



UTILITIES ADVISORY COMMISSION MEETING FINAL MINUTES OF OCTOBER 3, 2012

CALL TO ORDER

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

Present: Commissioners Cook, Eglash, Foster, Hall, Melton and Waldfogel and Council Member Liaison Scharff

Absent: Commissioner Chang

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

After correcting the person who called the meeting to order from Chair Cook to Vice Chair Foster, the minutes of the September 5, 2012 UAC meeting were approved as corrected.

AGENDA REVIEW

None.

REPORTS FROM COMMISSION MEETING/EVENTS

Commissioner Hall reported that he attended the Finance Committee on October 2 and that the discussion was rich. The Finance Committee supported the two items that the UAC recommended for approval—the Brannon Solar renewable energy agreement and the definition of carbon neutral for the electric supply portfolio. Vice Mayor Scharff added that, since both items were unanimously supported by the Finance Committee, they would be on the Council's consent calendar.

Vice Mayor Scharff commented that he attended the NCPA annual meeting and found it very informative. He stated that the City Attorney found the legal meeting helpful as well.

UTILITIES DIRECTOR REPORT

1. Demand-Side Management Update:

- a. Upcoming Events: Upcoming events at the EcoHome include Bike Palo Alto on October 7 (1 to 4 p.m.) and the Solar Homes Tour on October 13 (1 to 4 p.m.). Everyone is invited to attend the events to find out more about efficient and sustainable homes.

- b. Commercial customer surveys: Esource has completed Gap and Priority surveys of both large and small/medium business customers. Palo Alto's Key Account management group continues to do well, tying for first place in customer satisfaction among large customers and scoring very well among small/medium businesses.
- c. New Building Efficiency Programs: With changes at the Development Center and a new Green Building planner coming on board, staff is working to enhance coordination for current new construction rebate programs as well as to develop new programs to promote and benchmark efficient construction.
- d. Hotel Efficiency Programs: Staff and contractors in the Hospitality program are working with several hotels in town to test different types of control mechanisms to reduce energy use in unoccupied rooms. Early results comparing energy savings between these technologies should be available soon.
- e. The Mayor's Green Leadership Awards were given to businesses with qualifying scores on the EPA's Portfolio Manager last Monday. Businesses receiving the award included: International School of the Peninsula, Palo Alto Office Center, Palo Alto Unified School District, SAP Labs, Stevens Development Company, Tasso Street Building, and Wilson Sonsini Goodrich & Rosati P.C.

2. **Communications Update:**

- a. Raising Public Utilities Awareness--October is national Energy Awareness Month and includes both Public Power and Public Natural Gas weeks. So we felt this was a great time to remind Palo Altans they have been reaping the benefits of having community-owned utilities for over 100 years. Staff has posted information about benefits and services to the website and on the utilities bills outlining the advantages of owning our own utilities; we will also be exhibiting at various events throughout the month.
- b. PG&E in our Backyard Through Year's End---the details change daily, but as of now the Charleston Road project is finished except for the scheduled October 6th "tie-in," with another week or two of restoration work to follow. The Miranda/Foothill project is well underway, with both daytime and night-time work in Palo Alto, Stanford and Menlo Park. Completion of that project is expected by early November. Our website remains the best place to track these projects progress.

- 3. **Renewable Energy RFP:** Proposals to Palo Alto's latest renewable energy RFP were due on September 19th. We received proposals from 55 different renewable energy developers, and many of them submitted multiple project proposals, making this by far the largest response we've ever received to one of our renewable energy RFPs. Staff is busy reviewing and evaluating all of the proposals, but our initial assessment is that we received a large number of very attractive, aggressively priced proposals.

- 4. **Demand Response Program:** The second summer of a 2-year demand response pilot concluded on September 30. Seven large commercial customers participated, and staff was able to test many aspects of the program. The mild weather, however, resulted in a lack of actual peak day demand response data. Staff may extend the demand response program another year, or make revisions to the program.

5. **Council Finance Committee Action:** Director Valerie Fong thanked Commissioner Hall for attending the Finance Committee meeting the prior evening and for representing the UAC to the Finance Committee.

Commissioner Melton commended the Utilities Communications Manager for her efforts to provide communication to the community on the PG&E pipeline replacement projects since it appears that PG&E did not do much, if any, communication on its projects.

Vice Chair Foster stated that the Mayor's Energy awards were for non-residential buildings and suggested that, with additional outreach and communication, participation could increase in the future.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: ACTION: UAC Recommendation that Council Adopt a Resolution Approving the Continuation of the Palo Alto Clean Local Energy Accessible Now (CLEAN) Program

Public Comment:

Craig Lewis, representing the CLEAN Coalition, stated that the Palo Alto CLEAN has had no takers so far, but that the program could be tweaked to be successful. The CLEAN Coalition had hoped when the program started that property owners rather than developers would develop and own projects, eliminating the need for a lease payment. He said the price offered seems to have been too low and developers and that property owners were not attracted by the rate of return from a project in Palo Alto. He believed property owners would be more interested in leasing their rooftops to a third party developer. He stated that the lease payment to building owners translates to a 3 cent/kilowatt-hour (¢/kWh) increase in price so that a price of 17 ¢/kWh or higher would be required to get local solar projects. He recommended implementing a Volumetric Price Adjustment (VPA) whereby non-participation in the program over some period of time (e.g. a month) would result in an automatic increase in the price until participants were attracted.

Resource Planner Jon Abendschein provided a summary of the written report. He stated that the City has supported local solar photovoltaic (PV) system installations since 1999 and the PV Partners program has resulted in the City being one of the top utilities nationwide for PV system installations. Abendschein stated that, despite a large amount of interest, the CLEAN program has not had any participants, primarily because the PV Partners is a more cost-effective option for most facilities and the returns for CLEAN program are insufficient.

Abendschein explained the staff recommendation is to extend the program at the current 14 ¢/kWh price, eliminate the 100 kW minimum size, and ramp up efforts to market the PV Partners program. Since the program was evaluated last year, and the price was set at 14 ¢/kWh, the City's projection of the avoided cost has fallen to 11.6 ¢/kWh so that additional cost to ratepayers is \$158,000 per year.

Abendschein explained that the alternatives to the recommendation were considered and included increasing the price, lowering the price, or eliminating the program. Increasing the price would increase the cost to ratepayers, while lowering the price would not result in any participation. He also stated that staff had examined other types of renewable energy sources, but did not find any other energy sources aside from solar that were viable in Palo Alto aside from City-owned sources that could be developed without a CLEAN program.

Commissioner Melton said that originally the program had been priced at the City's avoided cost, but now the price was 20% higher than the avoided cost. He asked what the City's pricing policy was, and at what price would the cost of the program be too high compared to the City's avoided cost. He did not want the program to entirely lose its relationship to avoided costs.

Director Valerie Fong stated that the City Council had been comfortable with a small premium over avoided cost when the program was adopted, but had not provided specific policy direction on the maximum acceptable premium.

Commissioner Eglash asked how many PV systems had been installed in Palo Alto since the CLEAN program had been adopted. Abendschein stated that there had been from 25-50 systems installed in residences, but he did not have the exact numbers. Commissioner Eglash said that many people were continuing to install solar even without Palo Alto CLEAN. He said the goal was not to have a feed-in tariff (FIT) simply to have a FIT. It was to stimulate solar development. He said the PV Partners program was economically more attractive and that solar was being installed at a healthy rate even without Palo Alto CLEAN. That implied that Palo Alto CLEAN was obsolete and unnecessary. He said the cost of solar was falling substantially, and 3rd party developers were offering excellent prices. He was against raising the price, but he was happy leaving the program operating as it was if it did not cost much to maintain it.

Commissioner Waldfoegel asked what the equivalent cost of the PV Partners program was. Abendschein said the avoided cost was the same, but if PV Partners were translated into a FIT price it would be equivalent to 20-24 ¢/kWh. PV Partners was a State mandated program, however. Commissioner Waldfoegel asked whether the size of the PV Partners program was also a State mandate. Abendschein said it was.

Vice Chair Foster asked who paid for the PV Partners program. Director Fong stated the City did. Vice Chair Foster asked whether it was better to have people participating in PA CLEAN or PV Partners, since PV Partners was more expensive. Director Fong stated that PA CLEAN participation would not relieve the City of its SB1 obligation, which the PV Partners program fulfilled. Abendschein added that even if customers chose to participate in Palo Alto CLEAN, the PV Partners capacity would still be available. Vice Chair Foster asked how much the Brannon Solar project factored into the avoided cost calculation. Abendschein said it was a small part of the calculation. Vice Chair Foster asked whether the staff recommended program would allow people to fund solar on each other's roofs if they chose to. Abendschein said the funding source was not important as long as they sold the energy to the City.

Vice Mayor Scharff asked what it would cost to continue the program. Abendschein said the staff time involved in maintaining the program without marketing it was minimal, but that the

staff proposal had involved some staff time for marketing which would be absorbed by existing staff. Utility Marketing Services Manager Joyce Kinnear said that Key Account Representatives, who market the City's programs, including energy efficiency, would spend time on marketing Palo Alto CLEAN, which would replace some of the time they spent marketing other programs like energy efficiency.

Commissioner Foster stated that the program is an innovative program. The City should be doing it and would like to see an increase in the price to get more participation. He was not sensing much support for that proposal, so he would support the staff recommendation. He would be opposed to eliminating the program.

Chair Cook thanked the CLEAN Coalition for support, but would not want to move much further away from the avoided cost. He would support the staff recommendation, but would want to review it again at some point in time, rather than have the program continue indefinitely.

Commissioner Melton remarked that the goal is to increase the amount of renewable power generated within city limits, so he supported continuing the program despite the small increase in price.

ACTION:

Vice Chair Foster made a motion to support staff's recommendation. Melton seconded the motion.

Commissioner Eglash offered a friendly amendment to review the program in one year. Vice Chair Foster and Commissioner Melton accepted the amendment.

Commissioner Waldfogel asked if the failure of the program could be attributed to a marketing shortcoming. Abendschein said it was a matter of expanding the marketing to the specific customers who the program would work for. Commissioner Waldfogel stated that he believed that anyone who was eligible for the program had already heard about the program and had determined it was not worthwhile. He was uncomfortable continuing to spend money to market the program.

Vice Chair Foster said that some level of marketing should exist as not all have heard of the program and it is being expanded to more customers.

The motion passed by a vote of 5-1 with Commissioner Waldfogel voting no.

ITEM 2: ACTION: UAC Recommendation that Council Approve the Update on the City of Palo Alto's Ten-Year Energy Efficiency Goals (2014 to 2023)

Utility Marketing Services Manager Joyce Kinnear and Resource Planner Christine Tam provided a summary of the written report. Kinnear emphasized that the impact of improvements to building codes and appliance standards has reduced the amount of energy efficiency (EE) that can be counted from the City's programs. Tam explained that the model that was used to calculate the EE potential included the impacts of improvement to codes and standards and emerging technologies. EE savings from both the City's programs as well codes & standards

upgrades are both taken into account for supply resource planning. Kinnear explained that the measures that comprise the market potential change from 2014 to 2023. For example, commercial lighting improvements account for a significant part of the potential in 2014, but the potential is much smaller in 2023.

Tam explained that the funding for EE programs comes from Public Benefits funds as well as supply funds. Sensitivity analyses were conducted to determine how changing assumptions would change the amount of market potential. For example, if the avoided cost increased by 25%, the EE potential would increase by 70% for electric and 18% for gas as more measures would be cost-effective.

Kinnear explained the impacts of the changes to the codes and standards. In general, the baseline is changing to more efficient devices so that the savings that can be counted is reduced.

Commissioner Hall asked why the total savings for electric is 5.7% by 2023 (as shown in Figure 3 in the report), but the cumulative goal for 2023 is 4.8%. Tam replied that the 5.7% savings include EE savings that have already been captured by 2013 and the 4.8% is for new savings during the 10-year period from 2014 to 2023 only. Commissioner Hall asked why there is such a severe decay each year in the savings. Tam stated that the lifetimes of each measure vary over different periods of time and the replacement units may be standard requirements at the time of replacement. Kinnear added that some of the measures, such as the Home Energy Reports, have a one year expected life frequency. Other items, such as chillers, can have a much longer lifespan.

Commissioner Waldfoegel asked what the cost of saved energy is compared to the cost of brown power since what we avoid buying is brown power. Tam said that the cost of saved energy is compared to renewable power, as energy efficiency is considered to be the first resource in the Loading Order. She pointed out that Palo Alto used renewable energy in the avoided cost analysis in the last goal setting process, and that this is a part of Palo Alto's support of energy efficiency.

Commissioner Eglash stated that we should increase the investment in EE. This is an ambitious program, but we should try to do more such as lowering the barriers to EE and offer more innovative programs. He said that we will need to do more innovative programs to meet the goals and will need to increase the budget for EE programs. He would like to see the impact of increasing budgets for EE. Kinnear stated that Palo Alto is a member of many nationwide groups and is recognized across the country as a leader and innovator. However, she stated that many of the new programs may not provide a large amount of savings and there are administrative costs to administer each program.

ACTION:

Commissioner Eglash made a motion to support staff's recommendation. Vice Chair Foster seconded the motion. The motion carried unanimously (6-0).

ITEM 3: ACTION: UAC Recommendation that Council a) Approve the Residential Customer Engagement Pilot and b) Adopt a Resolution Approving Pilot Scale Time-of-Use Electric Rates for Residential Customers

Chair Cook suggested that since this item was discussed in detail at the September UAC meeting, the prepared presentation was not necessary.

Commissioner Waldfogel asked if anything had changed in staff's proposal since the proposal orally presented at the September UAC meeting. Senior Resource Planner Shiva Swaminathan replied that the program is the same as presented and the report provides more details such as the budget. Director Fong noted that the presentation provided to the UAC in September summarized the proposal in the written report. The proposed program was changed from the first proposal after receiving feedback from the UAC by allowing non-electric vehicle owners to participate in the program and to combine the program with the customer engagement program.

ACTION:

Commissioner Waldfogel made a motion to support the staff recommendation. Commissioner Hall seconded the motion. The motion carried unanimously by a vote of 6-0.

ITEM 4: ACTION: UAC Recommendation that Council Adopt a Resolution Approving the Cap-and-Trade Revenue Utilization Policy for the Use of Revenues from the Sale of Allocated Allowances in California's Greenhouse Gas Cap-and-Trade Auctions

Senior Resource Planner Debra Lloyd summarized the requirements of the Global Warming Solutions Act (AB32), which authorized the California Air Resources Board (CARB) to develop a cap-and-trade program for greenhouse gas (GHG) emissions. The City will receive free allowances, which it must sell in the allowance auctions. CARB provided guidance that the auction proceeds must be used for the benefit of electric ratepayers and for purposes consistent with AB32's goals. Lloyd noted that the expected revenue from the allowance auctions is about \$5.5 million per year. However, there are risks that the program could be deemed illegal or be stopped if it was determined that it was causing economic problems. There are also risks that allocation of allowances to a utility could be stopped or local control over the use of the revenues rescinded if the regulations are not followed. The proposed policy includes strategies to mitigate these risks by using the funds for programs that the City would invest in anyway such as expenditures for renewable energy and energy efficiency.

Lloyd described the elements of the proposed policy. These include using the revenues for carbon reducing activities in the electric portfolio – such as renewable resources and energy efficiency – and rebates to electric utility customers, and annual reporting on the value provided to the utility's customers.

Commissioner Waldfogel suggested earmarking a part of the revenues for a rebate to customers since the investor-owned utilities must do that. Commissioner Hall stated that some of the money should be earmarked for achievement of the carbon neutral plan as that will be expensive, but he did not support ratepayer rebates. Commissioner Eglash noted that the council has not yet approved a carbon neutral plan. Staff noted that any proposals for a rebate would come back to Council for approval.

Commissioner Melton stated that he supported the proposal and recommended tracking the money closely. He expects court action and suggested saving the revenue for a couple of years to mitigate the risk of having to return the money. Commissioner Eglash asked for an explanation of the risks of spending vs. holding on to the revenue. Lloyd replied that the CARB regulations required the City to make annual reports starting in 2014 that describe the use of any auction proceeds, and if the proceeds were banked the City would need to explain how that was to the benefit of the utility's customers. Making good use of the revenue reduces the risk of a losing the free allocation of allowances. Assistant Director Ratchye explained that the amount of revenues anticipated would be a 5% or less impact on rates if the revenues had to be returned. Commissioner Melton noted that money is fungible and, to the extent, we spend this money on renewable energy that we would have spent anyway, there will be more money that could be spent on CIP projects or any other expense. It essentially becomes an accounting issue.

Commissioner Eglash asked if we would be required to spend the auction revenue on new, incremental programs to be in line with the spirit of AB 32. Director Fong explained that the regulations did not require incremental programs.

ACTION:

Vice Chair Foster made a motion to support staff's recommendation. Commissioner Hall seconded the motion. The motion carried unanimously (6-0).

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

Vice Chair Scharff recommended moving the joint meeting from December to January since there will be a new Council. The sense of the commission was in agreement with Vice Mayor's recommendation.

Commissioner Eglash said he would be interested in the second interconnect. Commissioner Hall said he would be interested in Council's input on programs that could be developed to spend more money in certain areas such as environmental sustainability. Vice Mayor Scharff said that, as a Council Member, he enjoys getting the perspectives of the different UAC commissioners.

Chair Cook requested that the item of identifying topics for the joint UAC/Council meeting be put on the agenda again next month to allow time for commissioners to think about potential topics. He suggested a few topics for discussion:

- Carbon Neutral;
- Use of Calaveras (ESP) Reserves Fund;
- Back-up Power;
- Undergrounding;
- City Council's views on proactive leadership initiatives (e.g. for the Palo Alto CLEAN program, should the City pay monies to give incentives to participants to sign up and in so doing put the City in position to be a leader?);
- Rates Trends.

ACTION:

None.

ITEM 6: ACTION: Potential Topic(s) for Discussion at Future UAC

Commissioner Waldfogel asked what the discussion about a Rates policy would entail. He asked if there would be any new cost of service studies completed this year and that getting clarity before those were completed would be helpful. Director Fong stated that new cost of service studies were not completed every year and that many were done last year and none were planned for the analysis of rates for FY 2014.

ACTION:

None.

COMMISSIONER COMMENTS

None.

Meeting adjourned at 9:30 p.m.

Respectfully submitted,

Marites Ward
City of Palo Alto Utilities