

**LODI CITY COUNCIL
SHIRTSLEEVE SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, AUGUST 11, 2015**

A. Roll Call by City Clerk

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, August 11, 2015, commencing at 7:01 a.m.

Present: Council Member Kuehne, Council Member Mounce, Council Member Nakanishi, and Mayor Pro Tempore Chandler

Absent: Mayor Johnson

Also Present: City Manager Schwabauer, City Attorney Magdich, and City Clerk Ferraiolo

NOTE: Council Member Kuehne left the meeting at 8:07 a.m.

B. Topic(s)

B-1 Renewables Portfolio Standard Update (EU)

Rates and Resources Manager Melissa Cadek provided a PowerPoint presentation regarding the Renewables Portfolio Standard (RPS) update. Specific topics of discussion included current RPS requirements, future of RPS, RPS in review, Lodi RPS, Lodi's current resources versus requirement, current RPS efforts, Lodi's new resources versus requirement, and next steps.

Mario De Bernardo, State Government Relations and External Affairs Manager with Northern California Power Agency (NCPA), provided an update on two pieces of legislation: AB 645 (Williams) and SB 350 (de Leon), both of which address future potential RPS targets, regulations, and related issues. Mr. De Bernardo stated that NCPA and City staff met with legislative staff on July 20, 2015, at the Lodi Energy Center to explain where Lodi fits in the State's energy goals and the value it brings to Lodi. Additionally, NCPA has been active at the State Capitol in lobbying with legislators, as well as with key staff members, who are drafting both pieces of legislation.

In response to Council Member Nakanishi, Mr. De Bernardo stated that SB 350 addresses the matters that Governor Brown was attempting to attain; whereas, AB 645 does not. With respect to President Obama's plan, Mr. De Bernardo explained that his plan, which focuses on emissions from power plants, is separate from these pieces of legislation, which are related to renewable energy procurement from utilities. Ms. Cadek added that President Obama's Clean Power Plan is less stringent than the proposed California plan, which will fall under the Air Resources Board to craft and submit to the Environmental Protection Agency. Mr. De Bernardo further explained that these bills deal specifically with industrial utilities procuring renewable energy; not so much on emission numbers, but reduction in emissions is the ultimate goal. Labor plays a significant role in the bill, and it focuses on jobs, which is the reason this bill is not directed at emissions reductions, but on renewable projects.

In response to Council Member Mounce, Mr. De Bernardo stated both bills passed their house of origin on June 3, 2015, without amendments, but at the next level, some amendments were made and discussions continue on the major outstanding issues, such as rooftop solar and energy efficiency. At the request of Council Member Mounce, Mr. De Bernardo stated he would provide information to Council on who supports and who opposes the bills.

Mr. De Bernardo reported that NCPA has been involved in discussions with Senator de Leon since January to identify operational challenges associated with implementing his legislation. He predicted that, of the two bills, SB 350 is more likely to pass based on the amount of attention the bill has received. As he stated previously, the two outstanding issues are: 1) rooftop solar,

because it does not receive credit in the RPS program as it does not lead to construction of large power plants and because solar companies cannot use union labor, and 2) energy efficiency because the goal to double energy efficiency is too general, there are competing proposals, it does not give local government flexibility to provide incentives and energy efficiency activities, and there is a requirement to disclose customer usage data to regulatory agencies, which is a privacy concern. Mr. De Bernardo stated that both investor- and publicly-owned utilities are pushing to have solar energy applied toward the RPS program.

In response to Council Member Mounce, Mayor Pro Tempore Chandler stated that Senator Galgiani and Assemblymember Cooper listened carefully to the information presented to them, and he believed they would vote in a manner that was beneficial to Lodi. In further response, Mayor Pro Tempore Chandler stated that letters have not yet been sent because the final position of the bills is unknown.

In response to Council Member Mounce, Mr. De Bernardo stated that NCPA's outreach has gone beyond the letter-writing campaign, adding that the local representatives were given detailed, informative packets on NCPA's position at their meeting, along with elected representatives from member cities and NCPA staff attending to articulate the concerns. Council Member Mounce stressed the importance of letter-writing campaigns, stating that pressure from every angle and in many forms helps get cities' message across to legislators.

In answer to Council Member Kuehne, Ms. Cadek stated that geothermal energy is one of Lodi's largest contributors toward its RPS program and that Palo Alto has a significant source of hydroelectric power.

In response to Council Member Nakanishi, Ms. Cadek stated that, if the price is reasonable, it would be prudent to buy more renewable power now and spread it over multiple years; however, there are limitations on excess surplus because short-term energy contracts, i.e. those less than ten years, cannot be counted.

In response to Council Member Kuehne, Ms. Cadek stated that the City, through NCPA, is participating with a Southern California power agency in a 75 megawatt solar project in Kern County, which locked in a price of \$60 per hour that would generate 31,000 megawatts of power a year for the City.

In response to Council Member Nakanishi, Ms. Cadek stated that this project is incorporated in the current price structure. She further explained that RPS contracts lock in a price over a long term, but the up-front cost is higher than market prices and, as time goes on and market power prices increase, the mid and later years of the contract will cost less because of the locked-in price. Council Member Nakanishi questioned if the City will need to raise rates because of this contract, to which Ms. Cadek responded that she cannot predict what will happen in 2017, at which time the City will begin paying on this contract, because these renewable resources will impact the Energy Cost Adjustment (ECA) but not the base rates.

Council Member Mounce expressed disappointment in staff's explanation at the previous Council meeting to the Facebook group concerned about electric utility rates. She believed staff failed to mention that SMUD's potential inability to meet the State-mandated requirement for renewable resources, which may cause it to raise rates, does not take effect until the year 2030, yet citizens want relief on their bills now. Further, she believed staff was not clear regarding the City's buy-back of solar energy, stating it only refunds customers for energy produced beyond their usage. City Manager Schwabauer pointed out that, while 2030 is the ultimate deadline to reach 50 percent RPS, there are interim targets as early as 2023. With regard to solar, the City does not allow solar users to construct solar systems that may generate more power than they need for their homes because the City is required to buy back the power at retail cost, which does not recapture the cost for marketing and distributing the power. Council Member Mounce stated that the public deserves the entire answer to a question; not only the piece that satisfies staff's position.

Council Member Kuehne suggested that legislators be made aware of this predicament and be

requested to enact legislation allowing utilities to recapture the cost of distribution and maintenance from customers, rather than a set percentage. If that were possible, customers could build larger solar panels than needed because the City could recover its costs. Ms. Cadek explained that, under the net metering law, customers can be compensated at the end of the year if they generated more energy than they used. Council approved the compensation rate at the retail rate, less the 3 percent public benefits charge. She stated there is some discussion that, when the 2016 legislation ends, the net metering law may be revamped to address this concern, but it is too early to know what the outcome may be. She stated the City can readdress the matter once the bill renews or ends in 2016.

Council Member Nakanishi stated it was a moot point because it is state law, to which Mr. Schwabauer responded to the contrary, stating the City needs to advocate for policies that work for its rate payers and, to do so, it needs to understand legislators' points of view.

In response to Council Member Mounce, Ms. Cadek stated that solar customers are given the option to be compensated for their excess power generation by City check or to roll the amount to the next year as a credit. Last year, the City issued \$9,000 back to customers for solar power generation. Council Member Mounce requested a list of who received checks and for how much, as well as who carried over their credits and for how much. City Manager Schwabauer stated that the report cannot identify individuals, but it can list the number of accounts and the dollar amounts. Council Member Mounce stated she believed that checks written to individuals were public information. City Attorney Magdich stated that, under State law, customer names and energy usage is privileged information.

Electric Utility Director Elizabeth Kirkley informed Council that, in the near future, staff will present information at a Shirtsleeve Session on the impact solar customers have on the City's revenue stream and options to better recover revenue.

Council Member Nakanishi questioned if those cities who chose not to move forward with the current RPS projects through NCPA are delaying their obligation to meet these requirements. Ms. Cadek responded that most of those cities are either already fully resourced to 2025, are focusing on behind-the-meter generation, or have a surplus situation. Each member has a different portfolio and they likely opted out because they do not have a need for it at this time.

In response to Council Member Kuehne, Ms. Cadek explained there is a distribution cost to bring power to Lodi from the various power plants, but the cost is the same regardless of where the plant is located.

In response to Council Member Nakanishi, Ms. Cadek stated that transmission costs are similar, but it can vary depending on the amount of congestion on the lines. Ms. Magdich added that the Southern California project in Kern County is on inexpensive land with plenty of room to build solar farms for the project. In further response, Ms. Cadek stated that purchasing power outside of California is complicated and not worthwhile as that power does not count toward RPS and is less valuable.

Council Member Mounce questioned the status of the project that the City was considering five years ago to utilize property at the White Slough Water Pollution Control Facility for a solar project. Ms. Kirkley stated she was unsure, as this occurred before she came to Lodi, but speculated the reason is the minimal available property, adding that such a project would generate very little power and the cost per generation would be higher than the project currently under consideration. Mr. Schwabauer stated he recalled that it was determined the project would not be economically feasible, but he would follow up on the matter and report back to Council. Council Member Mounce believed Lodi should be able to utilize its own property for projects or sell to NCPA for a project. Ms. Cadek explained that 6 to 7 acres is needed in order to build a solar system of 1 megawatt and that utilities typically buy into projects in the 70 to 100 megawatt range because of lower pricing.

In response to Mayor Pro Tempore Chandler, Ms. Cadek explained that the City receives roughly \$4 million in greenhouse gas revenues and that Council approved a plan last year to use those

funds primarily on public benefits and energy efficiencies. Mr. Schwabauer added that the greenhouse gas program is an artificial market to require people to pay for carbon use, but over time that resource will fade.

Council Member Kuehne stated he would like the utility rate tiers to be less complicated and is looking forward to the upcoming Shirtsleeve Session at which this topic will be discussed.

Council Member Mounce concurred that the tiers need to be simplified so that those who utilize a substantial amount of energy will pay more and those that do not are more in line with PG&E's rates.

In response to Council Member Nakanishi, Ms. Cadek stated that, in the initial years of the proposed projects, the impact on the power cost would be \$1 to \$2 while the cost of power is higher than the market; however, green power would be less. Mr. Schwabauer added that staff cannot predict what will happen; the market will decide what impact it will have.

In response to Council Member Nakanishi, Mr. De Bernardo stated that NCPA has raised the concern with legislators that these mandates are causing an increase in commercial costs, causing rate payers and businesses to look elsewhere; however, Senator de Leon's response is that the same argument was made on the initial RPS bill, yet the economy is now stronger. There is a great deal of focus on the pending bill amendments to ensure the issues relating to investment in local projects, rooftop solar projects, and flexibility on energy efficiencies are addressed. Council Member Nakanishi expressed concern that, because states other than California have less-stringent requirements, businesses will choose to locate outside of the state, which will negatively affect California's economy, to which Mr. De Bernardo agreed, stating that argument has been made to legislators as well. In further response, Mr. De Bernardo stated that the current bill allows local government to exercise a cost containment provision, should cost become an issue, and avoid complete compliance with RPS; however, it is unknown how those provisions will be addressed. The few small utilities that made this argument have yet to hear if their claims will be accepted by the California Energy Commission.

In response to Mayor Pro Tempore Chandler, Mr. De Bernardo stated that NCPA is fighting to ensure large hydroelectric power counts toward the RPS because it contributes significantly to reducing the carbon footprint and because it is poor policy to make utilities dump excess power in order to meet the 50 percent RPS.

In response to Council Member Mounce, Mr. De Bernardo stated that legislators excluded hydroelectric power in the bill, but they are not arguing that hydro is not a renewable resource; rather, the incentive behind the bill is to create new projects, and hydro plants have not been constructed over the last few decades, nor are any planned for the foreseeable future. Council Member Mounce stressed that NCPA should be creating a game plan to strongly encourage legislators to include hydroelectric in the bill and questioned if NCPA staff has a positive relationship with legislators who could carry a bill written or co-authored by NCPA through the process. Mr. De Bernardo responded that NCPA has worked with legislators to address the amendments in SB 350, including the hydro issues, and will continue to do so. Council Member Mounce demonstrated her passion about government, stating it is necessary to fight hard and argue the point to reach the desired outcome.

Ms. Kirkley pointed out that, even if the 50 percent RPS mandate is not approved, Lodi will still need the two new proposed projects to maintain the existing 33 percent requirement.

Alex Aliferis stated that the group, Coalition of Energy Users, is currently fighting against SB 350 and he encouraged the Council and others in San Joaquin County to actively oppose the bill. He believed SB 350 was a dangerous bill that would mandate citizens to reduce gas, thereby increasing gas prices. Mr. Aliferis presented statistics on California's utility costs for residential, commercial, and industrial users, all of which demonstrate that California is significantly higher than the national average, and on the low number of manufacturing facilities that were built or expanded in California as compared nationally.

Mike Lusk requested clarification regarding the 2017 ECA increases in relationship to the Astoria project, to which Ms. Cadek stated that any increases that affect power costs are dependent upon sales and the ECA, and there were multiple moving parts that make it difficult to predict the affect on rates. Further, the Astoria project results in a fixed rate for 20 years, with a higher up-front cost and lower cost in the later years for a net zero impact, but the affect on rates will depend on where market prices are moving. Ms. Kirkley further explained that, if the RPS requirement did not exist, the City would enter power contracts on the market because, at this time, it is less costly; however, this law requires that a contract be in place to meet the RPS requirement. Mr. Schwabauer further explained that the Astoria contract will not change what will happen with the ECA because it is a fixed price, but the rest of the market will impact the ECA with an increase or decrease. If the situation is positive in 2019, the ECA will decrease despite the fact that the Astoria cost is higher, but if market prices increase, the City will save money on the Astoria contract, but it would cause the ECA to increase.

C. Comments by Public on Non-Agenda Items

None.

D. Adjournment

No action was taken by the City Council. The meeting was adjourned at 8:31 a.m.

ATTEST:

Jennifer M. Ferraiolo
City Clerk