



FINANCE COMMITTEE SUMMARY MINUTES

Special Meeting
April 20, 2021

The Finance Committee of the City of Palo Alto met on this date in virtual teleconference at 6:02 P.M.

Present: Burt, Cormack, Filseth

Absent:

Oral Communications

Stephen Raney shared that the Palo Alto Transportation Management Association (TMA) sent an email to Palo Alto (City) regarding the TMA's forecast for the most likely scenario looking at commute traffic levels and lunchtime retail traffic levels relative to 2019. Also provided in the email was a question of can and should the City provide a tracking dashboard to track economic recovery.

Agenda Items

1. Staff and the Utilities Advisory Commission (UAC) Recommendation That the Finance Committee Recommend the City Council Decline to Adopt the Energy Storage System Targets and Receive the 2020 Energy Storage Report.

Dean Batchelor, Utilities Director introduced Lena Perkins who presented the item to the Finance Committee (Committee).

Lena Perkins, Senior Resources Planners for Utilities announced that the item before the Committee was the Energy Storage Report for 2020. The report was submitted to the California Energy Commission (CEC) in December of 2020. City of Palo Alto Utilities (CPAU) is required to investigate energy storage every 5-years, and CPAU did not set energy storage targets for years 2011, 2014 and 2017 because energy storage was not cost-effective at the time of review. CPAU and Smart Electric Power Alliance (SEPA) conducted a detailed analysis in the year 2020 that showed that energy storage is not yet cost-effective and for that reason, CPAU did not set energy storage targets for 2020. Energy storage can address three goals the City was seeking to fulfill but cannot address the three goals at the same time. In terms of the storage of renewable electricity goal, Staff determined that curtailment was less costly than installing the current generation of energy storage that was available. Regarding the leverage of distributed batteries goals, Staff must align

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incentives and for the resiliency goal, Staff determined that it could work within critical locations. Staff examined potential sites but the cost for energy storage was higher than the cost to harden the distribution lines in the area. For residential, the residential application where batteries are added to an existing solar system does save carbon by storing solar power in the middle of the day and using it in the evening. By having batteries, residents were saving the utility money but not enough money in the wholesale cost market to offset the costs. In terms of commercial customers using batteries, the customer would save money but having a battery increased carbon emission because the battery was charging during high carbon hours. Staff determined that if the City restricted the hours between 4:00 P.M. and 10:00 P.M. for when batteries must be discharged, it lowers the benefit to the commercial customer. Also, the savings to the utility was not enough to offset the wholesale cost. Staff will continue to investigate more specific cases for resiliency, align incentives as storage prices decrease, and consider a pilot of smart electric heat pumps and smart charging for electric vehicles (EV). The City and the community have the discretion to implement battery storage pilots or programs or incentives, but energy storage targets were not set because Staff did not want to set an obligation for the City to fulfill.

Council Member Filseth asked what the real cost is per kilowatt (kW) hour for storage.

Ms. Perkins explained that the cost per kW hour was decreasing but the installation cost was increasing.

Vice Mayor Burt requested if Assembly Bill (AB) 2514 requires the City to set a target.

Ms. Perkins answered that the City is setting goals that are achievable and cost-effective for the community overall.

Vice Mayor Burt inquired if the City sets a target, is the City legally obligated to reach those targets.

Ms. Perkins noted that the CEC does use the targets for their planning.

Vice Mayor Burt remarked that the City does set targets in the City's Reach Codes and renewable acquisitions. He was confused about how energy storage targets are different from those goals.

Ms. Perkins added that the targets are wrapped into the Integrated Resources Planning as well as the City's efficiency targets which are not meant to be aspirational.

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Jonathan Abendschein, Utilities Assistant Director stated that the Council is the regulatory authority and it is important to maintain local control. If the City sets an energy storage target, the CEC will count that target in their projections, there will be an expectation that the target will be reached, and resources will be used regardless of if it is beneficial to customers or not.

Vice Mayor Burt remarked that the City set up a framework and goals for renewable energy before the state did. That allowed the City to purchase renewables at a cheaper cost which resulted in lower Electric Utility rates. He stated that scenario should be considered when deciding if the City should get an energy storage target. He wanted to know Staff's perspective on the likelihood of there being statewide brownouts. He commented that mega-fires can impact reliability as well as internal issues. He asked what impacts those changing circumstances have caused and the dynamics between resiliency and reliability.

Ms. Perkins encouraged the City to draft a more concrete plan for resiliency but it should be separate from the CEC target submissions. In terms of the brownouts, the City experienced one rolling outage where the City was called upon to drop load. The Independent System Operator (ISO) has taken several actions to address the brownouts. High-level actions included bringing on board another 1.5 gigs of battery storage, helping two natural gas plants from going out of business, and reducing their import assumptions. Western, other members of Bank, and Los Angeles Department of Water and Power (LAWP) are now under the Western Energy Imbalance Market (EIM) which brought transmission and comprehensive supply stacked planning that was more than 48-hours in advance. With the new changes, Staff predicted that there will be no future brownouts unless there is a mega-fire or entire west heatwave.

Vice Mayor Burt asked what is the cost for renewable projects that contain built-in storage.

Ms. Perkins mentioned that the projects are not as cost-effective as hydro energy.

Vice Mayor Burt appreciated Staff's explanation on why the City should not pursue battery storage for commercial customers. He inquired if storage for the City's utility was explored and could it contain a reliability component in addition to resiliency.

Ms. Perkins restated that Staff needed to understand what the value of that resiliency is to the community.

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Vice Mayor Burt summarized that the City will have to quantify the cost for both direct economic cost and other costs to the community for power outages. He asked what liabilities will the City face if brownouts continue.

Ms. Perkins noted that because the City is the system operator, the City received greater benefits from maintenance and upsizing lines than batteries.

Mr. Batchelor confirmed that batteries at the substations would help during large brownouts.

Molly Stump, City Attorney answered that in terms of liabilities, the focus is on ethics and policy more than law. The utility does have a no perfect power rule built-in and it is communicated to customers that there is a possibility of power outages.

Vice Mayor Burt mentioned that the report explored current costs for batteries, not future battery costs.

Ms. Perkins confirmed that is correct but mentioned that the Investment Tax Credit was decreasing and that decrease was included in the report. The report projected a reasonable projection for 3-years into the future.

Vice Mayor Burt claimed that Staff is proposing a ½ full time equivalent (FTE) position to conduct additional studies. He asked if that is too conservative.

Ms. Perkins noted that estimate was for a small pilot program and was not for a battery incentive program. A better incentive program would need substantially more money and time.

Vice Mayor Burt wanted to understand what internal commitment the Committee can recommend to Council.

Mr. Abendschein articulated that Staff has a list of potential programs and approaches in the context of the Sustainability and Climate Action Plan (S/CAP). Staff will be exploring resiliency and storage in the summer of 2021 but he acknowledged that there are Staffing and resource limitations.

Ed Shikada, City Manager agreed with Mr. Abendschein.

Vice Mayor Burt predicted that if resources were expanded, Staff could explore the six programs that Staff listed.

Mr. Shikada indicated that was true, but the programs should be cost-effective and consistent with the priorities that Council has established.

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Vice Mayor Burt acknowledged that there is tension between the goals outlined in the S/CAP and the need to strengthen and harden reliability and resiliency.

Chair Cormack wanted confirmation that 26 residential batteries have been installed with 56 in process.

Ms. Perkins stated those figures are correct.

Chair Cormack found that number low. She indicated that the next analysis will be conducted in the year 2023.

Ms. Perkins answered yes.

Chair Cormack commented that there is a mismatch between supply and demand and that is why the price has increased. For batteries, the increase had to do with technology.

Ms. Perkins stated that batteries are not at their lowest cost and other storage solution costs could come down faster.

MOTION: Council Member Filseth moved, seconded by Chair Cormack that the Finance Committee recommend the City Council decline to adopt the energy storage targets at this time; and accept the 2020 City of Palo Alto Utilities Energy Storage Report under AB2514.

Council Member Filseth acknowledged that large-scale storage is not economically feasible currently and the City should explore it again in the next 3-year cycle.

Chair Cormack mentioned that there are no benefits to the City if a target is submitted.

Vice Mayor Burt wanted to take a stronger approach to the six key areas that Staff listed.

Ms. Perkins advised the Committee to explore which impacts they are comfortable with in terms of exploratory actions.

AMENDMENT: Vice Mayor Burt moved, seconded by Council Member XX to request Staff to return to the Finance Committee with resource needs and a plan for an accelerated exploration of the six-key areas that Staff wishes to continue to explore.

Council Member Filseth did not accept the Amendment.

Chair Cormack also did not accept the Amendment.

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AMENDMENT FAILED DUE TO THE LACK OF A SECOND

Vice Mayor Burt asked if a Motion needs a second.

Ms. Stump answered yes and so Committee Members must vote yes or no to the Motion.

Council Member Filseth advised Vice Mayor Burt to propose a Substitute Motion.

Vice Mayor Burt acknowledged that a Substitute Motion would not receive a second. He concluded that in order for Council to consider the Amendment, he would vote no on the Motion, even though he supported it.

Ms. Stump confirmed the item would go to Council as an action item if there is not unanimous approval. The Committee could agree to bring forward the amendment as an action item to Council but approve the report.

Council Member Filseth did not support that approach.

MOTION PASSED: 2-1 Burt no

2. Staff Recommendation That the Finance Committee Recommend the City Council Adopt a Resolution Amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage) Reflecting a 2.0 Percent Consumer Price Index Rate Increase to \$15.34 per Month per Equivalent Residential Unit for Fiscal Year 2022.

Brad Eggleston, Public Works Director introduced Karin North who presented the item to the Finance Committee (Committee).

Karin North, Manager Watershed Protection for Public Works shared that the Stormwater Management Fee provided funding for routine stormwater system maintenance and operations. Staff recommended that the Committee recommend the City Council (Council) adopt a 2 percent rate increase for the Stormwater Management Fee.

Chair Cormack anticipated that Council will have questions regarding the increase to Consumer Price Index (CPI).

MOTION: Council Member Filseth moved, seconded by Vice Mayor Burt that the Finance Committee recommend the City Council:

- A. Adopt the attached Resolution (Attachment A) amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage); and

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- B. Implement a 2.0% rate increase for the Storm Water Management Fee consistent with the applicable Consumer Price Index, increasing the monthly charge per Equivalent Residential Unit (ERU) by \$0.30, from \$15.04 to \$15.34 for Fiscal Year 2022.

MOTION PASSED: 3-0

3. Regional Water Quality Control Plant Wastewater Treatment Fund Capital Program Update.

Brad Eggleston, Public Works Department acknowledged that Palo Alto's (City) Regional Water Quality Control Plant (RWQCP) completed a Long-Range Facility Plan 10-years ago that recommended several major projects be done to address regulatory requirements and aging infrastructure. Staff was not seeking any action from the Finance Committee (Committee).

James Allen, Water Quality Control Plant Manager confirmed that much of the RWQCP's issues are being addressed through the capital program. The capital program was similar to neighboring cities and the City's capital program was roughly \$310 million. City Council (Council) will review on May 17, 2021, a construction contract for the primary sedimentation tank rehabilitation and equipment room electrical update. The project was estimated to cost \$19 million and Staff planned to have the project complete by December 2023. Another project was the new outfall line which was a 63-inch pipe that addressed capacity, leaks, and sea-level rise adaptation. The project has completed the design phase, obtained all required permits and funding was available. The project has been delayed due to the United States Army Corps of Engineers (USACE) levee project and the airport runway possibly being shifted to the south. If the runway is moved, that would result in a redesign of the project. The City will not lose its funding if the project continued to move forward. The secondary treatment upgrade was 60 percent through the design process. If financing is available, construction would begin in the year 2023 and be completed by the year 2026. Loan applications have been submitted to United States Environmental Protection Agency (USEPA) and the State of California. Staff will be bringing forward to Council the loans and a construction contract for the project in late 2022/early 2023. The total cost for the project was \$146 million. For the project, Staff was pursuing a State Revolving Fund (SRF) low-interest loan that had a rate range of .9% to 1.4%. If full funding is not obtained by SRF, the City was invited to apply for the Water Infrastructure Finance and Innovative Act (WIFIA) Program but the loan contained a nonrefundable \$250,000 application fee and a potential loss of \$105,000 in credit rating expense. The rates are based on the United States Treasury rates and the borrower's credit rating. If the City obtained 100 percent financing from SRF, the City would have a \$6 million debt service and

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for a WIFIA loan, the City would have a \$6.2 million debt service. For the environmental services and lab building project, 10 percent of the design has been completed. Due to a high estimate by the architect, the architect was released and the project has restarted advanced planning that looked at smaller buildings and remodeling older onsite buildings. In terms of capital program delivery risks, the operations are open 24-hours, 7-days a week which resulted in bypass operations and limited staging areas. Also, there were several schedule and sequence risks as well as coordination risks. Cash flow was one financial risk as well as timing and scoping changes. The City has \$15 million in the Wastewater Treatment Fund but those funds may not be enough to cover costs while the City waits for reimbursement from the loans.

Vice Mayor Burt asked what are the reasons for the project that reduces nitrogen emissions.

Mr. Allen explained that the form of nitrogen that is going to be reduced is nitrate and that will be reduced by 2/3s.

Vice Mayor Burt questioned if there were nitroxide emissions that may be reduced as well.

Mr. Allen remarked that nitroxide was not measured but predicted it was not at a high level.

Mr. Eggleston noted that there are best practices for minimizing the formation of nitroxide but it is a component that is addressed in the Greenhouse Gas Inventory that is conducted annually.

Vice Mayor Burt wanted to know if there was consideration of the plant expanding into the dead-end of Embarcadero Way.

Karin North, Manager Watershed Protection for Public Works commented that Staff is exploring putting the environmental services building there.

Vice Mayor Burt clarified to take over the non-park dedicated land.

Mr. Allen explained that Staff has not explored that area but he confirmed if it is not parkland, then the City could explore using it. He suggested the area could be used as a staging area.

Vice Mayor Burt asked what the trend is on volume of outflow both from conservation measures, recycling and advanced recycling projection.

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Mr. Allen noted that the lower flows due to droughts have helped avoid high flow situations. The current 54-inch pipe does not have the capacity to carry 80 million gallons a day, as was the amount predicted for a king tide.

Vice Mayor Burt wanted to know if the RWQCP is staffed well enough to be able to address the volume of projects.

Mr. Eggleston announced that a cross-departmental team has been formed that will focus on the logistics and risks of the projects along with consultants.

Vice Mayor Burt emphasized that he was concerned about logistics and staffing. He encouraged Staff to request for more Staffing if they feel they need more. He inquired if the rates should be increased to create a leveling effect for capital expenses and Staffing.

Mr. Eggleston reported there have been discussions to increase the rates.

Ed Shikada, City Manager requested that Staff elaborate further regarding the internal discussions that have happened regarding the projects.

Kiely Nose, Administrative Services Director restated that the City is not the only City that has done these types of multiple projects. Staff reached out to those Cities and they indicated that they have an internal Staffing team who works on the collaboration.

Mr. Shikada added that the allocation of costs has to be in alignment with the other RWQCP partners.

Vice Mayor Burt wanted to know if Staff felt the projected rate increases were adequate to meet cash flow and staffing needs.

Mr. Eggleston shared that the Utilities Department has the forecast and was building that into their planning. Public Works has not provided the Utilities Department any forecasts that indicated a Staffing cost increase.

Ms. Nose commented that in terms of cash flow, the City would not want to increase its cash flow and have that overflow to the other partnering agencies.

Vice Mayor Burt encouraged Staff to not be overly cautious.

Council Member Filseth asked if the City will fall behind on other projects when these proposed capital projects begin.

Mr. Eggleston noted that the RWQCP needs the upgrades and it will benefit the City.

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Mr. Allen added that after these projects are complete, there are a few large capital projects on the horizon.

Mr. Eggleston commented that Staff is always looking for the newest technology to be implemented into the plan.

Council Member Filseth inquired what the expense is to move the airport runway and will sea level rise cause more unexpected projects. He emphasized that the airport was supposed to be expense neutral.

Mr. Shikada responded that there will be discussions regarding who will fund that unexpected expense.

Chair Cormack appreciated Staff's hard work in managing the RWQCP. She requested that when Staff returns, to have the project schedule mapped out over the corresponding years they will begin construction. She requested Staff elaborate on the debt to annual expenditure budget ratios.

Ms. Nose confirmed that the percentages are high but are comparable with other agencies who are going through similar upgrades.

Chair Cormack mentioned that the loan repayment terms are 30 years but the life of the asset is more around 50 years. She asked why those are not matched.

Carrie Del Boccio, Woodarad & Curran Representative mentioned that the 30 year loan term is a standard duration.

Chair Cormack asked as the project moves forward, is Staff using forward-looking volumes to determine the percentage that is allocated to the other partners.

Mr. Allen indicated that the City's fixed capacity for operating share was 38.16 percent and the fixed capacity for the debt share was similar. No other partners have requested a different share in the RWQCP.

Mr. Allen emphasized the percentages pertained to shared plant capacity, not current numbers of flow rates into the plant.

Chair Cormack appreciated and supported Staff's understanding that the upgrades to the integrated operation service center should be put on hold.

Ms. Nose remarked that the City should be prepared to address unknown issues as they arise as the projects move forward.

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Chair Cormack added that the City's Capital Infrastructure Plan should be forecasted for 10-years instead of 5-years.

NO ACTION TAKEN

Future Meetings and Agendas

Kiely Nose, Administrative Services Director reported that the next Finance Committee will be at 2:00 P.M. on May 4, 2021.

Adjournment: The meeting was adjourned at 8:10 P.M.