity shown in Table 2 in the financial report showed surplus energy revenues to be negative. Staff agreed that this did not make sense and that it would have to get back to the Commission with an explanation or correction.

Commissioner Waldfogel asked about the apparent smooth transition to the CAISO's new MRTU market. Lloyd agreed that it seemed to be going smoothly so far. The day-ahead markets were relatively stable, although NCPA notes that there were still some problems in the real-time markets with some erroneous dispatch instructions. However, the real test will be when invoices arrive. Also April was not a high-stress month, so staff will continue to monitor through summer and provide updates to the Commission.

Commissioner Melton noted that the Figure 3 in the gas update shows the Weighted Average Cost of Gas (WACOG) above the forward market prices for the next two years. Ratchye confirmed that this is the case and it is due to the laddering strategy which results in more stable costs but will also result in above-market costs in periods of falling prices.

Commissioner Melton stated that the Market Efficiency Enhancement Agreement (MEEA) program sounds like a California Independent System Operator (CAISO) fumble. Fong said that rather than a fumble, it was a calculated way to devalue imports into the CAISO system, such as those coming from the Western/SMUD control area. Staff is working on arrangements to meet any reasonable CAISO needs with minimum harm caused to the interests of CAISO customers like Palo Alto. Efforts include the development and implementation of the Western displacement program, interventions at FERC to help CAISO adhere to its own FERC approved proposals, and attempts to negotiate a CAISO designed MEEA.

Chair Dawes asked about the new construction rebate program. Staff answered that the rebates incent customers to go above and beyond the requirements in Title 24 of the building code.

ITEM 2: INFORMATION ITEM: Progress Update and Issues Regarding Procurement of Renewable Electricity

Staff provided a report tracking the progress and difficulties in pursuing renewables as Renewable Portfolio Standards legislation creates demand and a bull market for renewables developers. Commissioners noted that the State's \$117/MWh Market Price Referent for 20 year contracts appears to set the prices developers choose to offer. Staff concurred and noted the calculation when updated by the state this fall could be about \$10/MWh lower based on changes in the cost of natural gas. Commissioners noted the trade offs between resource type and price, for example uncertain and intermittent wind power is usually priced lower than more certain and schedulable base-load power like geothermal, landfill gas and biomass power. Commissioner Melton asked whether staff was finding sufficient supplies of renewable generation to meeting the goals. Senior Resource Originator Tom Kabat explained that Palo Alto was seeing offers of generation sufficient to meet the goals, but cautioned that not all of the offers to develop project materialize in actual projects. Staff presented information on the LEAP guideline # 6 of acquiring 33% renewable energy with only a half cent per kWh retail rate impact. Staff indicated that based on prices we are seeing we may produce a slightly higher impact by 2015 but that individual contracts will go to Council for approval along with an indication of the rate impact of the contract and all renewable contracts to date.

Council Member Yeh asked what actions staff can take to ensure proposed projects develop timely. Commissioner Rosenbaum asked why all future purchases are not from wind generators, which seem to be

the low-cost renewable option. Staff responded that while it has a limited ability to drive the timing of projects, part of the prices seen reflect the fact that much of the construction risk is on the developer. Additionally, staff noted the multi-pronged effort to enter into contracts from different developers/sources of generation, and the need to consider the "shape" of the load profile in determining which types of renewables have the most value. Staff also noted that the timing of generation from wind tends to coincide with the periods of lowest portfolio need. Staff noted the need to manage the portfolio on a daily basis. Commissioner Rosenbaum suggested more information be provided in the future on the relative value of different renewable resources' electric output as it fits into our existing portfolio.

ITEM 3: ACTION ITEM: Recommendation on Approval to Proceed with the Palo Alto Recycled Water Project to Expand the Existing Recycled Water Delivery System and Implement Phase 3 of the Water Reclamation Master Plan

This item was removed from the agenda.

ITEM 4: DISCUSSION ITEM: City of Palo Alto Utilities Values Discussion: Roles and Stakeholders; Needs and Interests

Commissioner Waldfogel presented some ideas for the identification of stakeholders, stakeholder interests and roles. He presented an ensemble of interests that include/incorporate rents to the City, rates of return to the City, staff interests, Council interests, business and residential customer interests. He also presented ideas on various possible value propositions for the utility.

Commissioner Waldfogel pointed out examples of value decisions such as:

- buy low
- sell low
- buy renewables
- expenditures on renewables should not increase rates by more than one half cent per kWh, or
- gas laddering strategy effect of stable rates on rates to customers .. should we produce the lowest rates possible? Predictable rates? Which has the highest value?

Chair Dawes asked Commissioner Waldfogel what he saw as the policy directive or outcome of the discussion. Waldfogel responded that the first level was strategy and objectives. Example include the guideline citing 0.5 cents/kWh as an acceptable cost for the value of renewable resources and the gas laddering strategy which maintains stability at a potential higher cost than market. The public should be aware of the explicit value statements.

Commissioner Melton noted that some of the values have been explicitly stated. Currently, the City pursues a different gas purchasing strategy from that of PG&E. PG&E buys and sells on the spot market, but the City adopted the value judgment of "stable rates," so for the next couple of years, customers can expect to see rates higher than the spot market as a result of the 30-year average strategy.

Commissioner Waldfogel suggested that these values need to be written down. He also questioned where innovation fits in. In that context, Waldfogel asked what the appropriate technology might be for a small 3-meter utility such as Palo Alto. Does it make more sense to purchase more sneakers for the meter readers or should a different technology approach be pursued?

Chair Dawes noted the balance between practicality and leadership in innovation. He noted the extra layer of complexity involved with multiple utilities and the effect of having multiple utility solutions on the policies that need to be developed.

Council Member Yeh mentioned that he liked the discussion as it raises awareness of the attributes and flexibility of a public power utility among the relatively transient utility customer base. He posed a question to the Commissioners ... "why should we have public utilities." Chair Dawes responded that it is a "cash geyser" for the City. Commissioner Rosenbaum indicated that Palo Alto is able to provide low rates coupled with high reliability.

Commissioner Rosenbaum added that the City and Utilities have always addressed each decision on an ad hoc basis and he doesn't believe that a change is warranted now. Chair Dawes summed the discussion up by saying that these thoughts are the start of a journey.

ITEM 5: ACTION ITEM: Potential Topics for Joint UAC/Council Meeting

The first topic suggested was the use of the Calaveras Reserves Fund for electric projects.

Commissioner Waldfogel suggested that a discussion around the review of the muni code and the scope of the Commission's oversight include the Fiber and Wastewater Utilities, and that the code could be drafted in a way that is more general and less explicit. Chair Dawes concurred. Commissioner Waldfogel also suggested the development of bylaws to guide the Commission in its actions and in communications between the Commission and the Council.

Vice Chair Melton suggested that the focus of the Commission be adjusted to keep a closer eye on legislative issues, and that more time be spent on strategic planning.

Council Member Yeh noted that the Council has indicated interest on where resources are invested in the long-term, whether it is the CPP (Climate Protection Plan), and the role of the Commission in that regard.

After discussion, the following four topics were suggested for the joint Council/Commission meeting.

1. Calaveras Reserves: use of funds for projects.
2. Municipal code: adjustments to include UAC oversight of Fiber and Wastewater Collection utilities
3. Balance between policies, budget, and rates and strategic, legislative, and regulatory issues.
4. Consideration of bylaws to enhance communications between the Commission and the Council.

ITEM 6: DISCUSSION ITEM: Selection of Topic(s) to be Agendized for Discussion at Future UAC Meetings

No discussion, however, earlier in the meeting, the issue of undergrounding of electric facilities was suggested as a future topic for the Commission. Staff indicated that it was planning to have a robust discussion on that matter with the Commission and would add the item to the rolling calendar.

Meeting adjourned at 9:05 pm.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities