



FINAL

UTILITIES ADVISORY COMMISSION – SPECIAL MEETING MINUTES OF JULY 20, 2011

CALL TO ORDER

Chair Waldfoegel called to order at 4:05 p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Eglash, Foster, Keller, Melton and Waldfoegel and Council Member Liaison Scharff. Commissioner Berry arrived at 4:15 p.m.

Absent: Commissioner Cook

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

The minutes from the June 1, 2011 UAC meeting were approved as presented.

AGENDA REVIEW

The Chair requested that the first agenda item under New Business, "Election of Officers" be delayed until Commissioner Berry was present since he had indicated that he would be late, but not absent.

REPORTS FROM COMMISSION MEETING/EVENTS

Commissioner Keller reported that she had attended a workshop on graywater and was impressed with the content, organization, and the number and breadth of attendees.

UTILITIES DIRECTOR REPORT

1. **Hydroelectric Generation:** Water storage reservoirs are at very high levels ensuring a good hydro year next year. Hydropower provided about 58% of the City's total needs in FY 2011 and is expected to provide about 61% of the City's total needs in FY 2012.
2. **New generation of EV Chargers in downtown garages:** The City is in the process of installing 5 new EV chargers in downtown garages in the coming weeks. The new chargers will replace the older generation Avcon chargers.

In addition to the discussion we had with the UAC on EV policy in April, Transportation staff has had follow-up discussion with the Planning and Transportation Commission in June and got similar feedback from them – that the city be in a facilitation role to promote the technology and not invest large amounts of city funds to develop EV supply equipment networks.

3. **Energy/Compost Feasibility Study draft presented to the City Council:** The Public Works department presented near-final results of the Energy/Compost Feasibility study to the City Council on June 27. The study examined a variety of anaerobic digestion alternatives and their potential for energy generation. The study found that no alternative stood out significantly compared to others, and that the alternatives were comparable in cost to exporting the green waste to a facility outside Palo Alto. The City Council directed Public Works staff to finalize the study, but did not give any further direction on how to proceed. Further action on the project will likely be postponed until after November, when the results of a citizen's ballot initiative are known. The initiative undedicates a portion of Byxbee Park, currently part of the landfill, for use as a waste to energy facility. In the meantime, though, anaerobic digestion with energy generation is still being studied as part of the Wastewater Long Range Facilities Planning process.
4. **Solar Electric/Photovoltaic Rankings:** The Solar Electric Power Association (SEPA) has completed its fourth annual nationwide review of utilities' installation of solar electric systems, also called photovoltaic or PV systems. Palo Alto remains among the SEPA Top Ten nationwide. This year, Palo Alto was recognized in three categories for its contribution to the national promotion of solar power:
 - ◆ Ranked #3 for the third year in a row for cumulative installed overall solar capacity per utility customer
 - ◆ Ranked #3 for cumulative number of solar electric installations per utility customer
 - ◆ Ranked #9 for 2010 annual installed capacity (AC-Watts) per utility customer among all municipal utilities
5. **Esource has just completed a survey of residents nationwide in relationship to energy efficiency.** Palo Alto received a breakout including Santa Clara and San Mateo counties (since the numbers in Palo Alto were fairly small). Results are summarized below:
 - ◆ More likely to receive/apply for a rebate:
 - ◆ Those who *have purchased* a home in the last 12 months are nearly 4 times more likely, while those who *plan to purchase* a home are nearly 3 times more likely.
 - ◆ Those identifying as Asian, Hispanic or Latino are about 2 times more likely.
 - ◆ With each unit increase in home square footage, people are 1.3 times more likely.
 - ◆ Those who are employed are 1.55 times more likely.
 - ◆ With each additional household member, respondents are 1.2 times more likely.
6. **Several workshops on graywater, residential energy efficiency, solar electric and hot water solar have been held and well attended in June and July.**
7. **New 3rd party energy efficiency programs are now underway.** One contractor, SBW Consulting, has already installed over 100 water and energy saving aerators and shower heads at commercial facilities.
8. **The American Public Power Association (APPA) and its Demonstration of Energy Efficiency Development (DEED) grant program have awarded \$35,000 to CPAU and a parent group at the school district, Zilowatt, to implement an innovative sustainability curriculum.** The program will begin in this upcoming school year.
9. **New Innovative Collaborations are Underway.** Staff is collaborating with Stanford researcher and entrepreneur, Amit Narayun, on several fronts including: (1) automated demand response and modulated electric vehicle charging, (2) demand response geared toward grid operation and efficiency,

and (3) systems development work for fast-response demand response such as electric vehicle charging or lighting loads.

10. **PG&E Gas Work:** PG&E will have a very large “presence” in Palo Alto starting in late July as they undertake a hydrostatic pressure testing project on Palo Alto’s portion of their #132 gas transmission pipeline. This project will involve local staging of large equipment (trucks, 500K gallon water tanks etc.), excavation at the ends of the test section and where the pipe links to City distribution lines, gas venting, testing and restoration through mid-to-late September. Fortunately, no gas service interruption is expected. PG&E notifies property owners within 500 feet of the 3 miles of pipeline being tested. CPAU staff is taking the lead in getting the word out to residents and businesses in general via press notifications, utilities bill announcements, website articles, the Mayor’s Newsletter and targeted messages to Neighborhood Associations, large commercial customers etc.
11. **Introduction of City Attorney:** New City Attorney Molly Stump introduced herself and described her background. She said she will make sure to coordinate with UAC on issues with legal implications and will make the UAC aware of legal issues that impact items it is considering, especially for those items that eventually go to Council for its consideration. She explained that sometimes the City Attorney must give confidential information to its client (the City of Palo Alto), who may receive privileged advice.

The UAC members introduced themselves to the City Attorney. Commissioner Melton said that at the July 18 City Council meeting, Council Member Yeh asked if candidates not selected to serve on the UAC could serve on UAC committees. He noted that the City Attorney replied in the affirmative and he was happy with her willingness to engage on quasi legal matters and Proposition 218.

Chair Waldfogel asked the City Attorney to explain what format will she provide confidential legal advice to the UAC. City Attorney Stump said that there three ways in which legal advice could be provided. The first is in a closed session, which is for very limited reasons as permitted under the Brown Act. Otherwise, she can speak individually to commissioners or in writing.

Commissioner Eglash asked where most of the City’s PV systems are installed. Utilities Marketing Services Manager Joyce Kinnear said that there are more residential PV installations, but that the bulk of the installed capacity is on commercial buildings.

UNFINISHED BUSINESS

1. Subcommittee Proposed Response to the Council Colleagues’ Memo
This item will be continued until the next UAC meeting.

NEW BUSINESS

ITEM 1: ACTION: Election of Officers

ACTION: Commissioner Foster nominated Commissioner Berry for Vice Chair. Commissioner Eglash seconded the motion. Chair Waldfogel nominated Commissioner Foster for Chair. Commissioner Melton seconded the motion. Motions carried unanimously (6-0).

New UAC Chair Foster took over chairmanship of the meeting from this point on.

ITEM 2: ACTION: Recommend Proposed Change to the Gas Purchasing Strategy to Implement a Market-Based, Monthly Adjusted Gas Supply Rate

Senior Resource Planner Karla Dailey presented staff's recommendation to develop a market price-based, monthly adjusted gas supply rate for Pool customers. The presentation included analysis showing that longer laddering horizon result in greater deviation from market prices, as well as the lack of evidence of forward price premium. Dailey also presented comparisons of CPAU gas rates with PG&E rates and spot market prices since 1998 and explained that the main bill driver is usage, with high gas bills during the winter months. An alternative to the proposed market price rate is setting a stable rate objective that limits the rate change frequency as well as the rate increase each time. The reserve level and laddering strategy work together to meet the specific rate objective. For example, an objective of maximum annual supply rate increase of 10% can be met by aggressively laddering over a 36-month period, or moderately laddering over a 24-month period, or minimal laddering over a 12-month period. The reserve requirement will differ depending on the laddering strategy – the longer and more aggressive the laddering strategy, the lower the reserve requirement. As the maximum annual supply rate increase goes up, the reserve requirement lowers.

Commissioner Eglash asked about the staff savings under a market rate strategy. Dailey explained that initially there will be none, but over the long term, she estimated savings of 0.4 FTE (full-time equivalents.) Commission Eglash questioned the staff time required to implement monthly rate adjustments. Utilities Assistant Director Jane Ratchye indicated that the monthly rates will be similar to the current rate schedule for the G3 customers (large commercial customers), and that it would take to minimal time to also adjust the monthly rate for Pool customers.

Commissioner Eglash commented that gas prices are likely to stay at relatively low prices for a long time and asked if that is relevant. Dailey pointed out that market views are not relevant to the discussion.

Commissioner Keller asked whether the projected FTE reduction accounts for additional staff time to manage customer questions related to the fluctuating monthly gas rate. Dailey clarified that staff did not consider customer service resources. Usage is the primary bill driver, not so much the rate. The gas bill is also just a portion of the total utility bill, so even if the gas bill may be higher in the winter, it may not be significantly out of line because the water portion would be lower.

Commissioner Melton asked whether CPAU can level out the winter bill for low income customers, regardless of the laddering strategy. Dailey pointed out such a billing option is already currently available to customers.

Commissioner Melton also questioned the reasons behind the staff recommendation to swing to the opposite end instead of some intermediate position, such as shortening the ladder. Utilities Director Fong indicated that PG&E is the benchmark, and that unless CPAU adopts a market price rate, we will never compare favorably with PG&E. Commissioner Melton commented that the proposal is too big a move. His impression is that PG&E is a comparator, but he is not convinced that we should emulate PG&E. The City's customer base values some amount of steadiness. Extreme variability of PG&E model is not what majority of customers want.

Director Fong commented that whatever gas purchasing strategy the City decides to adopt, we should stick to that strategy. Dailey emphasized that rather than focusing on the ladder, a supply rate objective more relevant. Once we have a supply rate objective, then staff can manage the portfolio to meet the objective. Defining the rate objective is the most valuable thing.

Commissioner Waldfogel referred to a slide in the presentation and commented on the long-term trend with short-term random events. The current laddering strategy creates a 2 to 3 years lagging trend. He also commented on the need to expose customers to second year trends trend while simultaneously shielding customers from short-term spikes.

Commissioner Keller expressed that she is in favor of stability. Predictable rates are more conducive to investing in conservation measures, as customers are more inclined to make investments when they can predict future savings. She added that CPAU has the benefit of focusing on customers, unlike PG&E, which focuses on shareholders. People value the service of having stable and predictable rates.

Commissioner Eglash also expressed his support for annual rate adjustment for Pool customers, rather than monthly rate adjustments. Laddering would be a separate issue, as the utility can adopt annual rates, but still forego laddering.

Assistant Director Ratchye explained that rate stability within the year does not address rate stability year-to-year. There will also be the question of the reserve level. Ratchye posed the idea of monthly changes within a band to dampen the spikes. Commissioner Waldfogel responded that customers might prefer a published set of rates in July for the next 12 months. Customers can't respond to shorter term price signals in a meaningful way.

Commissioner Melton noted that by allowing rate change only once per year, there is a risk of big annual increase. There would need to be a huge reserve or accept huge changes between years. An alternative is semi-annual or quarterly changes. Allowing mid-year rate adjustment could dampen the risk of big change on July 1.

Chair Foster pointed out that in the slide showing a 10% maximum annual supply rate increase, under a 1 year ladder, the reserve requirement is \$18 million.

Commissioner Eglash moved to shorten the laddering period to a one-year ladder and set rates annually. This could be achieved with a reasonably-sized reserve. No rate objective is recommended. Commissioner Berry seconded the motion.

Assistant Director Ratchye noted the desire to pass on price signals more quickly. That will result in bigger annual rate changes than the past.

Commissioner Eglash agreed that by fixing annual rates but allowing year-to-year adjustments to respond to price changes can be a dual-edged sword. He pointed out that to meet the objective of annual rate change with no ladder requires bigger reserves. His sense is that getting rid of laddering altogether is an overreaction, but rather should find a common ground that is likely to be accepted by Finance Committee or Council.

Council Member Scharff commented that the UAC should not attempt to second guess what FC or Council will think, but rather should go with what they think is the right approach.

Commissioner Keller commented that there was an advantage to buying when we want rather than at the fluctuating market price. For example, by buying ahead of the delivery month, we can avoid buying gas during a natural disaster such as a hurricane that disrupts prices. Fong responded that there is never

certainty that market prices will be short spikes or sustained. Many of the price spikes are sustained for some period and a laddered strategy cannot protect against these price spikes.

Commissioner Melton expressed his support for annual rate increases and that there are two ways of reaching the goal: one is laddering, and the other is reserves. These two trade off against each other. He then moved to amend the motion by asking staff to return with analyses with the objective of setting rates annually and either shortens or eliminates the ladder and increases the reserve to accomplish that.

Dailey pointed that if the goal is to change rates annually, then we need minimal reserves but that a large annual rate change is possible.

Commissioner Eglash deferred to staff to determine the optimal level of reserve requirement and laddering. Dailey explained that if there is no cap on the annual rate change, then there is not a need to do much more. The rates from one year to the next could be doubled or halved, and there is no need to put in place a laddering strategy.

Commissioner Eglash asked whether the UAC need to provide an explicit rate objective. Dailey responded that if the rate objective is 10%, then staff can design a strategy around that rate objective.

ACTION: Commissioner Eglash commented that a 20% cap on annual supply rate change is reasonable, as that would translate to a 10% annual gas rate change which exposes ratepayers to market prices, and yet provides some stability for customers' planning purposes.

Chair Foster made a substitute motion, that the UAC reject staff's recommendation and instead recommend an objective of one-year rate adjustments with 20% maximum annual supply rate change, with the mix between laddering and RSR to be determined by staff.

Commissioner Eglash seconded the motion.

The amended motion passed unanimously (6-0).

ITEM 3: ACTION: Recommend Proposed Modifications to the Calaveras Reserve Guidelines and Establishment of the Electric Special Projects Reserve

Senior Resource Planner Monica Padilla provided a brief presentation of staff's recommendation to split the existing Calaveras Reserve into two reserves to provide clarity and certainty regarding the use of funds going forward. Padilla explained that the Calaveras Reserve (CR) estimated ending balance for FY 2012 is approximately \$50 million. Staff's proposal would leave approximately \$25 million in the Calaveras Reserve to be used to offset above market cost associated with the Calaveras Hydroelectric Project based on a Council-approved schedule of transfers through FY 2024. Staff would no longer calculate stranded cost on an annual basis and the transfer would be included as part of the annual operating budget. Padilla further explained that the remaining approximately \$25 million would be used to establish a new reserve, the Electric Special Project (ESP) Reserve to fund electric projects to the benefit of electric ratepayers. The process of selecting projects to be funded through the ESP would be the same as in the existing Calaveras Guidelines and that all projects would be subject to UAC review and Council approval.

Commissioner Melton expressed his general support of staff's objective to solve the issue of what to do with the Calaveras Reserve and staff's attempt at simplifying multiple objectives, however does not support staff's recommendation. Commissioner Melton suggested that instead of annually transferring funds from

the Calaveras Reserve to the Electric Rate Stabilization Reserve (i.e., operating budget) that the funds be transferred to the newly created ESP Reserve and suggested a sunset date for the ESP Reserve of 2024 to make it consistent with staff's proposed sunset date of the Calaveras Reserve.

Public comment:

Jeff Hoel expressed his support for Commissioner Melton's suggestion of not transferring Calaveras Reserve to offset operating costs, but rather holding all of the funds for special projects. Mr. Hoel further added that he did not believe a sunset date was needed for the ESP Reserve.

Commissioner Eglash also expressed his support of Commissioner Melton's suggestion that the CR funds be used to fund special projects and not to stabilize rates adding that the City presents itself with a great opportunity having collected \$50 million. He indicated that now was the time to move forward in deciding how to use it. He suggested that the UAC develop guidelines so that a process could be used to evaluate projects and decide which to pursue. Commissioner Eglash made a motion to adopt the following guidelines to be used when evaluating how to expend funds, including:

- Funds should be used for projects that benefit electric customers.
- Funds should be used for projects rather than offset operating costs.
- Projects should be worthwhile, not spent frivolously.
- Cost of project should be relevant and impactful relative to amount in reserve. Not to pay for small projects that can easily be paid for another way.
- Funds should be spent with speed and certainty—sooner rather than later.

Commissioner Eglash mentioned specific projects which could receive funding such as redundant electric supply, energy efficiency, AML/smart grid and removing barriers to deployment of renewable energy projects. He also expressed that funds should not be used for undergrounding of electric utility services. Commissioner Eglash provided written copies of his proposed guidelines to other UAC members and staff.

Chair Foster also supported the idea of transferring all funds to the ESP Reserve to be used for special projects. Commissioner Foster asked staff if it made sense to transfer funds annually as suggested by Commissioner Melton versus all at one time. Utilities Assistant Director, Jane Ratchye indicated that there was no point in transferring annually if the desire was to spend it all on projects.

Commissioner Waldfoegel asked staff if the Calaveras Reserve was needed to cover other potential exposures other than Direct Access, which is not presumed to be an exposure. Ratchye confirmed that there are no truly "stranded costs" at this time as the City does not allow Direct Access. She stated that there is legislation which orders the phase-in of Direct Access for investor owned utilities and Direct Access could become a requirement for publicly owned utilities, but that at this time, the City does not offer, and is not required to offer, Direct Access to its customers.

Commissioner Berry asked what rate impact would result from not transferring the \$25 million proposed by staff to be transferred to the electric operating budget. Staff indicated that the equivalent of not transferring the \$25 million is a one time rate increase of about 2.5% which would offset the impact associated with transferring the full CR to the ESP Reserve. Commissioner Berry also expressed that he also does not agree with transferring funds annually to stabilize rates and would prefer to spend the funds on a significant projects with tangible, long lasting benefits to customers.

Chair Foster also expressed his support of using all of the Calaveras Reserve funds for special projects, however is concerned about acting prematurely to spend the money and/or pushing staff to act too quickly and would prefer to have a date to spend the funds by 2020 or 2024.

Commissioner Berry asked staff to comment on whether it sees any problems with the motion since it is different from what staff recommended. Director Fong stated that she is uncomfortable not using the money for the reason it was collected originally. In a sense, Fong stated that there was a "compact" with the customers about the use of those funds.

ACTION: Commissioner Eglash moved to recommend Council adopt the following guidelines to expend the funds in the Calaveras Reserve:

1. Funds should be used for projects that benefit electric ratepayers.
2. Funds should be used for projects, not to offset operating costs and reduce rates.
3. Projects should be worthwhile; that is, funds should be used for projects that would have been worth doing even if the City had to pay for them.
4. The cost of a project should be relevant and impactful. Funds should not be spent on projects that are too small and can easily be funded some other way.
5. If projects can be found that meet the above guidelines, then speed and certainty are preferred. It is better to spend the funds sooner rather than later. Staff should examine means by which the entire funds can be spent now, and the consequences of doing so.

Chair Foster seconded the motion and offered a friendly amendment to the motion to move all the money in the Calaveras Reserve to the ESP Reserve and sunset the reserve by 2020 (all money not spent by 2020 would be transferred to the electric operating fund). Commissioner Eglash accepted the amendment, but wanted the end date to be earlier than 2020. He suggested that projects be determined by 2015.

The amended motion passed unanimously (6-0).

ITEM 4: ACTION: Designate Spokesperson for Fiscal Year 2012 for Council Meetings

ACTION: Commissioner Berry moved that the UAC Chair be the default spokesperson for FY 2012 and that the Chair appoint a commissioner for each relevant upcoming Council meeting to represent the UAC. Commissioner Melton seconded the motion. The motion passed unanimously (6-0).

ITEM 5: ACTION: Designate Spokesperson for Upcoming Finance Committee and Council Meetings

ACTION: The action taken in Item 4 above covered this item.

ITEM 6: ACTION: Re-designation of Ad Hoc Subcommittees on Budget, Innovation Technology/Projects, Bylaws, and Utilities Strategic Plan

Chair Foster indicated that he would discuss membership in the committees with individuals on the commission before the next meeting and designate members at a future meeting.

ACTION: No action was taken.

ITEM 7: ACTION: Potential Topic(s) for Discussion at Future UAC

Chair Foster indicated that he would like to discuss the joint meeting the UAC had with Council on July 11. He said that he could do that at the next UAC meeting under the Commissioner comments section of the agenda.

ACTION: No action was taken.

COMMISSIONER COMMENTS

None.

Meeting adjourned at 6:10 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto