

FINAL

UTILITIES ADVISORY COMMISSION MINUTES OF OCTOBER 1, 2008

CALL TO ORDER

Vice Chair Melton called to order at 7:00 P.M. the scheduled meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Marilyn Keller, John Melton, Dick Rosenbaum, and Asher Waldfogel

Absent: Commissioners Dexter Dawes and Council Member Yiaway Yeh

ORAL COMMUNICATIONS

NONE

APPROVAL OF THE MINUTES

The minutes from the September 3, 2008, were unanimously approved.

AGENDA REVIEW

No changes to the agenda were requested.

REPORT FROM COMMISSION MEETINGS/EVENTS

Commissioners Rosenbaum and Waldfogel reported out on the Northern California Power Agency's (NCPA's) Annual meeting.

Commissioner Rosenbaum gave a brief overview of the different panel discussions during the day-long meeting which focused on the environment and also included a 40-year "look back" at NCPA's history. Also covered, and found to be very valuable, are some of the sidebar conversations which provided information as follows: the City of Redding is ready to go to market with a \$1.6 billion gas pre-pay arrangement, but there is no market for it right now: Bob Marshall (Plumas Sierra) said there are 500 installations of ground-source heat pumps in his service area (customers own the above-ground equipment; the utility builds and owns the underground portions and leases the underground facilities to customers) and believes we will see more of this technology where geography and environment make it attractive; Kent Palmerton predicts that a large scale solar thermal plus natural gas-assist project will take off; and the professional pollster speaker, Frank Luntz's memorable message is that "it's not what you say but what people hear." Rosenbaum also gave a brief re-cap of NCPA's Finance Assistant General Manager Donna Stevener's bleak report on the state of the markets and in particular the serious financial situation of the bond markets.

Commissioner Waldfogel noted that the 33% renewable portfolio standard (RPS) is coming and remarked that he learned that large hydro (greater than 30 MW) will not count toward the RPS. He also noted that the Western discussion was informative for him as he learned that electric power needs are 4th behind other water needs. And he mentioned particular interest in Sacramento Municipal Utility Director's (SMUD's) roll-out of Advanced Metering Infrastructure (AMI) during a lunch-time key note talk by SMUD's new General Manager.

UTILITIES DIRECTOR REPORT

Utilities Director Valerie Fong provided the following updates:

1. **Final Program Environmental Impact Report (PEIR) for the Water System Improvement Program (WSIP):** The San Francisco Planning Department released the Final PEIR for the WSIP. The Final PEIR provides responses to over 1,300 comments received on the Draft PEIR, which was released on June 29, 2007. At the same time, the General Manager of the SFPUC released the SFPUC's recommendation for adoption of the WSIP. The recommendation limits sales to San Francisco's retail and wholesale customers until at least 2018 by capping water deliveries from the regional water system at 265 million gallons per day (MGD). The long-term demands of the region (to 2030) were estimated at 300 MGD in the Draft PEIR. SFPUC's recommendation would require San Francisco and the wholesale agencies to develop additional conservation, water recycling and groundwater projects to meet future demands.

The Final PEIR is scheduled for certification by the SF Planning Commission on October 30. On the same day, the SFPUC is expected to adopt the recommended WSIP. City staff and BAWSCA are currently examining the responses to comments in the Final PEIR.

Commissioner Asher asked whether it was appropriate for staff to bring information to the UAC on the SFPUC WSIP costs. Assistant Director Ratchye responded that staff had done so three times already and that staff had discussed the impact of the WSIP as a tripling of water wholesale rates and a doubling of water retail rates.

2. **Water Service Contract Negotiations:** Negotiations on the water contract are ongoing and are greatly influenced by the WSIP recommended by the SFPUC. Detailed information on the negotiations is not available at this time.
3. **WECC Audit:** Under the Energy Policy Act of 2005, congress mandated FERC to enforce grid reliability standards. To comply with the mandate, the North American Electricity Reliability Corporation (NERC) developed a set of standards over the past two years and these standards are being enforced in the Western US through the Western Electric Coordinating Council (WECC). The City's Electric Utility had an audit of our operations by the WECC yesterday (Sept 30th).

We were found to be generally in compliance except for a few areas in our documentation of our procedures (e.g.: identifying sabotage, written procedures for battery maintenance, basis for our test intervals). They are happy with our evidence that we actually test the relays. We anticipate receiving the formal audit report in the coming days. We expect to work in the coming months to document procedures to comply with the NERC reliability standards.

4. **LED Street Light Pilot Project:** Utilities has agreed to develop an LED street light pilot project in a neighborhood. Staff made a presentation to the Community Environmental Action Partnership (CEAP) in early September and asked for the members' assistance in choosing an appropriate area for the pilot. The Neighborhood subcommittee has recommended some potential locations for the pilot project.
5. **Marketing:** New residential program brochure was printed and sent out with utility bills. New business brochure and low income flyer are near final. E-mail newsletters for businesses and residents are being sent with information on efficiency and sustainability. Marketing RFP is out to vendors. Vendors

are being asked to provide a fresh look and look at social marketing techniques in their proposals. The new contract will begin in 2009.

6. **Energy Efficiency Rebates:** Staff has updated the Commercial Advantage Rebate program for businesses, making it more similar to the statewide investor owned utility business rebate programs. New construction rebates have been developed for business and residential customers, while new rebates have been developed for data centers. A third party program for residential in-home energy audits (Green@Home) with Acterra is now beginning.
7. **UAC Calendar:** The rolling calendar of upcoming items for UAC meetings was provided.

UNFINISHED BUSINESS

NONE

NEW BUSINESS

ITEM 1: PRESENTATION: Gas & Electric Supply Cost Update

Gas Update: Senior Resource Planner Karla Dailey gave an update on the gas portfolio costs for FY 08-09. Dailey noted costs are expected to be very close to the budget value. While costs could be \$2 M higher than expected, net revenue uncertainty is only \$500,000 due to large customers paying a market-based rate. While market prices continue to be volatile, the City's gas portfolio cost is relatively certain because 100% of the expected pool load has been purchased for the months of November 2008 through March 2009. A combination of fixed-price and capped-price gas was purchased for those months. Reserve levels are below the minimum guideline but are expected to increase slightly over the next two years. No mid-year rate increase is recommended for the gas utility. The financial forecast will be updated at the time the new budget is developed.

Commissioner Melton asked whether staff projects no further rate increases for the next 3 years. Fong confirmed that this was in the last 5-year financial projections, but that this is revisited every year.

Electric Update: Senior Resource Planner Monica Padilla gave an update on projected electric portfolio costs for FY 08-09. Due to low hydro generation projections, costs are expected to be \$6 M higher than budget and \$2 M higher than reported to the UAC in July 2008. The portfolio's load for FY 08-09 is covered at 96% resulting in low market price risk for the remainder of the fiscal year. The current hydro generation forecast assumes supply to be at 80% of long-term average supply and the uncertainty related to a lower hydro generation scenario is reduced significantly. The total recurring and non-recurring cost uncertainties identified for FY 08-09 are \$14 M (excludes supplier default risk).

For FY 07-08 the Electric Supply Rate Stabilization Reserve (E-SRSR) is estimated to end at \$47.1 M which is well above the \$29.3 M minimum reserve guideline. The projected FY 08-09 ending E-SRSR balance is \$30.9 M which is below the minimum guideline level. Given the low level of cost uncertainties identified relative to projected reserves, no mid-year rate increase is recommended for the electric utility. Staff will recommend a Budget Amendment Ordinance at mid-year to cover the increased supply cost and will provide an update of the 5-year Financial Plan to the UAC in February 2009.

The Risk Manager is scheduled to provide an assessment of reserve adequacy in his quarterly report in November, 2008.

Commissioner Melton noted that even if there was no mid-year rate increase, there would need to be a mid-year budget increase. Staff confirmed his understanding.

ITEM 2: ACTION ITEM: Adoption of Resolution Approving the City of Palo Electric Utility Resource Adequacy Program and Delegating the Authority to the City Manager to Make Changes to Elements of the Program to Conform to Changes in State Law and Policy that Implement Prudent Utility Practices

Senior Resource Planner Debra Lloyd gave a presentation on a proposed replacement of the Electric Utility's Resource Adequacy Program. The City's current program, adopted May 2006, is no longer in line with requirements of the California Independent System Operator (CAISO) Tariff. So, to comply with current tariff requirements, staff has been working with Northern California Power Agency (NCPA) and member agencies to develop a replacement Electric Utility Resource Adequacy Program. One major change proposed is the submission of an annual local area resource adequacy (local capacity) demonstration to the CAISO. The City already has a responsibility to procure local capacity, which is included in the current electric utility budget. The new Resource Adequacy Program also makes changes to the system capacity demonstration to the CAISO, in anticipation of revised reporting requirements for 2009, and some changes to the definition of resources that count towards system capacity, to reflect current market products. These changes to system capacity counting and reporting should not result in procurement of system capacity for 2009.

Commissioner Melton asked where we are finding local capacity. Fong answered: other munis such as SVP and Alameda, and the suppliers with whom we have Electric Master Agreements. The grid has reliability needs, with 7 load pockets in Northern California. If we buy capacity from any of these pockets, it helps towards maintaining grid reliability.

Commissioner Keller asked whether lowering the peak demand would help meet the requirement. Lloyd explained that Demand Response program may count towards capacity and that energy efficiency programs which lower demand would also reduce the local capacity procurement needs in the long term. Commissioner Keller made a comment about the cost of lowering demand versus increasing capacity. As capacity gets tighter, it gets more expensive. Lloyd said that costs are relatively low now, but costs are expected to increase in the future. Fong added that we're continuing to look at demand-side options.

Commissioner Keller asked whether transmission is less efficient during peak times because of heat and if new transmission capacity is needed. Lloyd stated that new transmission lines are very expensive and that, in the past, transmission owners would at times build peaking generation plants to support the transmission grid rather than build more expensive transmission that is only needed for a few hours of the year. This was a balance between oversizing the transmission grid with the cost of building a peaker plant.

Commissioner Waldfogel asked whether the \$3.4M for local capacity is included in the \$6M estimate of above budget costs identified in the earlier presentation. Ratchye noted that the money to procure local capacity was included in the base budget for FY 08-09 and is not a part of the estimated \$6M in costs above budget. Commissioner Waldfogel asked after any obligations on the part of NCPA to do certain functions. Lloyd responded that NCPA is obligated to perform the functions outlined in the Scheduling Coordinator agreement.

Commissioner Rosenbaum asked staff to identify changes regarding the need to procure local capacity. Lloyd replied that Palo Alto has had a local capacity responsibility since 2007 and the new Resource Adequacy Program now includes the requirement to report the local capacity in the City's portfolio to the California Independent System Operator (CAISO).

Commissioner Melton asked whether the NCPA members have surplus power. Fong stated that some are long and some are short. Palo Alto is short.

Commissioner Waldfogel commented that he needed more information to make a sound policy judgment. Commissioner Waldfogel didn't feel that he was fully in a position to assess this policy. He noted that the rationale in the presentation was not found in the written report. Lloyd explained that this is the product of working with NCPA and member agencies to design a program that uses the CAISO's default program as the basis. Fong further stated that this policy is necessary to remain consistent with the CAISO requirements. She added that she will be more diligent in the future about specifying who prepared the policy, and what guidance was sought to give the UAC comfort that it is complete and accurate. Commissioner Waldfogel seemed satisfied that this is drafted as a result of collaborative effort.

Rosenbaum moved and Keller seconded the motion to "Recommend that Council approve the City of Palo Alto Electric Utility Resource Adequacy Program and delegate to the City Manager the authority to make changes to the elements of the Electric Utility Resource Adequacy Program to conform to changing utility practices and State policy"

ACTION: The Commission voted unanimously (4-0) to approve the motion.

ITEM 3: INFORMATION ITEM: 2008 Statewide and Palo Alto Residential Customer Satisfaction Survey Results

Utilities Marketing Service Manager Joyce Kinnear gave a summary presentation of the results on the residential satisfaction survey. The survey, performed by RKS Consulting every two years on residential and commercial customers in alternating years, compared Palo Alto residential customers with those of other municipal and investor owned utility customers statewide. In general, Palo Alto customers had similar results to the previous study performed in 2006. Northern California customers of municipal utilities tend to be more satisfied than other utility customers. Palo Alto residents are generally somewhat more satisfied than most other Northern California customers.

Commissioner Keller asked about the results showing that while customers are largely concerned about the environment, many do not participate in the programs. She said that it may be that customers need more assistance from staff to implement efficiency programs. Schools staff do not have time to go through the process. Kinnear reported that in preliminary research, rebates and cost still remain the overriding reason why customers do not participate in programs, followed by needing more information. Needing assistance remains at the bottom of the list.

Commissioner Rosenbaum questioned the result that about 50% of residents remember an electrical outage, which seems like a very high percentage over the year. Kinnear said that these results are from a customer's memory. The statistic, which is better than for other utility customers, is based on a customer's feelings of belief in the utility's reliability, not actual the actual reliability rate. Fong said that that a report is made annually to the UAC on total outages for the year.

Commissioner Melton mentioned that the confusing question about whether a customer is signed up for a green power program remains in the survey.

Commissioner Keller commended staff on working with customers on information and on the survey.

ITEM 4: ACTION ITEM: Recommendation to Eliminate the Residential Customer Discounts for Water and Storm Drain Service to Comply with the Requirements of Proposition 218, Approve Rate Assistance Program Changes, and Adopt a Resolution Amending the Utilities Rate Schedule C-4, "Residential Rate Assistance Program"

Assistant Director Tom Auzenne gave a brief summary of the action item before the UAC. The UAC was being asked to recommend that Council:

- (a) eliminate the 20 percent rate discounts for water and storm drain service provided by the Rate Assistance Program (RAP);
- (b) approve 3 program changes to the Rate Assistance Program to help low income customers mitigate the effects of the loss of the water and storm drain discounts by: 1) ensuring proper program eligibility by requiring annual application for participation; 2) increasing the electric and natural gas discounts from 20 percent to 25 percent; and 3) requiring RAP customers to participate in the Utilities Residential Energy Assistance Program (REAP), which provides qualifying low income households with free weatherization services, appliance replacement, lighting upgrades and other free services designed to reduce their water and energy consumption and utility bills.
- (c) Adopt a resolution amending Rate Schedule C-4 to implement these changes in the program.

Recent interpretation of Proposition 218 by the City Attorney's Office required the elimination of the water and storm drain discount.

Commissioner Melton stated that Prop 218 leaves little negotiating room, but he wondered why the discount has had so many more electric and gas customers than water customers. Auzenne said that apartment dwellings often have a master meter for water service and individual meters for electric and gas.

Commissioner Keller wondered whether RAP customers remain on the program year after year. Auzenne noted that this is the case for RAP, but that Project Pledge is a once per year option and is used more for emergency, short-term difficulties. Auzenne said that the customers' income levels often do not increase; however, the addition of the REAP service should help their expenses to go down, thus decreasing the transfer from other customers.

Commissioner Waldfogel commented that the proposal made sense and asked if the City Attorney had seen or approved of the plan. Auzenne indicated that the City Attorney was aware.

Rosenbaum moved and Waldfogel seconded the recommendation.

ACTION: The Commission voted unanimously (4-0) to approve the motion.

Meeting adjourned at 8:55 P.M.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities