



## **UTILITIES ADVISORY COMMISSION SPECIAL MEETING FINAL MINUTES OF MARCH 26, 2014**

### **CALL TO ORDER**

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Chair Cook called to order at 7:06 p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Cook, Foster, Eglash, Hall, and Melton (Commissioner Foster arrived at 7:47 p.m.)

Absent: Commissioners Chang, Waldfogel and UAC Liaison Scharff

### **ORAL COMMUNICATIONS**

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None.

### **APPROVAL OF THE MINUTES**

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The minutes from the February 12, 2014, UAC special meeting were approved as presented.

### **AGENDA REVIEW AND REVISIONS**

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None.

### **REPORTS FROM COMMISSION MEETING/EVENTS**

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None.

### **UTILITIES DIRECTOR REPORT**

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Utilities Director Valerie Fong provided the following report:

#### **1. Water Supply Situation**

The water supply situation as of March 1 is still not good, but February was wetter than average and brought the water year to date totals for precipitation in the Hetch Hetchy watershed up to 48% of the average for the water year to date (October 1, 2013 to March 1, 2014). The total water in storage for the Hetch Hetchy regional water system was a little over one million acre-feet as of March 1, which is about 70% of the maximum storage capacity.

San Francisco is expected to provide an update on the water supply situation on April 1 and may update its request for voluntary 10% water use reductions by April 15. The City's February

water consumption was 9% below the forecast and 10% below February 2013 usage, likely due to the rainy weather as well as conservation efforts.

Starting next month and for the duration of the water supply shortage, I will add a standing item to the UAC meeting agendas to provide water supply and water usage updates and an opportunity for the UAC to discuss the issues.

## 2. **Hydroelectric Generation Update**

Recent storms that the state received in February and early March have improved the outlook for the City's hydroelectric generation supplies for the rest of the year, although overall the situation remains fairly bleak. As of March 21, cumulative precipitation totals for the water year in northern and central California were approximately 50% and 40% of average, respectively, and reservoir levels in this region were approximately 60% of average for this time of year.

Even if we receive an average level of precipitation going forward, our Western Base Resource supply is expected to be 16% below long-term average levels this fiscal year and 21% below average in FY 2015. Calaveras supplies are projected to be 58% below long-term average levels this fiscal year and 28% below average for FY 2015. The cost of making up for the shortfall in energy supplies with market power purchases is estimated to be about \$6 million per year in each of these two fiscal years.

## 3. **Communications and Marketing Update:**

- **Santa Clara Valley Water District Grant Award**---we just learned our applications for grant funding have been approved to the tune of \$100,000. We proposed two new programs, one is a Business Water Report along the lines of the reports we send out now to residents and the other is an expansion of our commercial customer pilot program using real-time water use monitoring.
- **Silicon Valley Water Conservation Award**---CPAU was honored earlier this week as a recipient of this award for having one of the most comprehensive water conservation programs in the state. While during the drought there has been heightened awareness of our water efficiency programs, it is noteworthy that this award is for our decades-long outreach efforts. In the last 10 years alone, our programs have saved over 300,000 gallons of water, the equivalent to 12 Olympic-sized swimming pools.
- **Community Outreach Events**
  - March 8<sup>th</sup>—Arbor Day Event booth promoting our landscape efficiency programs
  - March 18<sup>th</sup>—Midtown Residents Association presentation on the drought situation, our water supply status and our programs.
  - March 18<sup>th</sup>—Oshman JCC Solar System Ribbon-Cutting staff attended and distributed solar program materials

- March 24<sup>th</sup> —Silicon Valley Landscape Water Conservation Summit—our staff was instrumental in the coalition organizing this regional event, attended by over 250 people, and which included a lunchtime awards ceremony.
- Upcoming:
  - April 5<sup>th</sup> Irrigation Workshop—techniques for saving water while keeping plants healthy.
  - April 19<sup>th</sup> Great Race to Save Water—this joint venture spearheaded by our water conservation staff involves many other city departments, agencies like the SCVWD and BAWSCA, local non-profits such as the Tuolumne River Trust, Acterra and the Sierra Club, to name a few.
  - April 24<sup>th</sup> Greenlight Film Festival and Eco-Fashion Show This year’s event, which CPAU co-sponsors along with other regional cities and agencies, promises to be bigger and more elaborate than ever!
  - April—Many “Earth Day connected” activities are going on during April including a special bill insert and participation at school and business events.

Referring to the quarterly utilities update, Commissioner Melton asked if the fiber project to the Palo Alto Unified School District (PAUSD) had been completed. Director Fong said that the PAUSD was testing its connection and the system would be turned over to PAUSD once the testing was complete.

#### **UNFINISHED BUSINESS**

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None.

#### **NEW BUSINESS**

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**ITEM 1: ACTION:** Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Adopt a Resolution Approving a Power Purchase Agreement with 65HK 8me LLC for up to 60,000 Megawatt-hours Per Year of Energy Over 34 Years for a Total Not to Exceed Amount of \$130 Million

Senior Resource Planner Jim Stack summarized the written report. He noted that the project will bring the City to 99% carbon neutral by 2017 through long-term hydro supplies and long-term renewable energy contracts. He said that 92 project proposals were received in the Fall 2013 request for proposals (RFP). Stack explained that the evaluation criteria included price and value as well as project viability and indicated a preference for earlier start dates.

Stack described the Hayworth Solar Farm Power Purchase Agreement (PPA) as having a capacity of 25 megawatts (MW), which would generate 6% of the City’s annual electric supply and would have an online date of June 30, 2015. The levelized price is \$68.72 per megawatt-hour (MWh) over the 34-year term of the PPA and the project is located in Kern County near Bakersfield. Stack discussed the risks of the proposed PPA and the risk mitigation measures that are part of the PPA, which include having the project developer post development and performance assurance deposits in amounts that are significantly greater than those that have been posted for all of the other renewable energy PPAs the City has executed.

Stack stated that the proposed PPA will deliver more energy than the City needs in 2017 through 2020 in the event that all the other solar projects that the City has contracted with are completed and the hydroelectric generation is average or better. He noted that in 2021, earlier renewable PPAs expire creating the need for more renewable energy.

Stack said that the electric portfolio is highly affected by hydro conditions and that, in wet hydro conditions, surplus renewable energy would be sold in the market, but that the RECs could be banked to meet Renewable Portfolio Standard (RPS) goals as well to maintain carbon neutrality.

Stack explained that the green premium for the Hayworth project is estimated at \$330,000 per year, and that this commitment would bring the City's total committed green premium level for all renewable energy projects to \$1.9 million, which is equal to a rate impact of about 0.2 cents/kWh.

Commissioner Hall asked why the green premium in the presentation is different from the number shown in the report. Stack indicated that he refreshed the numbers in the presentation with a new estimate of brown market prices, resulting in a slight increase in the estimated green premium relative to the number shown in the report. Hall stated that the Bakersfield area is currently deemed to be capacity deficient, which benefits Palo Alto in that the Hayworth project would count toward the City's local capacity requirements, but that this could change in the future. Stack indicated that the California Independent System Operator (CAISO) undertakes studies of the grid on an annual basis and that the boundary lines are changed periodically designating capacity constrained areas. He noted that staff monitors the situation every year already and the situation could change such that, if the project's classification as a local capacity resource changes, the City might need to purchase additional local capacity to replace it.

Commissioner Hall asked if a performance bond is posted up front, or at the time when the non-performance event occurs. Stack stated that in this PPA, as in the City's other solar PPAs, the developer posts the performance bond at the time the project begins operating – in advance of any performance related issues.

Chair Cook asked how long the City can bank RECs for RPS rules. Senior Resource Planner Jon Abendschein stated that the State's RPS rules allow RECs to be banked indefinitely at least through the end of the RPS compliance period (2020). Stack stated that in terms of banking RECs for meeting the City's Carbon Neutral electric portfolio goals, the City can set its own banking limits.

Chair Cook asked if we have collected any development or performance assurances for the current PPAs for not hitting milestones. Stack said that all of the developers of the City's solar PPAs have posted development assurances in the form of cash or letters of credit, but so far we have not had to draw on those funds because the developers have so far been meeting their development milestones. Director Fong noted that with one landfill gas to energy project that

needed to extend its commercial operation date (COD), we negotiated liquidated damages in exchange for the extension of the COD.

**ACTION:**

Commissioner Eglash made a motion to approve the staff's recommendation. Commissioner Melton seconded the motion. The motion passed unanimously (4-0) with Commissioners Chang, Foster, and Waldfogel absent.

**ITEM 2: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Adopt a Resolution Determining that Net Energy Metering Aggregation Will Not Result in Increased Cost-Shifting to Non-Participants**

Senior Resource Planner Nico Procos summarized the written report. He provided a history of Net Energy Metering (NEM) and how billing works for the customer and described Net Energy Metering Aggregation (NEMA) and how it only applies to the adjacent or contiguous properties of a single customer. Procos explained that one request for NEMA has been received and State law requires the City Council to make a determination within six (6) months. Procos described the similarities between the existing NEM program and NEMA, and the new limitations on NEMA, which specifically makes NEMA systems permanently ineligible to receive surplus compensation. He also stated that CPAU will charge customers for billing, additional metering costs and may have the ability to recover any distribution system impacts from an oversized generator on one meter. Procos explained that Council could revisit their decision if circumstances change, described how NEMA customers will be subject to future rate changes to their underlying customer rate class and gave a brief description of how other utilities are dealing with NEMA, including two publicly owned utilities.

Commissioner Eglash requested clarification on the recommendation since some of the wording was confusing. Procos responded that state law required the City to address certain very specific issues, and while it is confusing, at the end of the day staff is recommending approval. Commissioner Eglash requested legal clarification that we must respond to the request within 6 months. Senior Deputy City Attorney Jessica Mullan responded the legal requirement is to respond within 6 months one way or the other whether the cost shift occurs.

Commissioner Eglash asked about the policy impacts of approving NEMA on renewable generation in Palo Alto. Procos mentioned there is only one application at this time and staff is not anticipating a lot of takers. He also mentioned there are a lot of conditions for NEMA that may reduce its appeal. At the same time NEMA has certain efficiencies, such as allowing schools to aggregate, optimal positioning for panels, and allowing building such as historic buildings to participate. Commissioner Eglash inquired further on the permanent ineligibility for surplus energy payment. Procos mentioned this particular restriction will require some thought by the customer and he could foresee issues in the future in cases where Council decides to reverse its decision or a customer subdivides its parcel.

Commissioner Eglash inquired about the relationship between NEMA and community solar. Assistant Director Jane Ratchye stated that in a community solar program, the energy is

generally sold to the Utility for the benefit of participants rather than used on site with the energy net energy metered. Commissioner Eglash asked how NEMA fits into the business models of rooftop solar companies. Ratchye said that these companies are free to develop solar systems for NEMA customers.

Commissioner Melton asked if the current application is a commercial or residential customer. Procos responded that the customer is commercial, but NEMA is equally available to all customers. Commissioner Melton asked about the basis for the other two publicly owned utilities that rejected NEMA. Procos responded the primary basis was the existence of a cost shift and NEMA would accelerate the cost shift. He described the increasing concern with the cost shift issue and the perception that approving NEMA would make the problem worse. Commissioner Melton asked if the issue was also that NEMA could result in an increase above the cap. Procos mentioned Palo Alto anticipates reaching the cap in 2017, and approving NEMA could accelerate reaching the cap. He described how once the cap is reached, CPAU will close net energy metering to new customers unless there is a change in state law. Procos described the customer who is requesting NEMA and how it is one parcel with 3-4 separately metered buildings.

Commissioner Hall asked about the cost shift issue and under what circumstances the Council might consider reversing the decision to approve NEMA. Procos responded one situation is if there are impacts on the distribution system due to an oversized generator that require upgrades and the costs for which cannot be recovered from the NEMA customer(s).

Commissioner Eglash asked if there had been recent news about increasing the cap. Procos responded he was unaware of any news, but the cap has been increased several times in the past and there are always new legislative initiatives.

**ACTION:**

Vice Chair Foster made a motion to approve the staff's recommendation. Commissioner Eglash seconded the motion. The motion passed unanimously (5-0) with Commissioners Chang and Waldfogel absent.

**ITEM 3: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Approve the Fiscal year 2015 Electric, Gas, Wastewater, and Water Financial Plans and Reserve Management Policies**

Senior Resource Planner Jon Abendschein stated that staff was recommending that the UAC approve the Financial Plans, including the Reserves Management Practices. The Reserves Management Practices were the same that the UAC had reviewed in its previous two meetings, and involved changes to the structure of the reserves. He noted that the current financial forecasts had changed from the preliminary financial forecasts provided to the UAC in February. The biggest changes to the preliminary financial forecasts were for the Wastewater Collection and Water Utilities. The Water Utility was seeing increases in the cost of existing projects, including water main replacement projects. There were also uncertainties about the future costs for the water main replacement program, and costs had been increasing for this program.

As a result, CPAU plans to perform a new CIP study in 2014. Staff recommended a 4% water rate increase in Fiscal Year (FY) 2015 to put the utility in a better position to deal with increased main replacement costs. The proposed increase would go into effect on November 1, 2014, which would give staff time to develop drought rates in the event the SFPUC called for mandatory 20% water consumption reductions at its April meeting. Staff also proposed a 4% wastewater rate increase to spread the Wastewater Collection Utility rate increases over five years rather than four. The rate increase would take effect at the same time as the water rate increase so that the Proposition 218 notice requirements could be coordinated.

#### Public Comment

Helen MacKenzie, President of the Garden Club of Palo Alto, noted that she sent a letter to the UAC and Council calling for a revision of water rates. She believed that residential customers were paying a disproportionate share of the water costs. The tiered rates were a penalty for residential consumption. Commercial customers paid a flat volumetric rate which provided no incentive to conserve water. She objects to the proposed rate increase since there was too much uncertainty to support the proposal. She noted that the communication with staff has been cordial and professional. Finally, she congratulated the City on receiving the water conservation award recently.

Vice Chair Foster asked how long it had been since the City had gone a year without a water rate increase. Abendschein said that the last time would have been several years ago. Vice Chair Foster indicated that he supported no rate increase for water or wastewater in FY 2015 given the uncertainty in the CIP costs in general. He understood that with no rate increase in FY 2015, larger rate increases may be required in subsequent years.

Commissioner Melton asked whether the reason for the Wastewater Collection rate increase was because it could be coordinated with the water rate increase. Abendschein said that the cost and time associated with Prop 218 noticing was substantial, so it made sense to coordinate with the Water Utility. Without a rate increase, the Wastewater Collection Utility would see 7% rate increases in future years, and a rate increase in FY 2015 could reduce future year rate increases. Commissioner Melton suggested that the UAC defer the decision until more information is known. Abendschein said that staff had done substantial analysis, and while they were not ready to put out firm numbers, they were confident that the risk of higher CIP costs was much higher than the possibility of lower CIP costs. Changing rates require substantial lead time, so it didn't make sense to defer the decision. Commissioner Melton asked if decisions by the SFPUC about mandatory consumption reductions could change the ratemaking decision. Abendschein said that if drought rates were required rates would rise, but not revenues. The 4% increase was a revenue increase, while drought rates did not involve an increase in revenue. Drought rates recover the same revenue over a smaller number of sales units. Director Fong added that doing the 4% rate increase this year would mitigate the bill impacts in future years.

Commissioner Hall, referring to wastewater, said that treatment costs are rising every year from 2014 to 2019 and it appears that the costs are rising substantially over that period. He asked why they are going up so high and so consistently. Abendschein said that the treatment

costs are rising primarily due to planned CIP projects at the water quality control plant. Commissioner Hall stated that these are pass-through costs to the water utility and the utility is not able to control these costs. Abendschein said that the utility staff had influence just like the other partners in the Regional Water Quality Control Plant (RWQCP). Commissioner Hall stated that he would like to have more information on these costs to discuss them in detail and ideally hear from staff from the RWQCP. Abendschein noted that the financial plan describes these costs and that the City's Budget has additional information.

Commissioner Hall stated that he would not support the 4% rate increase proposal. He noted that Palo Alto already had very high water rates, and staff needed to provide more analysis to demonstrate why rates were higher. Commissioner Hall said that there was not enough information to support the 4% water rate increase at this time.

Commissioner Eglash stated that the report and analysis was excellent. He understood and sympathized with the proposal for a 4% rate increase, but stated that he could not support the proposal. It was realistic and rational to support rate increases due to current costs and even for known future costs. However, if the future costs were uncertain, he said that this was not a powerful enough reason to support a rate increase. He understood it was possible, and perhaps likely, that the increased CIP costs would materialize, and understood that a rate increase now would reduce future year rate increases, but that until the costs were certain an increase would be difficult to explain to the community. He did not support any rate increases for FY 2015.

Chair Cook said that the report was excellent and noted that we do talk about the idea of smoothing rate increases over multiple years and this seems to be the reason for the rate increase proposal. He stated that it appeared that the rate increase was associated with costs that were not yet certain, so he was not comfortable with raising rates at that time.

Commissioner Eglash commented that he wanted to make sure to commend staff for looking forward and for alerting the UAC to the potentially higher rate increases, and that his lack of support for the proposal was not intended as a criticism, but that more certainty in the magnitude of the future cost was required before the community could accept the increases.

Commissioner Hall added that he agreed that staff was doing the type of forecasting it should be doing, but that the UAC had the burden of explanation to the community and that there was not enough information yet to justify the rate increase.

Commissioner Melton wanted to know if staff would provide a next step decision on what it would be recommending to the Council. Director Fong stated that staff would have to consider its recommendation but was not prepared to make a decision that night. She suggested the possibility of working closely with a couple of Commission Members to allow further assessment of upcoming CIP costs, and she reminded Commissioner Melton that staff was beginning a study to firm up those costs. Commissioner Melton said those studies would take several months. Director Fong confirmed that was the case. Commissioner Melton said that



the information would not be available for them to make decisions about FY 2015 rates. Director Fong noted that CPAU was able to do mid-year rate increases. Commissioner Melton asked whether it was possible to delay the decision on rate increases until the new information was available.

Commissioner Eglash stated that his intent was to recommend 0% rate increases for FY 2015, and his expectation would be that staff would return with better information on CIP costs to enable them to set FY 2016 rates. If extraordinary information revealed a need to increase rates mid-way through the fiscal year, that was always something that could be done.

**ACTION:**

Commissioner Eglash moved to recommend that Council approve the Financial Plans for the Electric, Gas, Wastewater Collection, and Water Utilities, but with 0% rate increases for all utilities for FY 2015. Vice Chair Foster seconded the motion. The motion passed (4-1, with Melton opposed and Commissioners Chang and Waldfogel absent).

**ITEM 4: ACTION: Selection of Potential Topic(s) for Discussion at Future UAC Meeting**

Chair Cook noted that water will be covered every month during the drought.

Commissioner Melton stated that at the last meeting, the UAC had a discussion about fiber as to whether the UAC was supposed to pick up fiber issues since the Council committee was disbanded. He asked if any letter was sent to the Council requesting clarification on this item. Director Fong noted that there is a citizen's committee to look at the Google fiber opportunity. Chair Cook asked if the Council expects the UAC to take any role.

**ACTION:**

None.

**COMMISSIONER COMMENTS**

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None.

Meeting adjourned at 9:01 p.m.

Respectfully submitted,  
Marites Ward  
City of Palo Alto Utilities