



# City of Palo Alto

## City Council Staff Report

(ID # 1880)

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Report Type: Consent Calendar

Meeting Date: 7/18/2011

Summary Title: Utilities Strategic Plan

Title: Approval of the 2011 Utilities Strategic Plan Recommended by the Finance Committee and the Utilities Advisory Commission

From: City Manager

Lead Department: Utilities

### Recommendation

Staff, the Utilities Advisory Commission and the Finance Committee recommend that the Council approve the proposed 2011 Utilities Strategic Plan.

### Executive Summary

The City of Palo Alto Utilities (CPAU) has completed a process to update the Utilities Strategic Plan (Strategic Plan) last approved in 2005. Global climate change; macro, regional and local economic challenges; new legislative and regulatory requirements; and major technology changes in the water, wastewater collection, gas, and electric industries have all necessitated the need to evaluate and update the Strategic Plan to ensure CPAU's vision and key objectives are in line with those of CPAU's stakeholders, including CPAU ratepayers, Palo Alto citizens, the City Council and the Utilities Advisory Commission (UAC).

The UAC reviewed the Strategic Plan many times during its development and established a subcommittee in April 2010 to assist staff in developing the plan. Following a recommendation from the UAC subcommittee, staff interviewed key stakeholders to assist in the development of an overall vision for CPAU. Using information collected in the interviews, the UAC's feedback and assistance from a consultant, staff provided the UAC a draft Strategic Plan for discussion at its January 2011 meeting. The UAC requested additional changes at that meeting, which staff supported and incorporated into a revised plan. At its February 2011 meeting, the UAC acknowledged that the changes it requested in January 2011 were incorporated and voted unanimously to recommend Council approve the 2011 Utilities Strategic Plan. After recommending two changes at its June 7, 2011 meeting, the Finance Committee also voted unanimously to recommend Council approve the 2011 Utilities Strategic Plan.

### Committee Review and Recommendation

The Finance Committee reviewed the proposed Utilities Strategic Plan at its June 7, 2011 meeting. The staff report prepared for the Committee's meeting is provided as Attachment B to this report. Committee members indicated that they liked the strategy map as it provides a

one-page view of the CPAU direction. However, Chair Scharff stated that it's hard to tell if the goals established are too easy or realistic since there is no baseline of where CPAU currently stands. Staff responded that the semi-annual reviews will provide that information and, if the goals are unrealistically high or low, the goals can be adjusted.

Chair Scharff expressed some concern about the cost and resources that may be needed to monitor and implement the Strategic Plan. Council Member Shepherd said she thought it was a good discipline to have such a plan. Staff indicated that it was using the plan to focus its many efforts more clearly and to gain efficiencies resulting from the organization presented by the plan. Staff also indicated it did not anticipate needing more resources to monitor the plan. If any initiatives in the Strategic Plan would require additional resources, Council would have the opportunity to approve or deny those requests at the time of the request.

Council Member Shepherd stated that the vision statement should connect with the type of service provided and the practical outcome. She said that as written, the vision statement ("We deliver extraordinary value to our customers") does not relate to utility services and may not be understandable to the public.

Regarding the Strategic Objective for the People and Technology Perspective (PT1), the Finance Committee discussed whether it was appropriate for the Utilities Strategic Plan to contain language about employee compensation such as in the objective statement ("work with City management to establish sufficient compensation, benefits and incentives"). Chair Scharff stated that Council should not approve such language since compensation, benefits and incentives should be determined on a city-wide basis and not for CPAU employees alone. Staff agreed and recommended removal of that phrase.

One of the Strategic Initiatives in the proposed plan is the redesign of the Utilities bill to provide more useful information to customers. However, the cost to make the changes in the SAP-based billing system could be substantial. The committee suggested changing the initiative so that bill redesign would be evaluated, but not necessarily completed.

The Finance Committee voted unanimously (4-0) to recommend Council approve the proposed 2011 Utilities Strategic Plan with the following two changes:

1. Change the Strategic Initiative under the Strategic Objective for the Customer and Community Perspective (C3) from: "Redesign the Utilities bill to improve understandability and implement the changes by 2012." to: "Reassess the design and delivery of the Utilities bill to improve understandability and implement the changes by 2012."
2. Change the Objective Statement for the Strategic Objective for the People and Technology Perspective (PT1), from: "We will create a positive values-based work environment which attracts and retains qualified staff. To achieve this objective we will try to better understand employees' desires, work with City management to

establish sufficient compensation, benefits and incentives, and will articulate our values both internally and as we recruit.” to: “We will create a positive values-based work environment which attracts and retains qualified staff. To achieve this objective we will try to better understand employees’ desires and will articulate our values both internally and as we recruit.”

The proposed 2011 Utilities Strategic Plan with the changes recommended by the Finance Committee is provided as Attachment A. The notes from the Finance Committee’s June 7, 2011 meeting are provided as Attachment C.

**Attachments:**

- Attachment A: Balanced Scorecard Objectives and Strategy Map (PDF)
- Attachment B: Staff Report ID 1351 Utilities Strategic Plan to Finance Committee on June 7, 2011 (PDF)
- Attachment C: Excerpted Finance Committee Minutes of June 7, 2011 (PDF)

Prepared By: Jane Ratchye, Assistant Director

Department Head: Valerie Fong, Director

City Manager Approval: James Keene, City Manager

## Utilities Strategic Plan – Strategic Objectives

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Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
<b>Customer and Community Perspective</b>				
C1. “I receive safe and reliable service.”	Customers expect that Utilities services are provided on a continuous basis, without interruption. In addition, customers expect that the Utilities delivery systems are safe and will not harm them or put them in any danger. We will listen to our customers and seek to understand their reliability and safety concerns and implement programs and projects to address them.	Average time to restore service per interrupted customer	Less than 90 minutes	
		Number of electric system interruptions per year for average customer	Ranks in the top quartile nationwide (less than three)	
C2. “Be responsive to all my utilities-related service needs.”	We understand that the customer wants clear, accurate bills with easy methods of payment; access to usage history and enough understanding to efficiently manage usage; to feel quickly and completely “taken care of” when they have concerns, questions or requests and to be communicated with effectively both as individuals and as CPAU’s owners. One of the ways to achieve this is to elicit feedback from customers to help improve service.	Customer satisfaction scores on annual surveys for overall value.	Ranking in the top two utilities statewide	By the end of 2011, establish mechanisms to elicit customer feedback on their satisfaction with all interactions with CPAU.
C3. “I expect to pay a reasonable bill”	We understand that customers expect their bills to be comparable to those in surrounding communities and do not expect to pay more than PG&E customers. Customers believe it is reasonable to pay slightly more in exchange for increased reliability, safety and protection of the environment. However, customers’ overall bills for Utilities services must remain reasonable and be reasonably stable and should not increase significantly in any one year. Customers also want their bills to provide useful information about their consumption of resources in addition to the rate so that they can understand how they	The average combined residential customer bill for electricity, water, gas, and wastewater services	Less than the average of bills for comparable services in nearby communities (MP, MV, SC, Hayward, RC, Roseville, and Alameda).	Reassess the design and delivery of the Utilities bill to improve understandability and implement the changes by 2012.  Reassess the gas

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	can influence their total cost for Utilities services. For natural gas service, Palo Alto’s supply cost has been relatively stable due to a laddered gas portfolio purchasing strategy; however, this strategy needs to be re-evaluated as gas prices are currently low and are projected to stay low for the foreseeable future. Although, the average bill for all services should be comparable to those in surrounding communities, staff will continue to monitor and report the bills for each service separately on a quarterly basis.	Annual rate change	Maximum of 10% per year for electric and wastewater services. Maximum of 20% per year for water service.	portfolio laddering purchasing strategy (GULP initiative) and develop a rate change performance measure for gas service.
C4. “Care for our environment”	Our community wants its customer-owned utility to offer choices for them to manage their resource use in ways that reflect their environmental values. Utilities will improve existing programs and develop new programs to meet customer needs and allow customers to manage their own environmental footprint.	Percentage of customers participating in the PaloAltoGreen program	Top rank nationally	Redesign the PaloAltoGreen program by June 2012 (LEAP task).
<b>Internal Business Process Perspective</b>				
<b>Safety and Reliability</b>				
BP1. Ensure a reliable supply of utility resources	We will implement strategies that ensure the reliable supply of utility resources to meet present and future needs. To provide opportunities for economic development within Palo Alto, we must provide sufficient resources that meet the short and long-term needs of our customers. To achieve this we will maintain the utility system components, and provide for adequate utility resource supplies to our current and future customers. We will also develop new management practices and organizational structure to ensure compliance with regulatory requirements.	Duration of electric system interruption per year for average customer	Ranks in the top quartile nationwide (less than 60 minutes per customer)	Develop a plan to complete a new electric transmission interconnection by the end of 2011.
		Response time to water and wastewater leaks	Under 30 minutes	
BP2. Operate the utility systems safely	We will continue to ensure the safety of our customers, employees and the community by the ongoing implementation of a safety programs. Protecting customers and employees from injury and customer’s property from damage is essential for delivering quality utility services to our customers. The safety programs will be	AGA (American Gas Association) Incidence Rate	Less than industry (APPA, APGA, AWWA) average with a goal of 0	

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	implemented by updating safety procedures, educating customers via outreach materials and workshops, correcting system deficiencies, operating in accordance with existing safety rules, and ensuring that products delivered to customers are safe.	Customer awareness of gas safety issues	90% of customers responding to annual gas customer safety awareness survey	
BP3. Replace infrastructure before the end of its useful life	We will continue to implement a long-term strategy for replacing infrastructure before the end of its useful life. Reliable delivery of electric service to our customers is critical for the success of business and the quality of life for our residents. To accomplish this, we will focus on reducing the backlog and replaces infrastructure systems in a manner that spreads the expense across multiple years resulting in program with even expenditures patterns in future years.	Backlog of infrastructure elements whose age is beyond its useful life.	Zero	
<b>Customer Service Excellence</b>				
BP4. Serve customers promptly and completely	We will provide customers with the highly responsive service they desire. We will do this by reviewing and improving our processes for managing accounts, handling payments, resolving billing issues, responding to information and field service requests and notifying customers during service disruptions. We will identify ways to streamline these processes and implement changes. Specifically, we will review, document and improve business processes that have been identified as having long customer response times.	Average phone wait time	Less than 90 seconds	
		Number of billing adjustments	10% reduction from number in 2009.	
BP5. Communicate clearly and pro-actively with all our stakeholders	We will proactively communicate with all our stakeholders, including all customer groups, civic leaders, community groups and the press. To achieve this objective we will provide the information needed for our stakeholders to effectively access, understand and utilize all utilities services and programs. In addition, we will design communication vehicles and dissemination processes that will enable our residents to be educated owners of their municipal utilities system. For example, Palo Alto’s gas rate stability is something customers should be educated about as it differentiates CPAU from PG&E.	Time until informing the public and local media of a disruption affecting at least 500 customers or any sensitive major customers	Less than 90 minutes after becoming aware of a disruption	Prepare a Utilities Communications Plan by June 2011 that incorporates increased use of neighborhood and business organizations and schools to disseminate program and educational information.

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Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
BP6. Offer programs to meet the needs of customers and the community	We will assist customers to lower their cost of utilities services and support the environment. We will assist customers facing economic hardship by offering bill payment assistance programs. We will educate customers on the reasons for and their means of compliance with our safety and regulatory requirements. We will also identify all customer groups, identify any gaps in service provision to those customers, and propose new programs or changes to existing programs to close those gaps.	Participant* satisfaction with Utilities programs (*rebate recipients, workshop attendees, callers, etc.)	At least 90% of program participants satisfied with their experience	
<b>Reduce Costs</b>				
BP7. Negotiate supply contracts to minimize financial risk	We will continue to negotiate supply contracts to acquire supply resources while managing supply portfolio cost uncertainty to meet rate and reserve objectives and following sound risk management practices. To ensure that we are buying commodities at as competitive prices as possible, we will negotiate contracts with new counterparties to continue to have a sufficient set of credit-worthy trading partners. We will continue to develop long-term acquisition policies and plans (LEAP and GULP) and update those plans at least every three years. We will also determine all that is necessary to execute a gas prepay transaction as that is one clear way to lower the cost of gas supply resources.	Number of competitive bids received for each fixed-price transaction.	Minimum of three	Pursue gas prepay transactions to leverage the City’s low cost of capital and tax-exempt status to acquire lower cost gas supply resources (GULP Strategy).
BP8. Reduce cost of delivering service through best management practices	We will reduce the cost of delivering service to customers. We will identify opportunities to better coordinate between Utilities and other City departments to improve efficient delivery of services. We will perform benchmarking studies to identify potential modifications to procedures, practices, materials, and plans and to ensure that we are following best practices. One best practice is to increase calibration and replacement schedules for gas and water meters since the meters slow over time so that the actual usage is under-recorded, resulting in lost revenue.	“lost and unaccounted for” volumes of gas and water	80% of 2009 levels.	Actively participate in Citywide efforts to improve the procurement process.

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BP9. Maximize value of existing generation assets	Palo Alto owns significant supply resource assets including a portion of the Calaveras Hydroelectric Project, a contract with the Western Area Power Administration, a permanent allocation of water from the regional water system managed by San Francisco, and allocated capacity on a gas transportation pipeline. We will seek out both daily and operational and long-term opportunities to optimize the value of these assets to enhance revenue and/or to reduce costs. We will work with joint-owners of our resource assets to leverage those resources and advocate to maintain or improve the value of existing resources into the future (LEAP and GULP strategies).	Value harvested from Redwood gas pipeline capacity	100%	Evaluate and implement opportunities to maximize the value of the Calaveras project in the new electric market framework.
BP10. Manage implementation of strategic plan	Completing the strategic plan is only the beginning of getting value from the strategic planning process. Ongoing management of the strategies and initiatives and reporting on progress of those initiatives is essential to achieving positive results from the strategy. We will report to the UAC and Council on plan progress twice annually and we will review and revise the objectives and develop new initiatives on an annual basis.	Number of strategic initiatives completed	100%	Develop a program to ensure that the strategic plan is pursued and that objectives and initiatives are managed
<b>Environmental Sustainability</b>				
BP11. Increase the environmental sustainability of all Utilities activities	Adding sustainable resources to the supply portfolios will help the City meet its Climate Protection Plan goals by reducing the carbon footprint of the utility services provided to our customers. We will achieve this by acquiring renewable resources and promoting the development of local renewable resources within the rate objectives in the Long-term Electric Acquisition Plan (LEAP). Sustainable practices will be pursued not just for the supply portfolios, but across all the Utilities day-to-day operations.	Carbon intensity of the electric portfolio	80% of baseline (2005) level	
BP12. Promote efficient use of resources	Resource efficiency programs meet our customers' desire for environmental solutions that save money as well as contributing towards the Climate Protection Plan goals. We will promote resource efficiency by dedicating the tactical staffing and budgetary resources	Actual electric energy efficiency achievement	At least as high as goals set in May 2010	By June 2011, develop implementation plans to achieve the long-term water and energy



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	<p>necessary to reach maximum deployment of economically feasible resource efficiency. We will revise and document our long-term efficiency strategies by updating our 10-year Energy Efficiency goals every three years and updating our water efficiency goals every five years in the Urban Water Management Plan. To maximize the savings potential for new development, coordinate with the City’s Economic Development Manager to ensure that new developments incorporate energy saving features in the design phase.</p>	<p>Actual gas energy efficiency achievement</p>	<p>At least as high as goals set in January 2011</p>	<p>efficiency goals and implement programs as outlined in the implementation plans.</p>
<b>People and Technology Perspective</b>				
<p>PT1. Be an attractive place to work</p>	<p>We will create a positive values-based work environment which attracts and retains qualified staff. To achieve this objective we will try to better understand employees desires and incentives, and will articulate our values both internally and as we recruit.</p>	<p>Employee satisfaction rating</p>	<p>Improvement from baseline level</p>	<p>Implement an annual survey to determine employee satisfaction levels and establish the baseline satisfaction level for 2011.</p>
<p>PT2. Obtain, develop and train employees to ensure an adequate and qualified workforce</p>	<p>A properly sized, trained and certified workforce is essential to our effectiveness. We will identify skill and staffing gaps at the individual and organizational levels and seek to fill those gaps through the effective use of opportunities including hiring, mentorship programs, role rotations, knowledge transfer opportunities, long-term developmental assignments and both internal and external training opportunities. We will plan for workforce succession and provide cross-training opportunities for employees to improve employee satisfaction and build a more robust work force</p>	<p>Percentage of operations personnel that has appropriate certification and training required for working in all areas they may be assigned</p>	<p>100%</p>	<p>Develop a 5-year succession plan for each division.</p>

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<b>Strategic Objective</b>	<b>Objective Statement</b>	<b>Performance Measure</b>	<b>2015 Target</b>	<b>Strategic Initiative</b>
PT3. Ensure employees have adequate tools to perform job duties	As major users of technology assets, we must have access to quality and timely delivered IT services. We must build and maintain an effective relationship with the City’s IT division that includes clear, frequent communication as well as productive coordination. We will collaborate with IT to identify barriers to providing support for technology projects and remove them. In those instances in which our immediate technology needs cannot be addressed by the City’s IT division in a timely or sufficiently-comprehensive fashion, we will utilize external expertise.	Technology needs being met	100% for all Utilities work groups	Develop a Utilities-specific IT strategic plan.
PT4. Investigate and adopt innovative technologies	Our customers value Utilities embracing new technologies that will help reduce costs and/or meet Climate Protection Plan goals. We will innovate by researching technologies and cultivating relationships with entrepreneurs and academics to identify new cost-effective and environmentally sustainable technologies to consider adopting. The smart grid strategic plan will be complete by the end of FY 2012 and new technologies, programs, and projects identified in the plan will be implemented.	Number of new technologies evaluated per year by an in-depth study or pilot project	Three	Develop a process to evaluate and implement new technology through targeted programs and consider creating a fund for innovative projects and pilots.
<b>Financial Perspective</b>				
F1. Maintain financial strength	Maintaining a high credit rating reduces the cost of borrowing if needed for capital projects. We will continue best practices for financial management, adhere to energy risk management policies and guidelines to minimize financial risk, and maintain sufficient reserves to cover debt obligations as required to retain CPAU’s current favorable bond rating so that the cost of capital is low for any bond funded capital projects.	Credit rating	At least AA as determined by Fitch Ratings or Standard and Poor’s or at least Aa3 as determined by Moody’s	

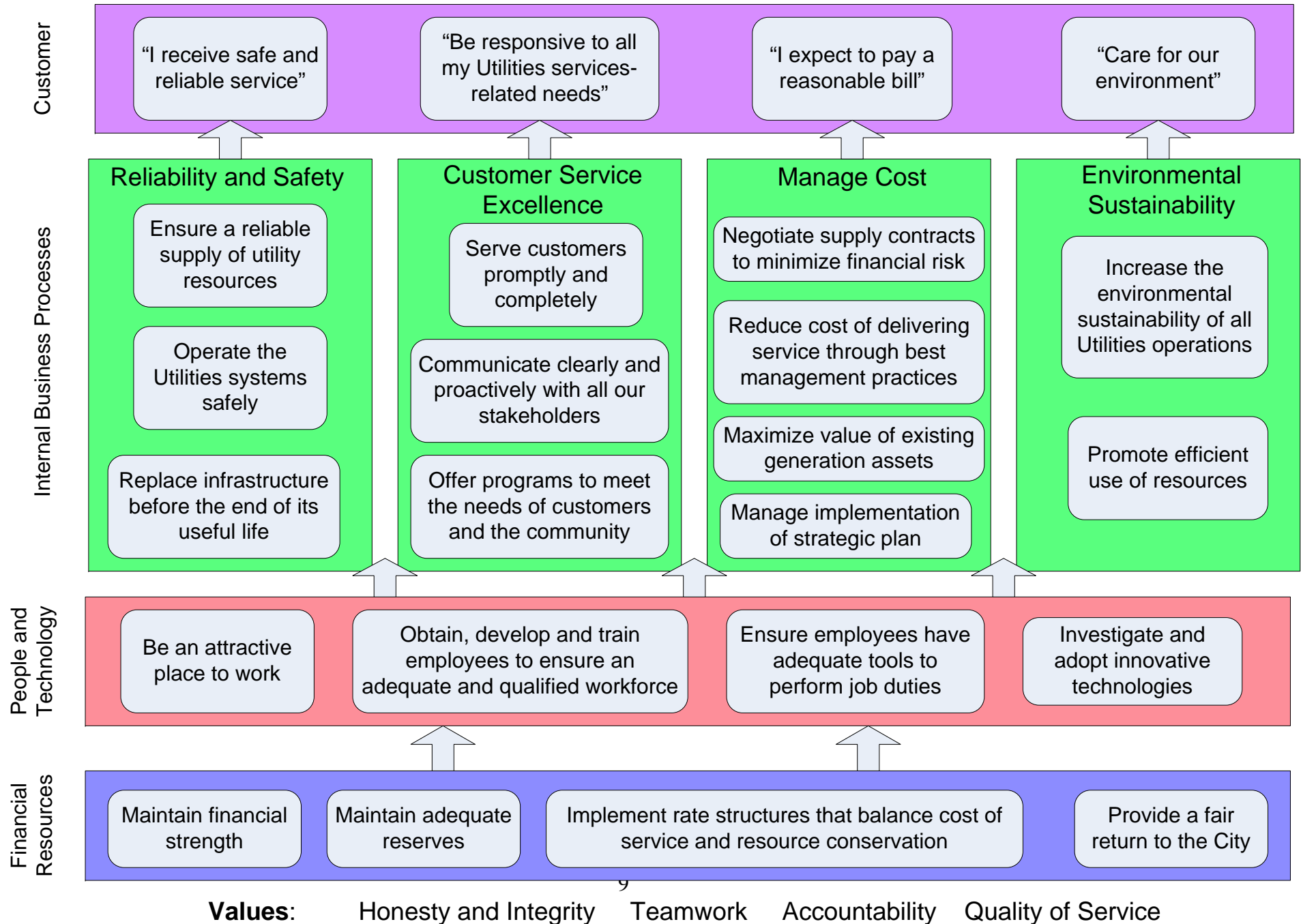
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Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
F2. Maintain adequate reserves	Maintaining adequate cash reserves contributes to maintaining our overall financial health and retaining our current favorable bond rating. We will maintain Rate Stabilization Reserves levels within Council-approved guidelines and sufficient to provide rate stability as desired by ratepayers. During the annual budget and rate setting process, the risks that each Utilities fund is exposed to will be identified along with the trajectory of costs and revenues to allow Council to determine appropriate reserve levels and rate adjustments.	Rate Stabilization Reserve levels	Adequate to cover cost uncertainties over a two-year period while meeting rate stability objective	Re-evaluate the need for and purpose of the Calaveras (stranded cost) Reserve by the end of 2011.
F3. Implement rate structures that balance cost of service and resource conservation	Retail rates should be designed so that the revenues from a customer group match the cost to serve those customers. Rates consist of fixed charges and volumetric charges, which are based on usage. Fixed costs consist of customer-related costs (meter reading, billing, etc.) and costs related to capital projects and operations while variable costs include the cost of buying supplies (water, gas, or electricity). When fixed costs are recovered through charges based on usage, costs will not be recovered if customers reduce usage more than projected. To address this problem we will examine alternate rate structures that strike a balance between the two competing objectives (cost of service and resource efficiency) to ensure that certain fixed costs are recovered with a fixed charge, but other costs are recovered with charges that vary depending on usage (volumetric charges).			By the end of 2011, evaluate the appropriate fraction of fixed costs that should be collected by fixed charges versus volumetric charges.
F4. Provide a fair return to the City	CPAU provides an equity transfer to the City of Palo Alto’s General Fund which provides a return on the City’s original investment in the Utilities and reflects the City’s ultimate responsibility for Utilities operations. Council approved the current equity transfer method in May 2009. The equity transfer is used by the General Fund as determined by the City Council and supports activities such as fire, police and library services to the City residents and businesses. This benefit, along with favorable rates and utility services, is a key value provided to the community from municipal ownership of Utilities.	Equity transfer to the City’s General Fund	100% of the transfer as calculated by the Council-approved equity transfer methodology and permitted by law.	

# Vision: We Deliver Extraordinary Value to Our Customers

**Strategic Destination:** We will earn the high satisfaction of our customers with our cost-competitive provision of safe, reliable and environmentally sustainable utility services





# City of Palo Alto

## Finance Committee Staff Report

(ID # 1351)

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**Report Type:** Meeting Date: 6/7/2011

**Summary Title:** Utilities Strategic Plan

**Title:** Utilities Advisory Commission Recommendation to Approve the 2011 Utilities Strategic Plan (Continued from Finance meeting of 3/01/11)

**From:** City Manager

**Lead Department:** Utilities

### **Recommendation**

Staff and the Utilities Advisory Commission recommend that the Finance Committee recommend that the Council approve the proposed 2011 Utilities Strategic Plan.

### **Executive Summary**

The City of Palo Alto Utilities (CPAU) has completed a process to update the Utilities Strategic Plan (Strategic Plan) last approved in 2005. Global climate change; macro, regional and local economic challenges; new legislative and regulatory requirements; and major technology changes in the water, wastewater collection, gas, and electric industries have all necessitated the need to evaluate and update the Strategic Plan to ensure CPAU's vision and key objectives are in line with those of CPAU's stakeholders, including CPAU ratepayers, Palo Alto citizens, the City Council and the Utilities Advisory Commission (UAC).

The UAC reviewed the Strategic Plan many times during its development and established a subcommittee in April 2010 to assist staff in developing the plan. Following a recommendation from the UAC subcommittee, staff interviewed key stakeholders to assist in the development of an overall vision for CPAU. Using information collected in the interviews, the UAC's feedback and assistance from a consultant, staff provided the UAC a draft Strategic Plan for discussion at its January 2011 meeting. The UAC requested additional changes at that meeting, which staff supported and incorporated into a revised plan. At its February 2011 meeting, the UAC acknowledged that the changes requested in January 2011 were incorporated and voted unanimously to recommend Council approve the 2011 Utilities Strategic Plan.

### **Background**

In the Spring of 2009, CPAU hired the consulting firm, Management Partners, Inc., to initiate an internal strategic visioning and communications process for employees. CPAU Management sought to develop a set of employee values prior to moving forward with the strategic planning process. Management Partners conducted an employee survey and focus groups of

management and non-management staff and found that employees placed the highest value on: 1) honesty and integrity; 2) teamwork; 3) accountability; and 3) quality of service.

The Director of Utilities determined that the 2005 Utilities Strategic Plan needed to be updated and the UAC created a committee to work with staff on the effort in April 2010. In June 2010, staff, along with the UAC's Ad Hoc Committee for Strategic Planning, engaged in an analysis of external drivers shaping the industries in which CPAU operates, and a discussion of the strengths, weaknesses, opportunities, and threats (SWOT) unique to CPAU. The external review and SWOT analysis formed the basis for developing the key CPAU functions for which objectives and strategies will be developed.

Another driver for updating the Utilities Strategic Plan was Council action on May 3, 2010 in response to a Council Colleagues' Memo (Colleagues' Memo from Mayor Burt, Vice Mayor Espinosa, Council Members Yeh and Scharff Requesting the City Council Direct the Utilities Advisory Commission to Make Recommendations to the City Council on a Comprehensive Energy Efficiency and Renewables Procurement Strategy). During its discussions in July, the UAC recommended that the Long-term Electric Acquisition Plan (LEAP), the Gas Utility Long-term Plan (GULP) and the Utilities Strategic Plan should address the major issues raised in the May 3, 2010 Council Colleagues' Memo. The UAC also agreed that if there are any issues from the Colleagues' Memo that are either unresolved or not addressed in the updated LEAP, GULP, or Strategic Plan, the UAC may wish to address those separately.

The UAC received informational memoranda for its meetings of July 20, 2010 and September 1, 2010 on the road map for and status of the development of the Utilities Strategic Plan. From August through November, staff interviewed 26 community members to get their perspectives on the problems and issues facing the CPAU, regional, state, national, and global issues of interest to Palo Alto, the values of the community and how the department should make adjustments in the future.

On November 3, 2010, the UAC reviewed the input gathered from the interviews, draft mission and vision statements and draft strategic objectives for the Strategic Plan. In early November, the City engaged a consultant to assist with the finalization of the Strategic Plan. Based on information collected in the interviews, the UAC's feedback and assistance from the consultant, staff revised the strategic objectives, developed performance measures for the strategic objectives and finalized the strategy map. At its January 2011 meeting, the UAC reviewed a draft Strategic Plan and provided comments and input to staff. Based on comments received from the UAC at that meeting, staff revised the Strategic Plan and presented it to the UAC at its February 2011 meeting. At that meeting, the UAC acknowledged that the changes requested in January 2011 were incorporated and voted unanimously to recommend Council approve the 2011 Utilities Strategic Plan.

## Discussion

The updated Utilities Strategic Plan needs to be consistent with the City's mission and value statements as stated in the Fiscal Year 2011 Council-approved Operating Budget and Council priorities, as follows:

**City of Palo Alto's Mission:** The government of the City of Palo Alto exists to promote and sustain a superior quality of life in Palo Alto. In partnership with the community, our goal is to deliver cost-effective services in a personal, responsive, and innovative manner.

### **City of Palo Alto's Values:**

Quality – Superior delivery of service.

Courtesy – Providing service with respect and concern.

Efficiency – Productive, effective use of resources.

Integrity – Straight-forward, honest and fair relations.

Innovation – Excellence in creative thought and implementation.

## Core Values

CPAU's core values were developed through a process, facilitated by a strategic planning consultant, which involved surveys, interviews, and focus groups with input from employees from all the work groups in the Utilities Department. The core values and traits and how each trait will be carried out are listed below.

1. Honesty and Integrity: We exhibit honesty and integrity when we model good behavior and a strong work ethic; communicate with honesty, sincerity and respect for one another; share all knowledge and create transparency; and follow-through at all levels.
2. Teamwork: We promote teamwork at CPAU by communicating clearly and respectfully while proving to be dependable and respectful and exhibiting a positive attitude.
3. Accountability: We demonstrate this value by taking responsibility for our actions; being clear about our vision, direction and expectations; following through on work tasks; and being a results-oriented and accountable employee.
4. Quality of Service: We each contribute to achieving quality of service by being responsive to customers' needs and customer-focused, having a can-do attitude, and striving for excellence by operating a safe and reliable system.

## Planning Horizon

The planning horizon for the strategic plan is five years. The plan should be developed with a longer-term (15- to 20-year) timeframe in mind, but so many things change over the course of five years that after that time, it will likely be time to redo the strategic plan. In addition, the issues that a strategic plan will address are likely to change significantly in five years.

## What's Included and Not Included in the Plan

Discussions on some related decisions are already well underway in the updated the LEAP and GULP, which are expected to be considered by the Council in March 2011. The Utilities

Strategic Plan encompasses several plans, policies and/or guidelines related to key CPAU functions, including:

1. Water, electric and gas efficiency and electric demand reduction;
2. Resource management: water, electric and gas supply acquisition, asset management and energy risk management;
3. Climate Protection: greenhouse gas reductions;
4. Financial management: rates, reserves, budget and long-term financial planning;
5. System reliability;
6. Information technology;
7. Customer service; programs, rates, information, communication; smart metering and billing;
8. Distributed and local resources;
9. The equity transfer from the gas and electric funds to the City's General Fund;
10. Regulatory compliance and reporting; and
11. CPAU workforce: recruitment, retention and management.

The Strategic Plan is not intended to include the following items:

1. Whether or not to sell Utilities;
2. What CPAU must do to comply with laws or regulations;
3. Governance of Utilities; and
4. Operating and compliance plans

Plans that will need to be in alignment with, whether or not incorporated into, the Strategic Plan include the following:

1. LEAP, GULP, and WIRP (Water Integrated Resource Plan)
2. Capital Improvement Program
3. IT Strategic Plan
4. Rates Policy
5. Communications Plan
6. Energy Efficiency Plans
7. Urban Water Management Plan
8. Smart Grid Strategy Plan
9. SAP Billing System Plan
10. Energy Risk Management Policy
11. Fiber Broadband Business Plan

#### Interviews of Community Leaders

From August through November, staff conducted interviews of 26 community leaders including Council Members, UAC Commissioners, and other people engaged in Utilities issues including former Council Members and former UAC Commissioners. The interviews were conducted to elicit input into the development of a vision for CPAU and to determine the viewpoints of community leaders regarding several key topics. The summaries of the interviews are provided as Attachment C to this report.



The feedback from the interviews can be broken down into general topic areas, including communications; costs, prices and rates; technology and innovation leadership, support for and cost of green programs; and reliability, safety, and emergency preparedness.

#### 1. Communications

Many of those interviewed felt that communications with customers and Council could be improved. Many felt that CPAU should educate customers about programs and the benefits to customers. Outage notification was specifically mentioned as an area that needs improvement. However, there were some that felt that communication should not be a major piece of what CPAU does as the main concern for customers is that the services be reliable and safe, and that there is little interest or need in more communications from CPAU unless it relates to those things (i.e. outages). Some suggested using social networking for communications.

#### 2. Costs, Prices, and Rates

When asked whether they supported stable gas rates as opposed to gas rates that vary each month with gas prices (as with Pacific Gas and Electric Company (PG&E)), almost all supported stable gas rates in Palo Alto. Some advised that high water rates are a big concern and many said that our bills overall should be competitive, or else the community will question the value of having an independent, municipally-owned utility. Several brought up the problems with having to raise prices if consumption declined. The recent issues with cost recovery in the Refuse Fund were mentioned as a cautionary tale.

#### 3. Leadership in Technology and Innovation

Most of those interviewed did not recommend that CPAU become a leader in technology or innovation if doing that would require significant investment. Many felt that leadership in this area would inevitably result in some failures and noted that the City is very risk averse. However, almost all interviewees recommended that CPAU be aware of and consider new technologies. Many recommended that a small amount of money be reserved for new technology or innovative research and development projects (such as with the Light Emitting Diode, or LED, streetlight pilot project). Some advised that CPAU be a test bed for new technology and that it use the expertise of the community to help in these evaluations.

#### 4. Support for and Cost of Environmental/Green Programs

Even in the current economic situation, most of those interviewed felt that the community continues to support green programs as long as the additional cost for those programs is reasonable. However, some did caution against starting new green programs that would raise costs and rates in this economic environment. The 0.5 cent per kilowatt-hour rate impact limit for renewable energy was mentioned as a reasonable adder, but many warned against raising that limit. Many noted that environmentally beneficial programs are often also economically beneficial and that staff should always conduct a complete, long-term, life-cycle economic analysis and identify any rate impacts from green programs. As evidence of the community's support for green programs and the willingness to pay more for a green program, the PaloAltoGreen voluntary renewable energy program was cited by several of those interviewed.

## 5. Reliability, Safety, and Emergency Preparedness

Many of the people interviewed cited system reliability and safety of the distribution system as a very important focus for CPAU. Many added that emergency preparation is very important. Interviewees described locally-sited resources, such as the new water reservoir and groundwater wells, as being very valuable to the City's emergency preparedness and were supportive of local electric generation as well. Some mentioned that local generation should be from renewable sources.

### Mission and Vision Statements

The feedback from the interviews helped to formulate the vision for CPAU. The mission statement should describe what CPAU is and does. The proposed new mission statement compared to the mission statement in the 2005 Strategic Plan is shown in the table below.

<b>Mission Statement from 2005 Utilities Strategic Plan</b>	<b>Proposed New Mission Statement</b>
Provide valued utility services to customers and dependable returns to the City.	The City of Palo Alto Utilities provides safe, reliable, environmentally sustainable and cost-effective services.

The vision statement should describe what CPAU is striving to become. The 2005 Strategic Plan did not contain a vision statement. To develop this vision, staff determined that CPAU needs to choose the appropriate value proposition. One possible value proposition is to be the lowest cost provider. A utility with this value proposition would seek to minimize costs in the provision of services. Alternately, a utility could seek to be a high quality provider with high standards for service reliability, safety and service offerings. Or, a utility could seek to be a product leader and provide unique, or high performance services. Of these choices, staff recommends that CPAU seek to be a high quality provider, which seems to be the expectation of the Palo Alto community. Of course, the cost for the services provided must also be reasonable.

The proposed vision statement that incorporates these concepts is:

We deliver extraordinary value for our customers.

To be more specific about the vision, the Strategic Plan should have a more defined "strategic destination." The proposed strategic destination is:

We will earn the high satisfaction of our customers with our cost-competitive provision of safe, reliable, and environmentally sustainable utility services.

### Balanced Scorecard (BSC) Approach

As with the 2005 Utilities Strategic Plan, the balanced scorecard methodology will be used to track implementation by perspective. Using this framework, the strategic plan should include Strategic Objectives, or statements of what the strategy must achieve and what is critical to its

success. Each Strategic Objective should have Performance Measures and Targets for how success in achieving each objective will be measured, tracked and reported and the level of performance or rate of improvement needed to achieve the objective.

The draft strategic objectives are listed below by BSC perspective.

#### Customer Perspective

- C1. "Be responsive to all my utilities-related service needs."
- C2. "I receive safe and reliable service."
- C3. "I expect to pay a reasonable bill"
- C4. "Care for our environment"

#### Internal Business Process Perspective

- BP1. Ensure a reliable supply of utility resources
- BP2. Operate the utilities systems safely
- BP3. Replace infrastructure before the end of its useful life
- BP4. Serve customers promptly and completely
- BP5. Communicate clearly and pro-actively with all our stakeholders
- BP6. Offer programs to meet the needs of customers and the community
- BP7. Negotiate supply contracts to minimize financial risk
- BP8. Reduce cost of delivering service through best management practices
- BP9. Maximize value of existing generation assets
- BP10. Manage implementation of strategic plan
- BP11. Increase the environmental sustainability of all Utilities practices
- BP12. Promote efficient use of resources

#### People and Technology Perspective

- PT1. Be an attractive place to work
- PT2. Obtain, develop and train employees to ensure an adequate and qualified workforce
- PT3. Ensure employees have adequate tools to perform job duties
- PT4. Investigate and adopt innovative technologies

#### Financial Perspective

- F1. Maintain financial strength
- F2. Maintain adequate reserves
- F3. Implement rate structures that balance cost of service and resource conservation
- F4. Provide a fair return to the City

Based on input from the UAC and with guidance from the consultant, staff further developed the Strategic Objectives and Performance Measures for each Strategic Objective. Each Strategic Objective is explained in an "Objective Statement" to provide detail and clarity to all stakeholders so that there is no ambiguity about what is meant by the objective. Using the BSC method, the development of a strategy map is also recommended. A strategy map is a single-page representation of the Strategic Plan that can be used to communicate the overall plan and

how the enterprise creates value for customers. The list of draft Strategic Objectives and their corresponding Performance Measures and Targets is provided as Attachment A. This attachment also contains the draft Strategy Map.

### Strategic Initiatives

Another element of the BSC method is the development of strategic initiatives, or key new action programs required to achieve one or more objectives and the overall strategic plan. Strategic initiatives aim to significantly change the way we do business, require significant resources to complete, and have definite start and end dates. They are not daily or one-off tasks or activities (“business as usual”), any project that is underway, tactical or steady state (“the annual...”), or intentions (“meet quarterly sales targets”).

The proposed strategic initiatives include the following:

For the customer perspective:

1. Establish mechanisms to elicit customer feedback on their satisfaction with all interactions with CPAU.
2. Redesign the Utilities bill to improve understandability.
3. Reassess the gas portfolio laddering purchasing strategy.
4. Redesign the PaloAltoGreen program.

For the internal business process perspective:

5. Develop a plan to complete a new electric transmission interconnection.
6. Prepare a Utilities Communications Plan that incorporates increased use of neighborhood and business organizations and schools to disseminate program and educational information.
7. Pursue gas prepay transactions to leverage the City's low cost of capital and tax-exempt status to acquire low cost gas supply resources.
8. Actively participate in Citywide efforts to improve the procurement process.
9. Evaluate and implement opportunities to maximize the value of the Calaveras project in the new electric market framework.
10. Develop a program to ensure that the strategic plan is pursued and that objectives and initiatives are managed.
11. Develop implementation plans to achieve the long-term water and energy efficiency goals and implement programs as outlined in the implementation plans.

For the people and technology perspective:

12. Implement an annual employee satisfaction survey.
13. Develop a 5-year succession plan for each division.
14. Develop a Utilities-specific IT strategic plan.
15. Develop a process to evaluate and implement new technology through targeted programs and consider creating a fund for innovative projects and pilots.

For the financial perspective:

16. Re-evaluate the need for and purpose of the Calaveras (stranded cost) Reserve.
17. Evaluate the appropriate fraction of fixed costs to be collected by fixed charges.

### **Commission Review and Recommendation**

The UAC was very involved in the development of the Utilities Strategic Plan. In April 2010, the UAC Chair appointed an ad hoc committee on strategic planning to assist staff in developing the plan. While under development, the plan was discussed at UAC meetings in July 2010, September 2010, November 2010, and January 2011.

At its January 2010 meeting, the UAC reviewed the draft Utilities Strategic Plan and made several requests for changes. The UAC provided comments and suggestions that were useful to staff and which were incorporated into the proposed Strategic Plan. The comments ranged from changes to the proposed mission statement, revisions to the performance measures, additional clarifications to the objective statements, and the addition of a new strategic objective. The notes from the UAC's January 12, 2011 meeting are attached (Attachment D).

On February 2, 2011, the UAC considered the Utilities Strategic Plan for final action. After acknowledging that the changes requested in January 2010 were incorporated, the UAC voted unanimously to recommend Council approve the proposed 2011 Utilities Strategic Plan. The draft notes from the UAC's February 2, 2011 meeting are attached (Attachment E).

Since the UAC reviewed the Strategic Plan in February 2011, staff changed the date from June 2011 to December 2011 on the strategic initiative to prepare a Communications Plan since the new Communications Manager was not on board as early as anticipated.

### **Timeline**

After Council approves an updated Utilities Strategic Plan, staff plans to review the plan annually and recommend any appropriate updates as part of the annual budget approval process. In addition, staff will monitor and report on the implementation of the Utilities Strategic Plan to the UAC and Council on a semi-annual basis.

### **Resource Impact**

Implementation of the Utilities Strategic Plan is planned to be done without additional requests for resources. However, some of the strategic initiatives may require additional, unbudgeted resources. If this is the case, staff will request additional resources and Council will have the ability to approve, or not, those requests. One example of a new initiative that is expected to require additional resources is the creation of an innovation fund to implement or pilot new technologies.

### **Policy Implications**

Approval of a new Utilities Strategic Plan represents new Council policy.

## **Environmental Review**

Approval of a new Utilities Strategic Plan does not meet the definition of a project pursuant to Section 21065 of the California Environmental Quality Act (CEQA). Thus, no environmental review is required.

### **Attachments:**

- Attachment A: 2011 Utilities Strategic Plan Balanced Scorecard Objectives and Strategy Map (DOC)
- Attachment B: 2005 Strategic Plan (DOC)
- Attachment C: Strategic Plan Interview summaries (DOC)
- Attachment D: UAC Minutes for the January 12 2011 Special Meeting (DOC)

Prepared By: Jane Ratchye, Assistant Director

Department Head: Valerie Fong, Director

City Manager Approval: James Keene, City Manager

## Utilities Strategic Plan – Strategic Objectives

ATTACHMENT A

Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
<b>Customer and Community Perspective</b>				
C1. “I receive safe and reliable service.”	Customers expect that Utilities services are provided on a continuous basis, without interruption. In addition, customers expect that the Utilities delivery systems are safe and will not harm them or put them in any danger. We will listen to our customers and seek to understand their reliability and safety concerns and implement programs and projects to address them.	Average time to restore service per interrupted customer	Less than 90 minutes	
		Number of electric system interruptions per year for average customer	Ranks in the top quartile nationwide (less than three)	
C2. “Be responsive to all my utilities-related service needs.”	We understand that the customer wants clear, accurate bills with easy methods of payment; access to usage history and enough understanding to efficiently manage usage; to feel quickly and completely “taken care of” when they have concerns, questions or requests and to be communicated with effectively both as individuals and as CPAU’s owners. One of the ways to achieve this is to elicit feedback from customers to help improve service.	Customer satisfaction scores on annual surveys for overall value.	Ranking in the top two utilities statewide	By the end of 2011, establish mechanisms to elicit customer feedback on their satisfaction with all interactions with CPAU.
C3. “I expect to pay a reasonable bill”	We understand that customers expect their bills to be comparable to those in surrounding communities and do not expect to pay more than PG&E customers. Customers believe it is reasonable to pay slightly more in exchange for increased reliability, safety and protection of the environment. However, customers’ overall bills for Utilities services must remain reasonable and be reasonably stable and should not increase significantly in any one year. Customers also want their bills to provide useful information about their consumption of resources in addition to the rate so that they can understand how they	The average combined residential customer bill for electricity, water, gas, and wastewater services	Less than the average of bills for comparable services in nearby communities (MP, MV, SC, Hayward, RC, Roseville, and Alameda).	Redesign the Utilities bill to improve understandability and implement the changes by 2012.  Reassess the gas portfolio laddering purchasing strategy

## Utilities Strategic Plan – Strategic Objectives

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Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
	can influence their total cost for Utilities services. For natural gas service, Palo Alto’s supply cost has been relatively stable due to a laddered gas portfolio purchasing strategy; however, this strategy needs to be re-evaluated as gas prices are currently low and are projected to stay low for the foreseeable future. Although, the average bill for all services should be comparable to those in surrounding communities, staff will continue to monitor and report the bills for each service separately on a quarterly basis.	Annual rate change	Maximum of 10% per year for electric and wastewater services. Maximum of 20% per year for water service.	(GULP initiative) and develop a rate change performance measure for gas service.
C4. “Care for our environment”	Our community wants its customer-owned utility to offer choices for them to manage their resource use in ways that reflect their environmental values. Utilities will improve existing programs and develop new programs to meet customer needs and allow customers to manage their own environmental footprint.	Percentage of customers participating in the PaloAltoGreen program	Top rank nationally	Redesign the PaloAltoGreen program by June 2012 (LEAP task).
<b>Internal Business Process Perspective</b>				
<b>Safety and Reliability</b>				
BP1. Ensure a reliable supply of utility resources	We will implement strategies that ensure the reliable supply of utility resources to meet present and future needs. To provide opportunities for economic development within Palo Alto, we must provide sufficient resources that meet the short and long-term needs of our customers. To achieve this we will maintain the utility system components, and provide for adequate utility resource supplies to our current and future customers. We will also develop new management practices and organizational structure to ensure compliance with regulatory requirements.	Duration of electric system interruption per year for average customer	Ranks in the top quartile nationwide (less than 60 minutes per customer)	Develop a plan to complete a new electric transmission interconnection by the end of 2011.
		Response time to water and wastewater leaks	Under 30 minutes	
BP2. Operate the utility systems safely	We will continue to ensure the safety of our customers, employees and the community by the ongoing implementation of a safety programs. Protecting customers and employees from injury and customer’s property from damage is essential for delivering quality utility services to our customers. The safety programs will be	AGA (American Gas Association) Incidence Rate	Less than industry (APPA, APGA, AWWA) average with a goal of 0	



## Utilities Strategic Plan – Strategic Objectives

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Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
	implemented by updating safety procedures, educating customers via outreach materials and workshops, correcting system deficiencies, operating in accordance with existing safety rules, and ensuring that products delivered to customers are safe.	Customer awareness of gas safety issues	90% of customers responding to annual gas customer safety awareness survey	
BP3. Replace infrastructure before the end of its useful life	We will continue to implement a long-term strategy for replacing infrastructure before the end of its useful life. Reliable delivery of electric service to our customers is critical for the success of business and the quality of life for our residents. To accomplish this, we will focus on reducing the backlog and replaces infrastructure systems in a manner that spreads the expense across multiple years resulting in program with even expenditures patterns in future years.	Backlog of infrastructure elements whose age is beyond its useful life.	Zero	
<b>Customer Service Excellence</b>				
BP4. Serve customers promptly and completely	We will provide customers with the highly responsive service they desire. We will do this by reviewing and improving our processes for managing accounts, handling payments, resolving billing issues, responding to information and field service requests and notifying customers during service disruptions. We will identify ways to streamline these processes and implement changes. Specifically, we will review, document and improve business processes that have been identified as having long customer response times.	Average phone wait time	Less than 90 seconds	
		Number of billing adjustments	10% reduction from number in 2009.	
BP5. Communicate clearly and pro-actively with all our stakeholders	We will proactively communicate with all our stakeholders, including all customer groups, civic leaders, community groups and the press. To achieve this objective we will provide the information needed for our stakeholders to effectively access, understand and utilize all utilities services and programs. In addition, we will design communication vehicles and dissemination processes that will enable our residents to be educated owners of their municipal utilities system. For example, Palo Alto’s gas rate stability is something customers should be educated about as it differentiates CPAU from PG&E.	Time until informing the public and local media of a disruption affecting at least 500 customers or any sensitive major customers	Less than 90 minutes after becoming aware of a disruption	Prepare a Utilities Communications Plan by December 2011 that incorporates increased use of neighborhood and business organizations and schools to disseminate program and educational information.

## Utilities Strategic Plan – Strategic Objectives

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Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
BP6. Offer programs to meet the needs of customers and the community	We will assist customers to lower their cost of utilities services and support the environment. We will assist customers facing economic hardship by offering bill payment assistance programs. We will educate customers on the reasons for and their means of compliance with our safety and regulatory requirements. We will also identify all customer groups, identify any gaps in service provision to those customers, and propose new programs or changes to existing programs to close those gaps.	Participant* satisfaction with Utilities programs (*rebate recipients, workshop attendees, callers, etc.)	At least 90% of program participants satisfied with their experience	
<b>Reduce Costs</b>				
BP7. Negotiate supply contracts to minimize financial risk	We will continue to negotiate supply contracts to acquire supply resources while managing supply portfolio cost uncertainty to meet rate and reserve objectives and following sound risk management practices. To ensure that we are buying commodities at as competitive prices as possible, we will negotiate contracts with new counterparties to continue to have a sufficient set of credit-worthy trading partners. We will continue to develop long-term acquisition policies and plans (LEAP and GULP) and update those plans at least every three years. We will also determine all that is necessary to execute a gas prepay transaction as that is one clear way to lower the cost of gas supply resources.	Number of competitive bids received for each fixed-price transaction.	Minimum of three	Pursue gas prepay transactions to leverage the City’s low cost of capital and tax-exempt status to acquire lower cost gas supply resources (GULP Strategy).
BP8. Reduce cost of delivering service through best management practices	We will reduce the cost of delivering service to customers. We will identify opportunities to better coordinate between Utilities and other City departments to improve efficient delivery of services. We will perform benchmarking studies to identify potential modifications to procedures, practices, materials, and plans and to ensure that we are following best practices. One best practice is to increase calibration and replacement schedules for gas and water meters since the meters slow over time so that the actual usage is under-recorded, resulting in lost revenue.	“lost and unaccounted for” volumes of gas and water	80% of 2009 levels.	Actively participate in Citywide efforts to improve the procurement process.

## Utilities Strategic Plan – Strategic Objectives

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Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
BP9. Maximize value of existing generation assets	Palo Alto owns significant supply resource assets including a portion of the Calaveras Hydroelectric Project, a contract with the Western Area Power Administration, a permanent allocation of water from the regional water system managed by San Francisco, and allocated capacity on a gas transportation pipeline. We will seek out both daily and operational and long-term opportunities to optimize the value of these assets to enhance revenue and/or to reduce costs. We will work with joint-owners of our resource assets to leverage those resources and advocate to maintain or improve the value of existing resources into the future (LEAP and GULP strategies).	Value harvested from Redwood gas pipeline capacity	100%	Evaluate and implement opportunities to maximize the value of the Calaveras project in the new electric market framework.
BP10. Manage implementation of strategic plan	Completing the strategic plan is only the beginning of getting value from the strategic planning process. Ongoing management of the strategies and initiatives and reporting on progress of those initiatives is essential to achieving positive results from the strategy. We will report to the UAC and Council on plan progress twice annually and we will review and revise the objectives and develop new initiatives on an annual basis.	Number of strategic initiatives completed	100%	Develop a program to ensure that the strategic plan is pursued and that objectives and initiatives are managed
<b>Environmental Sustainability</b>				
BP11. Increase the environmental sustainability of all Utilities activities	Adding sustainable resources to the supply portfolios will help the City meet its Climate Protection Plan goals by reducing the carbon footprint of the utility services provided to our customers. We will achieve this by acquiring renewable resources and promoting the development of local renewable resources within the rate objectives in the Long-term Electric Acquisition Plan (LEAP). Sustainable practices will be pursued not just for the supply portfolios, but across all the Utilities day-to-day operations.	Carbon intensity of the electric portfolio	80% of baseline (2005) level	
BP12. Promote efficient use of resources	Resource efficiency programs meet our customers' desire for environmental solutions that save money as well as contributing towards the Climate Protection Plan goals. We will promote resource efficiency by dedicating the tactical staffing and budgetary resources	Actual electric energy efficiency achievement	At least as high as goals set in May 2010	By June 2011, develop implementation plans to achieve the long-term water and energy

## Utilities Strategic Plan – Strategic Objectives

ATTACHMENT A

Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
	necessary to reach maximum deployment of economically feasible resource efficiency. We will revise and document our long-term efficiency strategies by updating our 10-year Energy Efficiency goals every three years and updating our water efficiency goals every five years in the Urban Water Management Plan. To maximize the savings potential for new development, coordinate with the City’s Economic Development Manager to ensure that new developments incorporate energy saving features in the design phase.	Actual gas energy efficiency achievement	At least as high as goals set in January 2011	efficiency goals and implement programs as outlined in the implementation plans.
<b>People and Technology Perspective</b>				
PT1. Be an attractive place to work	We will create a positive values-based work environment which attracts and retains qualified staff. To achieve this objective we will try to better understand employees desires, work with City management to establish sufficient compensation, benefits, and incentives, and will articulate our values both internally and as we recruit.	Employee satisfaction rating	Improvement from baseline level	Implement an annual survey to determine employee satisfaction levels and establish the baseline satisfaction level for 2011.
PT2. Obtain, develop and train employees to ensure an adequate and qualified workforce	A properly sized, trained and certified workforce is essential to our effectiveness. We will identify skill and staffing gaps at the individual and organizational levels and seek to fill those gaps through the effective use of opportunities including hiring, mentorship programs, role rotations, knowledge transfer opportunities, long-term developmental assignments and both internal and external training opportunities. We will plan for workforce succession and provide cross-training opportunities for employees to improve employee satisfaction and build a more robust work force	Percentage of operations personnel that has appropriate certification and training required for working in all areas they may be assigned	100%	Develop a 5-year succession plan for each division.

## Utilities Strategic Plan – Strategic Objectives

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Strategic Objective	Objective Statement	Performance Measure	2015 Target	Strategic Initiative
PT3. Ensure employees have adequate tools to perform job duties	As major users of technology assets, we must have access to quality and timely delivered IT services. We must build and maintain an effective relationship with the City’s IT division that includes clear, frequent communication as well as productive coordination. We will collaborate with IT to identify barriers to providing support for technology projects and remove them. In those instances in which our immediate technology needs cannot be addressed by the City’s IT division in a timely or sufficiently-comprehensive fashion, we will utilize external expertise.	Technology needs being met	100% for all Utilities work groups	Develop a Utilities-specific IT strategic plan.
PT4. Investigate and adopt innovative technologies	Our customers value Utilities embracing new technologies that will help reduce costs and/or meet Climate Protection Plan goals. We will innovate by researching technologies and cultivating relationships with entrepreneurs and academics to identify new cost-effective and environmentally sustainable technologies to consider adopting. The smart grid strategic plan will be complete by the end of FY 2012 and new technologies, programs, and projects identified in the plan will be implemented.	Number of new technologies evaluated per year by an in-depth study or pilot project	Three	Develop a process to evaluate and implement new technology through targeted programs and consider creating a fund for innovative projects and pilots.
<b>Financial Perspective</b>				
F1. Maintain financial strength	Maintaining a high credit rating reduces the cost of borrowing if needed for capital projects. We will continue best practices for financial management, adhere to energy risk management policies and guidelines to minimize financial risk, and maintain sufficient reserves to cover debt obligations as required to retain CPAU’s current favorable bond rating so that the cost of capital is low for any bond funded capital projects.	Credit rating	At least AA as determined by Fitch Ratings or Standard and Poor’s or at least Aa3 as determined by Moody’s	

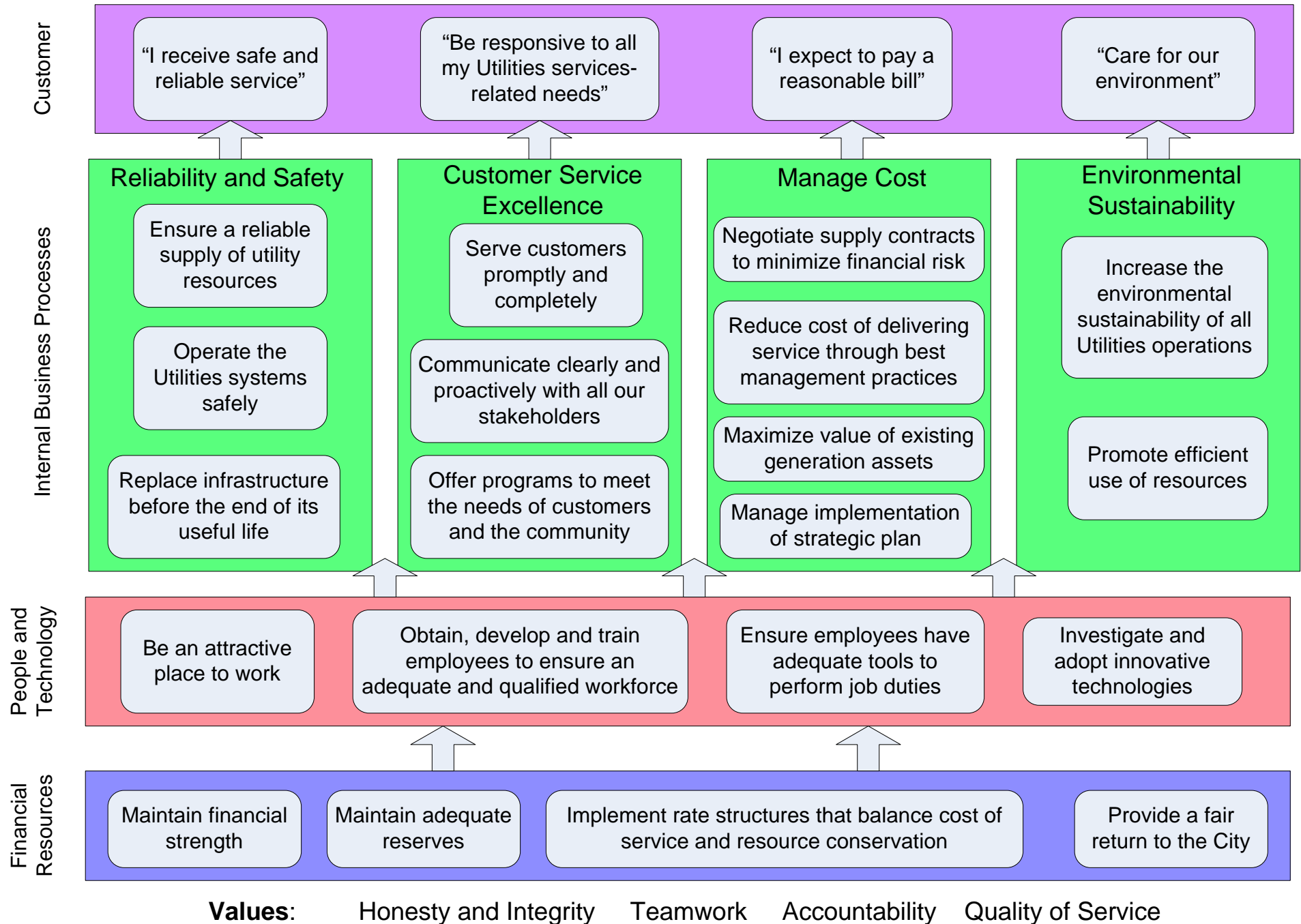
**Utilities Strategic Plan – Strategic Objectives**

**ATTACHMENT A**

<b>Strategic Objective</b>	<b>Objective Statement</b>	<b>Performance Measure</b>	<b>2015 Target</b>	<b>Strategic Initiative</b>
F2. Maintain adequate reserves	Maintaining adequate cash reserves contributes to maintaining our overall financial health and retaining our current favorable bond rating. We will maintain Rate Stabilization Reserves levels within Council-approved guidelines and sufficient to provide rate stability as desired by ratepayers. During the annual budget and rate setting process, the risks that each Utilities fund is exposed to will be identified along with the trajectory of costs and revenues to allow Council to determine appropriate reserve levels and rate adjustments.	Rate Stabilization Reserve levels	Adequate to cover cost uncertainties over a two-year period while meeting rate stability objective	Re-evaluate the need for and purpose of the Calaveras (stranded cost) Reserve by the end of 2011.
F3. Implement rate structures that balance cost of service and resource conservation	Retail rates should be designed so that the revenues from a customer group match the cost to serve those customers. Rates consist of fixed charges and volumetric charges, which are based on usage. Fixed costs consist of customer-related costs (meter reading, billing, etc.) and costs related to capital projects and operations while variable costs include the cost of buying supplies (water, gas, or electricity). When fixed costs are recovered through charges based on usage, costs will not be recovered if customers reduce usage more than projected. To address this problem we will examine alternate rate structures that strike a balance between the two competing objectives (cost of service and resource efficiency) to ensure that certain fixed costs are recovered with a fixed charge, but other costs are recovered with charges that vary depending on usage (volumetric charges).			By the end of 2011, evaluate the appropriate fraction of fixed costs that should be collected by fixed charges versus volumetric charges.
F4. Provide a fair return to the City	CPAU provides an equity transfer to the City of Palo Alto’s General Fund which provides a return on the City’s original investment in the Utilities and reflects the City’s ultimate responsibility for Utilities operations. Council approved the current equity transfer method in May 2009. The equity transfer is used by the General Fund as determined by the City Council and supports activities such as fire, police and library services to the City residents and businesses. This benefit, along with favorable rates and utility services, is a key value provided to the community from municipal ownership of Utilities.	Equity transfer to the City’s General Fund	100% of the transfer as calculated by the Council-approved equity transfer methodology and permitted by law.	

# Vision: We Deliver Extraordinary Value to Our Customers

**Strategic Destination:** We will earn the high satisfaction of our customers with our cost-competitive provision of safe, reliable and environmentally sustainable utility services



## 2005 Utilities Strategic Plan - Key Strategies and Tactics

### MISSION

<i>“Provide valued utility services to customers and dependable returns to the City.”</i>
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### SUPPORTING OBJECTIVES

- |  |
|--|
| 1. Enhance customer satisfaction and utility infrastructure.   |
| 2. Employ balanced environmental solutions.  |
| 3. Provide fair and reasonable returns to the City and competitive rates to customers through municipal ownership. |
| 4. Ensure a safe and engaged workforce.  |

### KEY STRATEGIES, Years 2005-10

<i>STRATEGY 1:</i>	Ensure a high level of system reliability in a cost effective and timely manner.
<i>STRATEGY 2:</i>	Manage supply portfolio risk as per council policy to provide stable gas and electric rates, to preserve a supply cost advantage, and to manage business processes cost effectively.
<i>STRATEGY 3:</i>	Improve inter- and intra-departmental business processes to reduce cost, improve efficiency and enhance information flow.
<i>STRATEGY 4:</i>	Provide low and stable rates, adequate reserves, and budgeted transfers to the General Fund.
<i>STRATEGY 5:</i>	Provide proactive, responsive and integrated communication to customers.
<i>STRATEGY 6:</i>	Provide targeted customer and environmental programs and services.
<i>STRATEGY 7:</i>	Foster a productive workplace environment that promotes safety, job satisfaction and self improvement goals.



**KEY STRATEGIES with TACTICS**

- STRATEGY 1: Ensure a high level of system reliability in a cost effective and timely manner
- A. Complete budgeted CIP projects as scheduled.
  - B. Flush and clean 1/2 million feet of sewer main per year.
  - C. Flush and clean 1/3 of the water system main lines each year.
  - D. Check and operate 1/3 of the main line water valves each year, replace or repair as needed.
  - E. Check and operate all Gas system Key valves each year, repair or replace as needed.
  - F. Check and operate all gas system valves once every 3 years, repair or replace as needed.
  - G. Complete the gas leak survey of the business districts once per year, leaks repaired (depending upon grade) within specified time frames.
  - H. Gas leak survey 1/5 of the city each year, leaks repaired (depending upon grade) within specified time frames.
  - I. Gas leak survey all bridges, railroad crossings and creek crossings each year, leaks repaired (depending upon grade) within specified time frames.
  - J. Inspect all water reservoirs once every 3 years.
  - K. Maintain all traffic signal cabinets and lighting systems once per year.
  - L. Test all traffic signal battery backups monthly.
  - M. Continue the citywide undergrounding of utility wires. Minimize the impacts of undergrounding on street tree root systems and planting areas.
  - N. Continue with line clearing and vegetation management activities and meet the goal of 9000 trees per year that interfere with power lines.
  - O. Complete annual GO 95 and GO 128 inspections and make corrections by December of each year, complete the GO165 report by the following February.
  - P. Evaluate transmission alternatives and implement physical, regulatory and legislative alternatives that improve reliability.
  - Q. Evaluate the potential for small-scale distributed generation and demand-side measures to improve distribution system reliability and power quality..

- STRATEGY 2: Manage supply portfolio risk as per council policy to provide stable gas and electric rates, to preserve a supply cost advantage, and to manage business processes cost effectively.
- A. Prepare a recommendation for policy-makers on the remaining elements of the WIRP not already addressed in the Council-approved WIRP Guidelines.
  - B. Comply with the Urban Water Management Planning Act by updating the City's UWMP/UWSCP by December 2005.
  - C. Implement Council adopted long-term electric acquisition plan (LEAP).
  - D. Implement Local Generation Feasibility Study.
  - E. Develop efficiency goals and integrate efficiency into resource planning.
  - F. Work towards achieving Renewable Portfolio Standard goals of 10% by 2008 and 20% by 2015, and review or revise those goals to meet customer needs and regulatory requirements.
  - G. Evaluate transmission alternatives and implement physical, regulatory and legislative alternatives that reduce cost.
  - H. Implement Council adopted gas utility long-term plan (GULP).
  - I. Manage the electric and gas portfolio as per Council adopted recommendations and risk management policies.
  - J. Develop and implement annual regulatory and legislative goals by working individually and through collaboration with BAMx, BAWSCA, NCPA, TANC, and CMUA.
  - K. Monitor and influence cost structure of partner agencies such as NCPA, TANC and BAWSCA.

**STRATEGY 3: Improve inter- and intra-departmental business processes to reduce cost, improve efficiency and enhance information flow.**

- A. Identify and map key business processes to eliminate waste, increase accuracy and minimize complaints.
- B. Ensure timely information related to preparing accurate budgets and financial forecasts.
- C. Identify areas where technology would increase efficiency and implement.
- D. Establish back-up systems for mission critical billing and communication system.
- E. Evaluate and implement a CIS System.
- F. Review and modify bill presentation.
- G. Design and implement a department-wide complaint tracking and response database.
- H. Evaluate the integration of Automated Meter Reading, Advanced Metering, SCADA and Dark Fiber.
- I. Evaluate SAP solutions for business process improvements.
- J. Improve recordkeeping and tracking
  - a. Maintain and publicize Point-of-Contact numbers for customer problems
  - b. Update Blockfinder database and online search applications
  - c. Update customer phone number database and circuit mapping for the automated Porsche Outage Notification system
- K. Develop and maintain a centralized system of key administrative information for frequently used templates and critical timelines
- L. Review and update Service Level Agreements as appropriate.
- M. Ensure timely interdepartmental communications at the manager level and above.
- N. Coordinate major project initiatives with other City priorities (e.g. Alma Sub – Housing; Local Generation/ESC/WQP; etc.)

**STRATEGY 4: Provide low and stable rates, adequate reserves, and budgeted transfers to the General Fund**

- A. Explore SAP solutions in designing and implementing effective (user friendly) financial and other reporting systems to include:
  - a. Budget –to-Actual reports for Operating and Capital Budgets for both labor and expenses.
  - b. Asset management in compliance with FERC requirements,
  - c. Revenue margin guidelines,
  - d. Review the use of allocated vs direct charges for charges for support services from other departments and develop a methodology to track these charges and their impacts on the financial health of CPAU,
  - e. Develop a system to study, review, and authorize all budget transfers to other departments, both for support services and other services.
- B. Review the use of financial reporting tools such as income statements, balance sheets, and others for drivers for decisions at the appropriate time within the appropriate ranges.
- C. Establish and manage retail cash management policies that include credit policies, deposits, cycle balance and working capital.
- D. Evaluate and implement contractor damage cost recovery plans that encourage reduction in occurrences.
- E. Implement changes to rates and reserves policies as necessary.
- F. Monitor and pursue outside funding opportunities to leverage City resources

**STRATEGY 5: Provide proactive, responsive and integrated communication to customers**

- A. Maintain ongoing and effective customer communications in the service areas of:
  - a. Red Tags
  - b. Turn-ons and Turn-offs
  - c. Unscheduled Service Disruptions
  - d. Planned Shutdowns
  - e. Changes in Water Quality
- B. Enhance ongoing and effective internal and customer communications:
  - a. Communicate CIP plans
  - b. Communicate CIP construction schedules and status
  - c. Communicate long-term resource plans
  - d. Engage the public on major initiatives (PP/reservoirs/intertie/water and electric rates)
  - e. Promote visibility in the community through public speaking opportunities at neighborhood groups, service groups, etc.
  - f. Develop and implement a plan to improve reliability perception
  - g. Create New Customer “Welcome Packets” for Residential and Business customers
- C. Implement and evaluate targeted customer communications:
  - a. Website
  - b. Email list serve
  - c. Promotional events
  - d. Bill stuffers and UCAs
  - e. Program materials
  - f. Form letters to customers
  - g. Customer Satisfaction Surveys
  - h. Required annual notifications: Water quality notifications, Gas safety, Call Before You Dig
  - i. Brand awareness campaigns

- STRATEGY 6: Provide targeted customer and environmental programs and services
- A. Continue providing high quality Key Account Services
  - B. Expand Low Income Assistance Program
  - C. Provide integrated energy and water efficiency programs
  - D. Continually evaluate and revise forecasts for electric power demand. Pursue adequate low cost supplies to meet this demand by participating in cost-effective programs offered by Northern California Power Agency (NCPA) or other suppliers and marketers of energy.
  - E. Work individually and through partner agencies such as SCVWD, NCPA, CMUA, BAWSCA, CUWCC to maintain and enhance efficiency and conservation program effectiveness
  - F. Monitor other utilities that successfully use alternative energy sources and seek funding for similar projects that would be appropriate in Palo Alto
  - G. Support implementation of City’s Sustainability Program
  - H. Support implementation of the environmental components of the City’s Comprehensive Plan
    - a. Continue providing staff support and technical assistance in energy conservation and demand side management to architects, developers, and utility customers.
    - b. Regularly review the water rate structure to ensure that it encourages efficiency and is competitive.
    - c. Maintain citywide water conservation and efficiency programs for all customer classes.
    - d. Where practical, incorporate federal, state, and other agency policies and standards for water efficiency into City codes, regulations, and procedures.
    - e. Implement incentives for the use of drought-tolerant landscaping and recycled water for landscape irrigation.
    - f. Implement gas and electric rate structures that encourage energy conservation and that are in balance with other rate-making objectives, such as providing competitive rates. Set rates to achieve a balance between actual service costs, market prices, and the goal of promoting conservation and efficient use. Continue to provide a baseline service rate.
    - g. Encourage establishment of public education programs addressing energy conservation and efficiency.
    - h. Provide information and advice on the use of alternative energy technologies, including the relative costs and benefits of different types of fuel to all customers.
    - i. Encourage the use of compact and well-designed utility elements, such as transformers, switching devices, and backflow preventers. Place these elements in locations that will minimize their visual intrusion
  - I. Work with the Santa Clara Valley Water District to identify and map key groundwater recharge areas for use in land use planning and permitting and the protection of groundwater resources.
  - J. Embrace Environmental Solutions: Invest in equipment, facilities and programs that reduce the environmental footprint of providing utility services: increased efficiency, lower losses, environmentally friendly materials and processes, and reduced environmental impact.
    - a. Use environmentally friendly materials for parts and equipment
    - b. Use less destructive construction methods
    - c. Continue to support the Right Tree in the Right Place program
    - d. Continue to support the Shade Tree Program
    - e. Continue to stay up-to-date on current industry practices on minimizing, mitigating negative environmental impact
  - K. Evaluate fossil fuel efficiency and greenhouse gas impacts of thermal generation [per AB1478]
  - L. Develop the City Council approved fiber optic ring around the City as recommended in the 1996 Telecommunications Strategy Study and evaluate and implement enhancements to the system
    - a. Improve dark fiber billing, pricing and contract terms
    - b. Promote VOIP to hotels
    - c. Use dark fiber as AMR and advanced metering back bone infrastructure [and evaluate use for SCADA or distribute resources monitoring and control even though it is not in the report?]

**STRATEGY 7: Foster a productive workplace environment that promotes safety, job satisfaction and self improvement goals**

- A. Maintain OSHA Reporting System and incent employees to adhere to safety regulations
  - B. Provide employees with ergonomics recommendations
  - C. Ensure all employees are aware of and implementing security procedures
  - D. Ensuring targeted safety meeting participation
  - E. Implement Phase II Gallup Q12 Program
  - F. Schedule quarterly communication from department/senior management to entire department (State of the Department) [rotate divisions chairing meeting]
  - G. Ensure 100% involvement in Strategic Plan development [input and buy-in]
  - H. Develop interdivisional work teams for identified projects.
  - I. Track skills related training hours and dollars
  - J. Implement Career Development Actions
    - J.1. Career-day once per quarter / open house
    - J.2. Cross-training
    - J.3. Shadow mentoring
  - K. Ensure all employees have a learning and development plan
-

## Strategic Planning Interview Summaries By Topic Area By Interviewee Type

### Communications:

#### **Council**

- Should tout our non-GHG-emitting electric portfolio, our low electric rates, and our efficiency gains. Should do more communications and more effective communications.
- All communication with customers follows a continuum from a low level of engagement due to low level of knowledge to participation, to active involvement, to advocacy as the level of knowledge increases. If you want engagement, you have to educate.
- Staff can improve how it presents information in staff reports. Would like staff to identify the uncertainties in the analysis and present a simple matrix of costs, benefits and impact on rates for all decisions. We provide a lot of outreach efforts – bill stuffers, brochures etc. and could be done more effectively and cheaply.
- Public relations should improve – there is a good story to tell, but it has not been sent by us or received by the community.
- Should not be under the radar and supports communication efforts, especially those to market efficiency programs, but concerned with staff capacity limitations.
- Communication is not working now – need to go out of the box to find a better way. Use people in the community to help design and implement programs – you will end up with practical solutions and an engaged community.

#### **UAC**

- Suggests that we think like a marketing and brand management person – like a campaign. Have an idea of what image should be and repeat relentlessly.
- Do a better job on outage notification. Need to proactively tell the positive story of Utilities – annual report?
- Seems to be a disconnect between staff’s expertise and the Council decision-making (e.g. Ameresco contract issues). Conversations between the UAC and Council need to improve.
- Improvements are needed in communicating to the public. Glad we’ll have new communication person. Really need to improve communications when something goes wrong - have to let people know when service will be restored. Need to spend more time educating Council so that they are ready when facing an action item.
- Experiment with ways to communicate, including “raw” communication, which is cheaper.

#### **City Management**

- New communications manager should develop relationships with local reporters. Put out regular messages. No one knows what Utilities is/does – could offer classes (e.g. Electric 101) that could net you supporters.
- Communications with public should be improved. Need to use all tools: twitter, facebook, ongoing messaging through social media. Need to explain Calaveras Reserve. Things to communicate: What’s coming up, what’s on horizon, new initiatives. This could engage people that are generally not aware of Utilities business. Use triple bottom line to tell the story. Could ask for direct customer feedback after delivery of service.
- Communication is important in changing how the community perceives the value the City provides and whether or not we’re transparent. We need to think of our decisions/policies as

being long-term and not react to short-term disruptions. Strong and consistent leadership are important. Branding and imaging done through bill inserts is good conveying a good image and thus positioning the City in a positive way with the public.

- We need to improve communication and outreach to the community. We have a good story to tell (e.g. aggressive infrastructure replacement programs), but we don't do a good job of telling it. It is essential to tell this story as it helps explain our rates for some utilities. Part of the communication needs to be with the Council, which needs to be continually re-educated. The outcome should be that Council feels that Utilities indeed has a comprehensive and coordinated plan to address all their issues (efficiency, renewables, rates, costs, etc.).

### **Community Members**

- Utilities should be invisible – should be available, but not a concern to citizens. Be so good that no one knows you exist. Don't want customers to have to think or worry about us. It's very hard to get to the public given all their other interests. Press should know who to call in Utilities for outages and press should be posted by Utilities on these incidents immediately.
- Communication strategy should be to not be in the newspaper. The best way to avoid being in the newspaper is continue to run a tight shop and have a reliable, safe system.
- CPAU is highly regarded by the citizens. Utilities is a critical component of city finances. The General Fund Transfer is not communicated well.
- Most people think Utilities does a great job. Bad things make the paper. Utility bill inserts are fantastic. Should use CANS system for emergency situations. Should be proactive in calming public's fears given recent San Bruno incident. Neighborhood associations are a great way to distribute information.
- Web site should be improved and could add a blog. Would like a more informal engagement process – UAC and Council meeting setting is too rigid and isn't encouraging of public input.
- Overall, Utilities communication is better than the rest of the City. Could do more occasional outreach about the utility budget with comparison to PG&E. Also information on the rates is needed.
- CPAU should communicate to the public about its infrastructure maintenance and replacement projects and history. Utilities does a good job of informing folks before a project begins. Could thank people for their patience after replacement projects are completed.
- City needs to use the press to inform the public – it can help to do the City's work. The City needs to be more coordinated in its public communication activities. ALL outages should be reported to the media – let media decide if they are too small to report to the public. Should view “talking with the media” (which may be a low priority in an emergency) as “informing the general public.”
- In general, customers just want reliable service at a reasonable cost and don't need to hear a lot from the utility. Not many people read bill stuffers. Most people don't pay attention even when rates increase. Don't raise an issue higher than you need to. Garbage rate increase was a big problem because it was so drastic.

### **Costs/Prices/Rates:**

#### **Council**

- Remember the lessons from the Refuse Fund – can't provide services for free and allow revenues to fall too low to cover costs.

## ATTACHMENT C

- People should pay the real cost of things, and is not so concerned about rate increases. Community perception is that we used to have lower rates than PG&E and now we are above. If economy lags, more Council members will be concerned with cost-cutting. Some will challenge the General Fund transfer.
- Concerned about rate increases for all utilities and affordability of services for all Palo Altans especially renters and those on fixed income. Need to manage rates and services to avoid extreme fluctuations in either – prefers current stable gas rates. Should consider providing rate subsidies to encourage small business to come and stay. Should not penalize small users with higher rates – ensure that rates increase for larger users.
- High water rates are a big concern. Supports stable rates – take the longer view. Need to keep up with the laddering strategy.
- Supports stable, predictable rates. Some customers feel angst about their Utilities bill and feel that they don't have any control or influence over it. They worry about what rates may be in the future.
- Concerned about keeping rates low and making sure that any programs, environmental or otherwise, are economically justified and are not justified by saving the world. What happened in Refuse Fund is a problem. Utilities should not be in a position of needing a huge rate increase due to not thinking through the impacts of a contract or a plan/program.
- Concerned about finances and pricing – don't repeat the Refund Fund mistake by reducing use of service and providing other services for free. Need to make sure that our models adequately address rate impacts and the need for reserves. Concerned with narrowing gap between PG&E and CPAU's rates.

### UAC

- Can't ignore costs, but can be both green and cost conscious at same time.
- Low rates are a two-edged sword since they do not encourage conservation and renewables (PV on roof). Could increase the price of the top tier while lowering the price of the lowest use tier to encourage conservation. Think about rate impact vs. bill impact.
- Rates should be stable in the short-term. Utilities should provide long-term rate projections to assist customers in evaluating the cost-effectiveness of efficiency improvement investments. There is much anger in the community about the General Fund Transfer to the City. There is a less concern with money spent on Utilities infrastructure.
- Price is important as an economic driver.

### City Management

- Utilities operates in a highly regulated and a highly political environment. Many costs are not under our control (e.g. gas and electric market prices and the availability of water). Operating costs are subject to constraint as for the rest of City government – can't be separate from the City in that respect.
- This is a tolerance for some increases related to green programs, but they need to be done gradually. There will always be grouchiness. Careful, incremental changes would be supported.
- Integration versus Isolation - The Utilities Department needs to become better integrated with the rest of the City departments and consider the implications of its policies, rates, actions on the whole of the community.



- Need to stay competitive with our rates. If rates keep going higher, the question will be raised of why the City has its own utilities. Council has an increasing focus on costs and on Utilities expenses. Even if complicated to do, benchmarking studies are a good way to have this information available. May have to do some outreach with our story, especially with respect to efficiency and lower usage leading to higher rates.

### **Community Members**

- People are more sensitive to electric rates than gas rates. If electric rates are higher than PG&E, the call will go out to sell the utility and there will be questions about the value of being independent. Water rates are high, but we have spent more on infrastructure replacements and the emergency water supply and storage project. If costs are high due to infrastructure costs, for example, break out that as a separate component on the bill. People can then see what they are paying for this and most people support infrastructure improvements.
- Understands that Hetch Hetchy costs will go up and that energy costs are volatile, but in the end we should ensure that our bills are lower than PG&E's. Does not have a strong feeling about stable vs. fluctuating gas rates, but acknowledges that some people might have problems with volatile rates.
- Continue to strive to be low cost. Do not exceed rate cap for renewables. Stable gas rates are still a good objective.
- Rates are really not a huge issue in this community. We are fortunate to have cheap hydro and renewable resources.
- This community can afford reasonable rate increases to support moving to carbon neutrality. We must recognize that the costs of mitigation (for climate change) will be high if we don't act now.
- Community is served well by stable rates. Remind people about the long-term view. Should talk about overall impact on bills, not rates – try to reduce costs for homeowners.
- There is a value to stable rates. It is good to protect customers from extreme swings. Water problems can be the same as with the Refuse Fund where conservation can bankrupt the utility. Likes the idea of raising fixed charges to stabilize part of the revenue and so that system is not penalized by efficiency.
- Keep with current stable rates objective and gas laddering strategy – it is no better or worse than other strategies. There is no reason to change. To control rates, place increased emphasis on the rate impact of expenditures which are not directly related to safety and reliability (e.g. the proposed water recycling project, smart meters for residential customers, and the acquisition of high-priced renewable electric supplies beyond what is required by the State).

### **Technology/Innovation Leadership:**

#### **Council**

- We should be a test bed for emerging innovations and technologies. We have top intellectuals in town – how can we harness these resources? We need to enlist these folks on a volunteer basis – tap into their area of expertise. How can staff and the UAC guild a clearinghouse of experts – from Stanford, EPRI, the community – to help them?

## ATTACHMENT C

- Consideration of new technologies needs to be part of the model. Show that staff is always aware of and considering new technologies. Community likes the idea of innovation but in reality there isn't an appetite for it unless there is a really great cost/risk ratio.
- Utilities should be a leader and at least be willing to test new technology with a small pot of money – costs can't be high.
- Supports only limited technology investments given staff limitations. Should enhance relationships with Stanford and seek low-cost ways to do demonstration projects or make ourselves available for others to test technologies.
- CPAU should not be cutting edge, early adopter of new technology. We should not take on new risk. Believes in low cost, low rates, high reliability delivery of services – not new tech for new tech sake.
- The stomach for innovative projects that could fail is very small. Re: Ameresco contracts, LFG projects are not the friendliest environmentally. NYTimes article shows that burning trash and making electricity is better than landfilling it and making electricity from the methane generated in the landfill.
- We should look at smart tech. Use the precautionary principle – put out your parameters, define your borders. Could set aside a certain amount of funds for innovation and R&D.

### UAC

- We don't need to be a first mover, but don't appear to drag feet either – work prudently to evaluate new technologies. We are a leader – we do LED, hired a smart grid consultant, etc. The perception that we're not a leader could be an issue of messaging. Embrace EVs – Palo Alto will have a huge penetration of this technology.
- Should also do additional innovative programs. Do cheap, time-tested technologies, but also new, cutting edge technologies, but on a small scale, or pilot, basis. Do not lead on smart grid. Should support EVs. PA could position itself as a green tech home. Promote clean tech “revolution” – can we attract economic development of green tech businesses? Can we allow clean tech businesses to conduct pilots of their technologies in town?
- CPAU should have an education center similar to PG&E's Energy Center to show how shading, design of a building, etc. affects energy use. Utilities should take a more active role in new building design.
- Should not be bleeding edge adopters, but be second movers on adoption. Should invest some reasonable time and money to be a test bed.
- Have couple percent of our budget to explore new ideas.

### City Management

- Don't mistake the City for an entrepreneurial entity, but should have a small pot of money and some resources devoted to trying some new things. City is too small and can't afford to take a risk. Instead, City should be on the examining leading edge.
- We should not be technology leaders – incremental, steady changes only. Do trials of new technology before jumping in with both feet. City has very little tolerance for error and wasting money.
- The community wants us to be leaders in technology and sustainability and our challenge is to find a way to effectively communicate and strike a balance between our fiduciary responsibilities versus being a leader especially in challenging economic times.

- Be less resistant to try new technologies. Find a way to test them, or at least be open to analyze them and report your results to Council. Need to show that you are aware of the technologies and have a way to evaluate them, try them, pilot them.

### **Community Members**

- CPAU is not big enough to influence roll-out of new technology. Being on leading edge exposes you to negative reviews that will end up in the press, which could swamp all the good that you do. Let others work out growing pains of new tech. Be aware of new technology and when something does make sense, embrace it. Be in front of technology just by knowing about it. For EVs, be a “following leader” by watching demands. Don’t promote by installing charging stations, but make it easy for people to install charging units at their homes. Should encourage night-time charging. Downtown charging stations would encourage daytime charging.
- CPAU should not be a technology leader. We should not spend a lot of money on research – should be frugal. Leading in technology is risky. Risky ventures and bad outcomes are another opportunity to be in the newspaper. On smart grid, wait for the technology to shake out. LED streetlights tactic with pilots was good.
- CPAU should not be on the leading edge of technology. Stick with the tried and true since 8 out of 10 new ventures fail – let the venture community lead. Wait until things shake out. Pilots are the way to test new tech. Firm believer in a fiber system build-out (fiber to the premises). It is the leading, but not bleeding, edge.
- Should be cutting edge on some projects like anaerobic digester. We should wait to see how things fall out with PG&E smart meter project. Need to think ahead on electric cars.
- CPAU should be on leading edge of innovation, especially with respect to establishing carbon neutrality goal. Can use PA’s cachet to move the state/nation. Should find a way for entrepreneurs to demo their technology. Utilize Stanford’s expertise.
- CPAU should be slightly ahead of the game, especially on climate issues. One way to handle is to have an innovation fund to try new technologies.
- Palo Alto should not be a leader here just to be a leader. You should upgrade the system with technology if it makes sense. Changes should be slow and incremental. Continue to evaluate the impact of technology, but make decisions based on economic feasibility. Not every advance (tech) will survive in the long term. Palo Alto is not in the gasoline business so we shouldn’t be in the EV charging business.
- Don’t be a technology leader; rates and reliability are the two important issues.

### **Support for and Cost of Environmental (Green) Programs:**

#### **Council**

- Sustainability programs and plans need to be dynamic since thinking, understanding, costs, and impacts are constantly changing. Embrace change – it’s the way of Silicon Valley. Within renewables, what are different shades of green? What is the true objective? What is the greenest?
- Staff is asking the right questions about the environmental balance. Council should set very high-level policy and let staff run the department. Staff needs to have conversation with the Council to set broad policy so that staff is not always being second guessed. Staff’s presentation should be neutral and should highlight trade-offs to solicit opinions from Council.

## ATTACHMENT C

- Staff should present a complete environmental picture (life cycle analysis) on green proposals and include an impact on rates. PA should be a green leader – but not at any cost and avoid green washing. Need to educate our customers on our sources of energy and water and how they are delivered so that our customers can get a sense of how bad some of these resources are for the environment.
- The community wants to be green – need to take a long view of these things. Should stay on a constant course even if public can be flighty and respond to whims. Need to do more innovative efficiency programs and programs to save water. Green policies should continue even in this economic environment – they are long term goals that should not be put on hold. Keep focus steady.
- Community generally supports environmentally focused programs.
- Should be as environmental as possible without raising rates. Can't give a number for acceptable rate impact of environmental programs, but if we have increasing rates for other reasons, don't add to the burden with environmental programs cost. If rates are flat or not increasing, there may be an opportunity to increase rates for enviro programs. Should maintain our brand as environmentally conscious community – keep up the talk and the low cost/no cost programs. Don't do anything just for environmental good – only do if makes economic sense. Reducing GHG reductions in Palo Alto does nothing for the world. We're too small. Efficiency does have value.
- The gap between cost of renewables and market prices is a sticking point. Thinks there is a better way to think about renewables –are we giving consumers the best value for environmental goals?
- The community is too provincial in its approach to environmental sustainability. We need to look globally at the overall worldwide resource constraints and accept that our lifestyles are not sustainable. We need to accept the impacts locally of our use of resources – things must be sited here that may scratch the surface of pristine Palo Alto such as putting a windmill in our baylands. Need to look at whole picture – the life cycle of the process. We need now to make incremental steps towards this future.

### UAC

- We should be a green leader, but always remain cost conscious. Don't need to pull back on environmental goals – there is huge support in the community. In addition, we can be a green leader without huge economic impact. The issue of either environment or cost is a false issue. Keep doing the right thing environmentally at a prudent cost. Most enviro decisions are very economically reasonable.
- PA has an opportunity to be a green leader that would have a large impact if other areas were to follow. For example, in solar hot water heating, which many do not offer at this time – figure out a way to do this before others do – get out ahead. General support for efficiency vs. renewables. Should push as hard as reasonable on efficiency. Community is very green oriented.
- People are very ignorant of how much energy they use and how much it costs. Education is needed. Utilities should provide long-term rate projections to assist customers in evaluating the cost-effectiveness of efficiency improvement investments.
- City should not be a leader on RPS, should only follow fed and state regulations. Energy independence is more important than climate problem. Renewables more valuable when local (solar, cogen, landfill gas).

## ATTACHMENT C

- Most of the Council doesn't necessarily understand what RPS will mean for rates. Will spend a lot of time dealing with the economic implications of green, but we need to tell Council all the consequences.

### **City Management**

- Community is supportive of green programs, but must temper expenditures given economic recession. Need to show the cost-benefit of proposals. Now is not the time for big new green programs and projects.
- Cost of green efforts generally supported by the community, but need to communicate what's being done with the money.
- Community still supports green programs, but need to have visibility of results. There is a sensitivity to rates in the community, but community is generally supportive of green projects and programs, but don't increase the ½ cent rate impact limit at this time (during current recession).

### **Community Members**

- Palo Altans are willing to pay more for greenness, but be cautious. If we could provide more green power and still be lower cost than PG&E that would be great. Palo Alto is affluent enough that money spent on renewables and EE spending is still acceptable.
- Green resources are fine and supported by the community as long as the cost is moderate. CPAU should push water conservation. Projects like recycled water should be analyzed financially not theologically (in the religion of green at any cost). For new developments, City rules should require minimized lawn and use low-water using landscaping.
- Values PA role in environmental leadership and efforts done to date. Believes climate change is the biggest concern for the world and for Palo Alto due to its proximity to the bay. Charging more for brown power is not a tax – it is removing subsidies. We should use the money to create a fund to deal with problems created by climate change.
- Climate change is the biggest issue and CPAU is a large part of the carbon footprint of its customers so it must be engaged here. We must recognize that the costs of mitigation (for climate change) will be high if we don't act now.
- There is still support for green programs and people are still willing to pay extra for a renewable portfolio. Climate change is a huge issue for the City – we should be considering the long-term impacts on the utility. For example, water supply and hydroelectric generation both may be impacted.
- People are willing to pay more for green but that fades when people are anxious about the safety of the system. Safety comes before green but green is still important. Even though hydropower doesn't count for RPS we should communicate our low carbon portfolio to the public.
- Community still supports sustainability. High PaloAltoGreen participation rate is a good indication of level of community support. Small rate impact for portfolio RPS is still ok. Does not support the recycled water project.

### **Reliability/Safety/Emergency Preparedness:**

#### **Council**

- For local generation: avoidance of GHG emissions should be the goal.
- Staff seems to have answered the questions about our system integrity.

## ATTACHMENT C

- Keep service level high. Wants reliable service and to be well prepared for emergencies. We should continue discussions regarding a second electric transmission connection and should ensure that we can shut down our gas system as needed in an emergency.
- Reliability is a concern – there was big publicity on a business leaving City due to electric reliability issues and the outage caused by the plane crash highlighted the issue.
- Top priority of Utilities should be reliable service – the core function of Utilities
- How can we integrate new, high tech, green solutions?

### UAC

- Reliability is one of the top issues for Utilities.
- Reliability is a top issue – both in short-term and long-term. Lack of redundancy due to a small islanded system. Supports a high level of maintenance and infrastructure improvements.
- Emergency preparedness should be the top priority. Should think about what we need to do to keep City alive for some period of time – all utilities. Local generation is key.
- Should evaluate building some local generation.

### City Management

- Focus on safety, reliability and running a well managed utility.

### Community Members

- Service reliability is vital.
- A large (25-50 MW) gas-fired generation facility would be a hard sell to the community, but local plant is attractive for reliability reasons. Good to be self reliant. Solar within the city is a better bet although cost may be an issue.
- Control your own destiny – consider buying gas supplies at the wellhead and pursue a baseload power plant or cogen unit in town.
- Emergency preparedness is an important issue and directly tied to the environment as we can find solutions through local generation with a focus on meeting critical loads (hospitals and key infrastructure). Locally generated green power is best. Must have an environmental platform to win a council seat in Palo Alto – this is proof that community values environmental sustainability.
- Emphasized that safety and basic, reliable services are our core mission. Utility issues should be handled in an integrated fashion. For example, drought and emergency preparedness as well as flooding potential are all water issues that should be dealt with in a comprehensive, integrated manner.
- Safety of the distribution systems is paramount. Now (in the wake of the San Bruno disaster) would be the time to ask for bond money for any needed capital projects related to infrastructure upgrades. We are lucky to have a large number of firms who recognize that reliability and safety are more important than being the lowest cost.
- We should be doing everything we need to do to make sure we have top reliability. Local gas-fired gen, if done economically, is a good idea for reliability.

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**FINAL**

## UTILITIES ADVISORY COMMISSION – SPECIAL MEETING EXCERPTED MINUTES OF JANUARY 12, 2011

### CALL TO ORDER

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

Present: Commissioners Berry, Cook, Foster, Keller, Melton and Chair Waldfoegel and Council Member Scharff.

Absent: Commissioner Eglash

### NEW BUSINESS

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#### ITEM 3: DISCUSSION: Draft 2011 Utilities Strategic Plan

Assistant Director Jane Ratchye stated that the Utilities Strategic Plan is close to final, but that she is soliciting additional feedback before bringing the plan back to the UAC for action at the next (February) meeting of the UAC. She provided a presentation of the highlights of the four themes of the strategic plan: safety and reliability, customer service excellence, cost management, and environmental sustainability. One strategy that was added was to ensure that the strategy itself was implemented as this will require resources to manage, track and report regularly so that the UAC and Council can follow the progress towards completion of the initiatives and whether the performance targets are met.

Commissioner Berry stated that he was very involved with staff in the development of the strategic plan and requested that the UAC use this opportunity tonight to provide staff feedback on the draft plan so that it can be finalized for consideration at the next meeting.

Commissioner Keller asked why objective BP1 (ensure a reliable supply of utility resources) did not include anything about back-up supplies and emergency preparedness. Ratchye said that not all Utilities activities are reflected in the Strategic Plan, but it is intended to capture those areas that need continued focus and, especially, those areas that need improvements, changes in focus, additional resources, or changes in practice or operations. Commissioner Keller asked if there needs to be a placeholder for important issues that may not be an issue now, but could be in the future. Ratchye stated that the strategic plan will necessarily change as we move forward with implementation and that new initiatives will be added as others are completed. Since the plan will be reported on every six months, there will be opportunities to make adjustments to the strategic objectives and performance measures. Regarding objectives BP4 and BP6 relating to customer service, Commissioner Keller asked if there was a way to add outreach for new development. She is concerned that there are resource efficiency opportunities for new buildings that could be incorporated in the design phase. She suggested coordinating with the City's Economic Development Manager to determine any upcoming development plans. Regarding objective PT1 (be an attractive place to work), Commissioner Keller noted that the performance measure relates only to new employees and not to retaining valued existing employees.

Chair Waldfoegel stated the draft strategic plan omits the rate of return to the City provided by the Utilities Department and, since it is a key element of the City's revenues and the Utilities expenses, it should be captured in the strategic plan. He recommended the financial perspective as the location for an objective related to the City as a stakeholder.

Council Member Scharff commented that the stable rate objective is embedded in the strategic plan, but that is premature since the laddering strategy and rate stability issue will be reconsidered by the UAC and Council as a result of an added implementation task in the proposed Gas Utility Long-term Plan (GULP). He added that the performance measure for objective C3 (I expect to pay a reasonable bill) should not necessarily be the aggregate Utilities bill, but rather each fund separately. Otherwise, the information about the relative position of each fund is lost.

Commissioner Berry added that he did not think the performance measure for objective C3 related to the annual rate change should necessarily be the same for all Utilities funds. Ratchye acknowledged that, at least in the short term, rate increases for water are likely to be higher than 10% per year. Commissioner Berry stated that, if that was the case, it is not a good idea to include a performance measure that you know you are not likely to meet and suggested having different targets for each fund. This would signal to the Council and public what the direction of rate changes are likely to be. Commissioner Keller added that predictable rates are valuable if communicated to customers to allow them to make informed investment decisions regarding efficient appliances and other improvements.

Regarding objective C4 (care for our environment), Commissioner Cook stated that environmental sustainability should be across all operations. He indicated that he supported objective PT4 (investigate and adopt innovative technologies) and agreed with Chair Waldfogel that the equity transfer should be added to the financial perspective. Minimizing financial risk should be incorporated into the financial perspective as well. Commissioner Cook also indicated that environmental sustainability should be included in the mission statement.

Commissioner Foster agreed that environmental sustainability should be included in the mission statement and that the last phrase "...in support of the vibrant community of Palo Alto" should be omitted. Commissioner Foster stated that objective C1 (I receive safe and reliable service) is about service interruptions, yet the performance measure was about response time after an interruption. He suggested that the measure should be related to the number of interruptions/outages. Regarding objective PT4 (investigate and adopt innovative technologies), Commissioner Foster recommended additional clarity on the performance measure target of three new technologies evaluated per year. He wanted to ensure that it was at least a somewhat extensive evaluation, perhaps including a trial or pilot program, rather than solely a paper economic evaluation. Commissioner Foster also stated that the performance measure and target for objective F3 regarding rate structures essentially is a policy change and this type of policy change should be debated and discussed prior to be incorporated into the strategic plan. Ratchye responded that she agreed with Commissioner Foster's suggestion and will move the idea to a strategic initiative as something that should be addressed and a policy call made.

Commissioner Berry stated that the performance measure for objective PT1 (be an attractive place to work) should be employee satisfaction as determined by a regular, periodic survey. He suggested that this is the best way to determine if employees feel that they are working in an attractive place. It is also a way for management to address any issues that are raised. Regarding objective C1 (I receive safe and reliable service), Commissioner Berry advised that recovery time is important as well as number of outages.



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## **FINANCE COMMITTEE**

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### **DRAFT EXCERPT**

Regular Meeting  
June 7, 2011

### **3. Utilities Advisory Commission Recommendation to Approve the 2011 Utilities Strategic Plan (Continued from Finance meeting of 3/01/11)**

Utilities Director, Val Fong stated the Utilities Strategic Plan was driven mainly by two individuals; Assistant Director of Utilities, Jane Ratchye and Utilities Advisory Commissioner, Bill Berry who had spent a significant amount of personal time in meetings and brain storming sessions.

Assistant Director of the Utilities Department, Jane Ratchye stated the Strategic Plan had been brought forward on March 1, 2011 and it had been continued to June 7, 2011. She gave a background review of the project indicating it began in spring of 2009 with an employee survey. The objective of the survey was to establish the core value of the Utilities Department resulting in; Integrity, Team Work, Accountability, and Quality in Service. In April of 2010, the Utilities Advisory Commission (UAC) appointed a sub-committee to work on the Strategic Plan with the Utilities Department. There were 26 interviews of key community members over several months to determine feedback on where the community felt the Utilities was, where they were heading, and what some of the issues were that may need to be addressed. The Mission Statement was The City of Palo Alto Utilities was to provide safe, reliable, environmental, sustainable, and cost effective services. The Vision was Where do you see you going. She summarized the interviews and relayed information that was heard from the community as; improvement needed in the notification area where outages were involved, improved communication was generally needed, there was general support for the current Gas rate structure which was stable gas rates, cost recovery was an important issue for the community, costs should be competitive to neighboring communities. It was recognized Palo Alto should be a leader without over extending the community costs and she noted the Green

Programs were highly supported throughout the community. She stated there were four themes to the Strategic Plan; 1) Safety and Reliability, 2) Customer Service Excellence, 3) Cost Management, and 4) Environmental Sustainability. It was determined the Balanced Scorecard would be the method used to measure the performance and organize the matrix to track whether the objectives were being met. There were different perspectives and objectives to meet the satisfaction of the stakeholders; the customer, the internal business process, the equipment and IT resources, and the financial resources.

Council Member Schmid asked if there was a contingency plan in the event the anticipated funds did not materialize or in the amount thought to be.

Ms. Fong stated the Strategic Plan was a diagram in which Staff could layout the issues they were faced with and strategically figure how to approach each one. She felt the safety was regarded as the highest priority therefore Staff had not considered a reduction in the CIP budget and similar situation with the Maintenance budget. She noted all other programs within Utilities were presented to the Council for their input on the budgetary costs.

Council Member Schmid asked what the limiting factors were that would debilitate the department from moving forward with its priorities.

Ms. Fong stated the table Staff prepared and presented to the Committee represented the factors and measures. She clarified there were other policies in place which supported the factors and measure such as the Long-Term Electric Acquisition Plan (LEAP), the Energy Efficiency Plan, and the Gas and Utility Long-Term Plan (GULP) all played a part on the strategy for the utilities. The Council was informed on each move taken by the Staff and their input determined the manner in which those plans moved forward.

Council Member Schmid suggested Council having all of the necessary information readily available in the table type format so as to have the ability to reference the plans and quickly determine whether or not a GULP, LEAP, or rate increase would be appropriate.

Ms. Ratchye stated the table consisted of the Utilities Department goals although the costs were not yet known so Staff may return once the costs were calculated. Some goals may be more expensive than thought and it could be determined to remove it from the table.

Chair Scharff stated he was under the impression the Council had determined it was too costly to redesign the utility bill and yet it was on the table of goals. He asked why.

Ms. Fong stated the table of goals was prepared to be presented in March and it was postponed to June, subsequently the Finance Committee held a meeting with respect to the CIP budgets. She noted the Committee had the ability to weigh in on each component of the Strategic Plan and Staff notes which policy each component was consistent with when they were brought before the Committee or Council. If Council did not approve the item it did not move forward.

Council Member Shepherd stated she looked at the Strategic Plan and the table of goals as a synergy of culture and a business type atmosphere for utilities. She noted communication was a key component for the community, and she noted in the approach to going paperless there needed to be a virtual manner in which to maintain open communication. She appreciated the idea of a survey after contact with a customer although recommended not every time; she felt every tenth time would be sufficient.

Vice Mayor Yeh asked for areas where there was no LEAP or GULF opportunity for Council to weigh in, he was envisioning an annual review of the Strategic Plan and with that did Staff anticipate that going through the UAC, Finance Committee, and Council each year.

Ms. Ratchye stated under the Managed Cost column one of the objectives of the Strategic Plan was to manage the implementation of the Strategic Plan. The initial process was the need to expend resources and then there was follow up with internal Staff meetings and reporting on the information biannually with the UAC, annually with the City Council.

Vice Mayor Yeh asked how Staff prioritized and crafted the strategic initiatives against the Council priorities and when would the Council see dates as to when the initiatives would be implemented. He stated it was critical the community be aware of what Utilities was and what they were doing, how can Staff get the information to them most efficiently.

Ms. Fong stated the information was posted on the website. As for the customers there concerns were what was happening today and where would we be tomorrow. She stated Staff would look into the best way

to communicate to the public what was happening in the utilities arena.

Vice Mayor Yeh stated this type of information would not be released to the customers of the Pacific Gas and Electric Company. That level of transparency exists in the City and he did not want to lose the momentum that had been achieved.

Council Member Shepherd stated as a Council Member the information being presented gave a sense of confidence in the Utilities Department and knowledge of where they were going; she felt it was equally important the public felt the same. She stated the Vision Statement was lacking an explanation of its vision, she felt it was not as clear as it could be. She stated her understanding was the City was not yet a fully environmentally sustainable community, so she asked what Staff's thought process was behind the statement.

Ms. Ratchye stated there would always be room for improvement; although, Palo Alto had a carbon free portfolio and although the City was not carbon neutral it was at approximately 70 percent.

Chair Scharff stated at the present time Palo Alto was one of the highest in the country at 80 percent carbon neutral energy.

Council Member Shepherd stated Mission Statements were important and they ensured the Staff was cued into the mission and the policy makers were holding them to it. She wanted to be on board with the Mission Statement and the Vision Statement but at the time she was not comfortable with the vision.

Ms. Fong stated the Vision Statement was a vision of where utilities wanted to end up over time not necessarily where they were.

Chair Scharff thanked Staff and Commissioner Berry for their work. He stated in the strategic objectives there were performance measures and a target but there was no information noting where Palo Alto was reporting at.

Ms. Fong stated Palo Alto had not yet begun reporting therefore the numbers were not available until the process was adopted.

Chair Scharff stated if there was no understanding of where you were then how could there be a realistic goal set.

Commissioner Berry stated to review the information presented as the first step in the process. When Staff returns in 6 months with the next version the information it would show where Palo Alto was in the ranking currently and what their target goal was.

Chair Scharff shared a broad and mild concern that Palo Alto had not completed this type of project in the past and he asked what amount of Staff time would it be involving.

Ms. Ratchye stated that was one of the criteria for selecting some of the performance measures was the City was already involved in them thereby not having the concern of spending extra funds doubling the Staff effort. There was a customer survey that was performed; the new portion of the project was reporting back to the Council.

Chair Scharff stated he concern was the amount of Staff time being spent on the strategic objectives. He noted in the non-utility functions of the City the Council was sensitive to the amount of Staff time spent on projects where the Utilities Department was different.

Council Member Shepherd asked whether Chair Scharff felt there should be a Strategic Plan.

Chair Scharff stated yes, he agreed there needed to be a Strategic Plan, he merely acknowledged there was a cost to this type of project and he wanted to ensure those costs were recognized and kept under control.

Ms. Fong clarified the Strategic Plan took a significant amount of time and effort to complete and there was not a request for additional Staffing or funding. The Assistant Director, Jane Ratchye was sent for additional training where the remainder of Staff and Commissioners involved trained during their own time.

Chair Scharff appreciated the personal and on the job time devoted to the project and process. He asked if there were assurances that on an ongoing basis there would not be a request for additional Staff.

Ms. Fong stated if a specific program was adopted due to the Strategic Plan she could not guarantee there would not be a request.

Chair Scharff stated he understood and agree that would be a different situation.

Ms. Ratchye stated one of the processes was to combine some of the management performances together and look at coordination to alleviate unnecessary overlapping in time management.

Chair Scharff stated there was a cost advantage over PG&E in the electricity area.

Ms. Fong stated that was correct although that advantage was lost on gas and again on the water side. She stated there were a number of matrixes and measures the Utilities Department currently performed although this level was not business as usual for the department, there were new measures in the plan which placed discipline around what was done.

Chair Scharff stated he understood which was why his initial question was to inquire on the current benchmark, without a current benchmark there was no measure on discipline.

Chair Scharff asked what the current bond rate was.

Director of Administrative Services, Lalo Perez stated ratings were at A for AA Plus and AA for most of the Enterprise.

Chair Scharff stated for standard boards it was at an A-, Aa3, was that correct.

Mr. Perez stated that was correct.

Chair Scharff stated this was the manner in which to maintain the City's current rating.

Mr. Perez stated it differed from the General Fund which was a rating of AAA.

Chair Scharff asked why the General Fund rating differed from the Utility Fund ratings.

Mr. Perez stated there was a larger risk factor involved.

Vice Mayor Yeh stated his understanding with the Enterprise Funds was general the ratings were not seen on the same scale since it was revenue based rather than assessed evaluation of property backing the bonds.

Mr. Berry stated he was unaware of any AAA rating in municipal utilities throughout the country.

Chair Scharff stated his uncertainty as to why the utilities Staffing compensation was included in the Strategic Plan and he clarified he felt the Staffing was compensated fairly well.

Ms. Fong stated that portion was from the employees' perspective.

Chair Scharff stated he understood the employee's were asked for there thoughts on what would make the department better but the Strategic Plan was for the City and again, how did Staff compensation fit in the overall Strategic Plan for the City.

Ms. Ratchye clarified if the City was hiring employees for the Utilities Department you wanted to ensure there was sufficient compensation.

Chair Scharff asked whether there was a plan for other employee groups throughout the City. He stated compensation appeared to be a Human Resources matter and not that of a Strategic Plan.

Assistant City Manager, Pam Antil stated the Strategic Plan was for the City through the Utilities Department and the function of the utilities and therefore would call out Staffing for utilities. She clarified there were challenges hiring in the Utilities Department because the competition was two entities in the private sector.

Commissioner Berry stated while using the balance score sheet methodology, the employee perceptive was included.

Chair Scharff stated he did not see the connection between employee satisfaction ratings and the ability to recruit.

Ms. Fong stated the verbiage was to recruit and retain Staff. She noted the term sufficient was better than competitive since utilities compensation with the City was fairly uncompetitive.

Ms. Antil clarified the ability to retain employees in any department was critical to the sustainability of knowledge. When employees leave there was a cost to the City to locate and retain knowledgeable replacements. She noted employee satisfaction was not referring simply to the compensation and benefits but how the schedules were managed, the work environment; the tools and training were accessible so they could perform at thee highest level possible.



Chair Scharff he clarified he agreed with the comments of Ms. Antil although he felt those comments would suit all employees not just utilities.

Ms. Fong stated if there were an overarching City Strategic Plan the employee section would be one of the items although she did not believe there was one.

Chair Scharff stated he does not care for the concept of singling out the Utilities Department employees and felt it was a strategic mistake.

Ms. Antil stated there was similar language in the Human Resources Department for over all employees although there was not specific to any one group. The language was in the Management Rules and Compensation Plan; the City was continually reviewing ways to make working at the City a better place to be employed.

Ms. Fong asked whether it would be acceptable if the "Objective Statement" (PT1) was changed from "We will create a positive values-based work environment which attracts and retains qualified Staff. To achieve this objective we will try to better understand employees desires, work with City Management to establish sufficient compensation, benefits, and incentives, and will articulate our values both internally and as we recruit" to "We will create a positive values-based work environment which attracts and retains qualified Staff. To achieve this objective we will try to better understand employees' desires and will articulate our values both internally and as we recruit."

Chair Scharff stated the language sounded great.

Ms. Fong clarified the employee satisfaction survey would continue to be performed.

Chair Scharff asked what the thought was behind the statement; develop a 5 year succession plan for each division.

Ms. Fong stated there had been a significant amount of institutional knowledge on the systems, how to get things up and running if they were to go down, was lost by retirements so number of the retirees had returned in order to train other employees although the information training was not a short time event.

Council Member Shepherd stated in the Staff Report there was Management, Implementation and Strategic Plan; there was nothing

regarding being regenerative. She stated allowing for newness with the loss of a component was an important part a strategic plan.

Ms. Fong clarified there was a desire to see some evolution in the plan.

Council Member Shepherd stated there needed to be a consideration in the Strategic Plan for the consideration of the change in communication style. There will be an evolution of communication as the billing system goes electronic.

**MOTION:** Vice Mayor Yeh moved, seconded by Council Member Shepherd that the Finance Committee recommends that the City Council approve the proposed 2011 Utilities Strategic Plan with the language change on Attachment A: and/or people and technology perspective objective statement so the second sentence reads – to achieve this objective we will try to better understand employees desires and will articulate our values not only internally but as we recruit.

Chair Scharff asked if the redesign of the utility bill in the strategic initiative.

Ms. Fong stated Staff did not receive the budget approval for this year although they may receive the approval for next year if they could make their case. She stated she could remove it but felt it could stay as a reminder that it was an option Staff would attempt to push through again.

Chair Scharff moved to remove the redesign of the utility bill from the Strategic Plan. He clarified if it remained it appeared as the Finance Committee approved it.

Council Member Shepherd suggested a language change to being more mobile or innovative in the delivery of the utility bill.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to change the language from redesign of the utility bill to reassess the design and delivery of the utility bill.

**MOTION PASSED:** 4-0