

CALL TO ORDER/ROLL CALL

Mayor James Cooper called the March 7, 2001 regular City Council meeting to order at 6:32 p.m.

Present: Council Members Briggs, Leary, Scherman,
Mayor Pro Tempore Soares, Mayor Cooper

Absent: None

Mayor Cooper led the Pledge of Allegiance.

PUBLIC COMMENT

Mayor Cooper opened the opportunity for public comment. There were no requests to speak and the public comment opportunity was closed.

APPROVAL OF AGENDA

Motion: It was moved by Council Member Leary and seconded by Council Member Scherman to approve the March 7, 2001 agenda. The motion passed by a vote of 5-0.

PRESENTATIONS/ANNOUNCEMENTS

Agenda Item No. 3.1 -- Energy Deregulation and Impacts to SMUD rate structure
-- Denise Shiroma and Jim Shetler, SMUD

Denise Shiroma, Vice President of the Sacramento Municipal Utilities District, the elected representative of SMUD Ward 4, including the City of Elk Grove, explained that the purpose of the presentation is to assist Council Members in addressing constituent concerns relative to the rate increase resulting from the energy crisis.

Jim Shetler, General Assistant Manager for SMUD presented an overview of the state-wide energy crisis and how SMUD customers are impacted.

Mr. Shetler explained that deregulation has been a utility industry issue for more than a decade. While deregulation was generally implemented in 1998, SMUD entered into some competitive function in 1997. In the summer of 2000, supply shortages and

sporadic volatility was evident. He enumerated three market impacts: scarcity in supply, the market structure that AB 1890 and the PUC established, and market abuse. He noted that record drought in the Northwest and a shortage of snow pack in the California mountains will impact the hydroelectric generation this year. Growth throughout the Western region and lack of new generation sources to keep up with growth is another factor.

Regarding market structure, Mr. Shetler explained that investor-owned utilities were required to sell 50% of their generating facilities. The buyers, however, were not obligated to sell the energy to the California market. The investor-owned utilities were required to buy in the short-term market and not permitted to enter into long-term contracts. When energy became scarce and natural gas prices increased, the short-term market went very high.

Mr. Shetler explained that the legislation capped retail prices for investor-owned utilities and did not cap wholesale prices, which is currently driving the market and forcing investor-owned utilities into bankruptcy. He stated that investor-owned utilities' wholesale costs far exceed their ability to recover the costs in their revenues.

On market abuse, Mr. Shetler stated that the Federal Energy Regulatory Commission (FERC) is responsible for regulating the wholesale energy market throughout the United States. The FERC has determined that the California wholesale prices are not "just unreasonable". If found "just unreasonable", they are required to take action to correct the situation. FERC's response has been that they are not going to take corrective action. He reported that SMUD, along with other municipal utilities, have been encouraging wholesale price caps throughout the West in an effort to achieve breaks to the energy prices. This has not been accepted by FERC.

He noted that there is concern relative to marketers and energy generator owners may be toying with the power plants, determining when the power is made available and when plants are shut down to control the market price. Unfortunately, this cannot be verified.

Mr. Shetler stated that in 1996, SMUD, along with other municipal-owned utilities, negotiated with the legislature to allow for self-determination relative to deregulation and competition. SMUD was not required to sell their energy generation capacity. He explained that SMUD has expanded local generation by increasing output of one of their peaking units at McClellan from a production capacity of 49 to nearly 80 megawatts. Another 45 to 50 megawatt peaking unit is currently under construction at the Proctor and Gamble site, which will be functional this summer. Mr. Shetler stated that SMUD is currently in the permitting process to construct a new natural gas plant at the old Rancho Seco site which will generate from 500 to 1000 megawatts.

Mr. Shetler explained that while investor-owned utilities were required to join the California Independent System Operator (ISO), municipal-owned utilities were not

required to do so and SMUD has not joined. He noted that SMUD has not concluded that there would be a benefit to its customers in doing so. He stated that SMUD also has the ability to enter into long-term contracts.

Mr. Shetler reported that SMUD is also a conservation-oriented utility and operates to assure that energy provided to customers is done so efficiently. Even so, the utility has been impacted by the energy crisis, necessitating a rate increase to offset future energy purchases. He noted the utility is projecting a need for an additional \$124 million in revenue than forecasted for 2001.

He stated that SMUD staff, in considering options in dealing with the shortfall, will present a recommendation to the SMUD Board which would bring customers closer to their cost of service and try to be as fair as possible, avoiding imposition of a horrendous rate increase which would affect any one customer class. Mr. Shetler reported that the increases vary from an average of 13% for residential customers to a maximum of 25% for small commercial and agriculture pumping customers. He noted, on average, that their proposed rate is approximately 15% less than Pacific Gas and Electric, with the exception of large commercial customers, whose rate is close to equivalent.

Mr. Shetler explained that there are no quick or simple solutions to the current energy crisis. Immediate relief may result through conservation, load shedding and efficient use of energy. Long-term relief may be realized through new energy generation and transmission facilities.

Council Member Briggs questioned whether the utility will support customer efforts to conserve through installation of energy efficient heating and cooling systems.

Mr. Shetler explained that residential rates are tiered based on usage. The purpose of the tiered structure is to incentivize peak reduction. Rebate and incentive programs are being developed to help the customer identify savings through use of more efficient appliances, lighting, insulation, and weather stripping. He explained that a program is being placed to encourage customers to participate in an air conditioning load reduction program.

In response to **Council Member Briggs'** question what the City of Elk Grove can do to participate, **Mr. Shetler** responded that educational programs which address conservation are encouraged. He also encouraged the City to confer with the utility's architects to collaborate to achieve an energy-efficient City Hall facility.

Mr. Shetler warned that the community will likely face energy deficiencies for three years to come. He noted that while SMUD has prepared for long-term energy supplies, as a participant to the Northern California energy grid, by agreement, SMUD is obliged to lower usage to keep the grid regionally functional.

Council Member Leary questioned how SMUD projected the rate increase based on precipitation levels prior to the end of the season and what effect, if any, a normal precipitation level would have on the proposed rate increase. He also questioned the energy efficiency of a gas-powered facility at the Rancho Seco site.

Mr. Shetler answered that the rate increase recommendation is based on precipitation information available through the end of February and assumptions made through the end of April. More or less precipitation will be a factor in concluding the recommendation. Regarding construction of the gas-powered facility at Rancho Seco, Mr. Shetler explained that gas-powered facilities have the capacity to produce a large base load needed, whereas solar and wind sources do not. He projected that it is likely that gas prices, for the long-term, will be lowered. Mr. Shetler estimated that a 500-megawatt plant would cost \$400 million, funded through a long-term bond mechanism and incorporated into the rates.

In response to **Council Member Briggs'** question on tiered rates to commercial and agriculture users, **Mr. Shetler** answered that there are disincentives separate from the tiered rates applied to residential customers. A demand meter will be required for users of 20 kilowatts or more, which will tend to drive their costs up based on usage. Mr. Shetler indicated that a meeting is being scheduled with representatives from the Farm Bureau to work out the details on the impacts.

Mayor Cooper opened the public comment opportunity.

Michael Monasky read a letter (filed) questioning the effects of growing developments in Elk Grove on the power grid and the equity of rates charged to residential vs. commercial customers.

Mr. Shetler responded that he would ask a member of his staff to meet with Mr. Monasky and provide detailed information on his concerns.

Sandi Russell noted that P.G.&E. has stated they will not provide advanced notification of rolling blackouts, except to public safety personnel. She questioned why SMUD intends to provide this information on their web site. Also, she questioned announcement of the blackout length.

Mr. Shetler responded that the information would be generally relative to the community affected, not specific locations within the community. He noted that there are advantages to advanced notification.

Mrs. Russell commented that all of the lights in the new City Hall are on all day.

Mayor Cooper directed staff to check on the situation.

Director Shiroma announced that SMUD will hold a series of community meetings to address the proposed rate structure.

CONSENT CALENDAR ITEMS

There were no consent items scheduled.

PUBLIC HEARINGS

Agenda Item No. 5.1 – Public Utility Easement abandonment at Emerald Vista and East Stockton Boulevard

Public Works Director Clay Castleberry stated that Dennis Nakagawa from the Public Works Department was available to address any questions by the public.

Mayor Cooper opened the public comment opportunity. There were no requests to address the Council and Mayor Cooper closed the public comment opportunity at 7:41 p.m.

Motion: Council Member Leary moved and Council Member Scherman seconded the recommendation of staff to adopt Resolution No. 2001-11 abandoning a portion of the public utility easement located at 9295 and 9299 E. Stockton Boulevard at Emerald Vista Drive; and to approve a Notice of Exemption under the California Environmental Quality Act (CEQA). The motion passed by a 5-0 vote.

REGULAR AGENDA ACTION ITEMS/RECOMMENDATIONS

Agenda Item No. 6.1 – *Request by H.C. Elliott Homes for a County Zoning Agreement Amendment for ZMA 5221 (93-GPB-CZB-0473) to delete Condition No. 2 which requires the extension of Waterman Road to Gerber Road*

City Manager David Jinkens presented the staff report. He noted that the project in question lies in the Elk Grove proposed Sphere of Influence, and is a major road that serves the City of Elk Grove. He explained that there is a condition which requires the extension of Waterman Road. The developer, Elliott Homes, has requested that the requirement for extension be deleted. The Sacramento County Planning Commission has agreed to the request with the provision that a traffic signal be installed at the intersection of Gerber and Bradshaw.

Jeff Clark, Sr. Transportation Engineer, stated that requiring the provision for extension has a number of problems including community opposition. In order to provide for the extension, Elliott Homes would be obliged to acquire off-site right-of-way, which would be difficult. He explained that if the developer makes a conscious effort to acquire the right-of-way and it cannot be acquired at a reasonable cost, they have fulfilled their obligation. The County would have to use the powers of eminent domain, which generally, the County will not implement on behalf of a private development. That condition then, becomes ineffective.

Mr. Clark stated that the County has worked with Elliott Homes to produce a project that would benefit the motoring public. He noted that there have been several accidents at the location and pending some environmental work, the signal should be in place this summer and operational by the end of the year. The signal and extension are funded by the Elk Grove West Vineyard Financing Plan. The developer will be reimbursed through the fee district.

Mayor Pro Tem Soares expressed concern that the cost of widening may eventually become the responsibility of the City. He questioned whether the City should respond to the Board of Supervisors.

Mr. Clark responded that the money has been allocated as part of the Elk Grove West Vineyard Financing Plan. He stated that if the project were accelerated, it would likely be 2003 or 2004 before the road would be constructed given the time necessary to complete the environmental documentation necessary.

Council Members Scherman and Leary expressed concern that the City would make recommendations to the Board of Supervisors on matters within the County's jurisdiction.

Phil Carter, Planning Director, noted that it is common for staff members from differing jurisdictional entities to confer on projects that are of mutual concern or benefit.

Mr. Clark stated that he would relate questions raised by the Council to Supervisor Nottoli.

GENERAL ADMINISTRATION INFORMATION

Agenda Item No. 7.1 – *Verbal Update on Service Contracts*

City Attorney Tony Manzanetti reported that a draft law enforcement contract was submitted to Chief Drummond of the Sheriff's Office on Friday, March 2, 2001.

Regarding the service contracts with Sacramento County, Mr. Manzanetti stated that two letters have been received from John Whisenhunt. After conferring with service

providers and other community leaders, policy ideas were incorporated into a draft and returned to Mr. Whisenhunt on March 2 for consideration.

He reported that draft contracts have been exchanged with Mr. Carter of Pacific Municipal Consultants for the planning manager services. It is expected that the contract will be complete after a couple of service elements are worked out.

Mr. Manzanetti reported that the draft development agreement for the Lent Ranch Mall was delivered to developer representatives, proposing a land-use contract committing the City to zoning for a period of five years. Map conditions were made part of the development agreement. Another meeting is scheduled for March 8, 2001.

City Manager David Jinkens expressed appreciation for the depth of research the City Attorney's Office has provided in the contract development for the various services and Lent Ranch Marketplace project. Regarding the law enforcement contract, Mr. Jinkens disclosed that Chief Drummond assured him that the contract is under review.

Regarding information brought forward by **Council Member Leary** on the utility tax application as a source of revenue relative to cellular phone use, **Mr. Jinkens** stated that the Mobile Telecommunications Sourcing Act of 2000, a federal law, will address this issue. This law becomes effective August 2002. As pointed out by Council Member Leary, the League of California Cities' policy committee has presented an interim solution which will allow for the collection of taxes as general fund revenue until the law comes into effect, through adoption of local policy. He noted that the tax is based on where the cellular phone is registered.

Council Member Briggs questioned whether the consultant hired by the City is responsible for searching out these types of revenue.

Mr. Jinkens stated that this policy will be needed to further implement the application.

Mr. Manzanetti added comment on the Lent Ranch Mall project, stating that the development agreement incorporates into the land-use contract all of the general plan amendments sought by the Lent Ranch Mall developer, the zoning changes, special planning area, and conditions of approval. He noted that the Planning Department is working very closely with the Lent Ranch Mall developer to develop the conditions of approval.

City Manager Jinkens reported that beginning March 8, 2001, the City Public Works Department will survey the length of Laguna and Elk Grove Boulevards for potholes and initiate repairs.

COUNCIL COMMENTS/FUTURE AGENDA ITEMS

Council Member Briggs noted that a year ago on this date, the voters of the community confirmed their desire for Elk Grove to become a City. He thanked the Council and recognized the first anniversary of the vote.

Council Member Soares expressed an interest in hearing an update on the City's Sphere of Influence application progress.

Mr. Jinkens noted that he and Mr. Carter will be meeting with LAFCO senior staff on March 15.

Council Member Scherman noted that the agreement for City participation in the economic capacity bank from the Sacramento Regional Sanitation District has been forwarded to the City Manager for review. She requested a date be set for a presentation by the SRSD connection fee approved by the Board. She read a letter from Fire Chief Meaker relative to a train blocking the railroad tracks on Elk Grove Boulevard, impacting the Fire Department's ability to respond to a call.

Mayor Cooper reiterated the need to cite the conductors of the trains, although this has not taken place. The railroad would then be required to appear in court to be held accountable for blocking the tracks.

Council Member Leary reported that because the time had lapsed for the Board of Supervisors to make appointments to the Florin Resource Conservation District, the FRCD re-instituted the appointment of former Board members. Changes, therefore, were not made. He stated that the employees of the previous Elk Grove Water Works Agency are doing a great job for the community and the actions taken by the FRCD should not be a reflection on the employees.

Council Member Scherman noted that SACOG will be holding a Regional Housing Allocation Plan workshop, co-sponsored by the Department of Housing and Community Development. City staff is requested to attend.

Mr. Jinkens responded that Phil Carter will delegate staff to attend.

CLOSED SESSION

Agenda Item No. 9.1 – *Public Employee Performance Evaluation: City Attorney; pursuant to GC 54957.*

Agenda Item No. 9.2 -- *Conference with Legal Counsel – Anticipated Litigation; Significant Exposure to Litigation (2 cases); pursuant to GC 54956.9(b)*

The City Council adjourned to closed session at 8:21 p.m. and reconvened the regular meeting at 8:48 p.m. Mayor Cooper announced that there were disclosures as a result of the closed session.

ADJOURNMENT

With no further business to conduct, Mayor Cooper announced the meeting as adjourned at 8:48 p.m.

PEGGY JACKSON, CITY CLERK
CITY OF ELK GROVE

ATTEST:

JAMES A. COOPER, MAYOR
CITY OF ELK GROVE