



DRAFT

**UTILITIES ADVISORY COMMISSION MEETING
MINUTES OF JANUARY 18, 2018 SPECIAL MEETING**

CALL TO ORDER

Vice Chair Ballantine called the meeting of the Utilities Advisory Commission (UAC) to order at 7:00 p.m.

Present: Vice Chair Ballantine, Commissioners Forssell, Johnston, Schwartz, Segal, Trumbull
Absent: Chair Danaher

ORAL COMMUNICATIONS

Jeff Hoel commented on the report to Council for the Upgrade Downtown contract. He stated that the report was not clear on the breakdown on the rationale for cost allocation for the joint trench work between the water, gas and fiber funds. He also commented on the reference to the Gas Distribution Integrity Management Program (DIMP) and requested an agendized presentation on how DIMP works and the source of data. He questioned whether the use of purple pipes for the water portion of the downtown project will be too expensive if the trench is open and whether an analysis of the size of the pipe has been conducted in order to minimize the age of the water in the pipe.

APPROVAL OF THE MINUTES

Commissioner Trumbull moved to approve the minutes from the December 6, 2017 meeting. Commissioner Segal seconded the motion. The motion carried 6-0 with Vice Chair Ballantine and Commissioners Forssell, Johnston, Schwartz, Segal, and Trumbull voting yes and Chair Danaher absent.

AGENDA REVIEW AND REVISIONS

None

REPORTS FROM COMMISSIONER MEETINGS/EVENTS

Commissioner Schwartz reported she attended a pricing workshop at the California Public Utility Commission on December 11, 2017. The primary discussion concerned the tradeoffs between use of demand pricing and use of the marginal cost of fuel in determining the cost of service. Videos of the discussion are available online. Perhaps the Commission's next discussion of rates could include this topic.

UTILITIES GENERAL MANAGER REPORT

Ed Shikada, Utilities General Manager, delivered the General Manager's Report.

FERC Rejects DOE Grid Resiliency Initiative: In September, Department of Energy Secretary Rick Perry requested that the Federal Energy Regulatory Commission (FERC) initiate a rulemaking proceeding to impose certain rules and regulations on regional transmission organizations (RTOs) and independent system operators (ISOs), such as the California Independent System Operator, "to ensure that certain reliability and resilience attributes of electric generation resources are fully valued." This move was considered to be in direct support of baseload fossil fuel, most notably coal, nuclear energy and anti-renewable resources such as wind and solar. Many industry stakeholders, including Palo Alto through the Northern California Power Agency (NCPA), opposed the directive and called on FERC to reject the rulemaking. These stakeholders contended that the proceeding was unnecessary and could potentially lead to new payments in support of coal and nuclear plants. Additionally, the move was seen as a political attempt to discredit the renewable industry. Stakeholders urged FERC to remain objective on this issue.

Last week, FERC sustained industry concerns and rejected the proceeding on a unanimous 5-0 vote. The Commission noted the importance of resiliency and through the same order initiated a new proceeding to evaluate the resilience of the bulk electric system throughout the nation. RTOs and ISOs will have 60 days to address how their respective organizations incorporate resiliency into their system operations. NCPA intends to talk about this issue with FERC commissioners and staff during their annual Federal Policy Conference in April. Palo Alto staff will work with NCPA to ensure our interests are heard.

Western Area Power Administration: The Bureau of Reclamation (Reclamation) and Western Area Power Administration (WAPA) have been meeting with Central Valley Project (CVP) power customers, such as Palo Alto, and other stakeholders regarding a proposal to provide ratepayer relief to power customers. This is in an attempt to incentivize power customers to extend their Western Base Resource contracts beyond 2024 for 30 years. Reclamation's latest proposal is to provide power customers with \$92 million in ratepayer relief through a series of credits through our WAPA bill. The first credit of \$10 million would start in April 2018 with Palo Alto's share being \$1.23 million or \$3 to \$4 per megawatt hour depending on hydro conditions.

The proposal is referred to as "Crossoffsets" which is based upon the Expenditures Credits and Offsets (ECO) report that tracks all Central Valley Project Improvement Act (CVPIA) Restoration Fund revenues and expenditures from 1992 through 2016. The ECO report shows approximately \$1.7 billion spent on CVPIA mitigation projects. Of that amount, power customers contributed approximately \$386 million—exceeding their accounting obligation by about \$92 million. These mitigation funds are intended to be used for environmental benefits and fish habitat restoration throughout the project.

Transmission Access Charge Structure: The California Independent System Operator (CAISO) recently initiated a stakeholder proceeding to look into the possibility of changing the way that Transmission Access Charges are assessed to CAISO participants. CAISO staff recently issued a straw proposal in which they recommend changing from the current structure – in which these charges are billed based on a purely volumetric basis (a flat fee per megawatt hour) – to one that

combines volumetric and peak demand components. Such a change has the potential to reduce Palo Alto's overall transmission costs. Utility staff are closely following this proceeding and will likely submit comments on the CAISO straw proposal through NCPA in February.

Net Energy Metering Successor Program Now Open: The City's original solar Net Energy Metering (NEM) program reached its capacity during the month of December and was extended through the end of 2017 following approval of a rule change by City Council. New solar customers will now be enrolled in the NEM Successor program, which provides customers with credit for hourly electricity generated and exported to the grid. With 62 new applications in December for reservation in the original NEM program, the City surpassed its NEM capacity of 10.8 megawatts (MW). Customers wanting to enroll in the original NEM program will be placed on a waiting list in the event additional capacity opens up. More information on solar in Palo Alto and NEM is available at cityofpaloalto.org/solar.

SunShares Solar Group-Buy Program: The final tallies are in and Palo Alto was the top "Outreach Partner" in the 2017 Bay Area SunShares solar group-buy program, both in terms of the number of solar contracts signed and kilowatts (kW) of rooftop solar capacity that will be installed through the program. In Palo Alto, 29 residents signed contracts for a total of 156.94 kW of rooftop solar. Customers in all nine Bay Area counties participating in the 2017 SunShares program contracted for a total of over 1 MW solar capacity. Of that total, Palo Alto's share accounts for 14.5% of the solar capacity volume. Thanks, as always, go to our actively engaged and environmentally-conscious community members for their participation.

COMMISSIONER COMMENTS

None

UNFINISHED BUSINESS

None

NEW BUSINESS

ITEM 1: DISCUSSION: 2018 Cross-Bore Safety Program Update

Romel Antonio, Senior Engineer, presented the Cross-Bore Program update. A cross-bore exists when a new pipe is installed by trenchless construction methods through an intersecting different utility line. Gas service pipe cross-bores through wastewater lateral pipes can cause backups due to the reduced cross-sectional area. Efforts to clear blockages with mechanical equipment may damage cross-bored gas lines, which can cause natural gas to leak and migrate up the sewer lateral, possibly leading to injury or death if an explosion occurs. On July 11, 2011, Council awarded a contract to Hydromax for the cross-bore investigation project. Hydromax was selected because of its specialization in this type of work, the availability of equipment to complete this project, and Hydromax's demonstrated ability to meet the City's quality assurance and quality control requirements. All sewer laterals in the City were included in the scope of work, but only a small percentage of laterals were actually investigated. All sanitary sewer laterals that were investigated were categorized as completed or efforts exhausted as part of Phase I work. The completed category contains approximately 7,160 laterals that were fully inspected and found not to have a cross-bore condition. The efforts exhausted category contains 5,856 laterals that were not fully inspected due to maintenance or construction issues encountered at the time of inspection. Laterals in the efforts exhausted category need additional inspection subsequent to removal of the impediment conditions. As of December 31, 2013, Hydromax has investigated

13,022 sewer laterals or 72% of the 18,040 total sanitary sewer laterals in Palo Alto. The total cost for inspection of the remaining 5,018 laterals is estimated at approximately \$19 million. Phase II, which proposes inspection of approximately 15% of the 5,018 laterals, is estimated to cost approximately \$3-4 million.

In response to Commissioner Segal's inquiry about work to be performed for \$19 million, Debra Lloyd, Assistant Director of Engineering, clarified that \$19 million is the estimated cost to complete the investigation of the remaining 5,018 laterals that were not inspected plus the 5,856 laterals investigated but not completed in Phase I. Laterals were classified into eleven categories, and laterals in the four categories with the highest risk factors will be part of Phase II work. Robert Item, Senior Engineer, added that the \$19 million estimate assumes that every other lateral will require some construction. Construction costs can be for locating and uncovering a cleanout to cutting into a line and installing a cleanout to gain access.

Antonio continued with the criteria used to determine the priority of laterals, which included installation date, occupancy rate, installation of excess flow valves (EFV) for gas service, location of gas lines and sanitary sewer laterals, and service materials. Next steps are to review the prioritization risk analysis and to develop a final list of Phase II laterals and a cost estimate, which staff projects will be completed by March 2018. Updating the missing laterals in GIS from existing data should be completed by June 2018. A review of the National Association of Sewer Service Companies (NASSCO) contract template language for relevant, useful, and enforceable provisions to incorporate into the Request for Proposal (RFP) should be finished by August 2018. Staff anticipates issuing an RFP in June 2018 with proposals due in September 2018; interviewing successful proposers in September 2018; selecting a vendor and finalizing a contract in October 2018; and obtaining contract approval by December 2018. Phase II work is expected to begin in January 2019 and be complete in February 2022.

In reply to Commissioner Trumbull's queries regarding natural gas cross-bores in storm sewers, staff advised that such cross-bores are not allowed. In approximately 2004, Public Works performed a CCTV inspection of storm sewers and found several cross-bores that were addressed immediately by rerouting gas lines. Whether there are more now is unknown.

In answer to Vice Chair Ballantine's question about inspecting for cross-bores immediately following installation of a new gas line, Item indicated that staff confirms installation of a gas line has not created a cross-bore.

In reply to Commissioner Johnston's inquiry about the percentage of laterals that will be inspected by the end of Phase II and the need for subsequent phases, Item stated approximately 50% of all laterals will have been fully inspected at the completion of Phase II work. At the end of Phase II, staff will assess the need for additional phases. Item remarked that not all lateral lines will be inspected because of assumptions made in determining the priority of laterals.

Commissioner Segal referred to Finding 2.3 in Exhibit A and suggested staff identify expertise gaps earlier in the process so that staff has an opportunity to obtain needed expertise. Item concurred with the suggestion. Antonio added that the RFP will include additional training needed to bring staff up to date. Depending on the proposal, staff can match the expertise provided in the proposal with staff's expertise. Ed Shikada, Utilities General Manager, clarified that staff's level of

expertise is specific to the future contract. Staff may need expertise to review inspection results and to ensure the quality of work performed.

In response to Commissioner Forssell's request for the rationale for requesting an audit, Shikada reported the number of services inspected, the number of services that could not be confirmed as clear, and the cost of the work drove him to request the audit. The number of lines cleared did not change as a result of the audit. Staff attempted to use the contractor's database of inspection results to oversee the adequacy of services and appropriateness of amounts charged. A significant amount of effort was expended to classify a sewer lateral based on its condition, when staff was more concerned about the existence of cross-bores. Staff and the auditors debated whether the focus should be on classifying laterals or restructuring the contract for the next phase to maximize the clearance rate. The audit recommendations will be part of the next phase.

In reply to Vice Chair Ballantine's remarks about installing EFVs in parallel to cross-bore inspections to reduce the risk of hazards, Item advised that EFVs are not 100% reliable. Item added that an EFV in new service is placed close to the main line while the street is dug up. Lloyd indicated the cost to retrofit EFVs is approximately \$3,000-\$4,000 each.

In answer to Commissioner Trumbull's inquiry regarding the vast difference between the projected and actual number of laterals investigated, Lloyd explained that the project was cutting edge at the time; therefore, staff and the contractor did not have a great deal of experience. Staff learned valuable lessons from being one of the first jurisdictions with this type of project. Item added that CPAU utilized different criteria to determine clear lines than other jurisdictions. Shikada noted staff performs outreach to plumbers in the area to request notification prior to plumbers snaking a sewer line. At some point, the Commission may want to consider a regulatory approach to require notification.

Vice Chair Ballantine suggested future presentations regarding the cross-bore program include photos from an inspection to demonstrate the difficulty in investigating lines.

ACTION: No action

ITEM 2. ACTION: 2018 Utilities Strategic Plan

Ed Shikada, Utilities General Manager, presented an overview of the 2018 Utilities Strategic Plan (Plan) and revisions made in response to Commissioners' comments during the December meeting. Development of the Strategic Plan involved a series of internal and public workshops. The Plan focuses on priority areas that result in specific actions. The Mission Statement focuses on the workforce and staff's work in delivering services to the community. Priority areas are workforce, collaboration, technology, and finances and resources, and each contains specific strategies and actions. Key performance indicators (KPI) are placeholders in that they will be refined over time. Shikada reviewed KPIs for each priority area. In order to meet the KPI for workforce, staff will need to be more aggressive in filling positions. Individual development plans will be used to determine department priorities. Staff teams are organizing and will develop an implementation plan for the Strategic Plan. Subject to the Commission's discussion, the Plan may be presented to the City Council for approval on March 5, 2018.

In reply to a Commissioner's question, Dean Batchelor, Chief Operating Officer, advised that the department's vacancy rate has averaged 8% over the past five years, 3% from retirement and 5% from voluntary separation. The rate for retirement will likely increase over the next few years.

Commissioner Schwartz requested automated metering infrastructure be revised to advanced metering infrastructure (AMI). The workforce priority area needs to include cohousing and creative solutions for it and recruiting from local community colleges and universities. The collaboration priority area should refer to "listen" or "a listening organization." Requested that staff consider moving up the date for implementation of Strategy 3, Action 1 related to AMI deployment from 2022, and, Strategy 3, Action 5 – Outage Management System, currently scheduled for 2019, should be implemented much sooner. Under the Technology priority area, scheduling for Strategy 3, Action 4 seems slow, but AMI is needed to provide real-time information. Because the City proposes implementation of AMI in 2022, the two dates should align. With respect to Technology, Strategy 4, Action 5, CPAU is not keeping pace with customer adoption of new technologies. Conceptually, the action should be to catch-up with customers. Commissioner Schwartz was pleased to find Strategy 5, Action 2 in the Plan related to empowering employees with technology. The Strategic Plan should consider third-party products that will assist staff in implementing the Plan.

Commissioner Schwartz's requested clarification on Collaboration Strategy 4, Action 3, related to working with other agencies. Catherine Elvert, Utilities Communications Manager, explained that staff, in collaborating with other agencies, can share best practices and resources.

Monica Padilla, Senior Resource Planner, reported that staging development of a new customer information system (CIS), integration of the Enterprise Resource Planning System, and AMI resulted in the target date for Strategy 3, Action 4. Commissioner Schwartz recommended staff develop CIS in concert with AMI for a successful project. Dave Yuan, Utilities Strategic Business Manager, clarified that staff is developing CIS specifications that include AMI requirements. Once staff obtains approval of the business case, they plan to develop specifications for AMI technology.

Commissioner Johnston suggested KPIs remain under the priorities. Acronyms should be spelled out the first time they are used. A list of target dates in chronological order in the Plan would be helpful.

Commissioner Forssell proposed deleting the third bullet on page 4 of the Plan as it may be construed as age discrimination. She concurred with Commissioner Schwartz to include "listening" within the collaboration priority area. Commissioner Forssell was pleased to find financial efficiency Strategy 5 and Strategy 4, Action 3 in the Plan. She commented that she found the City's strategic plan consultant, Tony Georges', appearance before the UAC to be uninspiring and his slide deck to be too simplistic for the UAC and too confusing for community outreach.

In reply to Councilmember Filseth's inquiry of whether the intent of the third bullet on page 4 was to attract recent college graduates, Commissioner Forssell advised that another provision of the Plan covers recruiting from local colleges.

Commissioner Segal remarked that the CPAU values refer to accountability but not financial responsibility or an economic aspect of accountability. According to the memo, the Strategic

Destination Statement should indicate where CPAU wants to be in five years; however, the Plan does not provide a direction for five years from now.

Vice Chair Ballantine was pleased to see collaboration Strategy 2, Action 2 in the Plan and interpreted that action to mean resiliency.

Commissioner Schwartz commented that KPIs for financial efficiency and resource optimization may not be attainable because of cost of service issues and may result in tradeoffs. Understanding tradeoffs is an important part of conscious management of assets and resources. This issue needs a substantive discussion. Shikada clarified that KPIs are intended to track progress and to enable staff to make decisions more explicitly and consciously. Performance bonuses will not be tied to meeting KPIs. Commissioner Schwartz suggested including a statement as to how KPIs will be used.

ACTION: No action

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

Jeff Hoel requested future quarterly updates include reliability data and the UAC agendaize the quarterly update for discussion.

Ed Shikada, Utilities General Manager, reported the February agenda contains items for a fiber update, next steps on resiliency planning, a financial forecast and rate changes, a status report on outage management system, and the Strategic Plan. Shikada respectfully requested Commissioners be mindful of staff's full work plan when requesting topics for future agendas.

Commissioner Schwartz expressed appreciation for the current atmosphere and collaboration of meetings.

Vice Chair Ballantine suggested Commissioners indicate whether a topic will need a detailed staff report. He requested a discussion item regarding analysis of a potential drought on power purchases. Shikada advised that staff presented an analysis at a recent UAC meeting, but staff can provide additional information. Monica Padilla, Senior Resource Planner, added that the Integrated Resource Plan item will include a discussion of different types of portfolios CPAU could have. During the recent drought, staff provided regular reports to the UAC and Council about the impact of the drought. Staff monitors and forecasts all hydro resources monthly.

Vice Chair Ballantine proposed a future topic regarding the strain on infrastructure as electric vehicles continue to build out. Shikada noted the March agenda contains an item for assessment of the electric distribution system to integrate DER.

Vice Chair Ballantine noted the Q1 quarterly report is scheduled for March.

Commissioners expressed appreciation for Councilmember Filseth's attendance at UAC meetings.

Commissioner Segal requested an update regarding the additional transmission line and a discussion of budgeting for deferred maintenance. Vice Chair Ballantine suggested Commissioner Segal attend the budget workshop.

ACTION: No action

The next meeting is scheduled for February 7, 2018.

Meeting adjourned at 8:50 p.m.

Respectfully Submitted,
Marites Ward
City of Palo Alto Utilities