



UTILITIES ADVISORY COMMISSION MEETING FINAL MINUTES OF DECEMBER 5, 2012

CALL TO ORDER

Chair Cook called to order at 7:08 p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Chang, Cook, Eglash, Foster, Melton and Waldfoegel
Absent: Commissioner Hall and Council Member Liaison Scharff

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

The Minutes from the November 7, 2012 UAC meeting was approved as presented.

AGENDA REVIEW

No changes to the agenda.

REPORTS FROM COMMISSION MEETING/EVENTS

None.

UTILITIES DIRECTOR REPORT

1. Council Action last month:

Council approved the Brannon Solar PPA and the Definition of Carbon Neutral for the electric portfolio.

2. Demand-Side Management Update:

- a. LED holiday light exchange—the program has been running just over two weeks and is going well so far. ACE hardware (on Alma) went through its first batch of lights on Thanksgiving weekend. Old light strands are being recycled through Palo Alto Hardware---at no cost to us.
- b. Hospitality Industry incentives program---both the Zen and Dinah's hotels have completed tests of key card room control systems. Both hotels are happy with the demos and will move forward with more installations.
- c. Business new construction rebate program---we are working with Macy's to provide recommendations for efficient installations.

- d. Residential new construction rebate program ---we are in the process of redesigning this program so we can better evaluate its actual energy savings.
 - e. SBW direct installation program for small businesses ends in December. We will begin an additional pilot project with SBW for direct installation at multifamily units in January.
3. **Residential CustomerConnect Pilot:** On December 10, City Council will consider the advanced meter based pilot for 300 residential homes. Upon Council approval, Debbie Katz will send an email to the Commissioners with the registration link. Please feel free to sign-up or pass it on to others who may be interested. Registration for the pilot is expected to be open starting December 11th, and will close for registration once we receive the required number of customers. The full customer rollout for the 300 participants is planned for the summer.
4. **Cap and Trade:** On November 19 the Air Resources Board (ARB) released the results of the November 14, 2012 cap and trade allowance auction. The auction settlement price was \$10.09, nine cents above the \$10 floor price. The City's electric utility will receive \$1.15 million in revenue from allowances it consigned to auction. There are four remaining auctions in 2013, and if all auctions settle similarly, the value of the City's 2013 allowances will be roughly \$3.6 million.
5. **Communications Update:**
- a. PG&E Pipeline Replacement on Miranda (Foothill) is almost complete but restoration of the area won't be finished until late January 2013. There will be some need for PG&E to do some smaller excavations in Palo Alto along Miranda through March of next year. We have complete details on all this on our website. Meanwhile, it is worth noting that on this Miranda project PG&E has done an exemplary job of staying in touch with the primary impacted customer, the VA Hospital, providing daily updates to them.
 - b. Twitter---CPAU will launch its own Twitter account later this month. We will notify the Commissioners as soon as it becomes available in case you want to "follow" us! We will use Twitter for regular messaging about program and service opportunities (e.g. new rebates, workshops, changes in the customer service desk hours etc.) as well as outages and other breaking news.
 - c. New Webpages
 - (1) Advanced Meter-Time of Use Pilot web page has been established and can be found at www.cityofpaloalto.org/customerconnect
 - (2) Carbon Neutral web page is being created in anticipation of increased public interest in the topic following the UAC's discussion tonight.
 - (3) Cap and Trade web page is being created to educate customers on what this is all about and how the latest developments impact CPAU.
 - (4) The URLs for the Carbon Neutral and Cap and Trade web pages will be sent to the Commission as soon as they are established.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: ACTION: Recommendation that Council Adopt a Resolution Amending Utility Rule and Regulation 2 (Definitions and Abbreviations) and the Six Rate Schedules Covering Medium and Large Commercial Customers (E-4 and E-7) to Include Standby Service Charges

Chair Cook stated that the UAC received a presentation and had a discussion at its last meeting and had few questions at the time. After receiving confirmation from the other commissioner, he requested that commissioners commence with any questions and indicated that there was no need for the prepared presentation.

Commissioner Waldfogel stated that the rate being proposed is highly technical in nature and that the UAC may not have fully understood all of its details, but is being asked to weigh in on the rate. Director Fong stated that the details are in the rate schedule, but noted that the UAC does rely on the descriptions of the rate provided by staff in the report.

Vice Chair Foster asked if anyone would be on the proposed standby rate now. Resource Planner Jon Abendschein stated that the first project that could be under the rate would be the waste to energy facility that is being evaluated by the Public Works Department. Director Fong stated that any customers with large generators would be subject to the rate. Abendschein added that he does receive calls from time to time from customers who are considering adding a generator on their site.

ACTION:

Commissioner Waldfogel moved to support the staff's recommendation. Vice Mayor Foster seconded the motion. The motion carried unanimously (6-0) with Commissioner Hall absent.

ITEM 2: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Adopt a Resolution Approving the City of Palo Alto Utilities Legislative Policy Guidelines for 2013

Senior Resource Planner Debbie Lloyd provided a summary of the legislative guidelines, specifically identifying the changes in the 2013 guidelines from the 2012 guidelines. She noted the new guidelines added for the water and wastewater collection utilities to reflect Commissioner Hall's suggestions from the UAC's November meeting regarding emergency preparedness and possible introduction of Federal standards on water reliability given the extent of damage following the East coast storms this year. She also highlighted the new gas utility guidelines on greenhouse gas cap-and-trade market design and hydraulic fracturing, and inclusion of the Department of Energy, Secretary Chu's memo in the electric utility guidelines.

Commissioner Waldfogel asked to have clarified that the absence of a section for the fiber utility was an affirmative decision. He also suggested that he would like to see how the new

guidelines align with the strategic plan goals. He would like to be sure that the guidelines do not diverge from what we've done strategically.

Commissioner Melton asked about the new gas guideline on fracking. He asked why we added this guideline, which he found very nebulous. Director Fong noted that the issue was coming up at the American Public Gas Association and there may be legislation coming up at the federal level. Lloyd stated that the guideline is a placeholder and, if an actual proposal were to arise, staff may need to return to the UAC and Council to determine the City's position.

Commissioner Melton commented on the new water guideline 12, which seemed to cover two different subjects: infrastructure needs and associated funding, and protecting the city from unnecessary regulations. Lloyd referred back to the issue raised by Commissioner Hall that the floods in the east coast this year may lead to increased calls for infrastructure funding and regulations, and according to the goals the City would support reliability with fair cost allocation and avoiding unnecessary regulations.

Director Fong suggested a non-substantive change to the guidelines to list the utilities in alphabetical order.

ACTION:

Vice Chair Foster moved to support the staff's recommendation. Commissioner Chang seconded the motion. The motion carried unanimously (6-0) with Commissioner Hall absent.

ITEM 3: PRESENTATION: Presentation on Preliminary Results from Fall 2012 Renewable Energy Project Presentation

Resource Planner Dr. Jim Stack presented the results from CPAU's request for proposals for renewable energy. He noted that there were over 90 proposals from about 60 different companies with the lowest price proposals being solar projects.

Commissioner Eglash remarked that timing was everything. He would like more detail on the adjustments staff used for transmission, timing of the energy flows, etc. in calculating the "green premium" of projects. He would like this information to better understand how the projects are evaluated. Director Fong stated that more detail on these calculations can be provided when we bring back the individual contracts.

Commissioner Eglash added that as we approach higher levels of solar on the grid, is there anything that Palo Alto can, or should, do to manage the grid. Do we need to worry about having a situation where our loads in Palo Alto are less than our renewable supplies and we experience negative market prices. Stack stated that the California Independent System Operator (CAISO) is responsible for managing the grid and grid congestion, and that there are times when Palo Alto is a net seller of energy into the market through CAISO while most of the time Palo Alto is a net buyer in the market. Commissioner Eglash asked if there are costs due to intermittent resources due to a large amount of solar PV that will be added to the California

grid. He asked if there was some point at which there will be a problem with the grid, or if we would have extra energy that we couldn't sell. He questioned if there would be a time in the future that new intermittent resources such as solar would result in these issues and whether Palo Alto should prepare for these. Director Fong noted that transmission planning is currently a significant CAISO concern and that the state will likely over-build its transmission system in order to reach remote renewable resources as well as manage the intermittency of these resources.

Commissioner Waldfoegel asked if the hydro resources are scheduled by NCPA in concert with the renewable resources. Stack said that they are, and that NCPA schedules all of these resources together to try to balance the NCPA members' resources to their loads to a certain degree.

Chair Cook noted that the renewable contracts that may result from this RFP would get the City to a 50% RPS until about 2021 and asked what the City would do at this point. Stack said that, if the projects that are committed and anticipated are actually built, then the City would not have to shop again for renewable energy for several years. Chair Cook stated that this would give the City and the CAISO time to address the issues raised by Commissioner Eglash.

ITEM 4: ACTION: Utilities Advisory Commission Recommendation that Council Approve a Carbon Neutral Plan for the Electric Supply Portfolio

Senior Resource Planner Monica Padilla presented a summary of the carbon neutral plan report. She stated that after 2016, the portfolio will have very low carbon content due to RPS resources as well as hydroelectric contracts. The key policy decisions include what types of resources to pursue in the near term (until 2016) and long term, what types of resources to use for annual true-ups of load and resources and for covering anthropogenic greenhouse gas (GHG) emissions.

Padilla described the proposed Carbon Neutral Plan as pursuing short-term renewables and/or unbundled renewable energy certificates (RECs) in the near term and using RECs for balancing and for neutralizing the geothermal and back-up generator GHG emissions.

Vice Chair Foster asked if there were any other communities that have pursued carbon neutral plans. Padilla responded that through a study conducted by Navigant Consulting, staff has learned that other communities including Seattle City Light and the Marin Energy Authority are pursuing 100% renewable portfolios through the use of hydroelectric supplies, bundled renewables and RECs.

Public Comment

Walt Hayes indicated his support for the proposed plan and described the moderate cost as well as the strong leadership shown by Palo Alto.

Commissioner Eglash asked Mr. Hayes if he supported this because of the symbolism, or the GHG emissions reductions. Mr. Hayes responded that the City has taken the initiative and stated that after Palo Alto's Green Ribbon task force, other cities nearby began to develop their own sustainability plans.

Bruce Hodge, from Carbon Free Palo Alto, stated his strong support of the plan, especially the move to get to carbon neutral as soon as 2013. He urged the UAC to recommend approval of the plan.

Dirk Morbitzer, stated that he follows market developments of renewable energy across the globe. He stated that other cities across the U.S. and the world will follow Palo Alto's lead. He recommended that the solar resource be local since that strategy keeps financial resources local and assists with electricity availability in case of emergencies. He noted that solar costs have fallen in Europe and can further fall in the U.S.

Gary Hedden, Los Altos Environmental Commission, noted that the plan is inspirational, but may not be repeatable since they buy their energy from PG&E.

Craig Lewis, CLEAN Coalition, supported the proposed plan and acknowledged the work of staff and community members to complete the plan. He stated that in Germany, local solar projects cost as low as 7 cents/kWh now, which is less than remote renewable energy projects transported to Palo Alto two years from now. Mr. Lewis added that Palo Alto's actions are seen widely around the country and its actions are followed by others since other areas want to emulate what's done in Palo Alto.

Bret Anderson, local resident, supported the proposed plan. He stated that it was important to him that the energy source is green, which makes using an electric car for transportation truly green.

Commissioner Chang asked if the plan for the near term included purchasing short-term renewables and/or RECs to cover the brown energy. Padilla stated that staff plans to shop for both products—short-term renewables and unbundled RECs—and choose the least costly resource. She noted that this is clearly spelled out in the plan, which is Attachment A to the report, under Section 3.b.i.

Vice Chair Foster thanked the speakers for expressing their opinions at the meeting. He noted that the falling price of renewable energy has made the decision an easy one to support the proposed plan.

Commissioner Eglash stated that reducing GHG emissions to be a very important goal. He noted that GHG emissions accrue from many of our actions and the use of electricity is but a small source. He is concerned that the plan is primarily an accounting exercise and that it is symbolic at most since the electric portfolio is almost carbon neutral already. He stated that the cost is low since the impact is low.

Vice Chair Foster responded to Commissioner Eglash's concerns by saying that this is a significant step and that we can then turn to other sources of GHG emissions reductions.

Commissioner Waldfogel said that we should get to carbon neutrality since we're almost there and it's better to be there, than almost there. He asked if the City considered stopping RPS at 33% and then using the additional money under the 0.5 cent/kWh rate impact for carbon neutrality. Assistant Director Jane Ratchye stated that the Council adopted an RPS goal of reaching at least 33% RPS, but to go as far as possible within the rate impact limit.

Commissioner Waldfogel asked if the PaloAltoGreen program was ended, would other customers see a rate increase as a result of the loss in PaloAltoGreen revenues. Padilla said that the revenues for the voluntary PaloAltoGreen program are separate and used only to offset the cost of procuring RECs for PaloAltoGreen so there would be no impact.

Commissioner Eglash asked about the cost of achieving carbon neutrality by 2017 instead of 2013. He noted that the cost of carbon neutrality in the near term is \$2.7 million for 2013 to 2016 and that this cost will be paid primarily by non-residential customers.

Vice Chair Foster asked how the increased cost (0.05 to 0.09 cents/kWh) would impact the rates and how it would compare to surrounding communities. Director Fong stated that the increase would be minor and that our rates are low compared to PG&E. Vice Chair Foster noted that this is a very small expense to pay for this important program and that we should go ahead now since time is of the essence.

Chair Cook read a statement provided by Commissioner Hall, who was unable to attend the meeting: "I wholeheartedly support Staff's proposed efforts to achieve carbon neutrality ahead of the January 2015 target date set by the Council. I note that the percentage of surveyed residents who are willing to pay more than \$2 per month was 66% - a good majority. Happily, it appears possible for residents to support carbon neutrality by the end of 2013 for an average of not much more than \$2 per year using the recommended strategy. And, given that the anticipated Cap-and-Trade revenues will far exceed the cost of this program, it's preferable to utilize a sufficient portion of Cap and Trade revenues to offset the cost of this program – so that residents will see no rate increase at all."

Chair Cook asked about risks of the plan, especially the risks of costs rising to implement the plan, for example, if the cost of renewable energy rises significantly leading to a rapid rise in rates. Director Fong stated that the renewable energy contracts have locked in prices so there is protection of rising costs there. In addition, the plan proposed a rate impact limit of 0.25 cents/kWh to protect ratepayers.

Chair Cook thanked the public speakers and noted that the involvement of the community by attending the meeting, providing comments, and sending emails is the most he has experienced in his time on the UAC. He stated that he also supported the plan and stated that the low price

to achieve the plan is acceptable. Chair Cook noted that this is a great policy, but there is still more to do.

Commissioner Eglash noted that the cost of getting to carbon neutrality in the near term (2013 to 2016) at \$2.7 million accounts for the majority of the costs and that most of the cost will be borne by commercial customers. Commissioner Eglash further asked if the City delayed getting to carbon neutrality from 2013 to 2017 whether the funds could be used for other carbon reduction efforts such as energy efficiency. Director Fong noted that Council directed staff to develop a plan to get to carbon neutrality by January 2015 so staff would not have proposed achieving carbon neutrality by 2017. In addition, the Council has already adopted a very aggressive energy efficiency program. Director Fong stated that if the City decided not to achieve carbon neutrality before 2017, then the funds would simply not be spent so if the City was not going to seek to achieve carbon neutrality, then the costs would simply not be incurred.

Commissioner Melton asked that in order to aid Council in their decision it be noted in upcoming staff reports the cost of getting to carbon neutrality based on alternative start years (i.e., 2013 versus 2017) and to explicitly state that it is expected to cost an additional \$2.7 million to achieve carbon neutrality in 2013 instead of 2017. Then Council will have the information of the price tag to be paid by ratepayers from that policy direction. Director Fong agreed to provide this information in the report and note the discussion in the upcoming staff reports to Council. Chair Cook added that a representative from the UAC can attend Finance Committee and Council meetings to underscore the UAC's discussions.

ACTION:

Vice Chair Foster moved to support the staff's recommendation. Commissioner Melton seconded the motion. The motion carried unanimously (6-0) with Commissioner Hall absent.

ITEM 5: DISCUSSION: Utilities Advisory Commission's Consideration of PaloAltoGreen Program Redesign Options

Utilities Marketing Services Manager Joyce Kinnear provided an overview of the options for the future PaloAltoGreen (PAG) under a carbon neutral electric portfolio. She requested that the Commission provide comments on the many proposals to help staff develop a recommendation for City Council.

Commissioner Melton said that as the electric portfolio has been moving to carbon neutral, PAG is redundant. He stated that the PAG brand is tied to electricity and would be difficult to transition to gas. He pointed out that local solar could be an option by increasing the PA CLEAN price to encourage more local solar. This would be a better selling point to a PAG customer. He advised keeping the focus on electricity.

Vice Chair Foster said that ending the program is the worst choice. He supports the local solar options. He stated that he likes both the green gas and transportation options, but agrees with Melton that the focus should remain on electricity.

Commissioner Chang agreed with Melton and Foster that PAG is an electric program and that the options for local solar sound good. She also suggested that staff look at a renewable energy program launched by Austin. In this program, businesses could hedge the price of electricity by purchasing blocks of renewable energy through the utility for a specific period of time at a fixed price. As the nonrenewable power increased in price, some purchasers of different batches of the power in the renewable program actually paid lower prices for electricity for a period of time, thus seeing a financial benefit for their involvement in the green program. Kinnear explained Austin customers sign up for GreenChoice by subscribing to a specific batch of renewable power from specific windmills. A subscription to GreenChoice means that the fuel charge is replaced with the GreenChoice Batch charge. Commercial customers must sign an agreement with the utility to receive power under this program for at least 10 years.

Chair Cook preferred the PAG gas program as it would address the GHG issue and is structured similarly to the current program. He pointed out that it would be a natural evolution from the original purpose of PAG to reduce GHG through renewable electric purchase to reducing GHG emissions through renewable natural gas options.

ITEM 6: ACTION: Selection of Potential Topics for Joint UAC/Council Meeting

Chair Cook requested the commissioners to provide him ideas for the joint meeting.

ACTION:

None.

ITEM 7: ACTION: Selection of Potential Topic(s) for Discussion at Future UAC Meeting

Commissioner Melton asked for an update on the transmission project at SLAC.

ACTION:

None.

COMMISSIONER COMMENTS

Vice Chair Foster stated that he had discussions with representatives of two large real estate companies with properties in Palo Alto and told them about CPAU's energy efficiency programs and the Palo Alto CLEAN program. Director Fong requested to receive the contact information so that she could follow-up on the potential opportunities.

Meeting adjourned at 9:45 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities