



DRAFT

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF MARCH 7, 2018 REGULAR MEETING

CALL TO ORDER

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

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

Absent: None

ORAL COMMUNICATIONS

Tom O'Connor questioned the requirement for a Building Division official to inspect the electrical reconnection of the home when undergrounding a utility service. In the past, the same City Utilities Department personnel who disconnected the lines returned to the site to inspect the reconnection and reconnect the lines. This new procedure is inefficient, unnecessary, and more costly.

Don Jackson remarked that the first step in a Fiber to the Premises project is to define and articulate the importance, goals, and requirements of internet access for Palo Alto residents. A majority of residents should support and the City Council should agree to a set of principles, goals, and requirements for internet access. Potential projects and investments should be considered in light of how they support these goals. As a natural monopoly, Fiber to the Premises must be owned by the people it serves.

APPROVAL OF THE MINUTES

Commissioner Schwartz revised "anticipated events" to "unscheduled events" in the final paragraph of Item 3 on page 6. On page 8, her comments should be revised to "Commissioner Schwartz requested staff provide the official position of the CAC and a chart showing applications with the different technologies. She expressed concern about staffing a new utility should Fiber to the Premises become a reality. Commissioner Schwartz suggested staff conduct a survey to understand if replacement of commercially available services are desired by a wide spectrum of citizens." Her subsequent comments of "a case could be made to fund FTTP to ensure the vitality of businesses" and "development of 5G may not be in the best interest of consumers" should be deleted.

Commissioner Johnston moved to approve the minutes from the February 7, 2018 regular meeting as amended. Commissioner Trumbull seconded the motion. The motion carried 7-0 with Chair Danaher, Vice Chair Ballantine, and Commissioners Forssell, Johnston, Schwartz, Segal, and Trumbull voting yes.

AGENDA REVIEW AND REVISIONS

None

REPORTS FROM COMMISSIONER MEETINGS/EVENTS

Commissioner Schwartz shared pertinent comments she heard while attending the Voices of Experience workshop on February 15. She had heard one municipal utility talk about how it had designed its customer

information system to match what it was looking for from its early phase AMI deployment but then wished it had spent more time thinking about what it might want the system to do in the future as more AMI capabilities were added. All utilities that have deployed AMI have discovered tremendous benefits on the customer side in addition to operational savings, such as the privacy gained by not having meter readers on the property. While not all these benefits are easily quantifiable, they are real and enduring. Commissioner Schwartz provided two slides she obtained at the California Energy Storage Alliance annual market development forum. Community Choice Aggregators (CCA) are promising their customers that the customers can have 100% solar all the time, which was not realistic. There was a surplus of solar energy at certain times of day, as well as issues with the system having to ramp quickly. She hoped to talk about these issues as part of the Integrated Resource Plan (IRP) discussions.

Chair Danaher recently met with European utilities to talk about charging networks and EVs. There is a general understanding that they need controlled networks so that utilities or others can track and control what's happening. If the demand for charging can be managed or controlled, given the estimate that 10% of EVs will be charging at any point in time, 15-20% of capital expenditures for the grid can be saved. In addition, he met with the CEO of a fast-growing European company that is installing gigabit-speed fiber optic networks throughout the United Kingdom. The CEO stated that costs have decreased dramatically in the last few years mainly because the massive build out of the grid in China has created a great deal of innovation. Prior cost estimates for the fiber utility could be outdated. Also, in meetings with investors in clean tech and energy tech, Chair Danaher learned that storage is being added for enterprises but not yet for utilities. Because the cost of generating assets and storage assets are projected to continue decreasing, investors are challenged by investing in 25-year assets when the assets become cheaper over time.

UTILITIES GENERAL MANAGER REPORT

Dean Batchelor, Chief Operating Officer, delivered the General Manager's Report.

Utilities Strategic Plan Update. The Strategic Plan was scheduled to be presented to City Council on February 26 but was postponed to the March 19 Council date as other agenda items went long. We appreciate Commissioner Schwartz's attendance at the February 26 meeting and would like to take this opportunity to invite other Commissioners to join us on March 19 to speak in support of the Strategic Plan. Your guidance throughout this process has been appreciated.

Open House Celebrating a Highly Efficient All-Electric Multi-Family Dwelling in Palo Alto. The City is cohosting a couple of open houses this month at a newly developed all-electric apartment complex at 430 Forest Avenue. The developer incorporated sustainable building elements such as high performance materials, advanced building control systems, high efficiency heat pump appliances for water heating and space conditioning, rooftop solar and electric vehicle charging stations. The owners are applying for LEED Platinum status and have invited building professionals and members of the public to tour the building at one of two open houses once construction is complete. Utilities staff will be present to discuss the City's role in facilitating installation of heat pump water heaters and electric vehicle charging equipment, including by providing rebates and other resources to accommodate the all-electric building construction. Please save the date to join other community members at a tour of the building on Wednesday, March 28, from 6 to 8 pm. Building professionals are invited to an open house on Thursday, March 29, from 3 to 5 pm.

Free Residential Water Efficiency Workshops.

- Saturday, March 10 from 10 am to noon - Laundry to Landscape Graywater Workshop
- Saturday, March 24 from 9 am to noon – Designing Native Gardens Workshop
- Saturday, March 31 from 9 am to 3:45 pm – Avenidas Housing Conference. Utilities staff will be present to talk about the City's Rate Assistance and Residential Energy Assistance Programs.
- Details and registration for all events are available at cityofpaloalto.org/workshops.

Silicon Valley Water Conservation Awards Ceremony. The 10th annual Silicon Valley Water Conservation Awards ceremony will be held on World Water Day, Thursday March 22 from 6 to 9 pm at the Mitchell Park Community Center. Please join us to celebrate regional heroes for water conservation. Awards are issued to businesses, organizations, educational institutions, government agencies, and individuals demonstrating excellence in water use efficiency. Palo Alto won Water Utility of the Year in 2014. This year's ceremony will feature Dr. Wallace J. Nichols, author of "Blue Mind," for the keynote address and a special reception. Tickets are \$20 and details are available at WaterAwards.org

Green Building Summit. On Thursday, February 22, Utilities staff participated in a Green Building Summit hosted by the Development Services Department. The goal of the summit was to identify possible Energy Code modifications for the 2019 Building Code cycle. Other attendees included local architects, green building professionals, industry experts, and regulators, including California Energy Commissioner Andrew McAllister. Utilities staff will participate in the technical advisory committees that will follow up on ideas generated at the summit and, through their participation, will be looking for opportunities to collaborate with other stakeholders on ways to improve building resource efficiency and facilitate electrification in existing buildings.

Community Events.

- The Great Race for Saving Water, April 14, 9:00 a.m. to 1:00 p.m., Palo Alto Baylands Athletic Center.
- Municipal Services Center Open House, May 12, 9:00 a.m. to noon, Municipal Services Center.

COMMISSIONER COMMENTS

None

UNFINISHED BUSINESS

In response to Commissioner Johnston's inquiry regarding the Statement of Work for the Fiber to the Premises Request for Proposals, Dean Batchelor, Chief Operating Officer, advised that it will be released by the end of the month.

NEW BUSINESS

ITEM 1: DISCUSSION: Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Adopt (1) a Resolution Approving the Fiscal Year 2019 Wastewater Collection Financial Plan; and (2) a Resolution Increasing Wastewater Rates by 10% by Amending Rate 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 Discharge).

Eric Keniston, Senior Resource Planner, reported that staff's rate proposal had not changed since the preliminary review was presented to the UAC in February. Staff recommended a 10% wastewater rate increase for FY 2019. The major drivers for the rate increase were rising wastewater treatment costs in the long term and rising capital expenses for the wastewater collection system in the short term. The collection system capital cost increases comprised about 18% of the cost increases and operational cost increases about 16%. Projects and bond measures were being planned to renovate the treatment plant. The City would be the main entity bearing the increase in debt expense on the collection side, but treatment cost increases would be shared with partners in the Regional Water Quality Control Plant.

In reply to Chair Danaher's query about how many employees were assigned to wastewater treatment and collection, Phil Bobel, Assistant Director of Public Works, explained that the Public Works Department is responsible for the treatment plant while the Utilities Department is responsible for the wastewater collection system. About 70 people work at the wastewater treatment plant, three work for the engineering group, eight people work for the maintenance group, eight people work in the laboratory, and 14 people work in watershed protection. Originally Public Works was responsible for both treatment and

collection, but Public Works grew so large that the management responsibilities were spread over two departments. Dean Batchelor, Chief Operating Officer, added that wastewater collection employs 30-40 people, and those employees are budgeted to wastewater, gas, and water.

Commissioner Forssell noted the Operations Reserve Fund is predicted to fall below the reserve minimum and below the risk assessment level. Staff projects construction costs will continue to increase, which will exacerbate the decrease in the Reserve Fund. She questioned the rationale for not recommending a higher rate increase to raise the Reserve Fund balance above the minimum. Keniston explained that one of the assumptions in budgeting is the full amount of expenditures in a year will not occur. Ideally, the overall operations costs of the utility will be less than projected. Staff provided the alternative scenarios so that the Commission could choose which to recommend to the Council. Jonathan Abendschein, Assistant Director of Resource Management, added that a delay in an infrastructure project or a savings in operations could create sufficient savings to maintain the reserves above the minimum level and sometimes well above the average level. Capital expenditures in the Wastewater Fund are a much larger proportion of costs than in any other fund. To the extent capital costs are driving rate increases, the Commission and the Council have a policy choice to reduce a project or to institute a higher rate increase. Vice Chair Ballantine noted that there was a downside risk to conservative cost estimates. Staff could end up returning with higher than forecasted future rate increases if costs were above forecasts because reserves were low. Abendschein acknowledged that risk. Batchelor also noted that at times it was better to re-scope and re-bid the contracts to look for a better price. Commissioner Forssell felt keeping the rates low would lead to a risk of being unable to maintain the pace of infrastructure maintenance. Abendschein stated there could be a risk of project delays if construction costs increase and staff maintains the rate of main replacement. This is one of the reasons staff provided alternative scenarios.

In response to Commissioner Schwartz's inquiry regarding why Palo Alto's rates are lower than surrounding communities, Bobel clarified that the rates for some other cities are much higher because renovation of the Silicon Valley Clean Water Plant began approximately a decade ago. Commissioner Schwartz noted that Palo Alto's rates were so much lower than other cities' rates, there was room to increase them.

In reply to Commissioner Johnston's query regarding the useful life of sewer pipe and expectations for construction costs to decrease, Batchelor reported that cast iron pipes have been in the ground for 40-50 years. The new High Density Polyethylene (HDPE) pipe should have a life of 100 years. Abendschein indicated an increase or decrease in construction costs depends on the economy and competition for services. The City has made huge progress over the last few decades to replace infrastructure. Commissioner Johnston preferred not to use deferred maintenance as a means to keep rates at a level that staff thinks customers will be happy with. If maintaining infrastructure adequately requires rate increases, then the Commission should think about that. Abendschein advised that staff is seeking that type of policy direction.

Vice Chair Ballantine felt a Palo Alto citizen would feel better about a lower increase if they could be confident it would not result in deferred maintenance or a public safety issue. Projects are often planned knowing that less than 100% will be executed. That does not mean a project is deferred. Sylvia Santos, Engineering Manager, discussed previous sewer maintenance activities. She reported a 2004 Master Plan study identified capacity-deficient sewer mains, which staff has addressed since 2004. Since 2005 staff has replaced about 31% of the sewer system. The sewer system does not have capacity problems. Staff is confident they are not putting the system at risk by deferring the program by one year. Vice Chair Ballantine remarked that if 31% of the system is replaced every 20 years and if the pipes last 100 years, then the replacement program should be complete before pipes need to be replaced again.

Chair Danaher advised that the budget reserve is less of an issue because the budget is small; therefore, taking corrective action is easier. Abendschein reported staff could return to the Commission at midyear if a problem develops.

In reply to Commissioner Trumbull's request for staff to clarify the Commission's recommendation to Council, Keniston clarified that it included three actions: the rate changes, approval of the Financial Plan, and approval of a reserve transfer.

In answer to Commissioner Segal's query regarding deferral of projects due to staffing and budgetary issues and the role compensation played in these issues, Abendschein replied that staff does not anticipate a budgetary reason for a project deferral because staff can return midyear for a rate change. Staff can also defer a project to hold down rates. Staff does not plan for deferral of projects due to staffing issues, but it can be a reason for project deferral. Batchelor noted that compensation is not the sole reason for recent staffing problems.

Councilmember Filseth understood staff to say they don't think they are using deferred maintenance to finance artificially low rates. In response to his question about whether the sewer bill would rise to the level of other cities' sewer bills once renovation of the water treatment plant begins, Keniston indicated that at the end of five years Palo Alto's sewer bill is projected to reach the current neighboring communities' average bills, but it is assumed that rates in the other cities will increase as well. Abendschein added that lower electric and sewer rates help to keep the overall bill for Palo Alto low.

In reply to Commissioner Schwartz's inquiry regarding how many written protests had been received in prior years, Keniston reported 10-12 customers submitted written protests in 2017.

Chair Danaher recommended the Commission approve the staff recommendation.

Commissioner Forssell preferred the alternate scenario with an 11% increase because it is more prudent and less likely to lead to deferral of projects due to lack of funds. Commissioner Segal remarked that if expenses are deferred or lower than budgeted, then future rate increases can be lower than projected.

ACTION: Commissioner Forssell moved to recommend the City Council adopt (1) a Resolution approving the Fiscal Year 2019 Wastewater Collection Financial Plan; and (2) a Resolution increasing wastewater rates by 11% by amending Rate Schedules S-1, S-2, S-6, and S-7. Commissioner Johnston seconded the motion. The motion carried 6-1 with Chair Danaher and Commissioners Forssell, Johnston, Schwartz, Segal, and Trumbull voting yes and Vice Chair Ballantine voting no.

ITEM 2. ACTION: Staff recommendation that the Utilities Advisory Commission Recommend that City Council Adopt: (1) a Resolution Approving the Fiscal Year 2019 Water Utility Financial Plan; and (2) a Resolution Increasing Water Rates by 4% by 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). Eric Keniston, Senior Resource Planner, reported that staff recommends a 4% rate increase for the Water Utility. The main driver of rate increases are water supply costs in the long term and capital investment costs in the short term. Staff has a plan to upgrade the storage and reservoir system in the next three years. FY 2021's rate increase is due to the AMI program. Approximately half of rate increases for FY 2018-2024 are related to increases in water supply costs because the Hetch Hetchy system is undergoing major improvements. Internally, cost increases are split almost equally between capital and operation expenses. Staff can utilize Unassigned and Rate Stabilization Reserve Funds before needing to withdraw funds from the Operations Reserve. Projected rate changes include modified CIP costs and the latest projections for San Francisco Public Utilities Commission (SFPUC) water costs. The bill impact will be an increase of approximately 3-4% for most customers.

In response to Commissioner Segal's inquiry about Palo Alto water bills being the highest in comparison to surrounding cities, Keniston stated Palo Alto's water bill is higher than most agencies' bills, but bills are comparable for some users. Commissioner Schwartz noted Santa Clara's water bill is less than Palo Alto's bill because Santa Clara does not purchase Hetch Hetchy water.

ACTION: Commissioner Johnston moved to recommend the City Council adopt (1) a Resolution approving the Fiscal Year 2019 Water Utility Financial Plan; and (2) a Resolution increasing water rates by 4% by amending Rate Schedules W-1, W-2, W-3, W-4, and W-7. Vice Chair Ballantine seconded the motion. The motion carried 7-0 with Chair Danaher, Vice Chair Ballantine, and Commissioners Forssell, Johnston, Schwartz, Segal, and Trumbull voting yes.

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

Chair Danaher noted a discussion of the proposed budget is planned for the May meeting. In response to Commissioners' questions regarding the time of the meeting, Dean Batchelor, Chief Operating Officer, explained that the meeting usually begins at noon so that staff from all divisions can be present.

Chair Danaher recalled that the April meeting had been rescheduled in prior years. Batchelor agreed to poll Commissioners for an alternate date.

Commissioner Schwartz requested a discussion of the General Fund transfer; an update about the customer outage communication system; a discussion about possibly changing the language of the City's claim to be carbon neutral; and a discussion of resilience. Batchelor felt the City Attorney's Office should advise staff regarding a discussion around reallocation of Utilities funds to the General Fund transfer. Jonathan Abendschein, Assistant Director of Resource Management, advised that staff will not be prepared to answer Commissioner questions about carbon neutrality prior to the June meeting. Vice Chair Ballantine remarked that the April meeting would be an appropriate time for Commissioners to share their comments. Chair Danaher suggested Commissioners begin the discussion in April and continue it in June when staff was prepared to respond to questions.

In reply to Chair Danaher's query regarding Fiber to the Premises, Batchelor indicated a discussion could be scheduled for June or after staff receives some responses to the Request for Proposals (RFP). Chair Danaher requested a copy of the RFP when it is released.

In answer to Commissioner Segal's request for an update regarding the transmission line across Stanford's property, Batchelor reported staff is awaiting a response from Stanford. Staff will send Stanford a letter with a due date to make recommendations.

ACTION: No action

The next meeting is scheduled for April 4, 2018.

Meeting adjourned at 8:36 p.m.

Respectfully Submitted,
Marites Ward
City of Palo Alto Utilities