

# FINAL

## UTILITIES ADVISORY COMMISSION MINUTES OF NOVEMBER 4, 2009

### CALL TO ORDER

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Chair Melton called to order at 7:07p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Ameri, Berry, Eglash, Foster, Melton, Waldfogel, and Council Member Yeh

Absent: Commissioner Keller

### ORAL COMMUNICATIONS

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None.

### APPROVAL OF THE MINUTES

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The minutes from the October 7, 2009 UAC meeting were unanimously approved.

### AGENDA REVIEW

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Director Valerie Fong noted that Items #2 and #3 were inadvertently agendized as action items, but they are actually discussion items. For each of those items, staff is seeking feedback from the UAC and feedback is the only action proposed.

### REPORT FROM COMMISSION MEETINGS/EVENTS

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Commissioner Ameri commented on the tour of electric, gas and water facilities organized by Engineering and Operations staff for new commissioners. He remarked that the tours were well done and he congratulated staff. Commissioner Foster agreed with Ameri's comments.

Council Member Yeh congratulated staff on organizing the October NCPA Commission meeting in Palo Alto. He also advised the UAC about a United Nations program whereby cities in the U.S. and China agreed to share data and experiences on the measurement of carbon reductions and strategies. Palo Alto was selected as one of the 6 cities in the U.S. Yeh is hoping that Palo Alto can be represented at an upcoming conference in Beijing.

Chair Melton stated that he attended the US-China Green Energy Forum and reported that the group from China was very interested in hearing about the activities Palo Alto is doing.

Chair Melton also noted that he attended a community outreach meeting on drilling one of the new emergency groundwater wells. He said that about 12 members of the public attended the meeting and were satisfied that their questions were answered and their concerns were addressed. They were complimentary of Assistant Director Tomm Marshall and his staff.

### UTILITIES DIRECTOR REPORT

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Utilities Director Valerie Fong delivered an oral report on the following items:

1. **Rates Policy:** After listening to the UAC's discussion on the draft Rates Policy, staff has reconsidered and decided to update the Utilities Strategic Plan before considering adoption of a Rates Policy. A

schedule for this work has not yet been prepared, but the UAC will be kept informed. Staff may request assistance from a subset of commissioners on the development of the strategic plan.

2. **Fall 2009 Renewable Power RFP:** In an effort to meet the City's RPS targets (30% by 2012, 33% by 2015), staff issued a new RFP for renewable power supplies. Responses are due November 10, 2009. The RFP is available at the City's website.  
[http://www.cityofpaloalto.org/depts/asd/current\\_solicitations.asp](http://www.cityofpaloalto.org/depts/asd/current_solicitations.asp)
3. **Spring 2009 Renewable Power RFP:** The March 2009 renewable power RFP netted 16 proposals for more than enough renewable energy production to reach our 33% Renewable Portfolio Standard (RPS) target. After evaluating the 16 proposals, staff ultimately decided to move forward with four of them, including the 1.4 MW Johnson Canyon Landfill Power Purchase Agreement recently approved by the UAC and Council. The other three projects – which include a 5 MW share of a biomass combustion project, a 10 MW share of a solar photovoltaic project, and another 3 MW solar photovoltaic project – now have executed non-binding Letters of Intent to facilitate the developers moving forward with project tasks such as securing site control and financing.
4. **Economic Stimulus Funding – Energy Efficiency Community Block Grant (EECBG):** The EECBG grant for LED street lights and the Home Energy Report have been approved. Staff recently received \$663,000 - \$443,000 will be allocated to LED street lights and \$200,000 to Home Energy Report. Staff is in the process of issuing a Request for Proposals for the Home Energy Report. Utilities Electric Engineering will be completing the LED street light project. Staff already had to complete its first quarterly report, as the approval was received just prior to the end of the federal fiscal year on September 30.
5. **LED Street Light Pilot and Next Steps:** A few of the Commissioners after the last meeting saw the 2 LED and 2 Induction street light fixtures installed outside City hall.

The findings of the LED pilot, conducted in collaboration with the Pacific Northwest National Laboratories, will be provided in the December quarterly update. The 6,400 streetlights within the City account for approximately 0.4% of the entire community's electricity consumption. Shaving 30% to 50% of electricity consumption with better technology will make a large impact in the goal to reduce energy consumption and lower the community's carbon foot print.

In the coming months, Engineering Staff will be coming to the UAC with recommended next steps in installing LED street lights utilizing \$443, 000 of the federal stimulus funds.

## **UNFINISHED BUSINESS**

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None.

## **NEW BUSINESS**

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ITEM 1: Intentionally Omitted

**ITEM 2: DISCUSSION ITEM: Recommendation on Biomethane-Based Natural Gas Acquisition and Voluntary Green Gas Program**

Senior Resource Planner Karla Dailey made a presentation highlighting the main points of the written report. She discussed staff's plan to investigate using carbon offsets to supply a voluntary green gas program and requested feedback from the commissioners. She provided background information about the Climate Protection Plan and the Gas Utility Long-term Plan. She explained the environmental benefits of biomethane and the process to produce the resource. Dailey then summarized the results of the City's Request for Proposals and the potential rate impact and carbon reduction from using physical biomethane and/or carbon offsets for a voluntary program. She also discussed the rate impact and carbon reduction result from using biomethane alone and including carbon offsets for inclusion in the portfolio and pointed out the regulatory risks associated with such a decision.

Commissioner Eglash noted that he was glad that the analysis included all aspects, including the impact on ratepayers. He asked Dailey why she thought the price for the biomethane were so high. Dailey responded that all the biomethane is being used to produce eligible renewable electricity for utilities to meet their RPS goals and that there is a high demand and low supply for renewables. Eglash added that he supported the approach and the proposed next steps for the project.

Commissioner Eglash asked staff to comment on the "realness" of offsets. Dailey reminded the UAC that when this subject last went to the UAC, the UAC expressed a strong preference for physical green gas delivery to offsets. However, Palo Alto could restrict the offsets to certain types of real facilities and require them to be registered, etc. Eglash noted that even if a certain dairy, for example, is identified, it's not clear that it would have done the methane capture anyway. Commissioner Foster stated that he agreed with Eglash and supports staff's proposed approach.

Commissioner Waldfoegel noted that green electricity is more available than green gas and asked if staff has evaluated shifting the energy source for certain end uses such as water and space heating. For example, if one wanted to have 100% renewable energy serving their home, they could convert from gas to electric and purchase renewable energy through the PaloAltoGreen program, which is backed by RECs. Assistant Director Jane Ratchye said they we haven't done this analysis, but will look into it.

Chair Melton commented that he does not like RECs, even for PaloAltoGreen, and prefers to keep monitoring the availability and price of physical green gas. He also noted that one possibility is that the long-term price of carbon really is around \$100/ton so we may ultimately need to pay that much.

Commissioner Eglash asked if the biomethane price quotes are driven by the cost of the systems, or the market. Dailey answered the market, but noted that maybe over time and with competition, the price will adjust towards the cost.

Commissioner Foster asked if we see a way to finance a project ourselves. Dailey responded that it's possible with joint action with NCPA. Chair Melton noted that he would oppose spending \$8 million only to get RECs. Dailey explained that the \$8 million would include the physical biomethane, the RECs, and the opportunity to buy the methane capture offsets.

Commissioner Ameri asked why staff concluded that a voluntary program that is not 100% renewable, but only partially renewable would not be successful. Dailey responded that these types of programs are not attractive to potential customers and, therefore, are not marketable.

In summary, Commissioners Melton, Eglash and Foster expressed support for staff's approach and plan and indicated some concern over an offset program citing the need to make sure that purchasing the offsets causes real environmental benefits to occur.

**ITEM 3: DISCUSSION ITEM: Framework for Developing the City's Ten-Year Energy Efficiency Plan for the Period 2010 to 2019**

Assistant Director Jane Ratchye made a presentation summarizing the written report. She stated that the objective of a discussion of this item is to get feedback from the UAC on staff's plan for the development of the City's next 10-year energy efficiency plan. She reviewed the 2007 energy efficiency plan that was based on results of a study completed in 2005 by the Rocky Mountain Institute, noting the changes that have happened since that study was prepared. These changes include an emphasis on greenhouse gas emissions reductions, Council's adoption of the Climate Protection Plan (CPP) and dramatically increasing prices for renewable energy contracts. She noted that the Market Price Referent (MPR) set by the CPUC has acted as a price floor for Palo Alto since all projects that are at or lower than the MPR are deemed reasonable by the CPUC for the investor-owned utilities such as PG&E. When Council approved the last contract for renewable power for the Johnson Canyon landfill-gas-to energy project, it directed staff to work with the UAC to ensure that energy efficiency was maximized and analyzed in consideration of the amount that the City was paying for renewable power.

Ratchye stated one could construct a chart of all energy efficiency opportunities and show the total cost of each and the amount of energy that could be saved. If all the opportunities are lined up from the least to the most expensive, then one could determine at what cost the line should be drawn to determine the energy efficiency potential. This line can be drawn at the avoided cost of the saved energy supply costs. Saved energy cost estimates can be developed either by adjusting the "brown" (market) power prices with a carbon adder or by using the MPR. The CPP uses a value of \$20 per ton escalating at 5% per year and a carbon forward curve is also used in the calculation of the MPR. These methods result in 10- and 20-year levelized values of about \$20 to \$40 per ton. However, the implied cost of carbon in the biomethane cost and renewable power cost are in the range of \$100 per ton if the entire difference between these costs and "brown" energy prices is attributed to carbon value. The argument for using MPR for the avoided cost is that the City has shown a willingness to pay that price for its renewable supplies and state law requires that efficiency is the first resource considered, followed by demand response and then renewable power. Ratchye stated that staff plans to evaluate energy efficiency potential under different avoided cost scenarios and will use the MPR as the baseline. Staff also plans to assess the impact on retail rates and on customer bills. The UAC will review the analysis and make a recommendation to Council on adoption of energy efficiency goals that will be the basis of the 2010 10-year Energy Efficiency Plan.

Chair Melton questioned the logic of using the MPR for the avoided cost as that seems to build in the high cost of renewables. Ratchye explained that using the MPR for avoided cost does not mean that the cost to the Utility would be the MPR, but it does mean that the cost to society could be as high as the MPR. Commissioner Waldfogel said that maybe the appropriate avoided cost is a blended cost of 33% renewables (e.g. the MPR) and 67% brown power. That may be closer to the portfolio's actual avoided cost.

Commissioner Foster said that energy efficiency should be the number one priority and our analysis should be as expansive as possible to find all possible energy efficiency opportunities. Commissioner Eglash agreed that energy efficiency is truly the low hanging fruit and the best for carbon emission reductions. He

noted that it may be easier to pay more to buy more renewables, but we need to recognize that the value of energy efficiency is high. He suggested that staff do a sensitivity analysis of the value of carbon. Although it may be tempting to use the MPR, we need to be sure to respect the pocket books of our customers. If real dollar savings is less than estimated value, we could overspend on efficiency. He cautioned against hiding the true cost of energy efficiency.

Council Member Yeh advised that staff should fully map out the budget impact and the impact on rates of the new 10-year energy efficiency plan targets.

Chair Melton summarized the sense of the commission is that it would like to see the analysis done under more than one avoided cost scenario.

**ITEM 4: DISCUSSION ITEM: Utilities' Legislative Policy Guidelines for 2010**

Senior Resource Planner Debra Lloyd made a presentation summarizing the written report. She stated that the objective of this discussion was to get feedback from the commissioners on the draft report with the intent of coming back at the next UAC meeting in December to ask for the Commission's recommendation for Council to approve the 2010 guidelines. She provided background information about the high level of legislative activity impacting the utility industry, which drives the need to have approved legislative policy guidelines, and gave a summary of major legislative action from 2009. Lloyd then summarized the proposed goals for the City's electric, natural gas and water utilities.

Chair Melton stated that the second goal listed in the "All Utilities" section should be re-written as it sounds as if we would only support climate legislation if it recognized early action. Melton went on to advise the Commission that the UAC's review of the legislative policy guidelines is an annual exercise and that staff uses it to guide its advocacy activities.

Commissioner Waldfoegel commented that the guidelines touch the right themes, but it is difficult to tell what position would be for a particular bill. He is troubled that he can't tell exactly what advocacy will be from the guidelines. Commissioner Eglash stated that he expected that if there were a complex issue, for which a balance needed to be struck, staff would return to the UAC or Council for guidance. Eglash stated that he can see that the guidelines shouldn't be prescriptive and are at the appropriate level for staff to take action. Commissioner Foster asked how staff comes to a position for a controversial issue. Fong responded that staff generally works with a group such as NCPA or CMUA to develop positions and often takes positions such as "oppose, unless amended, or "support, if amended" accompanied by descriptions in the areas of a proposed bill that we have a problem with. For example, for the 33% RPS bills under consideration this year in the legislature, Palo Alto came out in support of the 33% RPS goal and that it include municipal utilities, but did not support the provisions that restricted using renewable resources from outside the state. She added that if a particular issue was very controversial, we may not take a position. Council Member Yeh added that staff does get a heads up on many proposed bills and relies on NCPA staff. He added that it was possible to put into place a process in the future UAC bylaws to address how early involvement on these issues could occur.

**ITEM 5: DISCUSSION ITEM: Potential Topic(s) for Discussion at Future UAC Meetings – Possible Formation of Ad Hoc UAC Subcommittee**

Chair Melton stated that he would like to place the topic of how the UAC could form ad hoc subcommittees to focus on certain issues on a future agenda. From his discussions with the City Attorney's office, these types of committees could be formed if they have a membership of less than a quorum of the UAC, focus

on a single issue, and have a limited term (e. g. 6 months). Commissioner Foster supported having this tool in the toolbox for the UAC to use.

Chair Melton also asked if the next agenda could include a spot to create an ad hoc subcommittee to work on the Utilities CIP budget as there was some urgency on this topic. He noted that Commissioners Eglash and Waldfoegel have expressed an interest in working on that topic. Fong stated that she would agendize the topic.

Commissioner Foster had several suggestions for future agenda topics, including: how to handle public input, a discussion on verbatim versus sense minutes, and the PG&E ballot initiative. Chair Melton added that how to put items on the agenda could also be a future topic.

Commissioner Foster asked if it was possible to put the quarterly updates on the agenda so that they could be discussed, rather than made available as informational item which is not discussed. He added that he thinks that there is value in hearing his colleagues' observations on issues in the report and he would like to comment and highlight certain items in the report as well. Chair Melton stated that if there are items of a policy nature for which further discussion is desired, then those issues can be agendized.

Commissioner Foster said that it would be helpful to have a place on the agenda for commissioners to make comments. Council Member Yeh added that the Council has a portion of the agenda devoted to Council comments.

#### **INFORMATIONAL REPORTS**

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The following reports were provided for information only, but were not discussed by the commission:

- Utilities Quarterly Update
- City of Palo Alto's Energy Risk Management Report for the Fourth Quarter, Fiscal Year 2009

Meeting adjourned at 9:16 p.m.

Respectfully submitted,  
Marites Ward  
City of Palo Alto Utilities