City of Palo Alto

FINAL

UTILITIES ADVISORY COMMISSION MEETING
MINUTES OF MARCH 7, 2012

CALL TO ORDER
Chair Foster called to order at 7:10 p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Foster, Eglash, Keller, and Waldfogel and Alternate UAC Liaison Shepherd
Absent: Commissioners Cook and Melton and UAC Liaison Scharff

ORAL COMMUNICATIONS
None.

APPROVAL OF THE MINUTES
The Minutes from the February 1, 2012 UAC meeting were reviewed and two changes were proposed: the correct spelling of Herb Borock's name and changing "Girl Scout Hut" to the proper "Girl Scout House". The minutes were approved as amended.

AGENDA REVIEW
No changes to the agenda were proposed.

REPORTS FROM COMMISSION MEETING/EVENTS
None.

UTILITIES DIRECTOR REPORT
Assistant Director – Resource Management Jane Ratchye delivered an oral report on the following items:

1. **Hydro Update**: A persistent high pressure system has limited precipitation in the northern and central Sierras. Average precipitation from now through the end of the fiscal year would still result in low runoff and below average generation. Reservoirs are holding fairly steady rather than filling. Reservoir releases and associated hydro generation is being reduced now and is expected to be reduced in the future to conserve reservoir storage. The Western Base Resource is expected to provide about 29% of Palo Alto's needs in the next 12 months, which is somewhat below the 37% produced in an average hydro year. Calaveras is expected to provide about 7% of our needs compared to 13% for an average hydro year.

2. **Status of Renewable RFP evaluation**: Staff has initiated negotiations with a solar electric developer for a power purchase agreement to bring to the UAC for recommendation in May.

3. **EV TOU Rate Pilot**: Staff is developing a residential Electric Vehicle (EV) Time-Of-Use Pilot rate to encourage late night and early morning charging at single family homes. Charging EVs at night, rather than during the day, will lower the cost of electricity and decrease the probability of having to upgrade local distribution transformers. In May, staff expects to bring these pilot rates to the UAC for a recommendation.

4. **Demand-Side Management Updates:**
   a. The EGIA residential loan program has a couple of loans in process, but none are yet completed.
   b. Staff is planning the summer workshop series. As in the past, there will be at least one on water, one on efficiency and one on solar (solar water heating).
   c. A reminder that the Ugly Lighting contest ends soon. If you think your lighting will win, submit your application soon! Information is available on the City's web site.
   d. Utilities is planning an Earth Day ribbon cutting of the EcoHome and renewable technology demonstration area near the Girl Scout House in the Lucie Stern Complex on Saturday, April 21 at 2:00 p.m.

5. **PG&E Pipeline Replacement Project Update**: The replacement of the Charleston Road segment of the gas transmission pipeline #109 is now scheduled to begin in early June and should be completed by mid-August. The goal is to complete the work within the window when school is out for the summer, since Hoover Elementary School will not only be impacted in terms of public access but is going to be used as a staging area for equipment.
   PG&E also needs to replace the segment of this same pipeline which runs along Miranda Road in front of the VA Hospital and that project plan is not finalized but may take place this summer as well.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: ACTION: Proposed Amendment to Utilities Fiber Optic Rate Schedules EDF-1 and EDF-2
Senior Resource Planner Ipek Connolly explained that there are 11 customers on Fiber Optic Rate Schedules EDF-1 and EDF-2 and the contracts allow an annual rate adjustment based on the Consumer Price Index (CPI).

Assistant Director Jane Ratchye noted that since the contracts require these adjustments, there are no policy issues that are presented with changes in these rates. She suggested that the UAC may want to recommend to Council that they do not need to review these types of changes in the future.

Commissioner Eglash clarified that rate adjustments to rate structure still need to be reviewed by the UAC, but if the only change is something required by a contract, then the UAC may not need to review.

ACTION:
Chair Foster moved that the UAC recommend that Council approve a 2.93 percent increase to Dark Fiber Licensing Service Rates EDF-1 and EDF-2 for Fiscal Year (FY) 2013, effective July 1, 2012, which will increase annual revenues from commercial dark fiber customers by $45,000 and that the UAC waive its

future review of the Fiber Optic rates that are changed according to contractual terms and are not changes to the rate structure. Commissioner Eglash seconded the motion. The motion passed unanimously (4-0) with Vice Chair Cook and Commissioner Melton absent).

ITEM 2: DISCUSSION: Gas Fund Financial Projections (FY 2013 – FY 2017)
Senior Resource Planner Ipek Connolly provided a presentation summarizing the report. She stated that the Council direction to change the laddered purchasing strategy and implement monthly-varying, market-based gas commodity rates necessitates a structural change to gas rates for FY 2013. The gas supply and gas distribution rate components will need to be adjusted as they have not been adjusted for several years and, meanwhile distribution system costs have increased while supply costs have decreased leading to a situation over the past two years when significant transfers have been made from the supply reserves to the distribution reserves. The changes to rate components for FY 2013 include a 25% increase in gas distribution rates while the gas commodity rates are not known since they will be based on market rates. Connolly added that, if gas commodity rates are equal to the forward prices for gas when the budget estimates were prepared, then the gas commodity prices will fall about 41%. However, since that time, gas prices have fallen further and the forward prices indicate that commodity prices could fall 53%. Overall, the bundled gas rates (supply plus distribution) are projected to fall by 10% based on the budget projections for gas supply. The UAC is scheduled to review the gas rates in May, when results from a cost of service study will be provided. The cost of service study findings may result in cost shifts between customer classes.

Commissioner Eglash asked why distribution rates need to go up by 25%. Connolly said that distribution rates have not been changed in many years and the rates have resulted in an under-collection of revenue to support the distribution fund center. Over that time, costs related to the distribution fund center have increased. Commissioner Eglash asked if his understanding that the costs increase is not from FY 2012 to FY 2013, but over a longer period of time. Connolly confirmed this understanding.

Commissioner Eglash asked Connolly to describe the costs that make up the distribution fund center. Connolly replied that these costs include all costs not related to the commodity purchases, staff costs to manage the gas supply portfolio, and gas transportation costs paid to PG&E. Distribution fund center costs include the transfer to the General Fund, allocated charges for services provided by General Fund departments to Utilities (HR, payroll, attorney, etc.), Capital Improvement Projects (CIP), and debt service.

Commissioner Waldfogel stated that the 25% increase is not found on the tables provided in the report as they don't go back further than FY 2011. Commissioner Eglash said that, if the increases are, for example, in CIP costs, a 25% increase is not evident in the information provided. Connolly stated that Table 3 in the report does show that the distribution fund center revenues have not covered costs and that a 25% rate increase for distribution will bring revenues in line with costs. Assistant Director Jane Ratchye added that in FY 2011 and FY 2012, transfers of $6 million and $8 million, respectively were made from the supply rate stabilization reserve to the distribution rate stabilization reserve to balance revenue and cost in the distribution fund center. Commissioner Waldfogel stated that Table 3 is confusing since line 41, the total revenue requirement doesn't show a 25% increase, but a decrease from $28.7 million in FY 2012 to $25.1 million in FY 2013. Connolly said that line 41 does show the total revenue requirement and it is declining from FY 2012, but that the financial resources for FY 2012 includes sales revenue of only $17.5 million and other revenue includes the $8 million transfer from supply. Since the transfer from supply reserves will not occur in FY 2013, the sales revenue must increase to cover costs. Commissioner Waldfogel recommended showing an operating profit or loss in the table.

Commissioner Eglash returned to the question of why distribution rates need to increase by 25%. Connolly stated that the costs did not increase by 25% in one year, but increased over time. One reason is that the methodology for determining the General Fund Transfer changed in FY 2009 and the transfer from the Gas Fund increased substantially. He asked why this cost increase is not shown in the tables provided in the report. Ratchye said that the tables only show costs from FY 2011 and don't show the costs from FY 2009, when the last change was made to distribution rates. Commissioner Eglash recommended that staff provide a very clear explanation of how much costs have increased if it is proposing such a significant increase in gas distribution rates.

Council Member Shepherd asked if we were separating that the distribution costs related to bringing the gas to a house from the cost of the commodity itself. Ratchye confirmed that this understanding was correct. She said that the distribution costs include the costs of employee salary and benefits, which have been increasing, as well as CIP and the General Fund transfer. These costs do not vary with amount of gas used.

Commissioner Waldfogel commented that when the rates come back to the UAC, a part of the discussion needs to be what part of the fixed costs should be recovered from fixed charges versus volumetric charges.

Commissioner Keller asked about the "other transfers" shown on line 34 in Table 3 of the report, noting the large increase in FY 2011 compared to the amounts for the five-year financial forecast. Connolly indicated that these are for transfers between funds that are shared between funds. These include costs from the IT fund, which are related to the SAP financial and billing system.

Commissioner Waldfogel stated that we are half way through the program and asked if staff still believes that the cross-bore program is an essential safety program, or should it be stopped. Ratchye responded that the program is taking slightly longer than originally anticipated, but that it is determined to be beneficial and some cross-bores have been discovered and fixed.

ITEM 3: DISCUSSION: <u>Electric Fund Financial Projections (FY 2013 – FY 2017)</u>
Senior Resource Planner Ipek Connolly provided a presentation summarizing the written report. She noted that costs are increasing over the five-year financial forecast period, but that no revenue adjustment is projected to be required until FY 2015. Connolly stated that the primary driver for the revenue requirement increases over the forecast period is the cost of energy supplies. The supply costs are increasing mainly due to transmission and the cost of renewable energy as those projects come on line to meet the goals. Over the forecast horizon, volumes of market purchases are falling as renewable supplies increase. Regarding the CIP program, there are some trends worth noting such as system improvements that have relatively level annual expenditures, two years of a street-lighting project in FY 2013 and FY 2014, a project related to a substation in Stanford Research Park starting in FY 2015, and the assumed start of the a smart grid technology program starting in FY 2014 and increasing to $3 million per year in FY 2015 to FY 2017. Connolly noted that the smart grid project is still being evaluated and staff expects that two-thirds of the project costs will be funded from grants. The smart grid plans are indicative only and are not firm decisions that have been made at this time. Over the financial forecast horizon, the supply and distribution rate stabilization reserves are planned to be between the minimum and maximum guideline levels given the projected revenue increases. Connolly concluded with advising that the Finance Committee will review the financial forecasts in April and the UAC and Finance Committee will review the electric budget in May.

Commissioner Waldfogel asked whether we can control the transmission related costs that are projected to increase so dramatically. He asked if the high voltage interconnection being contemplated have any impact on those costs. Assistant Director Ratchye said that the Transmission Access Charges are a large concern and that it is hoped that the potential new transmission line would be a cost-effective way to reduce those charges.

Commissioner Waldfogel asked if it was still Council policy that renewable energy supplies can add only a half-cent per kilowatt-hour to the retail rate. Ratchye confirmed that this was Council policy. Commissioner Waldfogel asked if we expect to be able to achieve the renewable goals with that rate impact limit. Ratchye stated that we do plan to achieve the goal within the rate impact constraint.

Commissioner Eglash commented that the forecasts show a significant increase in CIP costs over the forecast horizon. Commissioner Eglash noted that we haven't had a systematic discussion of the CIP and these costs are growing significantly and stated that there has not been a systematic discussion of whether the UAC supports these large increases. He highlighted items that dramatically impact the future costs – first, the smart grid expenditures are shown, but the last time the UAC saw this, the decision was to wait until the technology matured or savings could be shown. He also pointed out that no decision has been made on the future for undergrounding the electric distribution lines and the assumption in this plan is that the current program continues. Since the economics of undergrounding has changed, we shouldn't necessarily assume that the program will continue as in the past. Commissioner Eglash noted that the inclusion of these projects could be misleading to people. He advised that it sends a message to Council and the community that somehow decisions have been made. He noted that the chart shows that CIP costs are increasing from $9.5 million in FY 2012 to $15.6 million in FY 2015 and we need a communication. Smart grid plans as well as undergrounding deserve more discussion. Ratchye advised that the UAC will have a chance to review the five-year CIP plans and discuss the projects when it considers the CIP budget at its May meeting. Ratchye noted that staff may want to consider highlighting which projects have not had policy direction. Commissioner Eglash advised that staff should consider the messaging involved with the presentation of such a major increase in CIP expenditures and noted that over the years, CPAU has focused on ensuring that the distribution infrastructure was being updated and replaced prudently. However, something like smart grid is something else altogether as it is adding new technology rather than maintaining existing infrastructure.

Commissioner Keller asked what projects are included in the CIP projections. She asked if all the things on the list are committed to and she would like to know which ones are "nice to have", but haven't been decided at this point. Commissioner Keller added that it is helpful to have a list of committed projects vs. other projects in the "nice to have" category.

Commissioner Eglash noted that this item is a discussion item and asked if the item went to the Finance Committee. Ratchye replied that the item would go to the Finance Committee as a discussion item and that the UAC's discussion summary and minutes would be part of the Finance Committee's report.

Council Member Shepherd added that the Finance Committee has included undergrounding on the short list of discussion items, along with fiber optics, for the year and noted that Council has heard from the community that this is an important issue. The subject was raised recently as to why the project was not included in the Blue Ribbon Infrastructure Task Force work.

Commissioner Eglash noted that the UAC has reviewed the undergrounding program and had in-depth discussions in the past and would be willing again to review the situation and provide advice to the Finance Committee and Council.

Commissioner Waldfogel asked if the CIP program includes any software updates such as to the SAP billing system. Connolly replied that costs related to the SAP system are funded separately from the Electric Fund's CIP. Commissioner Waldfogel asked if we are allocated a piece of this project and said, that if it was a large expense, it should be discussed separately. Commissioner Keller asked if project EL-13008 in Table 2 (upgrade est. software) had to do with the SAP billing system. Ratchye replied that it was not related to that system. Connolly noted that the expenditures for the SAP billing system are shown under other transfers and allocated charges and that she does not have the cost break-out for what part of that is for SAP system upgrades.

Commissioner Keller asked whether the transmission project with SLAC is included in the CIP plan. Ratchye said that the potential transmission line project is not included in the CIP presented.

ITEM 4: ACTION: Potential Topic(s) for Discussion at Future UAC
No discussion and no action

COMMISSIONER COMMENTS

Chair Foster asked if Council has set a date to interview UAC candidates for the current vacancy. Council Member Shepherd said a date has been set for the interviews.

Chair Foster noted that the LA Times article has printed on PACLEAN program.

Meeting adjourned at 8:17 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto