



DRAFT

UTILITIES ADVISORY COMMISSION MEETING - SPECIAL MEETING MINUTES OF MAY 4, 2016

CALL TO ORDER

Vice Chair Cook called to order at 12:10 p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Vice Chair Cook, Commissioners Ballantine, Danaher, Eglash and Schwartz
Absent: Chair Foster, Commissioner Hall, and Council Liaison Scharff

ORAL COMMUNICATIONS

Commissioner Schwartz attended the annual 51st Smart Electric Energy Power Alliance (SEPA) State Summit in Denver.

APPROVAL OF THE MINUTES

Commissioner Schwartz indicated that she had some revisions to propose to modify some language in the draft minutes to more accurately portray her comments represented in the last paragraph on page 7 under the Electric Financial Plan and rates item. The sense of the UAC was that Commissioner Schwartz would consult with staff with her proposed changes.* Commissioner Ballantine moved to approve the minutes—as modified with Commissioner Schwartz’s suggestion—from the April 12, 2016 UAC special meeting and Vice Chair Cook seconded the motion. The motion carried unanimously (5-0) with Vice Chair Cook, Commissioners Ballantine, Danaher, Eglash and Schwartz voting yes and Chair Foster and Commissioner Hall absent.

- * After the meeting was over, Commissioner Schwartz discussed with staff and proposed the change the second sentence on the bottom of Page 7 of the draft minutes from: “Commissioner Schwartz noted that the investor-owned utilities (IOUs) have gone from five tiers to four and then three and will soon go to two tiers, then to time-of-use (TOU) rates with no tiers.” to: “Commissioner Schwartz noted that the investor-owned utilities (IOUs) have gone from five tiers to four and then three and will soon go to two tiers with an extra charge for high usage customers, then to default time-of-use (TOU) rates.”

AGENDA REVIEW AND REVISIONS

None.

REPORTS FROM COMMISSION MEETINGS/EVENTS

None.

UTILITIES DIRECTOR REPORT

1. **Finance Committee action:** On April 19, the Finance Committee reviewed the proposed Water and Wastewater Collection Financial Plans and rate adjustments. After discussion focused on wastewater treatment costs, the Finance Committee agreed with the UAC and unanimously supported the proposal. Notification of proposed rate changes was sent to ratepayers and property owners as required by Proposition 218. The proposed Electric and Gas Financial Plans and rate adjustments are scheduled to be considered by the Finance Committee on May 17. Council will make a final decision on all rate adjustments at the budget hearing on June 13.
2. **Frontier Solar Project Ribbon Cutting:** The 20 megawatt (MW) Frontier Solar project, located just off I-5 near the town of Newman, is expected to officially begin commercial operations in early June. To mark this major milestone, the project developer is hosting a ribbon-cutting ceremony at the site on Wednesday, May 18th. All Utilities Advisory Commissioners and Council members are invited to attend this special event. Frontier Solar will be the City's third utility-scale solar project to begin operating, and it's the closest to the Bay Area of the six large solar projects that the City has under contract.
3. **PV Partners Program:** On April 21, 2016, the last remaining PV Partners program rebate funds were fully reserved. The PV rebate program started in 1999 and was expanded in 2007 with the passage of the Million Solar Roofs Bill (SB1). Staff expects the PV Partners SB1 funded systems to total 7.3 MW by 2018. Rebates allocated to residential customers were fully reserved in August 2014 and large commercial customer rebate funds were reserved in September 2015. The remaining rebate allocation—for small and medium commercial customers—has now been fully reserved. Due to lower PV installation costs, customers continue to install solar without rebates.
4. **The Great Race for Saving Water:** The City teamed up with local community, youth groups, non-profits and environmental organizations to host a 5K fun run/walk and Earth Day festival this past Saturday at the Baylands. Approximately 200 race attendees enjoyed a fun-filled day with raffle prizes, music, goodies, and a chance to catch the "running toilet!" Photos are available at the City's SmugMug account and on Facebook.
5. **The Annual Mobile and Walking Gas Leak Detection Survey** began on April 25 and should be finished by September.
6. **Upcoming Events:** May 21 – From Graywater to Green Garden Workshop.

COMMISSIONER COMMENTS

None.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Adopt the Proposed Operating and Capital Budgets for the Utilities Department for Fiscal Year 2017

Dave Yuan, Strategic Business Manager, presented a summary of the budget request. He stated that the budget preparation begins in November with internal review between February and April. In May, the UAC reviews the budget, followed by the Finance Committee and Council adoption in June.

Yuan mentioned Utilities accomplishments for FY 2016 include drought response to State's mandates, participation in the Bay Area wide solar PV group buy program, the Peninsula SunShares program, increased Renewable Renewable Standard, launching of new programs--including a heat pump water heater pilot, PaloAltoGreen Gas, and Home Efficiency Genie--and completion of infrastructure improvements. Initiatives for FY 2017 include continuing capital and maintenance program, resource efficiency programs, technology and smart grid, electrification work plan tasks, workforce development and succession planning, and an update to the 2011 Utilities Strategic Plan.

Yuan separated the FY 2017 budget request into those expenses which are discretionary versus non-discretionary. Except for the Fiber Fund, more than 60% of the costs are non-discretionary including commodity purchases, debt service, rent and allocated charges. Even under discretionary expenses, the department has no control over certain aspects such as labor contracts, benefit increases and safety and reliability-related CIP projects. Yuan discussed Utilities efforts to control costs, which include reviewing infrastructure replacement projects, commodity cost--as evidenced by the latest very low price electric renewable Power Purchase Agreement, maintaining flat headcount, reviewing whether tasks should be completed by City staff or contract services, examining internal allocation charges, and review of joint action agency charges.

Yuan summarized the Electric Fund, noting that Electric rates have not increased since July 2009, but costs for capital improvements and operations have increased. Overall, Electric Fund revenues are expected to increase by \$26 million, of which \$15 million is due to the proposed electric rate increase planned for July 2016. The expenses are expected to increase by \$17 million, of which \$10 million is for commodity costs (especially new renewable projects coming on line). Electric Fund Reserves are expected to be drawn down by \$17.3 million. Electric capital improvement program (CIP) projects for FY 2017 total \$21.6 million for undergrounding, system improvements and customer connections. In FY 2017, a couple large customer reimbursed projects are budgeted including electric pole replacement for fiber-to-the-premise (contingent on agreement with 3rd party) and VA Hospital expansion.

Yuan said that the Fiber Fund initiatives for FY 2017 are rebuilding and upgrading the dark fiber network and reaching agreement with Google Fiber or another party to build a citywide fiber network. Fiber Fund revenues are expected to increase \$0.4 million due to a CPI increase in the EDF-1 rates. Expenses will increase by \$0.2 million due to the hiring of a temporary fiber and wireless project manager to assist the City with fiber and wireless initiatives. Fiber Reserves are

expected to increase by \$1.2 million. Proposed FY 2017 Fiber CIP expenses are \$1.7 million, of which \$1.5 million is for network and capacity enhancements. The Fiber Fund budgeted \$1.25 million for the Fiber Optic Network Rebuild CIP.

Yuan said that the Gas Fund will continue promoting the PaloAltoGreen Gas program, gas main replacement projects, the cross bore safety inspection program, and gas safety awareness outreach. A gas rate increase proposed for FY 2017 will assist in covering increasing costs due to increased CIP and operations costs. Overall, revenues and expenses are expected to fall by \$1 million and \$2 million respectively due to lower gas usage and lower gas commodity costs. Gas Fund Reserves are expected to fall by \$4 million by the end of FY 2017. Gas CIP expenses for FY 2017 are expected at \$6.3 million, with the majority coming from \$4.2 million for the gas main replacement project in downtown.

Commissioner Schwartz asked if the Gas Fund will be impacted by electrification plans. Yuan responded that the potential for electrification has not been factored in at this time and that gas safety is the primary consideration at this time.

Yuan said that the Wastewater Collection Fund will continue the multi-year large sanitary sewer rehabilitation (SSR) project focusing on reducing Sanitary Sewer Overflows (SSOs) and will begin a new SSR project. Yuan said that revenues for this fund are expected to increase by \$1 million as a result of the proposed rate increase. Expenses are increasing by \$0.7 million due to increasing treatment costs as the Regional Water Quality Control Plant upgrades its facilities. The sum of the Wastewater Collection Reserves is expected to decline by \$2.3 million in FY 2017. Wastewater Collection CIP costs are expected to cost \$4.8 million in FY 2017, which is primarily for the new SSR project.

Yuan said that the Water Fund plans to complete an evaluation of the recycled water project, construction of Boronda Reservoir, and the design for a new Water Main Replacement (WMR) project. Water Revenues are expected to be flat while expenses are expected to decrease by \$0.5 million. Water Reserves are expected to decline by \$6 million in FY 2017. Water CIP costs are \$9.6 million in FY 2017, due primarily to the WMR and system improvements.

Yuan said that there are several staffing requests in the FY 2017 budget request, but there are no increases in head count proposed. The reasons for job reclassifications are to realign job titles to existing and new duties; improve operational efficiency; provide staffing flexibility; or create job development opportunity.

Commissioner Eglash asked if the reclassifications were due to the changes in the nature of the job or associated with employee retention and whether the City has an appropriate system to adequately compensate employees. Yuan said that the changes requested are driven by business needs. Interim Director Shikada said that the recent labor agreements reached by Council may be imperfect but are an attempt to reflect fair market compensation packages.

Public Comment

Jeff Hoel said that in FY 2016, the Fiber Fund budgeted \$1.15 million for CIP FO-16000 Fiber Optic System Rebuild. If the City spent only \$140,000 thus far, will the remaining \$1 million

balance be returned to reserves? Is the Fiber Fund requesting for \$1.25 million in FY 2017 to continue the fiber rebuild project? Yuan confirmed the remaining \$1 million CIP balance in FY 2016 will be returned to reserves at the end of the year and the Fiber Fund will be requesting for \$1.25 million for continuation of the fiber rebuild project in FY 2017. Hoel noted that the staff presentation is not provided to the public online so that the Council does not have a chance to see it.

Vice Chair Cook asked if the presentations were provided on line. Shikada said that they haven't been in the past, but could be provided in the future.

Herb Borock noted that the Water Fund shows a plan to complete a recycled water project, but this is produced by the Regional Water Quality Control Plant, which is operated by the City for its partner agencies. He said that recycled water is planned to be provided at a fraction of the water price, but asked whether water customers should pay for this project, especially if they would not be provided the water. He said that the UAC should get involved early—especially since two different City departments are involved—since the UAC's role is to give policy advice to the Council.

Commissioner Schwartz said that water and recycled water should be viewed holistically and that water and recycled water rates should be developed together with the entire picture understood.

Vice Chair Cook asked the UAC budget subcommittee—Commissioners Ballantine and Danaher—to report on its work. Commissioner Ballantine said that the subcommittee met with staff and received a discussion in more detail than presented here. He noted that the staffing requests are designed for more efficiency and do not involve new head count. He sees this as a harbinger of things to come with new technology and complexity to operate the systems. He said that many items that are not controllable by the City are increasing in cost. In addition, labor rates are increasing. He noted that CIP projects have been deferred in the past, but continue in the proposed budget. He did note that increased undergrounding of electric services is not proposed and encouraged that new services be undergrounded in a way with new technologies to reduce ongoing maintenance costs. He said that the cost to be carbon neutral is not significant and is not a driver for increasing costs.

Commissioner Eglash asked if we are doing things not just because they are innovative, but because there are long-term benefits, or return on investment (ROI), for the proposals. Commissioner Ballantine said that one example of this is undergrounding which actually costs more to maintain when undergrounded. He also mentioned that smart grid projects may have many benefits such as improving reliability and response to outages. So ROI is part of the equation, but customer value is another part to think about, especially as the Internet of things escalates.

Commissioner Schwartz said that there is lots of literature on the benefits of smart grid, including not just cost savings, but customer satisfaction. She mentioned that all the benefits and costs for proposed new initiatives should be discussed in their totality.

Commissioner Ballantine said that new technology does need a thorough review including any increasing ongoing O&M costs.

Commissioner Danaher said that he participated on the subcommittee and noted that even the items listed as discretionary are not actually truly discretionary including CIP upgrades that must be done. He said that labor costs are not controlled by the department. He noted that CIP cost is the biggest swing factor. CIP costs increase in a growing economy and decrease when there is a slump. The department has some ability to control costs, however there is little ability to accelerate projects when there is a downturn.

Vice Chair Cook thanked the subcommittee for taking a deeper dive and that it added a level of comfort for the commission. He said that he'd participated in this subcommittee in the past and received a valuable education about the development of the budget. He noted that the budget request has found a good balance between increasing cost and continuing valued service.

Vice Chair Cook asked about the rate change communication piece that was provided to the Commission. Interim Director Shikada said that the document is useful as a "walking around paper" that can explain the key rate increase drivers for each fund.

ACTION:

Commissioner Eglash moved to recommend that the UAC recommend that the City Council adopt the proposed Operating and Capital budgets for the Utilities Department for FY 2017. Commissioner Danaher seconded the motion. The motion carried unanimously (5-0) with Vice Chair Cook, Commissioners Ballantine, Danaher, Eglash and Schwartz voting yes and Chair Foster and Commissioner Hall absent.

ITEM 2. DISCUSSION: Update and Discussion on Impacts of Statewide Drought on Water and Hydroelectric Supplies

Senior Resource planner, Karla Dailey, made a short presentation updating the UAC about the current drought. She showed a graph of precipitation at Hetch Hetchy reservoir by water year since 1995 and that water year 2016 to date is much better than the past several years. Dailey showed the City's water use reduction has been 31% compared to the State-mandated 24% water use reduction. She explained that the State Water Resources Control Board will make a determination later this month regarding whether to continue, lift, or modify the emergency regulations currently in place.

Commissioner Eglash pointed out that many reservoirs in California are at average levels for this time of year in some locations, but that groundwater levels are likely very low in other areas and that these factors are difficult to understand all together. Dailey responded that the State is indeed diverse and complex with respect to water supplies and that the State Water Resources Control Board has a difficult task when implementing water-related regulations. Commissioner Schwartz suggested that this could perhaps be illustrated best with the use of an info-graphic showing water supply across the state. Dailey said that the State has developed such communication pieces and said she would include one in next month's update.

Dailey explained that the drought caused a cost increase of over \$8.3 million for the electric portfolio in FY 2016.

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

Commissioner Danaher asked if the five priorities discussed at the last joint UAC/Council meeting could be updated at the June meeting. Shikada said that the Council is reviewing its priorities.

Commissioner Schwartz noted the microgrids/energy storage items on the tentative June UAC meeting agenda and noted that her husband works in this area and would like to have a conversation with the City Attorney's Office about any potential conflict of interest. Deputy Senior Assistant City Attorney responded that she will meet with Commissioner Schwartz to discuss the matter.

Vice Chair Cook, recognizing that it was Commissioner Eglash's last meeting, said that he appreciated the service of Commissioner Eglash, learned a lot from him, and considered him a voice of reason and balance on the commission.

ACTION:

None.

Meeting adjourned at 1:35 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities