



DRAFT

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF FEBRUARY 6, 2019 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 Schwartz, Commissioners Forssell, Johnston, Segal, and Trumbull
Absent: Commissioner Ballantine

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

Vice Chair Schwartz corrected her comments in the minutes as follows: (page 1) "She had talked to a Vice President of PepCo about undergrounding. She confirmed that pad-mounted transformers in newer underground areas are standard. Standards documents for transformers in underground districts in D.C. needed work. Vice Chair Schwartz has encouraged colleagues at DOE to document best practices and alternatives for undergrounding." (Page 5) "Vice Chair Schwartz remarked that having solar resources visible in the community can be more meaningful" "The Worcester Regional Transit Authority is using solar on a large building that will charge electric buses, which can have value for transit and other things." (Page 8) "Vice Chair Schwartz agreed that the UAC could form a fiber subcommittee again. She asked if informing the CAC about AMI or informing the UAC about fiber would be more efficient." "Vice Chair Schwartz suggested encouraging members of the CAC to apply for a seat on the UAC. Being informed and responsible for a range of issues could be worthwhile."

Commissioner Trumbull moved to approve the minutes from the January 9, 2019 meeting as amended. Commissioner Segal seconded the motion. The motion carried 6-0 with Chair Danaher, Vice Chair Schwartz, and Commissioners Forssell, Johnston, Segal, and Trumbull voting yes, and Commissioner Ballantine absent.

AGENDA REVIEW AND REVISIONS

None.

REPORTS FROM COMMISSIONER MEETINGS/EVENTS

None.

GENERAL MANAGER OF UTILITIES REPORT

Dave Yuan, Strategic Business Manager, and Jonathan Abendschein, Assistant Director of Resource Management, delivered the General Manager's Report.

Hydrologic Conditions – Recent storms have resulted in reservoir conditions that are average or slightly above-average compared to historical levels. Cumulative precipitation in the Central Sierras for the 2018-19 water year is currently at 116% of average for this date, and 105% of average in the Northern Sierras. And

statewide snowpack levels are currently 125% of average for this date. If the rest of the winter stays dry from here on the water year precipitation could still end up below average, but the year is off to a good start.

Upgrade Downtown Project Nears Final Stages of Construction – The Upgrade Downtown project along University Avenue and neighboring streets of downtown is moving toward the final stages of construction. Construction on the final block of University Avenue between High Street and the ‘on and off’ ramps at Alma Street is expected to begin later this week or the first part of next week, depending upon weather conditions. City staff have developed a traffic control plan with the contractor to alleviate traffic congestion and ensure the safety of motorists, pedestrians and cyclists. Drivers are encouraged to detour to roads such as Lytton, Forest, or Hamilton to enter downtown. The major utility infrastructure work in downtown is expected to be complete by the end of March 2019. Project details, including maps, traffic control plan and construction schedule are available at upgradedowntownpa.com.

Upcoming PG&E Gas Pipeline Work in Palo Alto – As part of its gas pipeline safety and maintenance program, PG&E will be replacing sections of its gas transmission pipeline running through Palo Alto. Construction will occur in several locations and is expected to begin around mid-February and continue through July. City staff are communicating project details with affected stakeholders, including residents, schools and businesses, and confirming that PG&E has proper traffic controls in place to ensure safe routes around the construction areas for bicyclists, pedestrians and motorists. Project details, including construction schedule and maps, are posted in a news item on our home webpage, and will be updated as more information becomes available. PG&E is also proposing to remove 11 trees that are close to the pipeline which the utility views as problematic. Most of these trees are located on private property. Urban Forestry staff continues to meet with PG&E to coordinate the process for outreach, permitting, notification, and tree replacements.

New Stanford Hospital Marks Final Project of Business New Construction Program – Stanford Hospital recently completed a set of major efficiency upgrades installed under the utility’s Business New Construction program. Stanford installed high efficiency lighting and controls, variable speed drives on fans and water pumps, energy efficient glazing on windows and hot aisle containment for the data center. The hospital was built 21% more efficient than the baseline and will result in a continuing savings of over 4.2 million kWh/year, enough to power over 7000 homes. This one project is equivalent to approximately 70% of CPAU’s electric efficiency savings for FY 2017. This is the last project to go through the Business New Construction program, which officially stopped taking applications in 2017.

New BAWSCA Video Highlights Accomplishments – I would like to make you aware of a new video titled “15 Years of BAWSCA: Representing Your Voice,” which highlights the value BAWSCA has provided to the 26 member agencies that purchase water from the SFPUC. BAWSCA, as a joint action agency, delivers critical operational support and advocacy on behalf of the Bay Area SFPUC wholesale customers that none of us could effectively deliver on our own. Some notable achievements featured include: its critical oversight role in the \$4.8 billion Water Supply Improvement Projects; saving member agencies \$40M over the past 15 years by ensuring the SFPUC allocates costs properly to wholesale customers, saving members \$62M over 21 years by issuing bonds to prepay debt owed to the SFPUC for capital projects; negotiating the 25-year Water Supply Agreement; and saving 2.9 billion gallons of water through conservation programs, helping to make the Bay Area’s per capita water use some of the lowest in the state. I encourage you to view the video if you want to understand the important role BAWSCA plays on behalf of Palo Alto water customers. The video can be found on Vimeo, and we will forward you a link. I also want to note that BAWSCA’s General Manager, Nicole Sandkulla, is here this evening to speak to the WSA amendments on your agenda.

In response to Commissioner Forssell's question regarding the portions of Stanford University served by the Water Utility, Abendschein advised that Stanford Research Park, Stanford Hospital, and the Stanford Shopping Center were located within the City of Palo Alto.

COMMISSIONER COMMENTS

None.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: ACTION: Utilities Advisory Commission Recommendation that the City Council Adopt a Resolution Approving the November 2018 Amended and Restated Water Supply Agreement Between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo County, and Santa Clara County and Authorizing the City Manager to Execute the Amended and Restated Water Supply Agreement. Jonathan Abendschein, Assistant Director of Resource Management, introduced Nicole Sandkulla, General Manager of Bay Area Water Supply and Conservation Agency (BAWSCA), who was instrumental in achieving the negotiated amendments.

Chair Danaher requested Ms. Sandkulla share information regarding BAWSCA.

Nicole Sandkulla reported BAWSCA is a special district, which was enabled in 2002 through special legislation sponsored by the 26 wholesale water customers of the San Francisco Regional Water System (System). BAWSCA's 26 member agencies, also known as wholesale customers, serve 1.8 million residential customers and more than 40,000 businesses and community organizations across three counties. The wholesale customers rely on the System for some to all of their water supply. The wholesale customers are connected through a Water Supply Agreement (WSA), which is a unique structure in a wholesale/retail relationship for water. The contract resulted from a lawsuit filed by the City of Palo Alto against the City and County of San Francisco (San Francisco) in the 1970s. The contract exists to protect the financial and water supply interests of the wholesale customers. BAWSCA has a staff of eight and an office located in San Mateo. The Board of Directors is comprised of one representative from each member agency. BAWSCA focuses its efforts on the goal of a reliable supply of high-quality water at a fair price. The WSA was renegotiated most recently in 2009. BAWSCA administers the WSA on behalf of the wholesale customers and ensures each agency pays its fair share in proportion to its use. In administering the contract, BAWSCA discovered some provisions that needed amending. BAWSCA proposed some amendments, and San Francisco proposed some amendments. Negotiations have produced a solid set of amendments that do not stray from policy positions embedded in the contract.

In answer to Commissioner Trumbull's inquiry regarding audits of BAWSCA by an agency similar to the Local Agency Formation Commission of Santa Clara County (LAFCO), Sandkulla advised that the San Mateo and Santa Clara LAFCOs reviewed BAWSCA in 2005 to ensure efforts were not duplicated and boundary issues had been resolved. The reviews found no issues.

Abendschein indicated staff requests review of the contract so that the item can be placed on the City Council's March 4 Consent Calendar. Adoption needs to occur quickly.

Lisa Bilir, Resource Planner, disclosed that in September the City authorized BAWSCA to negotiate with San Francisco to amend the WSA, and the negotiations led to the proposed amendments. Importantly, the amendments do not change the basic contract structure of the WSA or the City's fundamental rights. Amendment 1 concerns oversight of the San Francisco Public Utilities Commission (SFPUC) Capital Improvement Program (CIP). SFPUC has an ongoing CIP to maintain the integrity of the System. Wholesale customers are responsible for a portion of capital projects with an estimated cost of \$2 billion over ten years. Amendment 1 establishes a formal process for SFPUC and BAWSCA to engage in development of a 10-year CIP and to comment on proposed changes to the water supply and delivery targets. Under the amendment, BAWSCA and wholesale customers will have the ability to oversee and scrutinize SFPUC's capital program, which is a major factor in rate setting. Amendment 2 concerns the Tier 1 Drought Plan, which is the formula

SFPUC uses to allocate water between retail and wholesale customers during drought. If the Tier 1 formula had been applied during the most recent drought, retail customers would have been allocated more water during the drought than during non-drought years. The Tier 1 formula was not applied during the recent drought because of state-mandated drought reductions. Amendment 2 will correct the Tier 1 Drought Plan to require retail customers conserve at least 5 percent of water during a drought. Amendment 2 benefits Palo Alto by ensuring a more equitable allocation of water during a drought. Amendment 3, an administrative amendment, extends the time for SFPUC to make water supply decisions from 2018 to 2028 so that SFPUC can gather information regarding future water supplies. System costs are allocated one-third to retail customers and two-thirds to wholesale customers based on usage of the customer groups. In addition, System costs for facilities known as the Hetch Hetchy Enterprise are allocated 55 percent to power customers and 45 percent to water customers. Because of the cost allocation, proper designation of assets as water, power, or joint is very important.

In answer to Vice Chair Schwartz's query regarding use of the formula to calculate the proportional annual water usage when reviewing rate design, Abendschein reported the concept may be raised in future discussions of electric financial forecasts and rate studies and electric cost of service and rate adjustments. Vice Chair Schwartz felt the concept of proportional usage could be an equitable method for setting rates.

Bilir continued the presentation, stating in fiscal year 2010-2011 the SFPUC unilaterally changed the classification of a small number of Hetch Hetchy Enterprise assets from power to joint, which would have added \$50 million in obligations to the wholesale customers. BAWSCA disputed the changes and has been trying to resolve it. Amendment 4 resolves the dispute and the issue more broadly by documenting and fixing the asset classification for each asset in the Hetch Hetchy Enterprise. The amendment reflects SFPUC and BAWSCA's agreement for a specific cost allocation for seven capital projects that are very important to SFPUC and wholesale customers, even though the underlying asset may have a different classification than the project. Amendment 4 fixes the asset classifications of 500 assets, prevents any future unilateral changes, mitigates the financial risk for two high-risk and possibly very expensive projects, eliminates the need for an expensive new pipeline, and ensures power customers pay toward critically needed projects that maintain and enhance system reliability. Overall, Amendment 4 ensures wholesale customers pay only their fair share for upcoming capital work.

In response to Commissioner Segal's inquiry about the unilateral change being a change in the use of the assets or a mistake, Sandkulla reported the use of the asset and the asset's function did not change. The assets were older and had been paid off. The SFPUC accounting department determined the assets were new because they had been paid off, and the classification could be changed because the assets were new. In addition, water runs through the asset; therefore, the classification could be changed from power to joint. The change was made administratively, and BAWSCA staff questioned it. Commissioner Segal understood the amendment would prevent a unilateral change of an asset classification, and the process to jointly change a classification could take five years. In answer to her question about BAWSCA's ability to change a classification to benefit wholesale customers, Sandkulla explained that BAWSCA agreed to reclassify projects rather than assets because the projects would benefit the wholesale customers. That consideration may be employed again used in the future.

In reply to Commissioner Forssell's request for descriptions of the two high-risk and possibly very expensive projects, Sandkulla reported one project involved installing a valve at the end of the Mountain Tunnel to maintain greater control of flow. SFPUC wanted to designate the project as a water project, but BAWSCA wanted it to remain a joint project. The second project proposed interim repairs to the Moccasin Dam. BAWSCA accepted the classification of the project as water in order to have repairs performed quickly, but the dam remains a joint project.

Bilir further reported the Wholesale Capital Fund is a fund for revenue collected from wholesale customers for a set of capital projects funded by revenues. The balance is currently reconciled every five years. Amendment 5 provides for annual reconciliation, which will match the SFPUC's budget requirement,

appropriation process, and project spending needs. Regardless of the frequency of reconciliation, wholesale customers continue to be responsible for actual revenue-funded capital expenditures. This amendment ensures SFPUC has the necessary resources for capital improvements that benefit Palo Alto without holding an excessive amount of wholesale customer funds. Amendment 6 will update the Water Supply Improvement Program completion date from December 31, 2015 to an estimated date of December 31, 2021. Amendment 7 more accurately describes the operational details of the Regional Groundwater Storage and Recovery Project (RGSRP), which benefits the region. Palo Alto is not a party to this project. On December 11, 2018, the SFPUC approved the Amended and Restated WSA pending approval by wholesale customers. BAWSCA recommends member agencies adopt the amendments by March 31, 2019.

In answer to Commissioner Trumbull's inquiry regarding environmental analysis, Bilir advised that the City Attorney's Office has approved a statement indicating this is not considered a project.

In response to Commissioner Johnston's question about the number of wholesale customers that have approved the amendments and about the possibility of wholesale customers raising questions, Sandkulla reported five member agencies have approved the amendments. The remaining agencies have scheduled the amendments for consideration and anticipate taking action prior to March 31. She did not expect any wholesale customers raising questions or concerns. Commissioner Johnston understood the amendments provide BAWSCA some ability to get insight into the CIP and asked if BAWSCA or wholesale customers could object to capital improvements. Sandkulla remarked that BAWSCA and wholesale customers could do very little to influence capital improvements. SFPUC does not report to anybody, but a public process has been effective in obtaining SFPUC cooperation.

In reply to Commissioner Forssell's query regarding SFPUC's allocation increasing under the Tier 1 Drought Plan in small drought conditions, Sandkulla explained that the percentages in the table are not as effective as anticipated in 2001. Changes in water conservation and differences in demand make determining the right number for future use difficult. The easier approach is to retain the table, but at a minimum require SFPUC to cut back water use by 5 percent. If the table overcomes it, there would be more of a cutback. The amendment includes language for a future discussion of the issue. With respect to Commissioner Forssell's question about the 5-percent being a reduction of the previous year's use or a reduction of the total, Sandkulla advised that the cutback is based on water use just prior to the drought. The calculation is not perfect, and San Francisco ultimately accepted a minimum cutback. In response to Commissioner Forssell's request for information about the need for an expensive new pipeline, Sandkulla reported in January 2018 SFPUC included a project for a new water-only pipeline in its CIP. The new pipeline would parallel the existing Moccasin pipeline. The Moccasin pipeline is a power facility, but water and power use it. SFPUC proposed a new pipeline because Moccasin may not be a cost-effective power operation. If the new pipeline was eliminated from the CIP, SFPUC was not willing to invest in repairing the Moccasin pipeline; therefore, it probably would fail. BAWSCA supported a repair project because repairs to a pipeline cost considerably less than constructing a new pipeline. The pipeline will remain a joint asset, but water and power will share the repair cost.

ACTION: Commissioner Trumbull moved to recommend the City Council adopt a resolution approving the November 2018 Amended and Restated Water Supply Agreement between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo County, and Santa Clara County and authorize the City Manager to execute the Amended and Restated Water Supply Agreement. Commissioner Johnston seconded the motion. The motion carried 6-0 with Chair Danaher, Vice Chair Schwartz, and Commissioners Forssell, Johnston, Segal, and Trumbull voting yes, and Commissioner Ballantine absent.

ITEM 2: DISCUSSION: Staff Presentation on Utilities Workforce Update: Succession Planning, Recruitments and Vacancies.

Herb Borock noted slides 2 and 3 reflect 42.5 vacancies, but slide 5 reflects 43.5 vacancies. Slide 7 reflects two management positions that are not highlighted in the previous charts. Graphs of vacancies and

retirement eligibility by bargaining unit would be interesting. He suspected the number of management employees eligible for retirement is high.

Dave Yuan, Strategic Business Manager, reported the 2018 Utilities Strategic Plan identifies workforce as one of four priorities. The objective for workforce is to ensure long-term staffing in order to continue to provide essential utility services.

In response to Vice Chair Schwartz's inquiry regarding the Assistant City Manager/Utilities General Manager position, Yuan advised that the position will be reclassified as Utilities General Manager in the fiscal year (FY) 2019-2020 budget.

Yuan further reported wastewater, gas, water, and electric operations has the highest number of vacancies at 26. The number of vacancies in electric operations may begin affecting daily operations and emergency response times. Staff is actively recruiting for 32 of the total 42.5 vacant positions. Eight positions are hard to fill because they require unique skills and the market is quite competitive.

Tomm Marshall, Assistant Director of Utility Operations, indicated one of the key positions in electric operations is Lineperson/Cable Splicer. The position has not been fully staffed in the last ten years, and currently six positions are vacant. The position of Compliance Technician requires the same skills as a Lineperson, and two positions are vacant. The position of System Operator has also had ongoing vacancies for a number of years. Currently, two positions are vacant. The Assistant Director of Engineering position has been vacant for two years. The Assistant Director of Operations, Manager of Electric Operations, and Electric Supervisor positions will be vacant in the next two to three years due to retirement. Retirement is a concern industry wide. Recruiting and retaining staff is a particular problem in the Bay Area due to the high cost of living and commute time. Lineperson wages have escalated faster in other cities than in Palo Alto. At the end of a five-year training period, an apprentice Lineperson is not ready to work on his own. Another five years of training is needed before a Lineperson can lead a crew or work alone. Staff is able to recruit persons for entry-level positions but not mid-level positions. In addition, staff is having difficulty finding people with the skills needed for senior-level positions. Employees are working out of class, rotating through jobs, and being promoted in order to fill needed positions. Labor negotiations are underway with Service Employees International Union (SEIU) and will begin in June with Utilities Management and Professional Association of Palo Alto (UMPAPA). When an employee's retirement date is known, another employee will work with the retiring employee to learn his duties and responsibilities prior to his departure. Staff is utilizing contract services and recently retired persons to fill vacant positions. Long-term strategies to increase staffing include explore market-based compensation for critical and hard-to-fill positions; hire more resources for recruitment; evaluate retention pay options; develop and implement succession strategies such as professional development and training, recruitment, and market-based compensation; and assess department reorganization.

In reply to Commissioner Johnston's queries regarding negotiation of salaries for union jobs, Marshall explained that increasing salaries or implementing market-based compensation has to be negotiated with unions. Yuan added that the City has the right to meet and confer with a union regarding compensation for at-risk positions, which means negotiations may occur outside regular contract negotiations. As the City negotiates pay increases, other cities are negotiating pay increases as well.

In answer to Commissioner Forssell's question regarding the potential length of negotiations, Marshall related that negotiations typically take months, not years. Sandra Blanch, Assistant Director of Human Resources, added that the labor agreement reached in December required about six months of negotiations. The last three labor contracts have addressed Lineperson compensation, but the market rate changes rapidly. Staff is exploring the possibility of retention pay.

In response to Chair Danaher's inquiries about training and education for Lineperson, Marshall explained that applicants are high school graduates and sometimes graduates of "colleges" that teach basic skills. An

apprentice linesman will alternate between training and working in the field over the five-year apprenticeship period.

In answer to Commissioner Forssell's queries regarding a cost comparison of contract services and employees, Marshall reported an employee is less expensive in the current market. Contract services may cost as much as 25-50 percent more than an employee. Yuan added that CPAU recently awarded a contract for services on an as-needed basis at a cost of \$1.5 million per year for three years. The contract will provide four to six people to work as needed. Jonathan Abendschein, Assistant Director of Resource Management, clarified the contract as also including equipment, overhead, etc.

In reply to Vice Chair Schwartz's question about recruiting PG&E workers given the possibility of PG&E seeking bankruptcy protection, Marshall advised that staff has contacts at PG&E and attempts to recruit their employees. The challenge with recruiting employees from other cities or companies is the employee has to leave one union, the International Brotherhood of Electrical Workers (IBEW), for SEIU. Vice Chair Schwartz remarked that the City should consider offering unusual benefits, such as housing, that will attract workers. Recruitment needs to be more systemic. Yuan indicated staff has been attending job fairs.

In response to Commissioner Segal's inquiry regarding reasons employees leave, Marshall stated employees typically leave for higher pay and a more affordable cost of living. Housing is critical because employees need to live close enough to Palo Alto to respond in an emergency situation. If employees need hours to travel to the City, the recovery period may be extended. Commissioner Segal suggested the City may need to consider housing at least during the week for regular employees or on-call employees. In answer to her question regarding implementation of long-term strategies, Marshall related that CPAU has a succession strategy. The challenges are the number of employees facing retirement and the few employees with experience between entry-level and retirement-age.

Vice Chair Schwartz commented on staff not attending conferences where they could become acquainted with colleagues who could benefit CPAU. CPAU needs to recruit senior management who will attract additional employees. Staffing challenges cannot be resolved with entry-level people. Blanch related staff's efforts to recruit from other agencies. A couple of candidates from Long Beach and Hawaii began work for CPAU in 2018.

In answer to Chair Danaher's query regarding the salary range for Lineman and equivalent positions, Yuan indicated the salary for Linesman and Compliance Technician at the journeyman level is \$125,000-\$130,000 per year. Chair Danaher remarked that staffing is one step away from an emergency situation, and the City Council should ensure financial restrictions are not an issue for hiring.

Commissioner Forssell did not understand why a union would not agree to a pay increase. The situation may be similar to increasing construction costs in that CPAU may simply have to pay the prevailing wage for employees because utilities have to be safe and reliable. She concurred with making the Council aware of the challenges.

Vice Chair Schwartz recalled the Council's direction to keep utility rates below PG&E's rates. That would be a silly goal if Utilities cannot operate due to the lack of staff. The UAC needs to support staff in challenging that goal.

Chair Danaher disagreed with the need to challenge the goal because staffing costs could increase measurably without increasing the overall budget measurably. In response to his question regarding union representation, Marshall stated SEIU represents trade jobs and UMPAPA represents management employees.

ACTION: None

ITEM 3: DISCUSSION: Upcoming Home Energy and Water Reports Program.

Lacey Lutes, Utility Program Manager, reported the Home Energy Reports Program began in 2010, and the Home Water Reports Program was added in 2013. In 2015, the program accounted for 22.3 percent of electric savings and 64.9 percent of gas savings.

In reply to Chair Danaher's question about overall gas usage, Lutes explained that the program accounted for 1.46 percent of residential gas savings. Jonathan Abendschein, Assistant Director of Resource Management, clarified that citywide residential gas usage decreased 1.46 percent because of this program. Vice Chair Schwartz believed 22 percent and 65 percent are misleading numbers because 65 percent of 1 percent is really different from 65 percent.

Lutes continued her presentation, stating of all the programs CPAU is mandated to operate in order to provide energy savings for the City, this program accounted for a significant percentage of savings. Abendschein related that energy efficiency generates small savings year after year, but the savings add up to big savings over time. CPAU judges itself on overall savings. These numbers reflect the contribution of the program to CPAU's portfolio of savings.

In answer to Chair Danaher's question of whether this program was CPAU's best efficiency promotion program, Abendschein responded yes.

Lutes further reported the reports program was one of CPAU's most cost-effective programs for the total dollar amount spent versus the energy savings. The program ended in 2015, but staff intends to relaunch the program and has issued a Request for Proposals (RFP) for a single sign-on solution for customers. The new platform will include best practices and clear statements about the assumptions used for each household.

In response to Vice Chair Schwartz's query regarding demographic data for a home office, Lutes advised that the program addresses electric vehicle (EV) ownership and solar power. She is negotiating a contract for a reporting program that can adjust comparisons for factors such as solar power, EVs, and electrification. Vice Chair Schwartz expressed concern that the household comparison may be outdated and suggested comparisons include some of the newer concepts. Perhaps the UAC could see a demonstration of the portal. Lutes clarified that the comparisons are not new but have solid results. The new program will have energy challenges, which have not been used in Palo Alto previously. Abendschein indicated staff will provide a portal demonstration in March. Staff has created flexibility in the contract to implement best practices, to generate comparison reports, and to implement additional concepts as they become accepted. Chair Danaher remarked that more data and comparisons will be available once advanced metering infrastructure (AMI) is implemented.

In response to Commissioner Trumbull's query regarding staff obtaining results from the program, Lutes disclosed staff will work with the consultant to launch the program, and then the consultant will run the program. Under the prior program, most customer complaints were caused by a lack of understanding of the comparisons. In response to those complaints, staff has developed a separate cohort for solar customers.

Vice Chair Schwartz commented that staff may not have received all customer comments because, based on her experience, the vendor removed customers who asked questions from the program.

Abendschein related the ability of this program to serve as an outreach and marketing channel. It will be tied to other programs and features that allow people to take action. It can also be a channel for positive interaction between staff and customers.

ACTION: None

ITEM 4: DISCUSSION: Staff Presentation on Preliminary Rate Changes for Electric, Gas, Wastewater Collection, and Water Utilities for FY 2020.

Eric Keniston, Senior Resource Planner, noted the projections include refuse rates for information only. Staff will complete gas and water cost of service adjustment (COSA) updates in 2019, and wastewater COSA updates are planned for 2020. Staff projected a 5-percent overall residential rate increase for fiscal year 2019. The projection has changed based on ending reserves for FY 2018. For FY 2020, staff projects a 9-percent rate increase for electric, a 10-percent increase for gas, a 7-percent increase for wastewater, a 4-percent increase for water, and no increase for refuse.

Jonathan Abendschein, Assistant Director of Resource Management, recalled staff talking with the Finance Committee about ways to contain costs in each budget cycle without sacrificing service. Staff has advanced the preliminary rate forecast so that division heads can understand the rate outlook for the next year and focus their efforts on efficiencies prior to submitting their proposed budgets. In addition, staff continues to review personnel actions in order to operate efficiently and handle vacancy issues and to regularly review performance metrics and expenditures.

Keniston further reported the Supply Operations Reserve balance is currently below the minimum guideline. Staff can utilize the Hydroelectric Stabilization Reserve or the Special Projects Reserve to raise the balance above the minimum guideline. Staff projects 3-5 percent rate increases beyond FY 2020. All utilities are facing declining sales as usage moves into the historical long-term decline. The Distribution Operations Reserve balance is projected to remain around the minimum guideline and increase over time.

In reply to Chair Danaher's query about increasing the Supply Operations Reserve balance by \$20 million over the next few years, Keniston indicated that is staff's intent.

In response to Commissioner Johnston's questions about the reason the projection jumped from 3 to 9 percent, Keniston explained the increases in electric commodity costs and capital project costs caused the projection to increase. When sales decrease, rate increases are spread over fewer and fewer units. Within the projection for gas rates, a 15-percent distribution rate increase equates to about a 10-percent overall bill impact. The projection increased based on plans to resume annual water main replacement projects, cross-bore contingency costs, and regional backbone transportation cost increases.

In answer to Vice Chair Schwartz's inquiry about the effect of PG&E seeking bankruptcy protection or selling its gas operation, Abendschein indicated staff continues to explore the possibilities. Staff is less concerned about CPAU's direct exposure and more concerned about indirect exposure such as loss of privileges on the transmission pipeline or PG&E passing costs via the transmission access charge. The Northern California Power Agency (NCPA) is assisting staff with a response on that front.

Keniston continued the presentation, stating Electric Utility revenues are below costs and projected costs; therefore, 10-percent rate increases will be needed for the next two or three years. With the rate increase, the Operations Reserve balance will fall within the minimum and maximum guidelines. The minimum guideline level is \$6 million, so the Operations Reserve will provide only a small cushion. For wastewater, staff proposes a 7-percent rate increase. Staff anticipates an increased amount of capital work on the Palo Alto distribution system and the Water Quality Control Plant (WQCP). Wastewater collection does not have much debt service, but most of the WQCP capital expense will be related to debt service. Operations Reserves are small and will draw down quickly such that staff expects the balance will reach the minimum guideline balance by FY 2022. A 7-8 percent increase will cause a \$2.50-\$3.00 per month bill impact. Staff proposes a 4-percent overall water rate increase and plans to create a separate commodity rate component for pass-through. This is a good time for a separate component as the SFPUC does not appear to be planning rate increases until 2022 or 2023. In the water COSA, staff is evaluating a merger of all residential meter charges into one charge for all residential customers. Currently, SFPUC has a \$4 billion project for seismic improvements to the Hetch Hetchy system. In future years, many capital improvements will be needed. The cost of water accounts for about 40 percent of the utility's costs. From 2014-2024, staff projects average

overall 4-percent cost increases. Capital investments account for slightly more than 50 percent of distribution-related costs. Over the last five years, distribution costs have been increasing slowly, but staff believes they will increase faster to 2024. If a project to install backup generators at pumping stations does not materialize, near-term costs could decrease. The cost of underground construction has increased precipitously since 2010. Palo Alto's median bill is approximately 12 percent higher than the average bill of comparable cities.

Chair Danaher commented that a comparison of median monthly residential bills is not meaningful if lots and yards vary greatly in size. A comparison based on cost per cubic foot could be more meaningful. Commissioner Forssell interpreted the chart as a comparison of bills for usage of 4 ccf, 8 ccf, and 18 ccf.

Keniston further reported water costs increased due to reservoir infrastructure in the Foothills. Cost containment strategies could include reducing the number of reservoirs in the Foothills or instituting an elevation surcharge.

In response to Vice Chair Schwartz's query about reallocating some of those resources to fire prevention, Keniston advised staff does allocate a portion of costs to fire protection rates and can consider allocations to other funds.

Keniston continued the presentation, stating over the last five years, rates have increased on average 6.5 percent per year. Rates for comparable cities have increased by 9 percent per year. For FY 2020, CPAU will probably have an 8-percent cost decrease due to one-time capital decreases. If other revenues such as interest income or capacity fees decrease, staff may have to increase rates more. Staff anticipates overall costs will decrease slightly over the next few years. When the SFPUC rate increases take effect, CPAU's costs will begin to rise. The Operations Reserve balance currently falls well within the minimum and maximum guidelines.

In response to Chair Danaher's question regarding UAC action on rate proposals, Keniston explained the Proposition 218 notice requirement for water and wastewater rates. Staff will present the water and wastewater rate proposals to the UAC in March and the Finance Committee in April. Electric and gas rates will be presented in the next two to three months.

Commissioner Johnston recommended staff communicate the cost drivers for rate increases to the Finance Committee.

Vice Chair Schwartz suggested staff also illustrate the fixed costs versus variable costs based on usage. In reply to her question about the concentration of EVs in Palo Alto not affecting electric revenue, Keniston reported EVs do not use a lot of energy on a kilowatt per hour (kW h) basis. EVs do create demand issues, which could drive up costs because of the need to replace transformers. The increase in residential usage has been countered with a decrease in commercial usage of electricity.

Chair Danaher agreed with Vice Chair Schwartz's point about illustrating costs. He commended staff for including the overall percentages, cost containments, and the chart showing the cost of undergrounding. CPAU should have a list of capital projects it can accelerate if staff anticipates a recession such that costs might decrease.

ACTION: None

ITEM 5: Discussion: Staff Update and Discussion of Fiber and AMI Planning.

Dave Yuan, Strategic Business Manager, reported staff met with the Citizens Advisory Committee in January and provided an update regarding the Fiber to the Node (FTTN) RFP. Staff continues to meet with the City Attorney's Office to review the RFP. CPAU will host the NorCal Water AMI consortium meeting the following Wednesday. A Council update is tentatively scheduled for March 2019.

ACTION: None

ITEM 6: ACTION: Selection of Potential Topic(s) for Discussion at Future UAC Meeting and Potential Designation of UAC Ad Hoc Subcommittee(s).

Vice Chair Schwartz requested a discussion around citizens' misperceptions about their bills tracking usage.

Catherine Elvert, Utilities Communications Manager, reported staff investigated a customer's complaint on Nextdoor about his high water bill. The high water bill occurred four or five months prior to the message appearing on Nextdoor. Staff encouraged the customer to contact customer service immediately when he noticed a spike in the water bill. The resident seemed to recall construction work in front of the house, and staff determined the work was not performed by City crews. Given the length of time that had passed, staff could not do much more to aid the resident.

ACTION: None

NEXT SCHEDULED MEETING: March 6, 2019

Meeting adjourned at 9:31 p.m.

Respectfully Submitted
Tabatha Boatwright
City of Palo Alto Utilities