



UTILITIES ADVISORY COMMISSION MEETING FINAL MINUTES OF MARCH 6, 2013

CALL TO ORDER

Chair Cook called to order at 7:02 p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Cook, Eglash, Foster, Hall, Melton, and Waldfogel

Absent: Commissioner Chang and Council UAC Liaison Scharff

ORAL COMMUNICATIONS

David Coale commented on the survey being conducted to get input from PaloAltoGreen participants on the next phase of the program. He stated that the questions being asked are not the right ones. He advised that the PaloAltoGreen program be revised to be a green gas program to reduce GHG emissions. He said that the program should not be a popularity contest, but a program with environmental impact. He added that a community solar program could be done by others, but the Utility could do the green gas program.

APPROVAL OF THE MINUTES

Director Fong advised that a few extraneous words, "and Mayor and" in the paragraph listing Commissioners attending the February 13, 2013 special UAC meeting need to be deleted. The minutes from the February 13, 2013 UAC special meeting were approved as corrected.

AGENDA REVIEW

No changes.

REPORTS FROM COMMISSION MEETING/EVENTS

None.

UTILITIES DIRECTOR REPORT

1. Demand-Side Management Update:

- **Events Update:**
 - Solar PV Workshop---85 people attended our workshop last Thursday.
 - Solar Water Heating Workshop---on March 14th--- 40 people are signed up so far.
 - Eco Home---next regularly scheduled tour will be on March 7th.
 - Great Race for Water----an excellent response so far for this April 27th event.

- **Program Updates:**

- Residential Energy Assistance Program---the customer list for the year is completed and we're now working on the backlog of broken furnaces. For next fiscal year, we're looking to install insulation in Palo Alto Housing multi-family units.
- Commercial rebates---we're adding more efficiency measures for small and medium-sized data centers, particularly since rebates for T-12 to T-8 lighting conversions are winding down due to the state mandate for T-8s.
- PaloAltoGreen---for 2013, the program will be supplied by 100% California solar Renewable Energy Certificates [RECs].
- LED light rebates---a new LED rebate program is slated for this summer, using lights that meet quality standards. We will make these lights available at local stores.
- Commercial Lighting Controls---HP has completed an installation using Enlighted lighting controls and Merck is also looking at using them. Staff toured the Enlighted facility in Sunnyvale, investigating this technology's potential for other customers
- **Extraordinary Customers**—(details on our website)
 - Oldest Toilet Replacement—we provided a rebate to a customer for replacing their 1928 toilet with a high-efficiency model with savings of almost 40,000 gallons per year!
 - First and 500th Solar PV Customer---local architect Dennis Kobza has the distinction of being the first resident to install a PV solar system (back in 1983) AND, when he replaced the system this year, he was the 500th customer to get one of our PV Partners rebates!

2. **Communications Update:**

- **Carbon Neutral Plan**---to communicate the important news about Council's approval of a 100% carbon free power policy, we not only issued a press release to news outlets and organizations nationwide, but also sent messages to neighborhood groups and schools and placed outreach information in local publications as well as upcoming utilities bills. We also used social media outlets, especially for promotion of the carbon neutral rap video produced in cooperation with local teens.
- **Gas Main Replacement Project**---this major CIP project is expected to get underway next week. Information on the schedule will be posted to the website by the end of this week, including maps of where the pipe replacements will be going in. As mentioned last month, we plan to do outreach to impacted neighborhoods so residents will know what is going on and understand the value of the project.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: Video/Presentation: El Camino Park Reservoir Project (Mayor's Youth Video)

The video produced by the Youth Video Corps on the El Camino Park Reservoir was shown. It is also available on the City's website at: <http://player.vimeo.com/video/52474021>.

Commissioner Waldfogel asked some questions on the project and emergency preparedness in general. Senior Deputy City Attorney Marybelle Ang advised that since the topics were not agendaized for discussion, these questions can't be addressed at this meeting.

ITEM 2: ACTION: Staff Recommendation that the Utilities Advisory Commission Review the 5-Year Financial Forecast for the Electric Fund and Take Action on Whether to Recommend that Council Approve an Adjustment to Electric Rates Effective July 1, 2013

Director Fong stated that the commission had a preview of the financial forecasts for all funds at the February meeting, but that during today's presentation, staff will point out any changes from the presentation last month.

Resource Planner Eric Keniston stated that no rate adjustments were warranted for the electric fund for the next two years and only small rate adjustments were forecast in the last three years of the financial forecast period.

ACTION:

Commissioner Melton made a motion to recommend that the Council not adjust Electric Rates effective July 1, 2013. Commissioner Eglash seconded the motion. The motion carried (6-0) with Commissioner Chang absent.

Commissioner Eglash asked if the costs for the carbon neutral plan are included in the forecasted expenses. Keniston stated that those costs were incorporated into the financial forecast.

Chair Cook asked for clarification that the cost of implementing the carbon neutral plan would not result in the need for a rate change in FY 2014. Keniston replied that these costs would not require a rate increase for FY 2014.

ITEM 3: ACTION: Staff Recommendation that the Utilities Advisory Commission Review the 5-Year Financial Forecast for the Gas Fund and Take Action on Whether to Recommend that Council Approve an Adjustment to Gas Rates Effective July 1, 2013

Resource Planner Eric Keniston stated that the gas distribution rate stabilization reserve was projected to rise to above the maximum guideline level due to the deferral of CIP projects. Deferral of CIP projects is necessary due to the backlog of CIP projects.

Commissioner Melton asked how rate increases can best be communicated when the commodity portion goes up and down with the market prices. He recommended discussing rate increase proposals separately by component without the commodity component. He

added that this needs to be carefully explained to customers who may see rate increases that are caused by increases in the cost of the commodity portion of the bill.

Chair Cook asked if staff anticipated any safety issues due to the deferrals of the gas CIP projects. Assistant Director Tom Marshall stated that CIP projects under construction currently are targeted at removing the worst safety hazards in the gas distribution system. The CIP projects that need to be delayed due to resource constraints are not a safety problem, but are to replace facilities viewed to be at the end of their useful lives.

Chair Cook noted that the adoption of the Electric Carbon Neutral Plan raises the issue of how to reduce greenhouse gas emissions related to the use of natural gas. He asked if there been any analysis done to reduce gas usage and switch end uses from gas to electricity. Director Fong stated that staff is working on that analysis and is preliminarily scheduled to present it to the UAC in August.

Chair Cook asked whether there is a trigger to return to a gas laddering strategy in the event that gas prices rise significantly. Director Fong said that staff is preparing a rates policy that will allow the UAC to discuss the proper strategies for rates – whether it's stable rates or passing market signals on to customers. She added that it's chaotic to move back and forth between market prices and reliance on hedging such as a laddering strategy.

ACTION:

Commissioner Eglash made a motion to recommend that the Council not adjust Gas Rates effective July 1, 2013. Commissioner Hall seconded the motion. The motion carried (6-0) with Commissioner Chang absent.

ITEM 4: ACTION: Staff Recommendation that the Utilities Advisory Commission Review the 5-Year Financial Forecast for the Wastewater Collection Fund and Take Action on Whether to Recommend that Council Approve an Adjustment to Wastewater Collection Rates Effective July 1, 2013

Resource Planner Eric Keniston advised that the projected costs for wastewater treatment fell since the preliminary financial forecast was presented last month so that the projected rate increase for FY 2015 is 9%, instead of 11%. That change also resulted in the rate stabilization reserve being projected to be above the maximum guideline level at the end of FY 2014 so that no rate increase was justified for FY 2014.

ACTION:

Commissioner Melton made a motion to recommend that the Council not adjust Wastewater Collection Rates effective July 1, 2013. Commissioner Eglash seconded the motion. The motion carried (6-0) with Commissioner Chang absent.

ITEM 5: ACTION: Staff Recommendation that the Utilities Advisory Commission Review the 5-Year Financial Forecast for the Water Fund and Recommend that Council Increase Water Fund

Revenues by \$2.4 million per year Effective July 1, 2013 and Amend Water Utility Rate Schedules W-1, W-2, W-3, W-4 and W-7

Resource Planner Eric Keniston stated that staff revised its proposal after the discussion by the UAC in February. A steady rate increase trajectory of about 7% per year is now forecast. The proposed rates to be effective July 1, 2013 were developed by updating the cost of service model, which resulted in some small shifts between customer classes.

Commissioner Melton stated that he likes the smoother rate trajectory, which provides a steady message.

Commissioner Waldfogel asked about last year when we looked at fixed vs. variable cost and how the COSA proposed to collect fixed/ service charges. He recalled that the service charges would be phased in. Keniston added that the service charges are now at full cost of service level.

Commissioner Hall stated that communication of the rate increase needs to be clear and careful. He indicated that the rate increase in the future will depend upon the actual water usage so that there is a high degree of uncertainty on the cost of water. In addition, the average increase for residential customers is closer to 8.5%, not 7% so this needs to be carefully communicated. Commissioner Hall asked if there any changes in the application of cost of service model. Keniston stated there was not.

Chair Cook asked why water usage is projected to go down. Keniston replied that the load forecast is based on an econometric model trend and includes the planned implementation of water efficiency measures.

Chair Cook noted that the San Francisco Public Utilities Commission (SFPUC) costs are increasing dramatically and that this should be used as the explanation for why our rates are going up.

Chair Cook asked why our water rates are so much higher than neighboring cities. Senior Resource Planner Debbie Lloyd referred to the 2010 water benchmark study, namely infrastructure replacement programs, lack of access to other sources of supply, higher quality service and high rents.

Commissioner Hall noted that Palo Alto does not bond finance its CIP projects unlike other cities, which do that. He stated that Palo Alto's "pay as you go" practice is a good story to tell and it should be included in the communication to customers.

Commissioner Melton asked if the SFPUC chooses to change the wholesale rate structure to collect more from fixed charges instead of volumetric charges, the City would not save any money by reducing its water usage. He added that SFPUC's costs are almost all fixed costs so such a wholesale rate design may make sense. Assistant Director Jane Ratchye stated that staff is aware of this issue and will address it further in the analysis underway in the Water

Integrated Resource Plan (WIRP) update. She added that the issue of the SFPUC rate structure change did not come up this year in the annual meeting with SFPUC and she expects that we will hear about any such proposals long before they would be implemented to allow time to participate in the review process.

ACTION:

Commissioner Eglash made a motion to recommend that the Council increase overall retail water rates and annual revenues for the Water Fund effective July 1, 2013 and amend Utility Rate Schedules W-1, W-2, W-3, W-4, and W-7, as proposed. Commissioner Melton seconded the motion. The motion carried (6-0) with Commissioner Chang absent.

Eglash commended staff on the process for the review of the financial forecasts this year with the discussion spread over two meetings before the proposal was finalized. Regarding the CIP spending, he would like to see a longer view since we don't want the future discussion to show just a sudden increase from the current year spending.

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

Commissioner Waldfogel asked why the UAC is not acting on the fiber rates. Lloyd replied that in its March 2012 meeting, the UAC recommended not reviewing fiber rates that change by a CPI escalator such as the fiber rates EDF-1 and EDF-2.

Commissioner Melton stated that he would like to see a five-year financial forecast for the fiber utility. He stated that in light of the mayor's proposals, the UAC needs to have a discussion on this issue to provide advice to Council.

Vice Chair Foster agreed with Commissioner Melton and requested that the UAC also hold a discussion on "fiber to the premises".

Commissioner Eglash stated that we are not ready to discuss this item again.

Assistant Director Marshall advised that we will not be ready with any new update by next month.

Vice Chair Foster asked the City Attorney if the UAC can discuss anything that is not on the agenda. Senior Deputy City Attorney Marybelle Ang said that this is not possible since the agenda did not state such a discussion would occur and, therefore, adequate notice was not provided. Vice Chair Foster then asked if it would be possible to agendaize an item in the future with no staff report, but to allow a discussion. Ang stated that it is possible for a future agenda to include such a discussion item.

Commissioner Melton stated that he wants to see a 5-year financial forecast for fiber next month and stated that it shouldn't be hard to prepare.

Commissioner Eglash stated that the 5-year financial forecast is not a controversial topic, but it would not address the issue that Vice Chair Foster is getting to: the issue of fiber to the premises. He would want a fact-based discussion on the complicated and emotional topic of fiber to the premises with information that would take staff time to prepare.

Public Comment:

Herb Borock stated that we need a discussion on the issue of fiber to the premises, but only if it's different from the discussions in the past. The discussion needs to take place in public and not in private.

Commissioner Hall stated that he completely agrees with Director Fong's approach that the facts need to be gathered and organized. Director Fong advised that the approach needs to be thoughtful and considered and that takes time to develop and that she doesn't have sufficient resources to do this in a month or two.

Vice Chair Foster recognizes that this will take time to develop, but an early discussion by the UAC would be beneficial. In fact, he said, such a discussion would help staff while it develops plans and alternatives and that is appropriate for the discussion to happen before new information is gathered so that any ideas generated could be included in the discussion.

ACTION:

Vice Chair Foster made a motion to agendaize for the next meeting a discussion by the UAC to discuss fiber to the premises with no information prepared in advance by staff. Commissioner Melton seconded the motion. The motion carried 5-1 with Commissioner Hall opposed and Commissioner Chang absent.

Commissioner Waldfogel asked that the subject of disaster preparedness and the role of the Emergency Water Supply and Storage Project be agendaized for the next meeting since it couldn't be discussed at this meeting.

Commissioner Eglash asked the director if this subject is within the purview of the UAC. Director Fong indicated that the item is operational in nature and it is in her purview as well as that of the City Manager and not in the purview of the UAC.

Commissioner Waldfogel said that the premise of the project is for continuation of service, but we don't know if we have service continuity. He asked if staff knows if we have the plans and policies in place for service continuity. Assistant Director Marshall stated that the EIR did get a full public discussion when it was in planning and we are proceeding with the project.

ACTION:

Commissioner Waldfogel made a motion to agendaize at the UAC's next meeting a discussion on the item provided as an informational memorandum for this meeting. Vice Chair Foster seconded the motion.

Commissioner Eglash stated that this item should have been discussed under the agenda item #1 for this meeting. However, he questioned whether the item was in the purview of the UAC and thinks it's inappropriate for further UAC discussion.

Commissioner Melton stated that the discussion was opportune when the EIR came before the UAC. He stated that the project is well thought through and planned and that he expects that, when it is completed, it will do what it was designed to do.

Commissioner Waldfogel said that the design may have been discussed, but not the assurances that the service would be provided as planned.

Vice Chair Foster stated that he would vote for putting it on the agenda if it didn't require staff time.

Commissioner Waldfogel withdrew the motion.

COMMISSIONER COMMENTS

Commissioner Melton noted that the second GHG allowance auction price was \$13.62/ton, which was much higher than the price in the first auction, illustrating that the state is valuing carbon at a higher rate.

Meeting adjourned at 8:50 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities