



DRAFT

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF MARCH 4, 2015

CALL TO ORDER

Chair Foster called to order at 7:03 p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Chang, Eglash, Hall, Melton, Chair Foster, Vice Chair Waldfogel, and Council Liaison Scharff

Absent: Commissioner Cook

Note that Commissioner Hall excused himself and left the meeting at 8:48 p.m., just after the discussion of Item #5 (Wastewater Collection Financial Plan) and before the UAC returned to discuss the water-related portion of Item #1 (Strategic Plan Updates).

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

Commissioner Eglash moved to approve the minutes from the February 4, 2015 UAC meeting as presented and Commissioner Melton seconded the motion. The motion carried unanimously (6-0 with Chair Foster, Commissioners Chang, Eglash, Melton and Vice Chair Waldfogel voting yes, Commissioner Hall voting yes for all except the water-related items and abstaining for those items, and Commissioner Cook absent).

AGENDA REVIEW AND REVISIONS

Chair Foster announced that the water-related items of New Business Item #1 (Utilities Strategic Plan Updates) would be discussed after the Commission discussed New Business Items 2, 3, 4, and 5 to allow Commissioner Hall to leave the meeting after Item 5 (Wastewater Collection Financial Plan) to avoid participating in the discussion or actions related to water.

REPORTS FROM COMMISSION MEETING/EVENTS

None.

UTILITIES DIRECTOR REPORT

1. **Community Solar Program** - In order to address feedback from the UAC at its December 2014 meeting, staff continues to work on an in-depth risk assessment concurrently with the negotiation of the program agreements. Given that any identified risks could only be

effectively mitigated through specific measures incorporated into the program agreements, the risk assessment and negotiations are inter-dependent and must be completed in concert. Staff will complete the risk assessment once the program agreements are in substantial form and plan to return to the UAC in June 2015 with a new recommendation on the program.

2. Marketing Services Update

- The City entered into a one-year partnership agreement with the Palo Alto Medical Foundation (PAMF) to support PAMF's linkAges™ TimeBank program. The program matches Palo Alto residents (especially senior citizens) who are interested in receiving energy efficiency and waste reduction services with volunteers who can provide these services. The City will coordinate quarterly training for volunteers and help publicize the program. There is no monetary exchange between PAMF and the City. Look for information on the program in the March utility bills.
- City facilities will subscribe to PaloAltoGreen Gas to offset 100% of the greenhouse gas emissions associated with facilities' natural gas use. This will reduce the greenhouse gas emissions related to municipal operations by about 25%. Since mid-February, about 800 customers have signed up for PaloAltoGreen Gas, including Mitchell Park Library, the International School of the Peninsula and Pete Moffat Construction.

3. Communication Updates

- **CPAU Scores Top Marks for Customer Satisfaction** – In a nationwide survey conducted by leading utility energy efficiency research group, E Source, CPAU ranked number three for large business customer satisfaction. This is the fourth year in a row CPAU has finished in a top three ranking. Large business customers were particularly pleased with their account representatives' effective communication skills and customer service.
- **Construction Begins on New Solar Farm** - Developers of the Hayworth Solar Farm, 8minutenergy and sPower, announced in February that construction began on the project in Kern County, which will be fully operational later this summer. The Hayworth project is one of five large-scale solar projects that CPAU has entered into a Power Purchase Agreement to supply almost one-third of the City's electricity supplies. Hayworth will provide about 6% of the City's total electric supplies, adding to Palo Alto's existing carbon neutral energy portfolio.
- **Mayor's "Green Leader" Business Awards** –Mayor Karen Holman honored four businesses with the Mayor's "Green Leader" Business Award for their leadership in energy efficient building management. Palo Alto businesses that benchmark building energy consumption through EPA's Portfolio Manager and receive a high ENERGY STAR rating are eligible for an award. For the past 12 months, six buildings totaling over a half million square feet of office space qualified for the award.
- **City Launches Commercial Benchmarking Pilot Program with GreenTraks** – In February, CPAU announced its multi-year agreement with GreenTraks to provide energy and sustainability benchmarking services for CPAU customers, including City facilities. Participating businesses will receive free services from the City to assist in their benchmarking efforts and earn ENERGY STAR ratings. Concluding the pilot program,

CPAU will use this information to identify and measure the performance of a portfolio of energy efficiency projects within the City.

4. **Community Outreach Events and Workshops**

- **Arbor Day Festival** –March 8 -CPAU will table at this festival in partnership with the City’s Urban Forestry Division of the Public Works Department and non-profit, Canopy.
- **Earth “Month” Events** – Utilities is collaborating with other City Departments to promote environmental education workshops, events and activities centered around Earth Day, April 22. During the month of March, residents and business utility customers will receive a bill insert listing a number of events available in Palo Alto on or around Earth Day. Find full details at cityofpaloalto.org/workshops

5. **Utilities Organizational Changes**

Utilities is instituting organizational changes as follows:

1. Tomm Marshall and Dean Batchelor will swap jobs temporarily until the end-of-the-year to better identify process changes to improve efficiency between the Operations and Engineering staff.
2. Jane Ratchye has agreed to incorporate the Utilities Marketing Services team into the Resource Management team, which manages our rebate, efficiency and green programs, to ensure a comprehensive portfolio approach to our resource portfolio.
3. Senior Management Analyst Dave Yuan has accepted a promotion to the Utilities Strategic Business Manager position. Mr. Yuan will have oversight over the Utilities budget, IT Strategy efforts (including the Utility billing team), the Fiber Optics policy development, succession planning efforts and workforce development, and coordination of our responses to internal performance audits.

Chair Foster asked about the linkAges™ TimeBank program. Communications Manager Catherine Elvert described the program and explained that the program was developed by the Palo Alto Medical Foundation (PAMF) to allow community members to trade expertise and time with others in the community. Chair Foster suggested that broad advertisement of the program would be helpful to ensure success.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend that Council Approve Changes to the Utilities Strategic Plan and Receive the Six Month Utilities Strategic Plan Performance Update (July through December 2014)

Senior Management Analyst Dave Yuan summarized the written report on the updates to the Utilities Strategic Plan. He noted that the performance measures for the July-December 2014 period focusing on the five measures that have not yet been met.

Commissioner Eglash asked Yuan to expand on the employee satisfaction scores and why they did not meet expectations. Yuan stated that 62% of the employees reported being satisfied.

He added that, if the responses of “neutral” were included, then the number would increase to 80%. Commissioner Eglash said that this seemed like a low number. Yuan explained that the scores fell from last year and that it may have to do with dissatisfaction with compensation, which is based on City policies and not totally under the control of Utilities. Commissioner Eglash suggested using the survey results as an opportunity to follow up with HR to address some of the employees’ concerns. Director Valerie Fong stated that the survey feedback indicated that there was a concern about communications between the divisions which is why the department is making some organizational changes. Another theme is employees did not feel recognized which is an actionable item and that the department is focusing on expanding efforts to recognize employees.

Vice Chair Waldfoegel asked if the low satisfaction has been reflected in an increase in departures for other agencies. Fong replied that there have been some departures.

Council Member Scharff noted that the lack of IT equipment was a problem and asked for an explanation. Director Fong explained that the IT department has to provide equipment to the entire City and it takes time for a City our size. She added that IT will also hire contractors to speed the deployment of equipment.

Council Member Scharff noted that 50% responded to the survey and that the most satisfied or most unsatisfied people may be more represented in respondents. He asked if we compare the results with other agencies. Director Fong responded that she doesn't know what other agencies have found with respect to employee satisfaction. She added that, instead, she focuses on the trends in our results over time.

Yuan explained the proposed changes to the strategic objectives, performance measures, and strategic initiatives.

Commissioner Hall asked if the reason for changing the strategic initiative F3 (to evaluate the appropriate fraction of fixed costs that should be collected by fixed charges versus volumetric charges) is due to the plan to address these by completing cost of service analyses. Yuan confirmed that this is the reason.

Commissioner Melton stated that he felt that strategic objective F4 (equity transfer to the General Fund) is an important management measurement and should not be removed from the Strategic Plan. Senior Deputy City Attorney Jessica Mullan stated that there is no discretionary action with respect to the equity transfer and that removing it from the Strategic Plan changes nothing as to the transfer and how it is calculated. Council Member Scharff added that there is a legal issue and that, as a strategic initiative, it has the appearance of being discretionary, but there's nothing discretionary and nothing strategic so he supports removing it from the strategic plan as staff proposed.

With respect to the strategic objective associated with objective BP7 (participate in electric cost allocation studies), Vice Chair Waldfoegel asked if there are opportunities to partner with other agencies to share cost with respect to regulatory compliance and if a strategic initiative should

be added to find if there are any inter-agency cooperation alternatives that could be pursued. Director Fong said that Utilities does not have the capacity to manage this as an initiative but Utilities will partner with other agencies when opportunities arise. Utilities has interagency cooperation through various memberships with Northern California Power Agency (NCPA), California Municipal Utilities Association (CMUA), and American Public Power Association (APPA).

Commissioner Hall asked how long the City has followed the balanced scorecard method. Yuan said since 2010 when the Strategic Plan was adopted. Commissioner Hall stated that he supports the balanced scorecard method and said this in his experience, it is not always followed through on and that in some cases, the objectives could be more specific with respect to dates and deliverables.

Commissioner Eglash stated that the goal for electrification is to study, not to go forward yet in a particular direction. He noted that smart grid is another case where the direction is not yet known and is awaiting more study. Commissioner Eglash added that the Strategic Plan really matters and that he is glad to see Utilities taking it seriously.

Commissioner Eglash suggested that the performance measure target for PT1 (employee satisfaction improvement from baseline level) could be changed to improve employee satisfaction every year, not just from the fixed baseline. He suggested that this change would give management a tool to measure itself.

ACTION:

Chair Foster made a motion to support the staff recommendation on all non-water related items in the strategic plan with a change to the performance target for PT1 from “improvement from baseline level” to “annual improvement”. Commissioner Eglash seconded the motion. The motion carried unanimously (6-0 with Chair Foster, Commissioners Chang, Eglash, Hall, Melton and Vice Chair Waldfoegel voting yes, and Commissioner Cook absent).

The UAC returned to complete the water-related parts of this item after Commissioner Hall departed from the meeting.

Yuan summarized the new strategic initiatives related to water (BP1, BP3, BP8, BP11, and BP 12).

Commissioner Melton asked about the new strategic initiative BP2. Yuan said that it was to update the Water Integrated Resource Plan and will evaluate the advisability of expanding the use of groundwater as a water supply source.

Commissioner Eglash asked if the Strategic Plan, especially the proposed strategic initiative BP12 related to updating the Urban Water Management Plan (UWMP) should include long-term initiatives due to the impact of climate change such as the impact on facilities due to rising sea levels. Director Fong noted at the Sustainability/Climate Action Plan (S/CAP) will address

those issues. She noted that the Chief Sustainability Officer will provide an update on the S/CAP at the UAC's April meeting.

ACTION:

Chair Foster made a motion to support the staff recommendation with respect to the water related items. Commissioner Eglash seconded the motion. The motion carried unanimously (5-0 with Chair Foster, Commissioners Chang, Eglash, Melton and Vice Chair Waldfogel voting yes, and Commissioners Cook and Hall absent).

ITEM 2: ACTION: Selection of Potential Topics for Joint UAC/Council Study Session

Chair Foster asked if there were any specific topics that the UAC would like to discuss at the meeting with Council on April 20. He suggested that a potential format for the meeting is for the 9 Council members to share their thoughts and allow time for each Commissioner to speak as well.

Chair Foster suggested that governance of CPAU could be a topic for discussion. Vice Chair Waldfogel said that a survey of other agencies' governance would be valuable for that discussion, noting that the Sacramento Municipal Utilities District has a different model for governance.

Chair Foster said that the UAC Chair and Vice Chair would meet with the Mayor and Vice Mayor to establish the list of topics for discussion.

ACTION:

None.

ITEM 3: ACTION: Selection of Potential Topic(s) for Discussion at Future UAC Meeting

Chair Foster asked who would be providing a presentation on the fiber plan and FTTP. Director Fong said that CIO Jonathan Reichental will provide that presentation.

ACTION:

None.

ITEM 4: PRESENTATION: Overview of Wastewater Treatment Plant Long Term Facilities Plan

Regional Water Quality Control Plant (RWQCP) Manager Jamie Allen provided a summary of the RWQCP's Long-Range Facilities Plan (LRFP) that was completed in 2012 and accepted by the City Council in July 2012. He stated that the plan was prepared because the RWQCP's facilities were old and past their design lifetime. He said that the facility was vital and runs around the clock. The LRFP was done to provide a roadmap, project sequencing, and the ultimate plant layout for new facilities. It also included some evaluation of the cost of facilities to respond to potential future regulations related to nitrogen and phosphorus. The plant serves over 200,000 people across six communities. Allen stated that minor capital additions were approved through the partnership agreement at about \$2.8 million per year, escalating with inflation.

Allen stated that the facilities for processing biosolids needed to be rehabilitated. The incinerator needed to be replaced. The plan was to first build a dewatering and truck load-out facility, an \$18 million project, allowing the City to remove the incinerators and temporarily ship biosolids to an East Bay Municipal Utility District facility for processing or the Central Valley for composting. The second phase was to build a wet anaerobic digester to process biosolids and make energy from the biogas, a \$75 million project. That cost estimate was still preliminary, and would become more accurate as the design phase progressed. The third phase would be to evaluate processing food waste in the digester.

Allen stated that the total estimated capital cost of all projects in the LRFP, including the new biosolids facility, was \$222 million with a cost to the CPAU Wastewater Collection Fund of \$78 million. Using a low-cost loan from the State Revolving Loan Fund, the estimated annual cost for the CIP is \$9.2 million, of which \$3.3 million is allocated to CPAU. He stated that other treatment plants in the area were beginning rehabilitation efforts similar in scale to Palo Alto's.

Allen stated that the San Francisco Bay did not currently have a problem with nitrogen and phosphorus discharge, but regulators were concerned with potential harm from these sources. If regulators decided there was a potential for harm to the Bay, additional equipment might need to be added to the treatment plant to reduce these discharges. This could cost as much as \$150 million. The City was supporting monitoring of the Bay and looking for low cost process improvements that could reduce these discharges.

Commissioner Eglash thanked Allen for his presentation. He said that one of the issues raised during the discussion of the Wastewater Collection Utility Financial Plan was that operational costs at the treatment plant were increasing substantially. He asked why that was.

Senior Resource Planner Jon Abendschein clarified that Utilities staff was not aware of increases in operations costs at the RWQCP, and that the increases in treatment costs shown in the Wastewater Collection Financial Plan are related to projected increases in debt service costs due to capital investment at the treatment plant. Allen confirmed that was the case.

Commissioner Eglash asked whether it was reasonable to say that the Wastewater Collection rate increases were due to a combination of factors: an increase in treatment costs due to capital investment at the plant, an increase in operations costs for the Wastewater Collection Utility, and the fact that revenues were currently below costs. Abendschein confirmed that was the case, but noted that projected operations costs increases were in line with inflation.

Commissioner Melton asked if the concentration of salts in the recycled water generated by the treatment plant has declined as a result of improvements the City of Mountain View made to its collection systems. Allen stated that the RWQCP coordinates with its partner agencies to identify the sources of the salt and these efforts had improved the quality of the recycled water produced. He noted that conservation and the drought had reduced flows to the plant and salinity had gone back up. The long-term trend in salinity had been downward, but it was a difficult issue to manage. Part of the process of managing salinity involved making sure partner agencies were reducing infiltration in their sewer systems by replacing degraded pipes.

Commissioner Melton noted that the Santa Clara Valley Water District has a recycling plant that produces potable quality water. He added that the availability of recycled water for irrigation should be high on the priorities list for the plant. Allen said that staff at the plant supported expanding recycled water.

Vice Chair Waldfogel asked if the total dissolved solids (TDS) target number of 600 ppm was acceptable for the users of recycled water. Allen stated that Stanford Lands had requested a TDS of 650, but acceptable salinity levels depend on soil conditions, drainage conditions and plant materials. Vice Chair Waldfogel encouraged staff to coordinate with potential users of recycled water on acceptable TDS levels. Council Member Scharff said the City had set a goal for TDS levels. Assistant Director Jane Ratchye said that the City had coordinated with potential recycled water users, who had requested a TDS level of 650 and confirmed that the City's adopted goal was to achieve a TDS level of 600.

Commissioner Hall thanked Allen for speaking to the UAC. He asked how much of the total treatment cost was for capital costs versus operational costs. He noted that the treatment costs for CPAU were rising quickly. Allen said that capital investment was roughly 10% of the total cost of operating the plant.

Commissioner Hall requested additional detail on wastewater treatment operations, debt service, and capital investment costs in the future. He said this was important to enable the UAC review of the Wastewater Collection rates. Allen said he would work with Utilities staff to provide the information. Director Fong noted that while staff could provide information, the treatment plant's spending plan was not within the UAC's purview.

Vice Chair Waldfogel noted that the cost estimates for the biosolids facility were preliminary, and could increase from the projections in the Wastewater Collection Financial Plan. He also noted that the nitrogen issue could also lead to increases in treatment costs from the projections in the Financial Plan. The current treatment cost projections could be on the low end of the possible range of future treatment costs.

ITEM: 5: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Adopt: (1) a Resolution Approving the Fiscal year 2016 Wastewater Collection Financial Plan and Amending the Wastewater Collection Utility Reserve Management Practices, and (2) a Resolution amending State Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger)

Resource Planner Eric Keniston summarized the WWC financial projection, noting that rate increases of 9%/year for the next four years are required as presented in February when staff presented the preliminary financial forecasts. Costs are increasing at 3 to 5% per year, but revenues are currently below costs so rates must increase at a higher rate than costs.

ACTION:

Chair Foster made a motion to recommend that the City Council Adopt: (1) a Resolution Approving the Fiscal year 2016 Wastewater Collection Financial Plan and Amending the Wastewater Collection Utility Reserve Management Practices, and (2) a Resolution amending State Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger). Vice Chair Waldfoegel seconded the motion. The motion carried unanimously (6-0 with Chair Foster, Commissioners Chang, Eglash, Hall, Melton and Vice Chair Waldfoegel voting yes, Commissioner Cook absent).

At this point in the meeting, Commissioner Hall left the meeting and the UAC returned to complete the discussion on the water-related parts of Item #1 before discussing Item #6.

ITEM 6: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Adopt: (1) a Resolution Approving the Fiscal Year 2016 Water Utility Financial Plan and Amending the Water Utility Reserve Management Practices; and (2) a Resolution Amending Rate Schedules W-1 (General Residential Water Service), W-2 (Water Service from Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service)

Senior Resource Planner Jon Abendschein provided an update to the preliminary rate projections that were provided to the UAC at its February meeting. Abendschein stated that the San Francisco Public Utilities Commission (SFPUC) had previously projected that wholesale water rates would rise by 15%, but after the UAC's February meeting, the SFPUC advised the City that its wholesale water rate for FY 2016 is instead projected to increase by 30.7%, which would increase the City's wholesale water costs by 14%. He stated that staff had changed its rate proposal for FY 2016 to a 12% increase instead of 7%, and would use rate stabilization reserves to spread any remaining cost increase across future years. Staff is working on a public communications strategy. The result of the change in SFPUC's wholesale water rates is that the entire 12% proposed retail rate increase is due to the increased wholesale water cost.

Abendschein showed that the SFPUC's debt service is rising due to the Water System Improvement Program (WSIP), the program to upgrade and repair the regional water system. The project had started in 2007 and was projected to end in 2019. Each year the SFPUC issues new debt to fund the next phase of the project. That meant that each year the annual debt service costs assigned to wholesale customers like Palo Alto increases, with a corresponding increase in wholesale water rates. The increases in debt service payments remain in effect until the debt service is paid off in several decades.

Abendschein said staff incorporated feedback the UAC provided at its February meeting about post-drought consumption and whether it would return to pre-drought levels. In previous droughts consumption did not returned to pre-drought levels. Staff took that into account and changed the water consumption forecast for FY 2016 through FY 2023. This assumption primarily affected projected future rate increases rather than the proposed FY 2016 rate

increase, and affected them by a percentage point or two. He also noted that the projections were rate changes, not bill changes, and customers who conserved would see lower bill increases.

Commissioner Eglash commended staff on incorporating the comments from the UAC in February and on responding to the unexpected change in the wholesale price of water.

Commissioner Chang asked if the balance between fixed charges versus volumetric charges was appropriate, given the drought. She asked whether more revenue should be collected from volumetric charges if the goal was to encourage conservation.

Abendschein noted that the last cost of service analysis (COSA) resulted in an allocation of fixed charges of about 15% of the total revenue, which was an increase from the level of fixed revenues collected prior to that COSA. It was in line with the California Urban Water Conservation Council's best management practices. The time to recommend revisions to the level of fixed charges is at the next COSA.

ACTION:

Chair Foster made a motion to recommend that the City Council adopt: (1) a Resolution Approving the Fiscal Year 2016 Water Utility Financial Plan and Amending the Water Utility Reserve Management Practices; and (2) a Resolution Amending Rate Schedules W-1 (General Residential Water Service), W-2 (Water Service from Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service). Commissioner Eglash seconded the motion. The motion carried unanimously (5-0 with Chair Foster, Commissioners Chang, Eglash, Hall, Melton and Vice Chair Waldfoegel voting yes, and Commissioners Cook and Hall absent).

ITEM 7: DISCUSSION: Update and discussion on Impacts of Statewide Drought on Water and Hydroelectric Supplies

Assistant Director Jane Ratchye provided an update on the impacts of drought on the City. She stated that the situation is still very bleak, but that the SFPUC is still requesting 10% voluntary water use reductions.

Commissioner Melton noted that although Shasta Reservoir is down from a normal year, it is doing better than Hetch Hetchy and that the state is getting disparate results between water available for electric generation and drinking water supplies.

Vice Chair Waldfoegel asked by hydroelectric costs go up in the drought since it has always been represented that hydro costs are fixed. Ratchye replied that for the City's hydroelectric supplies from the Western Area Power Administration, when water supplies are short, the financial obligation of project repayment is shifted from water users to power users.

COMMISSIONER COMMENTS

Chair Foster recommended that the April UAC meeting start with the fiber-to-the-premises (FTTP) item followed by the S/CAP item since those are likely to have the interest of the public, who may wish to attend.

Chair Foster asked that the rates communication materials stress that the SFPUC's wholesale water costs are passed through to the City directly.

Commissioner Eglash noted that the agenda has the wrong date for the next meeting. Director Fong stated that the actual date is April 1, 2015

Meeting adjourned at 9:18 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities