

FINAL

UTILITIES ADVISORY COMMISSION MINUTES OF AUGUST 6, 2008

CALL TO ORDER

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

Present: Commissioners Dexter Dawes, Marilyn Keller, John Melton, Dick Rosenbaum, and Asher Waldfoegel and Council Member Yiaway Yeh

Absent: None

ORAL COMMUNICATIONS

NONE.

APPROVAL OF THE MINUTES

The minutes from the June 4, 2008, were unanimously approved.

AGENDA REVIEW

No changes to the agenda were requested.

REPORT FROM COMMISSION MEETINGS/EVENTS

Commissioner Melton reported on his three day tour of the Hetch Hetchy water system saying it was very informative and that he got a chance to speak to representatives from Modesto Irrigation District and Turlock Irrigation District to get the agriculture perspective.

UTILITIES DIRECTOR REPORT

Assistant Director Jane Ratchye gave the following updates:

FY 2008-09 Budget

On June 9, the City Council approved the FY 2008-09 Budget and Utility retail rates for Electric, Gas, Water and Refuse. A copy of the Budget on CD was provided for each Commissioner.

COTP Temporary Assignment Update

The 15-year Assignment Agreement with SMUD, TID and MID is still in process, but is moving more slowly than expected. In the interim, Council approved a short-term assignment with SMUD and TID for all of Palo Alto's COTP beginning on August 1 and extending until the long-term agreement is in place or January 2009, whichever comes first.

Hydro Resource Assessment

With median rainfall Western forecasts a Base Resource volume of 306 GWh for FY 08-09, about 86% of average. Given the low reservoir levels and the heightened interest in refilling reservoirs, it would take significantly higher than median inflows to raise releases and generation above the forecasted levels.

The combined hydro supply projection from Western Base Resource and Calaveras for FY 08-09 is 80% of long-term average. This is 33 GWh less than the estimate provided for development of the FY 08-09 budget.

Gas Prepay Financial Consultant

Staff used a Request For Proposals (RFP) to solicit consulting assistance to help the City evaluate gas prepay alternatives. Contingent on that evaluation, the consultant will assist in executing a gas supply agreement through conduit entities and will evaluate financial markets for the City to act as a direct bond issuer or through a JPA in a gas prepay transaction. The consultant will assist in briefing staff, the UAC and the Council as needed so that the City clearly understands the risks and rewards of a gas prepay transaction.

Council approved a change to the Gas Utility Long-term Plan (GULP) Guidelines and Implementation Recommendations in February 2008. One of the changes to the implementation recommendations was to: "Take steps to analyze Palo Alto's tax-exempt status to realize a discount to the City's gas cost by: a) Identifying risks and costs associated with prepay transactions including required modifications to City policies and operating procedures; and b) Exploring alternative prepay structures.

Commissioner Rosenbaum asked if the UAC was to be educated by the financial consultant in addition to the Council. Ratchye responded that this was part of the plan.

UNFINISHED BUSINESS

NONE

NEW BUSINESS

ITEM 1: ACTION ITEM: Election of Officers

The Commission elected Dexter Dawes as its Chair and John Melton as its Vice Chair for FY 2008-09.

ITEM 2: INFORMATION ITEM: Report on Progress of Utilities' Photovoltaic Rebate Program

Tom Auzenne, Assistant Director – Customer Support Services, provided an update on the Photovoltaic (PV) Rebate Program and distributed a copy of the SB1 Report for 2008, which has been sent to NCPA for submission to the state legislature and the California Energy Commission.

Auzenne indicated that with SB1, photovoltaic installations in Palo Alto dramatically increased in both the residential and commercial markets. Although the City's SB1 Report did not indicate any commercial installations. Auzenne indicated that there are an additional 46 installations in progress including some commercial installations. In response to a query about size of the largest commercial installation in progress, Auzenne indicated that the largest application-to-date was for the Roche Bioscience installation at approximately 1 MW. He also indicated that the changes to Roche's business in Palo Alto may impact the final project.

Commissioners sought clarification on the last bullet point noted in SB1 Report for 2008 section 1. Program Activities, b) Future Opportunities and Challenges, which reads:

"The high demand for solar rebates has driven down the rebate levels faster than expected. This may cause a slow-down in installations until the installed costs begin to drop."

Specifically, several Commissioners questioned why the rebate levels are dropping and whether or not reduced rebate levels would cause a decline in interest. Staff clarified that the dropping rebate levels is based on a mandated tiered rebate level requirement, which steps down 7% each tier. Auzenne indicated that the wording in subsequent reports would be clarified for the readers.

There were several questions regarding the status of tax credits. Commissioner Waldfogal asked about impacts on the PV program if the federal Investment Tax Credits (ITC) should be eliminated or not reauthorized. Auzenne opined that there would probably be an impact on the commercial/industrial sector without ITC availability, but he was unsure of the current status and would return with updated information.

Commissioner Keller expressed concern that without ITCs, the Palo Alto Unified School District's options for installation of PV systems by third-part providers may be impacted. Commission Chair Dawes inquired if both state and federal tax credits for PV installations were still available. Auzenne was not sure of the current level of tax credits and would return with the information requested.

Commission Vice-Chair Melton asked about the rebate levels of CPAU versus PG&E for dollars per kW and for dollars per kWh. Auzenne indicated that he would return with the information requested.

Commissioner Rosenbaum asked for the conversion factor for PV-generated kW-DC to kW-AC. Auzenne indicated that he did not believe it was a significant percentage. Commissioner Rosenbaum stated that from the SB-1 report, it appeared to be about a 20 percent system loss. Auzenne said he would return with the exact conversion factor. Commissioner Rosenbaum requested that an article reprint on solar energy in the latest edition of Public Power, published by the American Public Power Association, be provided to the Commission.

Councilmember/UAC Liaison Yeh asked if there would be any impacts on the PV program from the recently-enacted state legislation (SB 1399) from State Senator Simitian (protecting trees versus PV panel solar access). Auzenne replied that he did not believe there would be a significant impact on the PV Partners program in Palo Alto.

ITEM 3: INFORMATION ITEM: Presentation: Current Estimate of FY 08-09 Gas and Electric Supply Costs Compared to Budget Estimate
FY 2008-09 Gas Supply Cost Projections

Karla Daily presented an update of current Gas supply cost projections versus supply cost in the FY 2008-09 budget with the following highlight:

- Due to high wholesale market prices which are currently 15% higher than prices estimated at budget, Gas Supply Cost is expected to be \$1.1 M over budget.
- Gas prices are volatile and supply cost can increase additionally as a portion of the Gas portfolio remains un-hedged. Karla noted that at the end of June 2008, given market prices at the time, the expected Gas Supply Cost was \$5.3 M over budget.
- By the end of September 2008, most of the load for FY 08-09 will be hedged and therefore uncertainty will be reduced. At that time staff will assess the need for a mid-year rate increase given expected cost, projected uncertainty and the projected Gas Supply Rate Stabilization Ending Reserve Balance.

Commissioner Rosenbaum requested that if a mid-year rate increase is necessary, a recommendation should come to the UAC no later than at the October 2008 meeting in order to affect the rate increase sooner rather than later. Dawes requested that staff return in October 2008 with an update.

FY 2008-09 Electric Supply Cost Projections

Monica Padilla presented an update of current Electric Supply Cost projections versus supply cost in the FY 2008-09 budget with the following highlight:

- California is experiencing a second year of drought and as a result projected hydro supply from Western Base Resource (WBR) and Calaveras is down 7% from projections at budget assuming median inflows going forward.
- Supply projections for renewables are down 9% from estimates at budget due to delays in landfill gas start dates for the Half Moon Bay and Keller Canyon projects.
- Wholesale market prices are currently 19% higher than prices estimated at budget
- Overall, Electric Supply Cost is expected to be \$4 million over budget estimates for FY 08-09.
- Temporary assignment of COTP is expected to save \$1.7 million in FY 08-09.
- As with natural gas prices, wholesale electric prices have been dropping, however remain volatile. Monica noted that at the end of June 2008, given market prices at the time, the expected Electric Supply Cost was \$12 M over budget.
- The projected ending Electric Supply Rate Stabilization Reserve Balance for FY 08-09 is expected to be below the Minimum Reserve Guidelines, however it is sufficient to cover projected cost uncertainties.
- Staff will evaluate the need for a mid-year rate increase at the end of September 2008.

Commissioner Melton asked that staff look at the Calaveras Reserve and provide a recommendation on how to manage the reserve given the COTP temporary assignment. Commissioner Dawes noted that Calaveras costs about 50% more than the market cost. Padilla noted that this is due to the lowered generation because of dry conditions.

Commissioner Keller suggested that we publish the marginal cost of electricity to customers and ask for conservation in an effort to reduce cost.

Commissioner Melton noted that we ask customers to conserve water in droughts, but we don't ask them to do this for electricity. Commissioner Rosenbaum replied that for water, reductions are not requested for financial reasons, but are requested due to water having a limited supply. In addition, the bundled rate for electricity is above the marginal cost so that rates would actually increase with less energy sales (except for certain on-peak hours in certain months).

The next scheduled meeting is set for September 3. Commissioners Rosenbaum and Keller announced that they will not be able to attend this meeting.

Meeting adjourned at 8:10 P.M.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities