DRAFT

UTILITIES ADVISORY COMMISSION MEETING
MINUTES OF APRIL 15, 2020 SPECIAL MEETING

CALL TO ORDER

Chair Danaher called the virtual meeting of the Utilities Advisory Commission (UAC) to order at 9:00 a.m.

Present: Chair Danaher, Vice Chair Forssell (joined at 9:07 a.m.), Commissioners Jackson, Johnston, Scharff, Segal, and Smith

Absent: None

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

Chair Danaher requested page 5 of the minutes reflect Commissioner Jackson's revision of "Commissioner Jackson wanted to review the RFP but not necessarily prior to its release."

Commissioner Segal moved to approve the minutes of the March 5, 2020 meeting as amended. Commissioner Smith seconded the motion. The motion carried 6-0 with Chair Danaher and Commissioners Jackson, Scharff, Segal, and Smith voting yes, Commissioner Johnston abstaining, and Vice Chair Forssell absent.

AGENDA REVIEW AND REVISIONS

None.

REPORTS FROM COMMISSIONER MEETINGS/EVENTS

None.

GENERAL MANAGER OF UTILITIES REPORT

Dean Batchelor, Utilities Director, reported Information Technology (IT) staff has done a fantastic job ensuring videoconferencing and remote work proceeds smoothly. Library staff is supporting the community support call center and communications concerning preparation for recovery. Planning and Development Services staff continues to handle permit applications submitted online and is supporting the Emergency Operations Center (EOC). Public Works staff continues work on essential projects with staff alternating weeks of working from home and onsite. Administrative Services staff continues to process payments and refunds, prepare audits, research Federal Emergency Management Agency (FEMA) requirements and record keeping, and prepare the City budget. Community Services staff is preparing online programming and recovery programs. Fire Department inspectors are reinforcing vegetation management for wildland fires. Communications staff is writing and publishing information daily and developing scripts for the community support call center. Customer Service staff is responding to billing inquiries, including requests for assistance. About a half of Customer Service staff are working remotely. Approximately 25,000 meters are being estimated so that meter readers do not have to contact customers. Letters have been sent to the affected customers. Resource Management Division (RMD) and Utility Program Services (UPS) staff is working on assistance programs for small and medium business customers, monitoring water, gas and electric loads, and running models of recession scenarios. Engineering staff is maintaining invoice payments and reviewing cybersecurity for Supervisory Control and Data Acquisition (SCADA) systems. If an economic recession occurs, staff is preparing project designs to take advantage of lower costs. Operations staff continues to respond to emergencies and outages, clean sewer mains, and maintain streetlights and traffic signals. Essential workers are working alternate weeks, wearing masks, and when possible working individually. Crews are practicing social distancing. Morale is high. About 50% of City employees are working remotely, 45% are working onsite, and about 5% have taken leave. The Council has authorized paid administrative leave through June 30, 2020 for City employees whose work is less than 100% essential. The Utilities Department has a total of 215 employees, and about 60% are working from home, 35% report weekly, and 5% have taken leave. Managers are reviewing tasks with employees daily.

Nelly Baumb, City Clerk's Office, advised that the public has not been able to join the meeting, provided the correct password for the public, and requested Chair Danaher reopen Oral Communications. Chair Danaher indicated he would do so following the Director's Report.

Jonathan Abendschein, Assistant Director of Resource Management, indicated economic impacts from the COVID pandemic are modest and manageable at the current time, but the impacts in a few months are unknown. Staff is tracking loads, decreases in sales, and utility bill defaults. Electric load has decreased, but water and gas loads have not. The majority of the Electric Utility's sales are to the business community; therefore, temporary business closures and increased telecommuting have a large impact on the Electric Utility. In the Gas and Water Utilities, about 50% of usage is residential. The decrease in water sales to commercial customers has been offset by the increase in sales to residential customers.

In response to Chair Danaher's inquiry regarding the impact of the differences in commercial and residential rates, Abendschein related that rates are fairly similar and did not expect major impacts.

Abendschein continued the presentation, stating for every $1 of sales revenue lost, staff can reduce costs by 40₵-60₵ because the purchases of water, gas, and electricity are reduced. If 8-10% load losses continue for the next three months in the Electric Utility, there will be a $1.5 million net loss of revenue, which can be absorbed in existing reserves. The impact of bill defaults is unclear because staff has no data at the current time and data obtained from the billing system is limited. Staff is working to obtain more data about delinquent bills. During the Great Recession, defaults never reached 0.25% of revenue or approximately $100,00-$200,000 for the Gas and Water Utilities and $400,000-$600,000 for the Electric Utility. Staff has estimated the impact of all retail and restaurant customers defaulting at $3 million in the Electric Utility, $550,000 in the Gas Utility, and $300,000 in the Water Utility. Staff anticipates the impacts could be several hundred thousand dollars in the Gas and Water Utilities and $1-$1.5 million in the Electric Utility. These losses can be absorbed in existing Reserves.

In reply to Commissioner Smith's question regarding absorbing a maximum loss of $3.8 million in reserves, Abendschein advised that Electric Utility Reserves could absorb $3 million in defaults and $1.5 million in lost sales revenue. Using Reserves may not be prudent given the uncertainty of future impacts. In answer to Chair Danaher's query regarding defaults, Abendschein explained that estimates for restaurants and retailers assume normal usage and a 100% default rate. Chair Danaher remarked that the two assumptions are double counting because the electric load would decrease as well. Abendschein concurred and indicated the estimates are very conservative.

In answer to Councilmember Cormack's inquiry regarding a utility's knowledge of a closed business, Abendschein explained that without smart meters, staff cannot determine through bill or usage information which restaurants and retailers are closed. As the billing cycle continues, reduced usage in accounts may indicate closed businesses, and staff may be able to provide information at a later time.

In response to Commissioner Smith's query regarding a model for a percentage of businesses closing for the remainder of the year, Abendschein related that staff is modeling scenarios like this. A continued 10% load decrease through fiscal year (FY) 2021 would be significant. More information could be available for the May UAC meeting.

Abendschein further reported the best reference point for future impacts is the Great Recession; however, separating the impacts of long-term trends, the drought, and the Great Recession is difficult. The long-term impacts of the Great Recession on load appear to be minimal, a 1-3% decrease, for all utilities. During the Great Recession, write-offs did not exceed 0.25% of revenue except in the Water Utility, where write-offs were 0.77% of revenue. Because this recession will probably be different from the Great Recession and recovery may be lengthy, staff is preparing alternate forecasts. Staff is working with the Administrative Services Department to ensure City of Palo Alto Utilities (CPAU) assumptions align with City assumptions.

In reply to Commissioner Jackson's question about more rainfall in the past month, Abendschein advised that rainfall affects hydroelectric output. Rainfall in March helped the current dry year, but dry hydroelectric conditions will probably have a $3-$5 million impact on the utility. This impact and the COVID impacts are manageable.

In answer to Chair Danaher's query regarding cost savings in addition to reduced purchases, Abendschein indicated supply cost savings are likely the largest. Other cost savings probably total a fraction of supply cost savings.

Chair Danaher returned to Oral Communications.

COMMISSIONER COMMENTS

None.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2021 Electric Financial Plan and Reserve Transfers, Amending the Electric Utility Reserve Management Practices and Increasing Electric Rates by Amending the E-1, E-2, E-2-G, E-4, E-4-G, E-4 TOU, E-7, E-7-G, E-7 TOU, E-14, E-EEC and E-NSE Rate Schedules.

Eric Keniston, Senior Resource Planner, reported staff proposes a 2% electric rate increase to match inflation and to mitigate potential future costs and/or losses. Operations Reserves are projected to fall within guideline levels. Staff plans to begin repaying the $10 million loan from the Special Projects Reserve and add funding to the Capital Improvement Program (CIP) Reserve. Staff plans not to allocate an additional $4 million to the Hydroelectric Stabilization Reserve given the dry hydroelectric year. Electric Utility costs are divided 39% to distribution and 61% to supply. The main supply cost driver is increasing transmission costs. Distribution cost drivers are medical/retirement benefit costs, capital investment, underground construction costs, and contract expenses for line crews. Staff projects 2-3% rate increases after FY 2021. The 2% rate increase is composed of 0.4% net electric supply cost increases, 0.8% CIP cost and investment increases, 0.4% operations cost increases, and 0.3% load loss. While projections are conservative, they may be more accurate due to the impacts of COVID.

In response to Chair Danaher's question, Keniston advised that the projections include the proposed rate increase.

In reply to Commissioner Smith's inquiry regarding conservative projections, Keniston explained that early in FY 2020 his expectations for sales were low, but sales have exceeded his projections until the last three to four months. Sales are now closer to his original expectations. For FY 2021, he originally projected a slight sales decline. His models do not anticipate the costs of a continuing COVID response.

Keniston further reported the Distribution Operating Reserve balance exceeds the minimum guideline level and the risk assessment guideline. CPAU's rates are approximately 34% less than PG&E's rates but higher than Santa Clara's rates. Under a 0% rate increase scenario for FY 2021, future years would need 4% rate increases.

In answer to Commissioner Smith's inquiries regarding delaying action for one month and procurement strategies for projects, Dean Batchelor, Utilities Director, requested the UAC make a recommendation during the current meeting as the Finance Committee will review the rates on April 21. The Engineering group is advancing CIP projects to take advantage of hopefully lower costs in the next few months.

In reply to Commissioner Johnston's query regarding inclusion of hourly accounting for carbon emissions and treatment of Renewable Energy Certificates (RECs) in the projections, Keniston indicated the projections do include hourly accounting and the sale of RECs.

In response to Commissioner Scharff's question about revenue from a 0% rate increase, Keniston explained that over the long term, revenues would be about the same for a 0% and 2% rate increase.

In answer to Chair Danaher's inquiry regarding a dry year, Keniston felt a 2% increase would be prudent given the impact of a dry hydroelectric year. Funds from the Hydroelectric Stabilization Reserve or a hydroelectric add-on fee could offset the increased costs of a dry hydroelectric year.

Councilmember Cormack commented that rates have to be set soon so that staff can prepare the City Budget for Council certification in June. If a majority of customers has significant trouble with a minor rate increase, keeping rates flat is worth considering. If a minority of customers has significant trouble, then rates should be increased. In reviewing the proposed Budget, the Council will review all impacts of the emergency. In reply to her questions, Keniston explained that reduced demand from nonresidential customers shifts the burden of fixed costs to the remaining customers. Anecdotally, electric loads across Northern California have deceased 8-10%. Jonathan Abendschein, Assistant Director of Resource Management, indicated market prices for electricity have decreased, and the sale of electric supply will generate less revenue. The demand for renewable energy remains high.

Chair Danaher felt the rate increase is modest. The businesses most affected during the shutdown would not use much load. The Council can approve a different or no rate increase.

Commissioner Segal believed a 2% rate increase, if comparable to the rate of inflation, is logical and suggested messaging about the rate increase include information about assistance programs.

ACTION: Commissioner Jackson moved to recommend the City Council adopt a Resolution approving the Fiscal Year 2021 Electric Financial Plan and Reserve Transfers, Amending the Electric Utility Reserve Management Practices and Increasing Electric Rates by amending the E-1, E-2, E-2-G, E-4, E-4-G, E-4 TOU, E-7, E-7-G, E-7 TOU, E-14, E-EEC and E-NSE Rate Schedules. Commissioner Smith seconded the motion. The Motion carried 7-0 with Chair Danaher, Vice Chair Forssell, and Commissioners Jackson, Johnston, Scharff, Segal and Smith voting yes.

ITEM **2**: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2021 Gas Utility Financial Plan, Including Proposed Transfers and an Amendment to the Gas Utility Reserve Management Practices and Increasing Gas Rates by Amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service).

Eric Keniston, Senior Resource Planner, reported staff proposes a 3% gas rate increase because of distribution system cost increases. Gas Utility costs are divided 60% to distribution and 40% to supply. Capital investment and distribution costs are relatively fixed unless projects are delayed. The cost drivers for gas supply are gas supply, PG&E gas transmission rates, Cap and Trade costs, and the Carbon Neutral Gas Plan. Cost drivers for gas distribution are overhead costs, underground construction costs, temporary funding of crossbore investigations, and overhead transfers. CPAU's rates are 8% lower than PG&E's rates. Projections indicate 6% rate increases will be needed in FY 2022-2024. Staff is investigating the benefits of bond financing main replacement projects. The 3% rate increase is composed of 1.5% operations and maintenance (O&M) expense increases and 1.7% CIP investment increases. With the rate increase, the Operating Reserves balance will remain within guidelines. Staff has not found any shifts in usage related to the COVID situation. Currently, residential bills in winter are lower and in summer are higher than PG&E's bills. Commercial bills are higher than PG&E's bills. With the rate increase, smaller gas users could have lower bills, and more costs will shift to larger gas users. Commercial customers will see a 3-4% increase in their bills with the rate increase. The monthly service charge for all customers will decrease. Alternative 1 is a 5% rate increase in FY 2021 with 4% increases in FY 2022-2024. Alternative 1 will have a larger impact on customers than the staff recommendation. If the UAC recommends a 3% rate increase, the Gas Utility Financial Plan will need to be amended. Alternative 2 is a 0% rate increase in FY 2021 with 10%, 8% and 3% rate increases in FY 2022-2024 respectively. Large rate increases in FY 2022-2024 will be needed to keep Reserves balances within the guideline levels after a major main replacement project and a 0% rate increase in FY 2021. Bond financing could reduce the rate increases.

In response to Commissioner Smith's inquiries regarding FY 2021-2025 rate increases under the staff recommendation and Alternative 1, Keniston explained that the ending Operations Reserve balance will be different for each scenario because the cumulative rate increases will be different. Alternative 1 will provide a more stable target Reserve fund balance earlier in the five-year period. The staff recommendation will ease customers into rate increases. PG&E's capital investment costs are reflected in its rates, and CPAU passes PG&E's rates onto customers. That would not affect the Operating Reserve. Commissioner Smith felt Alternative 2 would be risky, and a 10% increase would be difficult for customers.

In answer to Commissioner Johnston's queries about lower labor costs and accelerating capital projects, Keniston advised that lower project costs would be an automatic savings for CPAU. If CIP costs decrease, rate increases in subsequent years could be lower. Dean Batchelor, Utilities Director, added that accomplishing more capital projects while spending the same amount of money may be more prudent than reducing future rate increases. Reserves balances will be a factor in any decision.

In reply to Vice Chair Forssell's questions regarding the 5% rate increase in Alternate 1 and new projections for supply costs, Keniston indicated 5% reflects the average bill change and assumes a static supply cost. A 3% rate increase is a 5% distribution rate increase overall. Bills for small residential users will decrease under the Staff recommendation and Alternate 1. Several small commercial customers use gas only in winter months, and their bills will decrease under the staff recommendation. Jonathan Abendschein, Assistant Director of Resource Management, related that lower gas prices are forecast for the next few years, and the pandemic has exacerbated lower prices. Vice Chair Forssell remarked that a 3% versus 5% rate increase is not the way to think about the impact on customers given the differences in bill impacts based on customer class and usage rate. Alternative 1 could maintain the financial health of the Gas Utility. Maintaining healthy Reserves would be prudent because the City may take action to reduce load.

Chair Danaher indicated his preference for the staff recommendation in light of the current hardship.

Commissioner Jackson commented that from an environmental perspective, cheap natural gas is not necessarily a good thing. He was more interested in larger rate increases but, given the impact on local businesses, he could accept a 3% rate increase.

Commissioner Scharff preferred a 3% rate increase in light of the economic climate.

Commissioner Segal was comfortable with a 3% rate increase, even though she would prefer a higher rate increase.

Commissioner Johnston was more comfortable with a 3% rate increase than a 5% rate increase.

Councilmember Cormack suggested messaging for the rate increase include a prominent announcement of the lower monthly service charge.

ACTION: Commissioner Johnston moved to recommend the City Council adopt a Resolution approving the Fiscal Year 2021 Gas Utility Financial Plan, including proposed transfers and an amendment in the Gas Utility Reserve Management Practices and increasing gas rates by amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service). Commissioner Segal seconded the motion. The motion carried 7-0 with Chair Danaher, Vice Chair Forssell, and Commissioners Jackson, Johnston, Scharff, Segal, and Smith voting yes.

ITEM 3: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend the City Council Make No Changes to Wastewater Collection Utility Rates for July 1, 2020.
Lisa Bilir, Resource Planner, reported staff proposes a 0% rate increase for FY 2021 and 5% rate increases for FY 2022-2025. Wastewater Utility costs are composed of 43% collections costs and 57% treatment costs. Treatment cost drivers include rehabilitation of the Regional Water Quality Control Plant (RWQCP). Operations/capital cost drivers include salary and benefits costs, underground construction costs, and capital project costs. No large main replacement projects are scheduled for FY 2021. CPAU's average residential bill is approximately 26% lower than residential bills in neighboring communities. The average commercial bill is about 14% higher than commercial bills in neighboring communities. Staff plans to utilize the CIP Reserve for capital expenses over the next few years. Based on projections, the Wastewater Operations Reserve balance will reach the guideline minimum in FY 2024 and increase in FY 2025.

Jonathan Abendschein, Assistant Director of Resource Management, advised that, at his request, staff recommends no rate increase rather than a nominal rate increase because a cost of service study is underway. Staff's ability to work on the study has been heavily impacted by the shelter-in-place order. Staff may propose a rate change at mid-year.

In response to Commissioner Segal's query about including the impacts of restaurant closures in the cost of service study, Bilir indicated staff is beginning to explore the impacts of restaurant closures for the Financial Plan. Staff does not know if the impacts will be long term or short term and will seek the consultant's advice for including the impacts in the cost of service study.

In reply to Vice Chair Forssell's inquiry about rehabilitation of the RWQCP, Bilir explained that the list of projects in Slide 4 are upcoming and will drive future rate increases.

Councilmember Cormack expressed interest in having information about the Capital Reserve in a future presentation. Work at the RWQCP continues as essential construction work.

ACTION: Vice Chair Forssell moved to recommend the City Council make no changes to Wastewater Collection Utility Rates for July 1, 2020. Commissioner Scharff seconded the motion. The motion carried 7-0 with Chair Danaher, Vice Chair Forssell, and Commissioners Jackson, Johnston, Scharff, Segal, and Smith voting yes.

ITEM 4: ACTION: Selection of Potential Topic(s) for Discussion at Future UAC Meeting.
In reply to Chair Danaher's inquiry regarding a discussion of the Sustainability and Climate Action Plan (S/CAP), Dean Batchelor, Utilities Director, suggested staff could present information in July. Councilmember

Cormack reported the Council will receive an interim report about the S/CAP in June. Commissioner Jackson proposed the item be scheduled for the June UAC meeting.

Commissioner Johnston requested an item regarding the emerging technologies program. Batchelor agreed to present information at a future meeting.

Chair Danaher noted Commissioner interest in the sale of RECs and suggested staff present information later in the year. He requested an update of COVID impacts on utility projections at each meeting.

Commissioner Segal requested an educational presentation regarding Cap and Trade monies and impacts.

Commissioner Jackson proposed a future item regarding the performance of internet infrastructure during the crisis as an indicator of improvements needed for future crises.

Chair Danaher requested an update of progress with the fiber plans in the next few months.

Vice Chair Forssell requested a discussion of gas emissions and distribution and transmission system leaks in the summer timeframe.

Batchelor advised that staff proposes rescheduling the May 6 meeting to May 20 and canceling the June meeting because of staff's focus on the COVID emergency. Agenda items could include the S/CAP, water supply and the water system, automated metering infrastructure (AMI), and the electric vehicle (EV) program. Items for the budget and water supply should be relatively short.

After a discussion of meetings and agenda topics, Chair Danaher noted Commissioners' interest in a May 13 or 20 meeting with agenda items for the S/CAP and perhaps a couple of other items. Jonathan Abendschein, Assistant Director of Resource Management, indicated reports for meetings scheduled in the first week of May have to be submitted in the next few days. Staff could not prepare a report for the S/CAP in a few days; therefore, he advocated for rescheduling the May 6 UAC meeting to late May or early June. Chair Danaher announced the UAC's agreement for rescheduling the May 6 meeting to May 20.

Batchelor reminded the UAC's budget ad hoc committee of its meeting on April 22 at 4:00 p.m.

ACTION: None

NEXT SCHEDULED MEETING: May 6, 2020

Meeting adjourned at 11:28 a.m.

Respectfully Submitted
Tabatha Boatwright
City of Palo Alto Utilities