San Francisco Public Utilities Commission
Citizens’ Advisory Committee
Power Subcommittee

MEETING MINUTES - DRAFT

Tuesday, June 4, 2013
5:30 p.m. – 7:00 p.m.
525 Golden Gate 2nd Floor O'Shaughnessy Conference Room

Members
Doug Cain (D3) Walt Farrell (D7) Avni Jamdar (M-Env. Group)
Stephen Bjorgan (M-Eng./Financial) Ted Ko (B-Small Business)
M = Mayoral appointment, B = Board President appointment

Staff: Teresa Young

ORDER OF BUSINESS

1. The meeting was called to order at 5:36 p.m. by Chair Ted Ko when quorum was met.
   Present: T.Ko; W.Farrell; S.Bjorgan; D.Cain
   Absent: A.Jamdar
   Staff Present: J.Doyle; J.Cherry; S.Chung Hagan; T.Young
   Public Members Present: Patrick Donaldson

2. Approval of the May 7, 2013 meeting minutes


4. Report from the Chair: Ted Ko
   S.Bjorgan will move to the Water Subcommittee. This will be S.Bjorgan’s last meeting at the Power Subcommittee, but he will still visit from time to time.

5. Staff report: T.Young encouraged the Subcommittee to help recruit people who would be interested in joining the CAC. Current vacant seats include Districts 2, 5, 10, and Large Water User. T.Young invited Power Subcommittee members to an upcoming community meeting for the Wiggle Neighborhood Green Corridor project on Tuesday, June 11, 2013.

6. Staff Update: Planned school prioritization methodology for Prop 39 funds, Jonathan Cherry, SFPUC Power Enterprise, and Sheila Chung Hagen, SFPUC Legislative Affairs
   S.Chung Hagan: J.Cherry will give an overview of SFPUC’s longer-term vision working with the school district and I will provide an update on Prop 39.
   J.Cherry: Historically the school district (SFUSD) has had their own energy manager and they do their own communications between the district and individual schools in terms of each facility's energy use and tracking that month to month. We have not played that function like we do with other City departments. SFUSD has also historically funded their energy efficiency improvements and lighting replacements as part of their general repair cycle. In the last two years, SFPUC has been building a closer relationship with SFUSD to help them figure out how to take advantage of the energy efficiency services that we offer. Right now, we don’t have anything final yet in regards to Prop 39,
but we’re trying to do the same thing for the school district as we did for City buildings last year in terms of benchmarking. We haven’t been able to do that before, because unlike other City departments, the schools get their natural gas through SPURR. SPURR is like a wholesale type agreement where schools can purchase natural gas in bulk at a cheaper rate than what they would get from PG&E. The schools still get their gas through PG&E, but it’s similar to CCA but more like direct access. They use PG&E’s distribution system but choose a different provider of natural gas. Effectively what it means for the SFPUC with other City departments is that we play the role of a billing intermediary where we see all of their natural gas bills. We can have a full picture on how much gas is used each site. Historically with the schools, we haven’t seen that and it has come through a different channel. We’ve done energy audits with SFUSD at target sites. We’ve discussed with them about sharing their information for an energy benchmarking report for the next few months. We’re still working on that, so we don’t have a prioritization quite yet. An extra incentive for doing this is in preparation for Prop 39 is helping the schools position themselves to take advantage of those funds when the mechanism works out.

S.Chung Hagan: On Prop 39 funds, right now it is a moving target on state legislature. We’re not clear on which vehicle is going to be used to determine how those funds will be distributed. The two basic camps of the types of distribution that may take place are either a formula-based model or competitive grants model. In the line with prioritization, we are recommending in all of our advocacy work to ensure that the leg is looking a portfolio of schools as opposed to looking at individual schools. By doing a full portfolio, it allows us to take advantage of priority setting and leverage different programs like energy efficiency curriculum that we can deploy to multiple schools.

T.Ko: Has the portfolio approach shown up in any of the bills?

J.Cherry: They are not yet that specific as to exactly how a grants program would work. If it’s a more formula approach, it would basically be a portfolio and you would get a chunk of money to spend on how the district wants. If it’s more of a competitive grant approach, you would apply for a grant.

S.Bjorgan: They would be smart to mimic a RRA program, which is a competitive grant. Otherwise it just won’t work.

T.Ko: A formula-based version can be school by school as well.

S.Chung Hagan: There are a variety of formulas out there right now. It’s everything from average daily attendance to average daily attendance with Title 1, etc. We’re trying to make sure that the way the formula is crafted considers a portfolio model. It is also looking at energy efficiency not just at schools that are the biggest users but also have the highest capacity for us to bring in energy conservation.

S.Bjorgan: Why would you do that?

J.Cherry: I think an example would be if School A in San Francisco uses a certain amount of energy and School B in Bakersfield that uses more energy because of air conditioning. You don’t want to just look at the total energy use, but it’s important to look at specific climate zone, building type, and what’s achievable. The formula shouldn’t be set up on ranked schools based on average energy use. That doesn’t necessarily say what’s achievable. There’s more nuance to that.

S.Bjorgan: It is carbon protection, so wherever the most impact can be made per dollar is where the money should be.

T.Ko: Part of the formula is not just carbon, but targeting schools that most need it in terms of their budgets and students in order to not just improve energy and also education. The original focus of the bill was on energy and education. This was the originator’s way of getting both aspects in one proposition, which is why it was targeted at schools.

J.Cherry: Our point is that even with schools have a lower absolute use, there can still be some cost effective projects at those schools in terms of energy savings per dollar.

S.Bjorgan: I’m in favor of the base case, which is teaching about energy efficiency and renewables. That should definitely be the first priority regardless of need.

T.Ko: In the portfolio version, it allows you to have your own internal prioritization independent from what happens in Sacramento. In district
prioritization, the methodology hasn’t been developed yet and you’re still working on it.
S.Bjorgan: Any feel for amount of square feet?
J.Cherry: I don’t know it off the top of my head, but I can get back to you with that. It’s somewhere between 5 to 10 million square feet.
D.Cain: Does that include active schools?
J.Cherry: That was just the ballpark and I can get those numbers to you.
S.Bjorgan: And also the last major rehab. What year was it built? That’s a huge difference.
J.Cherry: Another part I should mentioned that the school district had a $500M bond measure in 2011 that was approved for school upgrades. As part of that, the school district hasn’t decided completely which schools would be part of the later phases of that. I believe they identified loosely the first set of priority schools for those repairs. In terms of phasing energy efficiency program, it will have to build on what they have determined on their wider bond program and leveraging those projects in the most effective way. Considering the energy efficiency alone and what will be a good exercise, they aren’t there yet. They have $5M set aside for sustainability projects.
T.Ko: Doug, you mentioned that requested that the team came back. Are you satisfied?
D.Cain: I feel updated.
S.Bjorgan: What’s the next milestone? When will you know more about the benchmark?
J.Cherry: We’ll have that report out hopefully this summer. It’ll be sooner than what we did last year.
D.Cain: Directing question to S.Chung Hagen – I know we’re fighting for every dollar we can get. I was thinking that $500M bond issuance was targeted for seismic upgrades. The school district is having conflict with Mayor about holding on a lot of property that they could sell to fund programs. Is this the really best use of our efforts to consider? The school district isn’t really well-managed and I am a bit concerned that they don’t have a similar approach to advocacy like the SFPUC. So I know your team does that, but I’m wondering if the other side is doing their job.
S.Bjorgan: Can we invite the school district’s Real Estate Services here?
T.Ko: We can consider that for the future.

7. Discussion: Financing of energy efficiency and energy generation projects
J.Doyle: First let’s set the stage and look back on how we’ve funded energy efficiency projects to date and see where we are now and where we might go in the future. Over the past 10 years since Willie Brown was Mayor, he started the Mayor’s Energy Conservation Fund, which is now the Sustainable Energy Account. Typically we were actually well-funded for municipal projects. For most of that period, we were funded $6M a year for energy efficiency and renewables/solar photovoltaic (PV) projects. The funding comes from Hetch Hetchy, so it’s the revenues from Hetch Hetchy from the sale of power to municipal departments and also some sale on the open market to Raker Act entities. The funding comes from Hetch Hetchy. About two years ago there was a close look by senior management of the prioritization about how to do renewable energy efficiency projects, and the decision was to be prioritizing upcountry projects. The Hetch Hetchy infrastructure is old and a lot of capital improvements need to be done over the next 10 years to keep it in a good state. That’s where most of the funding went to. Energy efficiency and renewable projects were reduced, but still had to cover the cost of the projects and staff. For the Trans Bay Cable that runs from Pittsburg to San Francisco, we get $2M a year from the cable company. That money can go into energy efficiency projects and renewable projects.
T.Ko: Is it earmarked for that?
J.Doyle: Predominantly it can be used for other purposes as well, but essentially it is directed to energy efficiency projects, schools, human services facilities, community centers that would qualify.
T.Ko: Is that $2M on top of the $1.5M?
J.Doyle: Yes, that’s on top of that. In response over the last two years, we’ve also reached out to other departments and offered to do energy efficiency projects for them if they fund us. The model before that was typically General
Fund departments. We’ve been getting some funding from other departments by doing projects from them, such as the Human Services Agency. In the past, it has been pay as you go and that’s how it was expensed. Leaving the Community Choice Aggregation (CCA) program out of the picture for the time being, what happens to the SFPUC financially is that the more you reduce the generation, the more our revenues are also reduced. We do a huge amount of energy efficiency since the load is not growing. The more energy efficiency we do, the more revenues drop down.

W. Farrell: Can’t you sell the excess power?
J. Doyle: If we do energy efficiency, we will have more excess power to sell. On the open market sales, we can only sell to Raker-compliant entities. By federal law, we cannot sell to PG&E or Edison. We can sell to municipal utilities such as Sacramento, Palo Alto, Modesto Irrigation District, Turlock, etc. For the time we have power to sell during the spring runoff, the prices are low because there’s a lot of hydropower on the market at the same time. Prices typically are in the $0.03 - $0.04 a kilowatt hour range, which is pretty low. If you did energy efficiency projects, it would cost you $0.06, $0.07, or $0.08 a kilowatt hour to do energy efficiency project. You can only sell the displaced power for $0.03 or $0.04, which causes you to lose money. The bottom line is that people think it’s good to do renewable and energy efficiency projects. We continue to do solar projects and are not planning on a massive project that would disrupt our financial structure. In terms of the bonding, there have been a number of concepts proposed over the years. There are companies that will come in and they will finance energy efficiency improvements in return for the savings of energy efficiency, which is one model. We have not actually contemplated a bond financing to do energy efficiency projects because the revenue issue, and secondly the money needs to be paid back, so we’ll need to choose projects that could pay off. If you bring CCA back into the picture, it changes and you might want to do as much energy efficiency as you can if you’re going to sell Hetch Hetchy power to CCA. The Raker Act says we cannot sell the power to an entity that would resell it for profit. In theory, we could sell Hetch Hetchy power to individual home owners and businesses in San Francisco. CCA is a mechanism, but you could only get Hetch Hetchy power during certain months each year and procure power from somewhere else.

T. Ko: Going back to S. Bjorgan’s original idea around bond funding for energy efficiency projects targeting at City bonds, and not SFPUC bonds. If it’s for energy efficiency projects on municipal buildings like schools, would we still have this revenue problem? The City saves money individually each department can better themselves by doing more energy efficiency projects. Then we have this one revenue problem.
J. Doyle: The City would save money.
S. Bjorgan: City departments could do a better job if their operating expenses are lower. I think that trumps the need for the SFPUC to maintain on their current business model.
T. Ko: Since the SFPUC’s budget is district and separate from the rest of the City, we could as citizens of the City promote energy efficiency for City buildings. As the SFPUC CAC, I’m not sure it is our job to do a resolution here.
S. Bjorgan: On the wastewater side, there is an organized effort to reduce what goes into the sewers, but there’s no such thing on the power side. Why is that?
J. Doyle: Going back to the school district example, you already have a precedent there with the $5M bond put in place. $30-$40M of that will go into energy efficiency and sustainability projects. Some of that bond is set aside for sustainability projects. That’s one department that’s already doing that. Some of them don’t need bonds, like the airport. I think SFO has a pretty intensive energy efficiency program and they have their own money. Other departments, museums, hospital, libraries, probably would if they’re going to do it on their own. They’d have to be really careful that it pencils out. If they really do move forward, they’d need to do a careful audit and what those energy efficiency improvements are.
T. Ko: You could do this. If the SFPUC’s budget is affected, then they’ll have to raise rates. Then you have this issue about netting your benefits. It may make sense for you as the school district, but that could mean pushing up rates for other departments. For the City itself, it may not be better off.
D. Cain: Is this a little premature to discuss? Wouldn’t the presence of CCA change the game?
J. Doyle: There are two scenarios. If you don’t have a CCA, would other departments do this? They would save them money and we will lose money. If there is a CCA, then we all make money.
T. Ko: In terms of a resolution, do we want to design or craft our ideas and resolution assuming that the CCA model benefits this way?
J. Doyle: We don’t know what the framework of the CCA will be. Hetch Hetchy power can be made for CCA, but who knows, maybe that will change a year from now.
D. Cain: I think CCA is the key element here, so we should wait for that.
S. Bjorgan: I thought we were locked in a contract with Shell for a few years.
T. Ko: The contract is with Shell, but you can already right away start replacing it right away, correct?
S. Bjorgan: I think we should check that. Is it a guaranteed limit of purchase?
D. Cain: There is a guaranteed minimum purchase, but still Hetch Hetchy power can be applied. It has to be enough demand.
S. Bjorgan: The climate action plan introduced in 2004. For 10 years later there’s not much movement on it. My point is that you have to introduce ideas for them to catch. Things take a long time, especially in the public domain. I’m hoping we can start the wheels turning in other people’s heads.
D. Cain: It’s a very current issue. We have a full time team here and I still think CCA has so much impact on this discussion that we need to see what happens with that program first.
S. Bjorgan: I think it’s public opinion influence whether it succeeds or not.
T. Ko: For the purposes of this discussion, it feels like we’ve come to an interesting spot understanding the dynamics. We wouldn’t necessarily come up with a new business model for the SFPUC, but it’s worth understanding what their current business model is and knowing what kinds of things we’ll propose. It would also be good to hone in on what we can do as a CAC as oppose to what to bring up with the Board of Supervisors (BOS).
W. Farrell: Does the City get any benefit from the airport?
J. Doyle: The airport is our biggest customer. We get two streams of revenue – municipal revenue from SFO and the tenants of the airport. SFO is an enterprise agency.
W. Farrell: How about for the City?
J. Doyle: It is equivalent to enterprise rates. The airport does not need subsidies.
T. Ko: We didn’t get into the renewable generation projects. Is that different if you put up generation projects, you would have the same issues because you’re replacing Hetch Hetchy power?
J. Doyle: The paradigm we’ve had with municipal facilities is that they pay us for solar power. If we put solar system on the roof, we immediately get the solar power and they pay us the solar power as the same rate that they pay for their normal power. So we get the same amount of money that we normally get, but it is out of our own pocket for the capital cost of the solar system.
S. Bjorgan: I’ve been learning more about the Raker Act. Has anyone ever discussed about modifying it?
J. Doyle: Lawyers have discussed it in the past, but the question that comes up is modifying it to do what?
T. Ko: To sell power.
J. Doyle: That is not going anywhere as it’s very specific in the Raker Act. The issue on the table now is we’d like to sell power to Cal ISO. There are two schools of thought. On one end, you sell it to Cal ISO and to PG&E. The other school of thought is like a black box. You aren’t selling it to PG&E but to different entities and you won’t really know who you’re selling to. You’re not really selling to PG&E. We’d like to come out to sell to Cal ISO. Right now we can bank power with PG&E. During the runoff period we can put that power in the bank and sell that power later on when the prices are higher. In 2015 the banking will go away, which means we’ll have to dump our power on the market. It would be nice to sell to Cal ISO and get a better price instead.
W. Farrell: I remember when PG&E used to assign customers to SFPUC.
J. Doyle: Now they’re trying to hold onto customers. The whole business with PG&E is in discussion.
8. Discussion of Future Resolutions
T.Ko: The CAC can develop resolutions to recommend the Commission to speak to the BOS. If it is something the Commission has no purview over to bring before the BOS, then it wouldn't make sense to develop a resolution on those items.
T.Ko: The Power CAC’s proposed RECO draft resolution may make sense to revisit when CCA comes online. It would actually affect SFPUC’s customers at that point. There is an appropriate path when the time comes. The question is before the CCA is launched, do we want the Commission to make that statement before the Commission or is it too early?
T.Young: Perhaps the Power CAC can bring it up before Kim Malcolm, Director of CCA.
S.Bjorgan: We may not have thousands of customers in CCA if we don’t do anything about efficiency because the rates are a premium tier. If you aren’t paying the premium through savings, then how?
T.Ko: Some people are willing to pay more, but we don’t know if it’ll be a thousand or three thousand.
T.Ko: Regarding a proposed draft resolution about the water bill, we should bring this up to either the Water or Wastewater Subcommittees.
T.Ko: Per the discussion about bond issuance and financing for energy efficiency projects with J.Doyle this evening, we can revisit this topic when we know more about CCA as it progresses.
Public comment: none.

9. Future Agenda Items
   - Emergency Preparedness and System Resiliency as it relates to the Power Enterprise
   - Streetlight Program Update

10. Announcements/Comments: none.

11. Adjournment at 6:59 p.m. T.Ko moved; D.Cain seconded.