

# FINAL

## UTILITIES ADVISORY COMMISSION MINUTES OF JUNE 2, 2010

### CALL TO ORDER

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

Present: Commissioners Berry, Eglash, Foster, and Waldfogel and Council Member Yeh  
Absent: Commissioners Ameri and Keller

### ORAL COMMUNICATIONS

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Art Kraemer noted that he has not heard anything more about progress on a back-up transmission line to serve the City in light of the airplane crash in February.

### APPROVAL OF THE MINUTES

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The Minutes from the May 12, 2010 UAC special meeting were approved as presented.

### AGENDA REVIEW

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The items under New Business on the agenda were reordered so that Item #1 was discussed after Item #2 and Item #3.

### REPORTS FROM COMMISSION MEETINGS/EVENTS

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Chair Melton reported that he and Commissioner Waldfogel attended meetings of the Finance Committee on May 25 and May 27 when the Utilities budget was discussed. He said that the Finance Committee unanimously recommended that the Council adopt the Utilities CIP and operating budgets. Commissioner Waldfogel added that the Utilities Department had changed the budget proposal somewhat from what was presented to the UAC – it decided to remove the request for the new Customer Service Representative and Customer Service Specialist positions in favor of relying on temporary staff for another year.

### UTILITIES DIRECTOR REPORT

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

1. **Sierra Hydrologic Conditions Update:** The Central Valley Project's 5 largest reservoirs are 78% full at 96% of combined average storage for May 31. Storage on the mountain slopes (snowpack water content), although starting to run off, is still about 50% above average for May 31 at the same levels at which it peaked in mid April last year. Unfortunately low Trinity Reservoir levels will reduce diversions to the Sacramento River. Folsom and Shasta reservoirs have recovered from the drought and are expected to have above normal generation next winter. Calaveras generation is expected to be above average for the prompt 12 months.
2. **Home Energy Reports:** After approval of the OPOWER contract by City Council on May 3, 2010, Utilities Marketing Services staff has begun working with the contractor and Palo Alto IT to develop the

protocol to transfer data for the Home Energy Reports. The first reports are currently scheduled to be delivered to residents by the end of October.

3. **Water Efficient Landscape Ordinance:** On Saturday, May 22, Utilities Marketing Services partnered with the Bay Area Water Supply and Conservation Agency (BAWSCA) to offer a free workshop to the community about the new statewide Water Efficient Landscape Ordinance. About 20 class participants, including Palo Alto residents, landscape professionals, and staff from local municipalities, attended the workshop to review the updated Ordinance requirements. The workshop involved a hands-on demonstration of site landscape design, practice with water budget calculations, and discussion of how this Ordinance relates to the City's Green Building Code update and water conservation best management practices.

## **UNFINISHED BUSINESS**

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None.

## **NEW BUSINESS**

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### **ITEM 1: PRESENTATION: Discussion of the Long-Term Electric Acquisition Plan (LEAP) and the Gas Utility Long-Term Plan (GULP)**

Senior Resource Planner Karla Dailey presented information pertaining to GULP. The GULP objectives were reviewed, and each major gas portfolio management work area and the applicable guideline(s) was described. Staff offered alternatives to the status quo in each major work area. Staff requested UAC feedback on the various gas portfolio management strategies.

Commissioner Waldfoegel requested more analysis on the financial impact of shortening the gas laddering strategy timeframe. Commissioner Eglash warned against confusing the laddering strategy with rate stability. Waldfoegel suggested that we should look at shortening the laddering period. Eglash said that the ladder could be shortened to 12 or 18 months, but that we shouldn't be in the business of financial hedging and that we should stick with an annual rates change, but shouldn't insulate customers from market energy costs.

Commissioner Waldfoegel asked about the customer reaction to varying rates on bills. He wondered if it would cause more or less societal cost to vary rates. He wanted to know how much of the total gas usage is for appliances versus thermostat settings.

Commissioner Berry requested information regarding the significance of market-based pricing with respect to the success of gas energy efficiency and conservation. Commission Foster stated that he supported stable rates, rather than variable, market-based rates. Council Member Yeh suggested a survey or other method for gathering community input on the "stable" vs. "market" gas commodity rate issue. The impact on Utilities customer service should also be considered when changing gas rates. Commissioner Foster stated his view that gas energy efficiency should be a higher priority than non-fossil fuel gas supplies.

Commissioner Eglash stated that he wanted to hear what staff thinks makes sense, not a list of wild ideas. Commissioner Waldfoegel added that these are procurement plans, not strategic plans.

Commissioner Foster asked if a carbon tax could fund solar water heating systems. He noted that there is lots of focus on electricity, but should focus more on gas efficiency. We should reduce gas usage before

buying biomethane supplies. Chair Melton and Commissioner Eglash both agreed with a focus on energy efficiency.

Assistant Director Jane Ratchye summarized the discussion on GULP:

1. The UAC may need additional analysis with respect to procurement;
2. The focus should be on energy efficiency and solar water heating;
3. Staff should consider surveying customers to determine their preferences; and
4. Don't make big changes unless they would solve a problem or address a need.

Senior Resource Planner Monica Padilla provided a presentation highlighting LEAP objectives, guidelines and current practices and modifications and/or alternatives to current practices. The presentation was intended to promote discussion regarding key policy direction on: 1) Stable Rates vs. Market Signals; and 2) Climate Protection goals

Padilla's presentation included an overview of the Council-approved LEAP objectives and staff's efforts towards achieving the objectives through the implementation of relevant guidelines. The presentation focused on current practice under the major electric supply planning areas of legislative and regulatory, portfolio management and climate protection. Staff offered modifications to current practices and alternatives in each major work area.

Commissioner Waldfogel recommended that the UAC hold a study session on the Renewable Portfolio Standard (RPS) given the Council interest in that subject.

#### PUBLIC COMMENT

Bruce Hodge, of Palo Alto Cool Cities Team, indicated that he would like an opportunity for the community to participate in discussions related to energy procurement. He said that the big question for gas is not rate stabilization, but carbon emissions. However, the presentation had little focus on that area. In addition, there should be greater emphasis on energy efficiency and solar hot water heating. For LEAP, he would support a carbon neutral goal with explicit targets and timelines.

Commissioner Eglash indicated that he would like to see more in LEAP on local generation, renewables, and energy efficiency. He asked how we can encourage cost-effective local generation. He said that there needs to be more incentives for solar photovoltaic systems for residents, businesses and schools. Innovative ideas such as private investors paying to locate such systems on school roofs should be evaluated. For example, the City could own and operate local generation or the City could install PV on people's roof. With respect to renewables, he advised focusing more on energy efficiency rather than RPS. For example, perhaps a different metric such as how much brown energy needs to be purchased or a measure of carbon emissions is more appropriate. Eglash added that the City should do more to encourage more energy efficiency. He commented that the Acterra program is woefully underutilized and we need to work on ways to help customers to reduce usage through efficiency improvements. Commissioner Foster indicated that he agreed with Eglash's comments. Chair Melton added that he has long pushed for more local generation and advised more creativity to address the lack of success to date.

Commissioner Waldfogel stated that reducing peak power usage, which is more costly, should be a focus, noting that reductions in usage during peak hours are much more valuable than reducing nighttime usage.

Chair Melton suggested that perhaps there would be a way to address the hydrologic risk of the electric portfolio. Ratchye mentioned that a hydro adjuster in the rates could be applied such that, in a dry, year a certain amount, say 0.5 cents per kilowatt-hour, could be added to the rates and in a wet year, rates would go down 0.5 cents per kilowatt-hour.

Commissioner Berry asked where the Council Colleagues' Memo fits into this discussion. Fong replied that it is fundamental to the discussion as LEAP addresses the items contained in that memo. Berry stated that the memo sets out a good scope of work and he wondered how and when we plan to complete it. Commissioner Eglash indicated that he had the same question. He stated that LEAP is a set of broader, higher, more fundamental issues, but that Council directed the specific things in the memo and want to see the analysis requested. The UAC needs to be responsive to this direction. He said that it may need to be separately agendized so the UAC can focus on it.

In summary, the UAC provided the following key observations and/or policy suggestions/actions:

1. expand the use of energy efficiency to meet carbon neutral goals;
2. increase efforts and incentives to promote local generation in Palo Alto;
3. explore opportunities and develop appropriate price signals to reduce peak demand; and
4. explore the use of rate adjustors to respond to changes in hydro electric supply

Staff was asked to return to the UAC in July 2010 to continue the discussion of LEAP objectives, guidelines and strategies and to specifically address the City Council's Colleague memorandum of May 3, 2010 regarding the potential for expanding energy efficiency in Palo Alto instead of procuring additional renewable power supplies and evaluating alternative mechanisms to Power Purchase Agreements to procure renewable supplies.

#### **ITEM 2: PRESENTATION: Presentation on Energy Efficiency Loan Programs for Fiscal Year 2012**

Utility Marketing Services Manager Joyce Kinnear gave a presentation on the four major types of efficiency financing programs: on utility bill loan repayment, off utility bill loan repayment, interest buy downs through a lending institution, and Property Assessed Clean Energy (PACE) loans with repayment through property tax. She discussed each of the four program types and pointed out that the City is currently developing an off utility bill loan program for business customers through a third party administrator and a PACE program with the CaliforniaFIRST coalition of cities and counties. The PACE program is currently in an uncertain position as Fannie Mae and Freddie Mac have objected to having these liens superior to a mortgage, in case of failure to pay.

Commissioner Eglash asked for clarification on what the City will do if the PACE programs do not go forward. Kinnear responded that at that point in time, the City would have to do a risk analysis to determine if it would be appropriate to provide some other lending mechanism for residents. Eglash encouraged staff to begin looking at these options right away. Director Valerie Fong pointed out that it is currently not clear that PACE will fail. Eglash followed up his previous comment to say that if PACE does crash, the City will be eager to find other ways to finance Energy Efficiency.

Commissioner Waldfogel pointed out that the risk for default is lower in Palo Alto than the rest of the country, but that while Commissioner Eglash has made some excellent points, staff should look at all sides of the issues. Eglash continued by encouraging the City to keep an eye on PACE and look at all other options if necessary. Waldfogel agreed and suggested that staff look to see if an Operations and Maintenance requirement or a mandatory insurance option could be included in PACE, to ensure that

future owners are not saddled with repaying a loan for equipment that no longer works. Eglash asked whether the City is setting up PACE requirements on its own or as a part of the County program. Kinnear clarified that this is part of a County program, and Fong pointed out that the City is at the table in discussions on how to set up the program. Commissioner Foster wondered if the PACE program would include a disclosure that there is a charge against the property at the time of sale, and Kinnear said that there would be through the title search.

**PUBLIC COMMENT:**

Art Kraemer pointed out that the City of Palo Alto had a program in the 1980's to discount electric bills when residents installed solar water heating systems. The cost of the system at his home to install (\$6,000) was more than paid off through reductions in the natural gas and electric bills.

**ITEM 3: ACTION ITEM: Use of Up to \$75,000 in Calaveras Reserve Funds for an Energy/Compost Feasibility Study and Environmental Impact Initial Study**

Assistant Director Jane Ratchye explained that the Council directed that a feasibility study for an anaerobic digester be completed and that the cost was expected to be \$250,000. City staff had determined that a fair split of the total cost would be for the Refuse Fund to pay half of the cost and the remaining half split equally between the Electric Fund and the Regional Water Quality Control Plan. Utilities staff is proposing that the Calaveras Reserve be the source of funds for the Electric Fund's share of the cost, up to a total of \$75,000.

Commissioner Foster indicated that the decision seemed easy and that he supported the recommendation.

Chair Melton asked why the Electric Fund was assigned any part of the cost and why the Gas Fund did not get any cost assignment since one outcome could be that gas would be produced from the digester. Fong stated that the project could have benefits to the Electric Fund since local generation would be evaluated and Utilities would want to make sure it was properly valued, but that the Gas Fund was unlikely to be a beneficiary since biomethane, if it was the project's product instead of electricity, would be used directly rather than cleaned up to pipeline quality.

Commissioner Waldfoegel stated that if Electric Fund was to be tapped, the Calaveras Reserve would be the appropriate source of funds since it fits with the types of projects that were sought for funding from that reserve – local, renewable generation.

**PUBLIC COMMENT:**

Herb Borock expressed his opposition to the proposal. He stated that the proposal assumes that the decision on how to divide the costs between funds, rather than ask for policy direction to set that split. In addition, he said that 25% of the \$250,000 study would only mean \$62,500 is needed, not the \$75,000 requested. Finally, he said that the project is entirely a Refuse Fund project and that no Utilities funds should be used at all, despite the challenging situation of the Refuse Fund. He concluded that the Calaveras Reserve was being tapped since it is available, but that it is not a good policy.

Commissioner Eglash asked Council Member Yeh if it was normal for Council to let staff decide funding sources. Yeh said that he didn't know the rationale of the proposed split of funding. Fong added that the Refuse Fund is the largest source of funds at 50% of the total cost. Yeh said that the City Manager would be involved since it must ultimately go to the Council for a decision. He wanted to make sure that the costs are reflective of the benefits for each fund.

Commissioner Waldfogel stated that it has been established that there is a benefit to the Electric Fund, but not the Gas Fund so that he supported the recommendation.

Chair Melton stated that he thought that the Electric Fund's contribution should not come from the Calaveras Reserve since the money involved is too small and that, instead, it should come from the general Electric Fund operating costs.

**ACTION:**

Commissioner Waldfogel made a motion to recommend that Council approve the funding of 25 percent of the funding, up to \$75,000, for an Energy/Compost Feasibility Study and Environmental Impact Initial Study from the Calaveras Reserve. Commissioner Berry seconded the motion.

Commissioner Melton made a substitute motion to change the funding source from the Calaveras Reserve to the Electric Supply Rate Stabilization Reserve. The substitute motion died for the lack of a second.

The original motion passed by a vote of 4 to 1, with Chair Melton voting no.

**ITEM 4: ACTION ITEM: New Infrastructure Blue Ribbon Commission**

Commissioner Foster noted that work on the New Infrastructure Blue Ribbon (NIBR) Commission necessarily requires time and commitment and noted that he would not be able to dedicate adequate time a this important effort requires over the upcoming months.

Chair Melton indicated that he had served on the Storm Drain Committee and other City committees in the past. He acknowledged the time and effort involved in these efforts and since he would be stepping down from chairing the UAC, he would be interested in serving on the NIBR Commission.

**ACTION:**

Commissioner Foster nominated Chair Melton to be on this commission. Commissioner Eglash seconded the nomination. The motion passed by a vote of 4 to 0, with Chair Melton abstaining.

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

Chair Melton indicated that he would work with the Director to discuss the meetings in July and August.

**INFORMATIONAL REPORTS**

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None.

**COMMISSIONER COMMENTS**

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None.

Meeting adjourned at 10:40 p.m.

Respectfully submitted,  
Marites Ward  
City of Palo Alto Utilities