



FINAL

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF OCTOBER 5, 2011

CALL TO ORDER

Chair Foster called to order at 7:05 p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Berry, Cook, Eglash, Foster, Keller, Melton and Waldfogel.

Absent: Council Member Liaison Scharff.

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

Commissioner Keller had an amendment to the draft minutes on page 4, last paragraph, end of the second line, should read "...improved reliability; but greater exposure to electric and magnetic fields..."

The minutes from the September 7, 2011 UAC meeting were approved as amended.

AGENDA REVIEW

No changes.

REPORTS FROM COMMISSION MEETING/EVENTS

Commissioner Waldfogel said that Director Fong previously distributed to the UAC his notes from the NCPA annual meeting in September. He stated that NCPA did a great job on the meeting and engaged an interesting set of speakers, including the chairman of the Federal Energy Regulatory Commission (FERC). Some speakers had nuanced views about recent state regulations including renewable portfolio standard, AB 32, and distributed generation. These speakers acknowledged that these initiatives do have some risk and will cost money, which could be an issue for some State legislators.

UTILITIES DIRECTOR REPORT

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

1. **Marketing and Efficiency Program Update:**
 - a. **Demonstration Garden:** The new Lucie Stern Demonstration Garden, located next to the Girl Scout House, has been completed. The garden demonstrates environmentally-friendly landscaping using the Bay-Friendly landscaping principles – a holistic approach that works in harmony with the San Francisco Bay Watershed. The garden began as a collaborative partnership between the City of Palo Alto's employee Green Team and the local non-profit Acterra.
 - b. **Two Workshops:** 50 people attend a September 8 workshop on creating a habitat garden for bees, butterflies and birds. A parent/child hands-on activity garden planting workshop to assist

- c. **The Keep Your Cool and Hospitality Programs are now underway.** These programs will provide installation directions and rebates for efficient equipment at commercial kitchens and hotels throughout Palo Alto.
- d. **Our own Andrea Hart was nominated as an American Public Power Association Future Public Power Leader.** Her photo and a brief article about her are a part of the September edition of Public Power magazine. Andrea is an Account Representative working with residential customers on energy conservation issues and PaloAltoGreen in the Utility Marketing Services group.

Director Fong stated that Commissioner Eglash attended the September 20 Finance Committee and asked him if he had any comments to make about that meeting. Commissioner Eglash stated that it was a pleasure to attend the Finance Committee meeting to see democracy in action and he recommended the experience for other commissioners. On the Calaveras Reserve item, there was substantial agreement with the general approach and extensive discussion of the end date by which projects must be completed which was resolved by a slight change in the wording of the proposed guidelines. There was also discussion about how to evaluate cost-effectiveness of projects, which was determined by ensuring that they must be better than giving the money back to customers in the form of a check. Ultimately, the Finance Committee agreed with the UAC's recommendation with minor adjustments.

On the gas laddering topic, Commissioner Eglash said that the Finance Committee agreed with staff's recommendation and voted to eliminate laddering and institute monthly-varying rates. Commissioner Eglash stated that he faithfully conveyed the UAC's position and explained that the Finance Committee's action was contrary to the UAC's recommendation. However, he did not feel that there was a significant feeling of opposition on the part of the UAC and, therefore, he did not warn the Finance Committee that it was making a great error by their action. The benefits of stable rates were called into question given the highly variable monthly bills, which are based on gas usage. Also, the idea that the reserve levels could fall was attractive. Now the items will go to Council and Commissioner Eglash guesses that the Council will agree with Calaveras issue, but may have more disagreement about the gas laddering strategy. Staff is taking a look at the impact of lowered reserves, especially if the Calaveras Reserve is used to fund significant projects. Staff is taking a look at whether lowered reserves will impact the City's credit rating. Commissioner Eglash added that the Finance Committee was very complimentary of the UAC's work on the two items.

2. **Finance Committee Action:** On September 20, the Finance Committee took action on two issues that were previously reviewed by the UAC. Steve Eglash articulated the UAC's recommendations at the meeting.
 - a. **Gas Purchasing Strategy/Rate Objective:** The Finance Committee unanimously recommended that staff develop a market-based, monthly-adjusted gas supply rate. In early November, the Council will consider the Finance Committee recommendation as well as the UAC's recommendation to change supply rates once per year by up to 20% at a time.
 - b. **Calaveras Reserve:** The Finance Committee unanimously agreed with the UAC's recommendation to change the purpose of the Calaveras Reserve and rename it the Electric Special Projects (ESP) Reserve. Guidelines for the ESP Reserve consistent with the UAC recommendation for selecting projects to benefit electric ratepayers were also part of the recommendation.

3. **Recycled Water grant** – On September 28th the City was notified that the Bureau of Reclamation executed the grant award agreement. Of note is Reclamation's last minute decision to increase the initial award from \$268,000 to \$340,000. This grant, together with a previously awarded State Water Resources Control Board grant, covers approximately 55% of the planning and environmental costs for the project.
4. **LED Streetlights:** The first half of the LED streetlight pilot project lights are now installed along Alma and the second half will be installed along the El Camino Real by the end of this month. The upgraded lights (600 in total) represent about 10% of the City's high-pressure sodium lights. As you may recall, a large portion of the funds for this replacement came from an American Recovery & Reinvestment Act grant.
5. **Western Geo:** The Western Geo geothermal project is up in the air once again. Due to some financial difficulties, the owner of the project has issued a Right of First Offer to NCPA to buy the resource and develop the project. There's a lot of uncertainty about what that offer will look like and whether the offer will be accepted. At this point we believe the most likely outcome is that NCPA will take over the steam well, build a pipe and send the steam to an existing generator in the area rather than building a new generator. The cost of the output is expected to be lower under this arrangement (\$100 per MWh instead of \$113 under the current power purchase agreement), but the total output will be significantly lower as well, with Palo Alto's share decreasing from over 4 MW to about 1 MW. This would mean that our 2015 RPS level would fall from 30.8% to 28.1%. When some of the uncertainties are resolved, staff will return to the UAC with a recommendation on how to proceed.
6. **Renewable Energy RFP:** On September 27, Utilities issued a request for proposals (RFP) for new long-term contracts for renewable energy projects to help meet the City's renewable portfolio standard (RPS) goal. Proposals are due by October 25, and staff will provide an update to the UAC in November on the results of the RFP.
7. **Demand Response:** The first summer of CPAU's two-year pilot demand response program came to a close on September 30. Three large electric customers, SAP, PARC and the VA Hospital participated. Mild weather warranted no real need for demand response, however CPAU held one test event which PARC participated in with outstanding energy reduction results. CPAU would like to thank all three participating customers and especially PARC for contributing to the development of demand response knowledge and experience in Palo Alto.
8. **El Camino Park Emergency Water Supply Project:** The Park has closed, the contractor is setting up and a ground-breaking ceremony to launch the construction of a new reservoir, well and pump station at El Camino Park is going to take place October 17th at 1pm. You will all soon receive an official invitation but we wanted to let you know now that we'd love to have you join us---so mark your calendars!

Commissioner Melton advised inviting former UAC members who were part of the evaluation of the Emergency Water Supply and Storage Project to the groundbreaking ceremony.

UNFINISHED BUSINESS

1. Response to the Council Colleagues' Memo Regarding the Development of a Comprehensive Energy Efficiency and Renewables Procurement Strategy

Chair Foster reviewed the history of the May 2010 Council Colleagues' memo and commented that the memo staff prepared was not in the format he would have used in providing an update to Council, but that it did contain most of the relevant information. Chair Foster added that Commissioner Eglash prepared an executive summary that could be provided to Council along with the staff information. Commissioner Eglash provided copies of the document to the commissioners and read the executive summary.

ACTION:

Commissioner Melton made a motion to send the executive summary along with staff's April 2011 UAC memo to the Council. Commissioner Waldfoegel seconded the motion. The motion passed unanimously (7-0).

NEW BUSINESS

ITEM 1: ACTION: Proposed PaloAltoGreen Local Energy Program

Resource Planner Jon Abendschein provided an overview of staff's proposal. The program being proposed is a feed-in tariff (FIT) program under the proposed name PaloAltoGreen Local Energy Program. He noted that the purpose of the program was to achieve Renewable Portfolio Standard goals and reduce obstacles to local generation. The UAC had reviewed the program previously and had recommended approval of Policies and Design Guidelines, but there were aspects of the program that had not been developed at that point. Staff was requesting UAC recommendations on those items. They included a change to the Policies and Design Guidelines to allow 10-, 15-, or 20 year-contract terms, limiting the program to solar for the first program year, spreading purchases under the program over multiple program years, and setting a 4 MW program cap and a 100 kW minimum project size for the first program year. He discussed the methodology for determining the program rate, and said that the rates discussed in the staff report were preliminary. The final rate proposal would be determined at the City Council meeting. Staff would reach out to owners of sites with solar potential and to potential project developers prior to final adoption. The program would go to the Finance Committee for approval in November, the City Council in December, and assuming approval, the program would commence in February 2012. Staff plans to return to UAC, Finance Committee, and Council in fall 2012 for adoption of the 2013 program year.

Chair Foster noted that some of the parameters of the program such as the minimum project size and maximum cap are for the first year of the program only and will be revisited in subsequent years. He noted that he was comfortable with most aspects of the program.

Commissioner Eglash liked the program details, but would like to see the fiscal impact of the program and recommended that this should be a part of any future presentations to the Finance Committee and Council. Other impacts besides fiscal should also be discussed including how this impacts RPS goals and the risks of the program (e.g. risk that no one will participate in the program and any operational and legal risks). The proposal also took place in the context of the strategic plan, and any future presentations should include some discussion of how this proposal fits into that wider plan. Mr. Abendschein noted that the total cost of a fully subscribed FIT program would be roughly \$18-20 million over a 20 year life of the projects.

Commissioner Eglash clarified that if the rate is established by valuing the local energy produced, then the fiscal impact will be zero since the alternative is renewable PPAs. Mr. Abendschein agreed, assuming that the program rate was set equal to the market price of renewable power. To manage that risk, staff was relying on the most up to date information from a renewable RFP set to close that month.

Commissioner Waldfogel asked if the Market Price Referent (MPR) could be used as a renewable benchmark. Mr. Abendschein stated that the California Public Utilities Commission no longer calculates the MPR.

Commissioner Melton asked how staff can expect that the FIT will compete with the existing solar net metering and rebate program if the value delivered to the customer by that program is greater than the rate offered by the FIT program. Mr. Abendschein noted that there were only 3 MW of capacity left in the rebate program, and once the rebates were gone, the FIT program became more valuable. In addition, there are situations in which the FIT will make sense for building owners, including those where the energy cannot all be used on site, or where tenants pay the electric bills.

Commissioner Cook asked how the 4MW cap would work. Mr. Abendschein said that once the cap was filled the program would stop until the next program year.

Commissioner Cook asked why prices were higher for longer contract terms. Mr. Abendschein said it was related to increasing transmission and energy costs over time.

Commissioner Cook asked if there would be issues with the rest of the City processes and asked if CPAU has reached out to other City departments to ensure that permit processes will be streamlined. Mr. Abendschein said that he has worked with the Engineering Division and plans to work with the Building Division to ensure that the process will be as smooth as possible. Director Fong noted that the Utilities Department was also involved in the City Manager's effort to streamline permit processes at the Development Center.

Commissioner Cook recommended including a discussion of risks in future presentations, including how they are being mitigated, and also recommended including discussion of the fact that there were no fiscal impacts compared to other ways of procuring renewable energy. Director Fong added that the program cap was intended to mitigate some of the risks.

Commissioner Waldfogel complimented Jon Abendschein on the report. He asked if we can ensure that time to get a permit does not preclude applicants from being able to complete the process in the time allowed. He asked how an applicant would be able to withdraw from the program in the event of a major change to the site, such as a commercial reroof. Mr. Abendschein said there were provisions in the contract for those types of events.

ACTION:

Chair Foster made a motion to recommend that the City Council adopt the parameters set forth in the staff report with the clarification that the minimum capacity of 100 kW is specifically for the first program year. This motion did not include action on the program name. Commissioner Cook seconded the motion. The motion carried unanimously (7-0).

Regarding the title of the program, Chair Foster recommended that the program should be named Palo Alto CLEAN (Clean Local Energy Accessible Now). The term "feed-in tariff" was unpopular. The CLEAN name was outward looking, rather than inward like the PaloAltoGreen name. He had found several organizations using the CLEAN name and noted that Craig Lewis, the Executive Director of the CLEAN Coalition, which is based in Palo Alto, had requested that the City use the CLEAN name. He believed that the CLEAN name would become widely adopted, and that the City should move to adopt that name for the program.

Vice Chair Berry asked to hear from staff on the name. Director Fong stated that staff chose the name, PaloAltoGreen Local Energy Program, partly in response to the feedback from the UAC, when the majority advised tying the name to the successful PaloAltoGreen brand.

Chair Foster stated that in the initial survey of names, the CLEAN name was not part of the offered choices. Commissioner Eglash stated that he preferred the PaloAltoGreen name. Palo Alto CLEAN brought to mind sidewalk cleaning. Commissioner Cook said he was persuaded by arguments in favor of the CLEAN name.

Commissioner Melton said he had earlier expressed an opinion to maintain the PaloAltoGreen brand, but thought PaloAltoGreen Local Energy Program was a cumbersome name. He said it was unclear whether CLEAN would become a nationally adopted name, but that there was enough support for the name that he was persuaded to support using it for this program.

Commissioner Waldfoegel recommended distinguishing between brands and products. PaloAltoGreen is the brand, and products offered under that brand should use prevailing language. The City should use the name that would be recognized by the program users, whether that was FIT or CLEAN.

Commissioner Keller liked the Green name. CLEAN did not resonate with her.

Chair Foster stated that the Council will make the final decision. He pointed out that PACE (Property Assessed Clean Energy) was not a descriptive name, but is now widely known and associated with Berkeley.

Vice Chair Berry noted that the PaloAltoGreen name is tied to a very successful program nationally and that we should use that name. CLEAN did not resonate with him. The name should be inward looking and resonate with Palo Altans.

ACTION:

Chair Foster moved to recommend to the City Council adopting Palo Alto CLEAN as program name. Commissioner Cook seconded the motion. The motion failed (3-4) with Commissioners Keller, Berry, Waldfoegel and Eglash opposed.

Commissioner Eglash moved that the program be named the PaloAltoGreen Local Energy Program. Commissioner Waldfoegel seconded the motion. The motion passed (6-1) with Chair Foster opposed.

ITEM 2: ACTION: Utilities Emerging Technology Demonstration Program

Senior Resource Planner Debbie Lloyd provided a summary of the report. The Utilities Emerging Technology Demonstration Program (Program) is being introduced to promote the testing, evaluation and deployment of new technologies or innovative applications for the benefit of Utility customers. Lloyd explained the background to the proposal: Utilities' existing public benefits programs; UAC support for an expanded demonstration program; and the City manager's proposal for a city-wide policy. She also summarized the proposed program structure with an ongoing application process and quarterly evaluation and selection of projects; funding levels of \$50,000 from the existing public benefits program and an additional \$200,000 for FY 2012; and the evaluation criteria for selecting participating projects.

Commissioner Keller asked if there is a defined timeline to getting benefits from the projects. Lloyd stated that it would depend on the project - it could be long term or short term. Commissioner Keller asked how

the funds were established from each fund. Lloyd stated that the legal uses of the funds will be considered. Ratchye stated that this was staff's initial guess of where the benefits would accrue. Director Fong added that staff would need to be careful to not commingle funds.

Commissioner Keller asked if NCPA has a program. Lloyd advised that ETCC is funded by the Investor Owned Utilities and the Sacramento Municipal Utilities District. NCPA works with the Public Benefits Committee to coordinate innovation and R&D efforts at member utility locations.

Vice Chair Berry asked if the program will go to the Finance Committee. Staff indicated that it may go to the Finance Committee and/or the Policy and Services Committee.

Commissioner Waldfogel asked if there would be an annual report to the UAC. Lloyd said yes.

Commissioner Waldfogel asked if the City could get an equity position in any start-up for which we provided support or funding taking a page from Stanford University. Director Fong thanked the commissioner for the idea and promised to look into it.

Chair Foster clarified that money would be spent primarily for consultants to do post-installation evaluation. Regarding the ETCC, it is a valuable entity and CPAU has been involved in their meetings. He stated that he likes the program

Commissioner Eglash asked what the money can and cannot be spent on. Lloyd said that the majority will be spent on consultants for evaluation. Commissioner Eglash advised that staff make very clear any restrictions on what CPAU's money will be used for. Commissioner Eglash supported the level of budget devoted to the effort and how high the bar is being set to select projects, and believes that this will help to mitigate the risk of opportunity costs spent in engaging these companies. Commissioner Eglash stated that a willingness to take risks should not be equated to a willingness to make bad decisions, and that the proposed list of criteria and the transparent process will help prevent bad decisions. Commissioner Eglash suggested that future reports and presentations address how the program will be managed –as the current focus is on launching the program and selecting projects. As an example, will a company be required to commit to milestones?

Commissioner Keller asked if the results will be evaluated and if that could be used to expand the program, if justified. Lloyd explained that most of the funds are anticipated to be spent on that activity. She cited the SMUD program described in the report as an example of how projects and evaluation results could be shared.

ACTION:

Chair Foster made a motion to support the staff recommendation. Commissioner Keller seconded the motion. The motion carried unanimously (7-0).

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

Commissioner Keller asked if staff could consider using landscaping to optimize peak load usage (e.g. air conditioning can be lowered with use of trees). The benefits could be significant, but the effort needs to be holistic and coordinated throughout the City organization, including the Planning Department. It would especially be a good opportunity for new development projects. Commissioner Melton reminded of the conflict between trees and solar photovoltaic panels. He advised that we could ensure that benefits that could accrue to Utilities should be considered in the City's Planning Department requirements. Chair

Foster advised that he would work with Commissioners Keller and Melton to determine how to discuss the issue at the UAC.

Commissioner Waldfogel would like to see an estimate of the penetration of electric vehicles (EVs) in Palo Alto prior to the discussion (tentatively scheduled for the March 2012 UAC meeting) on the Pilot EV Rates.

ACTION:

None.

COMMISSIONER COMMENTS

Chair Foster noted that 23% of customers participate in the PaloAltoGreen program. He would like to see the participation rate increase.

Meeting adjourned at 9:15 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto