



UTILITIES ADVISORY COMMISSION MEETING FINAL MINUTES OF OCTOBER 1, 2014

CALL TO ORDER

Chair Foster called to order at 7:04 p.m. the meeting of the Utilities Advisory Commission (UAC).

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

Absent: Commissioner Cook and Council/UAC Liaison Scharff

Note that Commissioner Hall excused himself and left the meeting at 9:05 p.m., just after New Business Item #3 (Selection of Potential Topic(s) for Discussion at Future UAC Meeting) was complete.

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

Commissioner Hall requested that the minutes from the September 3, 2014 UAC meeting be amended to reflect that he did not vote on Item 5 because he was not present. Staff concurred.

Commissioner Eglash moved and Chair Foster seconded the motion to approve the minutes as amended. The motion carried unanimously (6-0 with Commissioner Cook absent).

AGENDA REVIEW AND REVISIONS

None.

REPORTS FROM COMMISSION MEETING/EVENTS

Chair Foster reported that he attended the annual meeting of the Northern California Power Agency (NCPA) and said that it was valuable to talk to representatives from other agencies and hear the presentations at the meeting.

UTILITIES DIRECTOR REPORT

1. Community Outreach Events and Workshops

Utilities staff hosted a number of workshops and manned tables at a number of community outreach events to raise awareness about utility safety issues, energy and water efficiency, as well as ongoing drought conditions. These events included:

- **From Gray Water to Green Garden, September 9** – This workshop taught residents the logistics of implementing a gray-water system in their homes. There were 40 in attendance.
- **Alternatives to Lawn, September 25** – This workshop introduced residents to water-conserving lawn alternatives. Engagement was high among the 50 attendees throughout the presentation and at least 20 plants were raffled off at the end of class.
- **Ice Cream Social, September 14**– Utilities manned a table at this community outreach event put on by the Midtown Community Association served as a way for the neighborhood to get to know City Council candidates. Approximately 300 were in attendance.
- **Emergency Preparedness Faire, September 28** – Utilities Department staff manned a table with giveaways, literature, and a staff demonstration of how to access and shut off a gas meter in case of emergency. Close to 400 residents attended.

2. **MuniGas Update** – Following the UAC and Finance Committee’s recommendation, the City Council approved the MuniGas gas pre-pay transaction on September 15. When sufficient volumes have signed up with MuniGas and when the market conditions are beneficial, MuniGas will execute a pre-pay transaction, including the City’s entire gas needs.

UNFINISHED BUSINESS

1. Selection of Potential Topics for Joint UAC/Council Meeting

Chair Foster noted that at the NCPA annual meeting, he talked with representatives from Alameda Municipal Power (AMP) and heard that AMP staff only has to go before the AMP Public Utility Board (PUB) for a final decision. He noted that this seems much more streamlined than the City of Palo Alto’s method with most reports being reviewed by the UAC, the Finance Committee, and then the City Council. Commissioner Melton indicated that he had talked to Council members in the past about the AMP model and they said that the Council was absolutely not interested in reducing its control over Utilities. Commissioner Hall indicated he was supportive of the topic for discussion with Council.

NEW BUSINESS

ITEM 1: DISCUSSION: Sustainability and Climate Action Plan Briefing

Chief Sustainability Officer Gil Friend indicated that the City adopted a Climate Action Plan in 2007 and exceeded its goals and is in the process of updating the Sustainability/Climate Action Plan (S/CAP). He said that Palo Alto is and can continue to be a world leader in climate protection. Friend stated that Palo Alto has done a lot, but that much more needs to be done to meet the State's goal of reducing greenhouse gas (GHG) emissions by 80% by 2050. He noted that since the electric supply is carbon neutral, transportation and natural gas use are the major emission sources currently.

Chair Foster asked how much of the transportation emissions are associated with commute versus non-commute (driving around town, taking kids to school, etc.). Friend indicated that,

although the models are not precise, he believes that the non-commute transportation related emissions are about half.

Friend said that the S/CAP will look at three scenarios to reduce GHG emissions including the state's goal to reduce GHG emissions by 80% by 2050 (the California Executive Order), reducing emissions by 80% by 2030 ("the 2030 Challenge"), and the "California Moonshot" scenario to eliminate 100% of the GHG emissions by 2025.

Friend stated that the S/CAP will clearly explain the challenges, develop a set of cohesive strategies and a comprehensive story of the plan to the community. The plan will address resource flows, infrastructure and behavior. Friend discussed the scope of work assigned to the consultant completing the S/CAP. One task is to review the transportation model and make recommendations for improvements. Implementation strategies will be identified to achieve each of the three scenarios—what will it take in technology, financing, policy and behavior to deliver on the goals with a phased approach for implementation. There will be both aggressive and achievable strategies as well as financing options. Public engagement is an important element and the plan will be developed in coordination with the City's comprehensive plan update and its public engagement strategy. Presentation of the plan will include mechanism to communicate the plan clearly and in an engaging way. The S/CAP will be designed to enable more conversations around the 3 key questions: 1) How good do we want to be?; 2) What would it take to get there?; and 3) What commitments will we make to deliver? Friend indicated that the current timeline is to have Council study session in December, a draft sustainability roadmap in early January with the final sustainability roadmap in April 2015.

Commissioner Eglash asked about Friend's staff. Friend indicated that he currently has no staff besides the support of the other City department directors and the Sustainability Board, and that he is planning to hire two temporary staff. Commissioner Eglash asked about the budget. Friend said that the budget for the S/CAP is \$241,000 plus a small contingency and that other departments contribute to selected sustainability related efforts.

Commissioner Eglash stated that what Mr. Friend presented is really impressive and makes those who live in the city very proud. Commissioner Eglash noted that virtually everything presented about the S/CAP related to climate change mitigation, but not adaptation. He indicated that it must be part of the equation and that many of the world's leading sustainability leaders focus on adaptation and not just mitigation. He said that the question is between vision and operation. Commissioner Eglash indicated that the vision needed to expand to include adaptation. He said that the plan should consider impacts of climate change including increased temperatures, drought, rising sea levels, saltwater intrusion into groundwater reservoirs, extreme weather events, and impacts on plant life. Friend responded that potential changes precipitation patterns could also be a concern. Friend indicated that he is aware that adaptation is an important element in the city's climate strategy and that a more structured approach is needed.

Commissioner Hall agreed that climate change adaptation is indeed important, but just dealing with the mitigation elements is a big enough job to address. He stated that there are a

spectrum of climate change issues that need to be addressed, but the City may want to just pick one, and GHG emissions is a fine one to address first. Commissioner Hall stated that a key element is how to affect social behavior and how to improve building codes and standards. He said that he supported the plan outlined in the presentation, especially the emphasis on community engagement part in the plan's preparation. Commissioner Hall said that there are many programs that are be cost effective and should be achievable. Friend agreed and indicated that the City is ratcheting up the City's green building code standards and believes that they are cost effective. Commissioner Hall added that the community must be engaged and see that the programs can be cost-effective and achievable and provide a value to the community. He stated that nobody will buy into an 80% reduction target unless they can relate to what it will take to achieve the target. Friend agreed that the changes will not happen unless people want to do them and see a better future by doing them.

Vice Chair Waldfoegel asked if Friend has thought about building sustainability into the City's budget. Friend said that he doesn't have a proposal at this time, but the Council is on record in support of life-cycle costing. He is looking at how to embed sustainability goals into budget, policy and procurement processes.

Chair Foster said that energy use benchmarking for buildings has been implemented by some large cities. He asked if that could be implemented in Palo Alto. Friend indicated that this program is already in process through the Development Services Department.

Chair Foster indicated that he would like to hear from CSO Friend yearly or twice a year.

ITEM 2: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend Council Amend the City's Cap-and-Trade Revenue Utilization Policy to Cover the Use of Freely Allocated Allowances for the Gas and Electric Utilities, and Amend Rate Schedules G-1, G-1-G, G-2, G-2-G, G-3 and G-3-G to Add a Rate Component for Cap-and-Trade Regulatory Compliance Costs and Combine the Administrative and Transportation Charges with the Distribution Charges

Resource Planner Eric Keniston stated that California Air Resources Board (CARB) established the cap-and-trade program as part of the implementation of the Global Warming Solutions Act (AB32). He described the proposed amendments to the City's policy on the use of cap-and-trade allowance revenue to include the Gas Utility that will be included in CARB's cap-and-trade program starting in January 2015. He stated that the compliance obligation for electricity lies with generators and importers. The City of Palo Alto Utilities' (CPAU's) Electric Utility is allocated free allowances from CARB to be used for compliance or for sale into the cap-and-trade auction. CPAU typically has no compliance obligation for its Electric Utility. Keniston said that in January 2015, gas utilities are added to the cap-and-trade program, and the compliance obligation is based on gas sales to end users so CPAU's Gas utility will have a compliance obligation. CPAU will be allocated free allowances for its Gas Utility, but they may not be enough to meet total compliance obligation. In addition, a portion of the freely allocated allowances must be sold into the cap-and-trade auction.

Commissioner Melton asked why allowances have to be sold into the auction and then must be bought back in the auction instead of being netted out. Compliance Manager Debbie Lloyd said that CARB wanted the cost of the allowances to be passed through to customers so it designed the program to require gas utilities to buy part of its compliance obligation in the auction and for those costs to be passed on to the end use customers. She added that even for the electric utility, the costs are passed to consumers since the electricity costs contain the allowance costs paid by the generators for compliance.

Keniston illustrated how the program would work with the use of a numerical example. He said that the impact on gas rates for the first year of the program is expected to be about 2 cents per therm, or less than a 2% rate impact, if the allowance prices are at the auction's floor price, which has been where the allowances have traded since the start of the cap-and-trade auction in 2012. If there was a shortage of allowances in the auction, prices of the allowances could rise to the auction cost containment reserve price. In that case, the rate impact for the first year of the program would be about 9 cents per therm. In the fifth year of the program, the rate impact could range from 5 cents per therm (if the allowances were trading at the floor price in the auction) up to about 23 cents per therm (if the allowances were trading at the reserve price). The revenue from the allowances that must be sold into the auction could range from about \$500,000 in the first year to over \$1 million in the fifth year if the allowances were trading at the floor price in the auction. Keniston said that per the proposed policy, CPAU must use allowance revenues for four proposed uses. The four proposed uses are:

- a. Investment in energy efficiency programs for the natural gas portfolio and retail customers;
- b. Purchases or investment in cost effective renewable bio-gas resources for the gas portfolio;
- c. Investment in other carbon reduction activities for the natural gas utility, including system maintenance or replacement to reduce fugitive gas emissions; and
- d. Rebates to natural gas retail ratepayers. Rebates, if provided, must be allocated on a non-volumetric basis as stated in Title 17 CCR Section 95893 (d)(3).

Noticing that one of the options for using the revenue is for rebates to customers on a non-volumetric basis, Commissioner Melton asked how the rebate would be implemented, especially for commercial customers. Lloyd said that the language in the regulation says "non-volumetric" so how any rebate would have to be designed to be non-volumetric.

Vice Chair Waldfogel asked what the intent of the regulation is. Lloyd indicated that the goal is to reach the emission reductions outlined in AB 32 and the cap part of the cap-and-trade program will reduce the number of allowances provided each year and the trade part is used so that those who can economically reduce emissions at a cost below the allowance price will have an incentive to do that since there is a cost for carbon emissions.

Vice Chair Waldfogel asked whether staff has modeled what it takes to reduce gas use commensurate with the declining allowance cap. Senior Resource Planner and Rates Manager Jon Abendschein said that he has used the financial models to evaluate that and determined

that the utility can handle the decline in use and, therefore, sales and that the plan can accommodate those costs.

Chair Foster asked if fuel switching can be included in the uses of the funds. Keniston indicated that the policy does not preclude fuel switching programs. Senior Deputy City Attorney Jessica Mullan indicated that the threshold question of ensuring that the use proposed met the overarching guideline that the benefits of allowance sales go to gas rate payers so fuel switching must, then, be cost-effective. Chair Foster stated that fuel switching would meet the policy objectives and financial incentives would increase as the number of free allowances decrease. He said that if the City decreases the use of natural gas, costs will decrease because the City doesn't have to buy allowances. Chair Foster again stated that he would support adding a fifth allowable use for fuel switching programs to the policy. Mullan said that this could be problematic if the threshold question is not addressed. She indicated that the policy points are very broad and that the City would want to do additional legal analysis if it included a very specific policy around fuel switching.

Commissioner Eglash said that the issues go far beyond legal issues and that adding fuel switching is not consistent with the legislature's intent and would not necessarily benefit gas ratepayers. Commissioner Eglash stated that there is a whole slew of issues around fuel switching and the City would not be doing gas or electric ratepayers any favors by using allowance revenue funds for fuel switching. He added that adding fuel switching to the proposed uses of the funds is a perversion of the intent of the policy and the proper use of allowance revenue.

Vice Chair Waldfoegel said that the previous presentation on the Sustainability/Climate Action Plan showed that the use of natural gas must decline to meet the GHG emissions reduction goals and asked how fuel switching could be called a perversion of the legislature's intent. He indicated that he has trouble seeing what intent there might be other than moving away from natural gas as a fuel.

Commissioner Eglash said that the electric utility system is very complicated and although by some measures Palo Alto's electric supplies are carbon neutral, the electric grid is far from carbon neutral as a large system. He said the thinking behind the cap-and-trade program is to put a price on carbon so that market forces can put rational thinking into actions to take and that if the commission wants to debate the merits of fuel switching, we should have that discussion, but it's a separate discussion from this decision on how to spend allowance revenue from the cap-and-trade auction.

Keniston stated that another part of the recommendation is to add a new rate component that's a pass-through of the cost for allowances, which could be updated quarterly based on market conditions, sales volumes; and quantity of compliance instruments required.

Commissioner Chang said that the policy proposed by staff makes sense. She asked how a rebate would be presented on the bill. Keniston said that it would show up as a credit on the bill. Commissioner Chang said that not very many people study their utility bills and asked if

there were any best practices for billing and number of lines to be shown on a bill. Director Fong said that there are no real benchmarks and CPAU is unique in that it bills for 7 different utilities on one bill.

Commissioner Hall asked if there is any alternative in the recommendation, which basically says that the City will incur additional costs and must pass those costs as a separate line item on the bill. Keniston indicated that the cost must be passed through to customers and the proposed new line item would appear as a supply charge with the commodity charge.

Commissioner Hall stated that the proposed policy is broad enough. He said that the revenues should be used for programs that support the big picture effort to reduce GHG emissions and not be returned ratepayers. He said that he hoped that staff would narrow down what it recommends spending the revenues on when the item comes back to the UAC. Lloyd stated that the basis for providing the utility the free allowances is to mitigate cost impact to customers. She said that the free allowances are not a gift to utilities, but that the utility is acting as the steward for the ratepayers and that the revenues must be used for the sole benefit of ratepayers. Lloyd said that CPAU must report annually to CARB on how it used the allowance revenues. Lloyd explained that the default for the investor-owned utilities (IOUs) regulated by the California Public Utilities Commission (CPUC) is to give ratepayers a rebate—the “climate dividend”—and that this is the only option for the IOUs. Staff’s recommendation is to expand the uses to more than a rebate, and to have programs that reduce GHG emissions and have a benefit to ratepayers.

Commissioner Chang said she preferred that the funds be spent on gas use efficiency programs.

Commissioner Eglash agreed and said that the policy is so broad that it doesn't provide much policy guidance. Director Fong stated that the policy is broad since staff doesn't know how much revenue will be received and whether certain programs that could be funded under the policy will be cost-effective.

ACTION:

Motion:

Commissioner Hall made a motion to accept the staff recommendation but indicate that the UAC wants to see how the revenues are spent and that it doesn't support the rebate. Commissioner Eglash seconded the motion.

Proposed Amendment to the Motion:

Commissioner Eglash offered a friendly amendment to indicate a preference for programs that reduce GHG emissions from gas utilization. Commissioner Hall accepted the amendment.

Chair Foster said that the proposed policy can accommodate fuel switching. Director Fong stated that the amount of revenues that may be available may not be large. She reminded that the program revenues in the first year are expected to be under \$500,000.

Second Proposed Amendment to the Motion:

Chair Foster proposed an amendment to add: “fuel switching and” so that the third proposed use in the policy would read: “Investment in other carbon reduction activities for the natural gas utility, including fuel switching and system maintenance or replacement to reduce fugitive gas emissions”. Vice Chair Waldfogel seconded the amendment. Commissioner Hall declined to accept the amendment.

Substitute Motion:

Chair Foster proposed a substitute motion to add: “fuel switching and” so that the third proposed use in the policy would read: “Investment in other carbon reduction activities for the natural gas utility, including fuel switching and system maintenance or replacement to reduce fugitive gas emissions”. Vice Chair Waldfogel seconded the motion.

Commissioner Eglash indicated that fuel switching is not necessarily a good thing for the environment given the additional use of electricity. He said that there is a risk of going from a more efficient use of natural gas to a less efficient use of electricity. In addition, the capital cost of new equipment is high, especially for those who are replacing appliances before the end of their life. He added that it warrants more study before explicitly adding it to the policy. He added that it is far from harmless to add to the policy as that would indicate that the potential use is legitimate and has some form of endorsement.

Chair Foster says that adding fuel switching programs as a possible use does not mandate that fuel switching programs be funded, but simply lists it as an option for the future. Vice Chair Waldfogel agreed that it does not suggest that a decision has been made as to the value of fuel switching. It does not suggest that any decisions have been made, but it allows it to be considered and to catalyze some discussions. Vice Chair Waldfogel noted that meaningful GHG reductions tools are all on the table and that whether it's good or bad to do fuel switching, the fact remains that burning gas causes GHG emissions. He added that it is not harmful at this point to add fuel switching to the policy and he noted that other things are included in the proposed policy such as biogas, which is not cost-effective at this time.

Commissioner Melton agreed with Commissioner Eglash and indicated that fuel switching merits more discussion. He said that the UAC should talk about fuel switching on a future agenda, but that for, now, it should be left out of the policy. Commissioner Melton stated that staff should probably have an opportunity to talk to CARB staff about the idea of fuel switching as an acceptable use and asked if that language was approved by CARB. Lloyd indicated that the language in the policy is not CARB language, but it is similar to the language in the electric policy that CARB did not indicate it had a problem with.

Commissioner Hall indicated that one reason he did not support the substitute motion is that there is not a huge amount of money and there are enough good choices on the list already.

Vote on the Substitute Motion:

The substitute motion failed (2-4 with Chair Foster and Vice Chair Waldfogel voting yes and Commissioners Chang, Eglash, Hall and Melton voting no. Commissioner Cook was absent).

Vote on the Original Amended Motion:

The original amended motion (to recommend Council approve staff's recommendation policy as presented with a statement to prefer funding for programs that reduce GHG emissions from gas utilization) passed unanimously (6-0 with Commissioner Cook absent).

Commissioner Hall indicated that the memo was confusing and recommended staff revise the executive summary to add clarity about the proposal.

ITEM 3: ACTION: Selection of Potential Topic(s) for Discussion at Future UAC Meeting

Commissioner Eglash asked to add fuel switching to a future agenda, perhaps coordinated with an update on the Sustainability and Climate Action Plan. Vice Chair Waldfogel agreed with the suggestion.

Commissioner Melton indicated that he had read the strategic plan update provided as an informational report. He said that would like to add a discussion item to review the strategic plan with an emphasis on the items in the plan that are not yet completed. Commissioner Foster agreed.

Vice Chair Waldfogel suggested taking on a long-term strategic item with respect to large changes in the utility industry. He asked how to agendize a topic to begin those long-term discussions. Commissioner Eglash agreed that the topics of energy efficiency, distributed generation, two-way communication of customer usage information may result in fewer units sold, which may warrant rethinking the design of rates. He stated that the future competitors for CPAU could be Amazon and Google, not PG&E. Vice Chair Waldfogel suggested that this topic could be discussed using experts and good facilitators for a structured discussion or in a design charrette.

ACTION:

None.

Commissioner Hall excused himself at 9:05 p.m. as he indicated that he has a potential conflict of interest on water issues as a result of his employment with the Santa Clara Valley Water District.

ITEM 4: DISCUSSION: Use of Water From Dewatering Activities

Director Fong indicated that there was no presentation on this topic, but that experts from the City's Public Works Department were available to answer questions on dewatering. Ken Torke, Manager for Watershed Protection, indicated that the City has adopted a policy to disallow continuous dewatering on basements.

Commissioner Eglash said that community members are wondering in this drought if this shallow groundwater can be used as a resource rather than be treated as a nuisance. Torke indicated that the use of this water has been minimal. He said that the City recently adopted a new requirement that those dewatering their basements must install a standpipe to allow the use of the water for street sweeping and street tree watering.

Commissioner Eglash asked if there should be a policy to use the groundwater. Torke indicated that this water currently flows to the bay and stopping the dewatering wouldn't impact the watershed much due to the small flows. He said that the dewatering water goes into the storm drains, which flow into the creeks that flow to the Bay. Staff indicated that Utilities has looked at the use of shallow groundwater in the past.

Commissioner Eglash asked if the City should be concerned about the optics during the drought. Torke indicated that calls have come in and that it was a driver in the City's decision to set up a standpipe for using the water while dewatering is being done. The City also encourages the dewatering to be completed quickly and that the dewatering is very short term for most projects. Torke added that the projects are short-term in nature and the dewatering projects are dispersed throughout the neighborhood making it costly to attempt to collect and use it.

Vice Chair Waldfogel asked what is meant by short-term. Torke indicated that it tends to be 2 to 4 months long. Vice Chair Waldfogel asked if it could be limited to 30 days. He asked if there were construction techniques that can be used so that basements could be completed without having to dewater the sites. Public Works Senior Engineer Mike Nafziger indicated that the cost of those techniques makes them not feasible and it generally takes more than 30 days to get the construction completed.

Commissioner Eglash asked if there are best practices for the use of dewatering water. Torke said that one of the things that is unique about Palo Alto is that real estate is so expensive that more and more basements are being put in. Nafziger added that most homes these days do incorporate basements and commercial buildings generally do have basements.

Vice Chair Waldfogel asked if the City has jurisdiction over water waste restrictions. Director Fong said that the state's water waste restrictions are for potable water. Vice Chair Waldfogel said that the water could be potable and that it could be a resource, but that we aren't using it as a resource. Commissioner Eglash asked if the City should change its perception of the water as a resource.

Commissioner Melton says the right way to view this resource is as recycled water. The City could figure out how to use this water as a recycled water source. Nafziger said that it can be used if the water quality is acceptable and the supply is sufficient and that the City has made efforts to use the water as it can now.

Vice Chair Waldfogel asked what would happen if the City metered the water and priced it for users. Nafziger said that there is a cost for constructing the reuse system.

Chair Foster asked where the UAC could go from here. Senior Deputy City Attorney Mullan said that the UAC can't take an action at this meeting since this item was agendaized as a discussion item. She indicated that the Council has determined in the past that this topic should be considered by the Planning and Transportation Commission. Torke said that the Planning and

Transportation Commission's interest was related to the impact on neighbors from dewatering activities.

Commissioner Eglash said that it was his understanding that the City has no jurisdiction over groundwater, but that groundwater is under the jurisdiction of the Santa Clara Valley Water District. Assistant Director Jane Ratchye indicated that the District is the groundwater manager for the county, but that the City, or anyone in the county, can drill wells and pump groundwater. She added that the utility is in the process of updating its Water Integrated Resource Plan (WIRP), which will evaluate groundwater (including shallow groundwater) as a water supply option. Commissioner Eglash said that if CPAU is updating its WIRP, then the potential use of groundwater would reasonably be reviewed by the UAC.

ITEM 5: DISCUSSION: Update and Discussion on Impact of Statewide Drought on Water and Hydroelectric Supplies

Senior Resource Planner Karla Dailey provided an update on water usage, water supply, and impact on hydroelectric supplies. She indicated that the City overall has saved 15% over its use in 2013 while the San Francisco Public Utilities Commission (SFPUC) is still requesting voluntary reductions of 10%. City operations water use has declined by 25% and communications with customers remain at a high level.

Dailey noted that the water bank and judicious use of storage over the past three dry years has served the SFPUC well, but that there is still a concern about whether next year is dry again. If next year is critically dry, the SFPUC has indicated that it may increase its call for water use reductions from 10% to 20%.

COMMISSIONER COMMENTS

Vice Chair Waldfogel asked if the City has taken a position on the water bond that will be on the November ballot. Director Fong indicated CMUA supports it, but that she is not aware of the City taking a formal position.

Meeting adjourned at 9:49 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities