

FINAL

UTILITIES ADVISORY COMMISSION MINUTES OF MARCH 9, 2010

CALL TO ORDER

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

Present: Commissioners Ameri, Berry, Eglash, Keller, Melton, and Waldfoegel.

Absent: Commissioner Foster and Council Member Yeh

ORAL COMMUNICATIONS

Art Kramer commented regarding the February 17 daylong power outage. He stated that he worked for other entities and said that they always made sure that there were at least two ways to get power to each customer. He said that Palo Alto needs a connection from the West and stated that this situation could affect Google's plan to wire fiber to every customer in the City.

Catherine Martineau stated that the urban forest was valuable and vital to the City, but that currently 60% of the trees need irrigation and this fact should be considered in any landscape ordinance. She also said that the City's senior arborists should be consulted to ensure that any ordinance will preserve the urban forest.

APPROVAL OF THE MINUTES

The minutes from the February 3, 2010 UAC meeting were approved after being amended so that gas, instead of water, is referred to in the second paragraph under Discussion Item Number 5.

AGENDA REVIEW

No changes to the agenda were proposed.

REPORTS FROM COMMISSION MEETINGS/EVENTS

None.

UTILITIES DIRECTOR REPORT

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

1. **Fall 2009 Renewable Power RFP:** This RFP yielded over 40 proposals from which staff selected 4 potential projects with the best prices to negotiate Power Purchase Agreements, or PPAs. The 4 PPAs will be considered by the Finance Committee on March 16. If all four PPAs are approved by the City Council, the City will have essentially achieved its 33% Renewable Portfolio Standard goal very nearly within the 0.5 cents per kWh rate impact limit.
2. **Landscape Water Efficiency Ordinance:** Staff presented the new state Water Efficiency Landscape Ordinance and a draft Palo Alto specific version to the UAC in January 2010 and to a variety of community groups in January and February. Based on input received, staff has decided to remain under the Department of Water Resources Model Ordinance until the statewide Green Building Code

goes into effect in 2011, at which time many of the efficiency measures will be included in the state building code. The Planning Department is coordinating a City-wide team to work on this update.

3. **Rates and Cost of Service Studies:** The preparation of the cost of service studies for electric, gas, water, and wastewater collection has taken longer than anticipated. The delay has changed the schedule for returning to the UAC with recommendations for rate structure changes that may be proposed to align the rates with the cost of service or to adjust the rates to achieve policy objectives. Since no revenue adjustments are being proposed for electric, gas, water, and wastewater collection services, no rate adjustments are proposed for implementation on July 1, 2011. However, rate adjustments may be proposed for implementation during FY 2011. By the UAC's May meeting, staff hopes to have a clearer schedule for completion of these rate adjustments, including ample time for UAC review of rate structures and cost of service alignments.
4. **Development of Smart Grid Strategic Plan:** The Council yesterday approved a \$140,000 contract with EnerNex Corporation to help CPAU develop a smart grid strategic plan. The work under this contract is expected to commence in the coming weeks, with an initial assessment due by the fall.
5. **Electric Transmission Grid Interconnection:** A quick re-cap of the February 17 city-wide electric outage.

There are three lines feeding into Palo Alto terminating at the Colorado Substation. Two of these lines are on steel lattice towers and the third is on a wood pole line. These lines enter the city on roughly the same alignment with approximately 30' or greater spacing (along SF creek and down East Bayshore). In the section struck by the airplane the tower line is separated by approximately 30' from the wood pole line. The plane appears to have veered left off the end of the runaway and struck the tower on the middle arm crushing it and severing the top cage from the base. This caused the conductors to break. On one conductor a section was severed (approximately 50 feet) and flew across the space between the towers and the wood pole line and was wrapped around the three conductors on the wood pole line. All the lines tripped (one line tried to reclose and restore power but tripped again because the fault was not cleared).

PG&E had resources capable of performing repairs in the area and mobilized them to respond. Restoration took hours because of the proximity of the damaged tower to the wood pole line and the need to have cranes to lift the tower section. PG&E first cleared the tower, then worked to bring the wood pole line back into service and subsequently reenergizing the line to Colorado Substation. City staff then reenergized the local system one substation at a time to avoid "cold load" surge (when the power has been off for an extended period cyclic load such as heaters all come on at the same time and create a load surge.) The restoration proceeded quickly at that point because we have had experience doing this in 1996 (twice in two days) and because we had time to plan the restoration.

PG&E worked through the night Wednesday and installed temporary wood poles to replace the steel tower. On Friday PG&E finished constructing a new tower and transferred the lines back to the tower. They were very responsive and did excellent work.

There have been several studies performed by CPAU to diversify our power delivery. The low probability of a single contingency outage caused by a plane accident has been considered. In our efforts to reduce costs we have been looking at taking power delivery at 230kV. When we have

considered these alternatives we have also attempted to find a place where we could get another point of delivery. We have looked at delivery at SLAC (\$45 million) and also considered undergrounding the feeds to Colorado Switching Station (\$200 million). The SLAC alternative, from a reliability standpoint, is the better alternative because it is a second point of delivery. SLAC was interested in getting back up power also. When we completed the engineering study, DOE indicated that they were not willing to be a transmission operator and this plan is currently on hold. An initial meeting with PG&E to discuss alternatives is being scheduled. We will return in April for a discussion on these alternatives.

6. **LED Street Lights Project:** As you know already, we tested LED and induction street lighting fixtures last summer with the help of Pacific Northwest National Labs. The technology for LED fixtures is moving quickly and, at present, we are working with manufacturers of LED streetlights to provide samples of their latest fixtures. These streetlights will be installed in a test area around Colorado Avenue for the public to view and make comments. To date, 27 LED fixtures have been obtained from the following manufacturers: General Electric, Phillips, Beta and LRL. The purpose of the test area is to assess the aesthetics of the fixture, evaluate the light distribution, and determine the best light color. Some of the fixtures have been installed and the remainder should be in place by the end of March.
7. **Google RFI Update:** Google issued its *Fiber for Communities* Request for Information (RFI) on February 10, 2010. Responses are due by March 26, 2010. The following is a summary of activities related to the RFI response and the community grassroots outreach effort to demonstrate community support:
 - Staff is preparing the RFI response. The City Manager has been designated by the Council as the project point person with the authority to provide answers to the RFI.
 - To demonstrate community support to Google, a grassroots outreach effort is underway. The following activities have been initiated:
 - The Mayor designated a Citizen Advisor for broadband issues to lead the grassroots outreach effort (Bob Harrington). Mr. Harrington is working regularly with staff to execute this plan;
 - The grassroots outreach plan includes:
 - Branding of the *Help Palo Alto Win Google Open Fiber* grassroots outreach effort. The goal of the outreach effort is to encourage citizens to nominate Palo Alto on the Google website as a candidate for its *Fiber for Communities* initiative;
 - Communication with the community and anchor institutions via several gateways: City website, ipaloalto website, Facebook fan page and advertising on Palo Alto Online.
 - Production of testimonial videos supporting the nomination of Palo Alto as a trial location for Google's *Fiber for Communities* initiative.
 - We have adopted the tag line of "At the speed of Google."
 - Please go on-line and nominate Palo Alto to Google. You can get to the Google link via our City website.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: ACTION ITEM: Ten-Year Electric Energy Efficiency Plan

Assistant Director Jane Ratchye reminded the Commission that this Plan had been brought to the UAC in February and that, based on comments from the UAC at that time, no changes have been made to the goals or recommendations in the final report.

Commissioner Berry asked why additional UMS staffing was not being requested now during the budget process. Utilities Director Valerie Fong said that staffing increases, probably through temporary or hourly staff, could be requested in the mid-year budget process. Ratchye added that there would be more funds in the budget for supply-funded Demand Side Management (DSM) activities, and some of the funds could be used to implement programs or develop contracts with third party vendors.

Commissioner Keller asked for a fuller explanation on how the increased funded for DSM projects would impact rates. Ratchye responded that the amount for Energy Efficiency (EE) would be going up over a 10-year period, which would be a greater cost than would have been expended otherwise. This would increase retail rates by five to seven percent more than would have otherwise been the case. On the other hand, participants in the program would reduce their usage, resulting in a lower utility bill for these customers. The average effect between the increasing rates and the reduced usage would cause an average impact of an increase of one to two percent overall. Commissioner Keller wondered if bills could go down for all customers. Ratchye responded that nonparticipants would have increasing utility bills, as the rates would be going up. She added that the programs are evaluated for cost effectiveness from a system wide (or Total Resource Cost perspective), not from an individual utility customer perspective. Fong added that if rates are higher and a customer's consumption does not decrease, that customer's utility bill will go up.

Chair Melton wondered at the graphs showing that the potential for electric efficiency is primarily in lighting. Utility Marketing Services Manager Joyce Kinnear responded that lighting is by far the most cost effective EE opportunity for most customers.

Commissioner Waldfogel expressed a concern in taking allocated supply resource dollars to pay for more staffing. Kinnear pointed out that in the current budget, supply resources have been paying for rebates in the solar photovoltaic (PV Partners) program, while Public Benefit Funds have paid for staffing and the increased contracting requirements necessary for increasing reporting and verification requirements imposed by the state. Fong noted that the way these programs can ramp up is with more staffing to execute the programs and manage contracts. She added that these programs are labor-intensive to run.

Commissioner Keller expressed a concern that the report did not mention water rebates. She further asked how rebates for such appliances as hot water heaters are dealt with in the programs. Kinnear responded that this report is on energy efficiency programs, so water rebates are not included. She added that water heaters are considered to be natural gas efficiency measures, since natural gas heats the water. Therefore, these rebates are paid through the natural gas program.

Commissioner Waldfogel again expressed his concerned that, while he is fine with supply funds paying for capital or commodities, he is concerned about these funds paying for headcount. Chair Melton pointed out that he felt the report was unclear on where the funds would come from to pay for this staffing. Fong said that the supply budget pays for staff to schedule and purchase commodities. She further pointed out that

all transactions in the Utilities Department require human effort to implement and complete programs. Waldfogel said that staffing is a small percentage of total cost in supply budgets, but a greater percentage in the marketing budgets. Fong said that the Northern California Power Agency's (NCPA's) power management cost and bond refinancing costs should also be counted as staffing costs in supply. NCPA's activities in managing resources make the City's staffing costs for supply activities look small.

Chair Melton pointed out his concern that an increase in budget of \$1.2 million from supply would go to fund marketing staff. Fong said that the marketing staff members are procurement staff—they procure energy efficiency. Just as the resources staff procures commodities, the EE staff procures efficiency resources. Waldfogel said that the percentage of staffing costs is higher in marketing than is the case in the supply areas. Kinnear explained that while the average commodities contract may have six counter-parties, DSM programs have 25,000 counter-parties. In addition, a DSM contract of \$100,000 requires nearly the same effort to complete the purchase process as does a several million dollar contract for supplies. There are many more moving parts in the efficiency area, and it is more costly to staff these areas. Commissioner Eglash summed up the conversation by stating that the EE programs are cost effective, but require more staffing to implement. Kinnear agreed.

ACTION: Commissioner Keller made a motion to recommend that the City Council approve the proposed 2010 10-Year Electric Energy Efficiency Plan. Commissioner Ameri seconded the motion. The motion passed unanimously (6-0).

ITEM 2: DISCUSSION ITEM: Status Report from Ad Hoc Subcommittee on Innovation and Technology

Commissioner Eglash reported on the work of the ad hoc subcommittee, whose members include Commissioners Keller, Foster and Eglash. He stated that the subcommittee has met with staff and as a committee. Eglash stated that the committee has collected a list of innovative ideas and are planning to go to the community to gather more ideas. The committee recognizes that innovative ideas require risk.

One idea is to have the Utilities Department provide seed funds to try projects. Beginning a project with a pilot stage at modest cost is probably recommended to determine if it's promising. Then, full-scale deployment would be resourced like any other project. Eglash said that at this time, the subcommittee is focused on generating ideas and identifying some to pilot. He said that the focus is on energy efficiency, renewables, and local generation. Potential projects would be assessed as to their hoped for benefit and cost (capital and staffing).

Commissioner Keller added that water was also included in the discussions. She added that the subcommittee is considering how to invite the community to participate and wants to ensure that there is a process or procedure in place after the subcommittee's work is done. Keller would like this to be a model for other communities.

Commissioner Eglash stated that the ad hoc subcommittee may recommend that it become a permanent subcommittee. In addition, it may make a recommendation regarding a citizen panel to help make this a sustainable process. Keller added that she would like to actually implement one of the ideas soon and not just identify possibilities.

ITEM 3: DISCUSSION ITEM: Long Term Financial Projections and Revenue Requirements for the Wastewater Collection Fund

Senior Resource Planner Ipek Connolly presented long-term financial projections and revenue requirements for the Wastewater Collection fund. Connolly explained that about half the operating expenses are related to treatment costs, while CIP and operations accounted for 25% each. Treatment costs are expected to increase by 2.4% per year on average during the next five years, while operations cost is projected to increase by 1% per year and CIP by 3.8% per year on average, respectively. Overall, the Wastewater Collection Fund's expenditures are projected to increase by 2.9% per year during the next five years.

Connolly explained that, based on the City's Annual Financial Report for FY2009, the Wastewater Collection Rate Stabilization Reserve (RSR) ended the year with a balance of \$6.0 million. Following a 5% rate increase in July 2009, and given the expected cost projections, staff recommends no change in revenues for FY2011. For the next four years, an average 5% per year rate adjustment keeps the utility financially viable, and results in projected RSR balances being within the Council-approved minimum and maximum guidelines levels.

Commissioner Waldfogel asked why the City of Palo Alto's Wastewater Collection rates are so much lower than those in Redwood City and Menlo Park. Connolly answered that she did not know the specifics of other City's rate drivers. Commissioner Ameri commented that this was very impressive given that Utilities also runs and maintains the laterals unlike many other cities.

Chair Melton asked why Operating Transfers Out was so high in FY 2009. Connolly explained that this was mainly due to SAP allocations in FY 2009.

ITEM 4: DISCUSSION ITEM: Updated Long Term Financial Projections and Revenue Requirements for the Water Fund

Commissioner Ameri recused himself from this discussion of water related issues since he works for a water agency in the East Bay that receives water from the same supplier as Palo Alto. He explained that there was no financial conflict of interest, but since there could be a perception of a conflict, he has chosen to not participate in the discussion.

In response to a special request by the UAC at its February 2010 meeting, Senior Resource Planner Ipek Connolly presented alternative rate adjustment scenarios for the Water Fund given the long-term financial projections and revenue requirements. At the February 2010 meeting, Connolly had presented a 5% rate adjustment scenario for FY 2011, and the UAC had requested to see an additional scenario with a 0% rate adjustment. Connolly presented the results of this scenario where a 0% rate adjustment in FY 2011 results in additional rate adjustments of 8%, 9%, 9% and 9% for the next four years.

Connolly also informed the UAC that since the February 2010 meeting, the SFPUC has notified its customers of a change in the 1-0-year projections for wholesale water rates. The change results in a decrease in its projected rate increases for the next five years and an increase for subsequent years. Consequently, Connolly presented the updated financial projections for the Water Fund with this change and the resulting rate adjustments. Based on this view, no rate adjustment for FY 2011 is recommended, followed by rate adjustments of 7%, 7%, 8% and 8% for the following four years.

Commissioner Keller asked if cost estimates from SFPUC are certain. Assistant Director Jane Ratchye explained that these projections were impacted by the long-term capital improvement plans of SFPUC and that they were relatively certain. Commissioner Berry asked for updated information on the WSIP costs and schedules. Ratchye explained that the changes were a combination of updated costs, project schedules, and water sales revenues. She explained that costs for some projects have come in under engineers' estimates, but some costs have increased, especially the Calaveras Dam replacement project. She explained that there has been progress with respect to this project, but given the uncertainties of such projects it is possible that there may be similar revisions in the future.

Commissioner Berry pointed out that the new proposal was 0% rate adjustment in FY 2011 but wanted to know what would future rate increases need to be if there was a 5% rate adjustment in FY 2011. Utilities Director Valerie Fong pointed out that due to Prop. 218 notification requirements and related tight timelines and administrative costs involved, staff was not recommending this scenario at the moment. Commissioner Keller pointed out that it was important to inform customers that water costs are going up. She stated that an increase in FY 2011 would moderate future rate increases and would be a minor impact on customers' bills if other rates are not going up. Commissioner Waldfoegel stated that he was pleased that there is no projected rate increase in FY 2011, especially in this economic environment. Commissioner Berry stated that he would like to see the analysis with a 5% rate adjustment for FY2011 and he is not ready to make a recommendation at this point.

ITEM 5: ACTION ITEM: Potential Topic(s) for Discussion at Future UAC Meetings

Commissioners discussed topics that could be requested for future meetings. One topic of current interest is transmission alternatives. Fong stated that this topic was scheduled for the commission's April meeting. Commissioner Berry requested that appointment of an Ad Hoc Subcommittee for the Utilities Strategic Plan be agendized soon. Fong replied that this was scheduled for action in April. Commissioner Keller stated that she wanted to see an update on the smart grid strategic plan when that item is ready.

INFORMATIONAL REPORTS

None.

COMMISSIONER COMMENTS

Commissioner Eglash provided an update on the Budget Ad Hoc Subcommittee (Waldfoegel, Berry, and Eglash) has met with staff and reviewed the Utilities draft CIP and operating budgets. He stated that the subcommittee would not provide a formal report, but members will be in a position to comment thoughtfully on the budget proposals. The members have contributed to the budget preparations as it moves through the process. The subcommittee has concluded that Utilities needs a strategic plan for IT to examine Utilities specific issues and how IT addresses those issues. He also reported that staff is undertaking a benchmarking effort. Commissioner Berry added that it has been a valuable and useful process and that he has learned much. He recommends that this review be conducted every year. Commissioner Waldfoegel added his appreciation to staff.

Commissioner Eglash stated that he has accepted a new full-time position as the Executive Director of the Energy and Environment Affiliates Program at Stanford. Thus, he will need to recuse himself from any items related to Stanford as he is now an employee there.

Chair Melton directed the commission's attention to the informational staff report on Utilities 2010 Initiatives, CMR: 153:10, which can be found on-line.

It was announced that the May meeting has been rescheduled for May 12. The May meeting is the daytime meeting that is focused on the budget.

Meeting adjourned at 8:50 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities