



UTILITIES ADVISORY COMMISSION MEETING MINUTES OF JANUARY 6, 2021 SPECIAL MEETING

CALL TO ORDER

Chair Forssell called the meeting of the Utilities Advisory Commission (UAC) to order at 4:00 p.m.

Present: Chair Forssell, Vice Chair Segal, Commissioners Danaher, Jackson, Johnston, Scharff and Smith

Absent:

AGENDA REVIEW AND REVISIONS

None.

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

Commissioner Johnston moved to approve the minutes of the December 2, 2020 meeting as presented. Commissioner Smith seconded the motion. The motion carried 6-1 with Chair Forssell, Vice Chair Segal, and Commissioners Jackson, Johnston, Scharff, and Smith voting yes, and Commissioner Danaher absent.

UNFINISHED BUSINESS

None.

UTILITIES DIRECTOR REPORT

Dean Batchelor, Utilities Director, delivered the Director's Report.

Green vs CPA

I have an update on the Green case, which is a class action lawsuit challenging the City's gas and electric general fund transfers. As you know, for decades the City has annually transferred a portion of the earnings of its gas and electric utilities to its general fund, according to a voter-approved provision of the City's charter. This type of transfer is commonly done by other municipal power and gas utilities in California.

In 2015, a CPAU customer sued the City, claiming that the City violated the California Constitution (Proposition 26) by imposing gas and electric rates that exceeded the reasonable cost of providing those services, without voter approval. In particular, Green alleged that the City's general fund transfers from the electric and gas utilities, as well as the rents that the utilities pay the general fund for use of City property, are not valid costs of providing service. The City denied wrongdoing and the case went to trial in 2019. In January 2020, the Superior Court judge ruled that the City's electric rates were not taxes, but the gas rates were. In October 2020, the judge ruled on the remedy, ordering the City to pay \$12.6 million in refunds to

CPAU gas customers who took service between September 2015 and June 2019. Plaintiff's attorney's fees, expected to be in the millions of dollars, will likely be deducted from the class refund.

Either side may appeal the trial court decision -- plaintiffs may do so to try to overturn the court's decision on the electric rates, and the City may do so to try to overturn the court's decision on the gas rates. The City has not yet decided whether to appeal.

Whether or not either side appeals, there are a variety of issues to be determined regarding how to provide notice about the case to the class. The City's attorneys are working on these issues with Green's attorneys now. In the coming months, and assuming the case does not settle, current and former gas customers who are members of the class will receive an "opt-out notice" explaining the facts of the case, the result, and their right to opt-out of the class or to stay in the lawsuit. A hearing on these matters is set for February 2021. At that hearing, we expect the judge to determine the notice language, the timing of when it will be sent, and when refunds, if any, will be paid. If either side appeals, the City's payment of refunds it owes, if any, will likely happen after all appeals are resolved, which could be several years from now.

General fund transfers have been the frequent targets of class action attorneys, and the outcome of this case has implications for municipal utilities statewide. The City's attorneys are actively engaged with the City Council on this litigation, and I will continue to keep you posted on any non-confidential material that I can share.

NEW BUSINESS

ITEM 1: DISCUSSION: Discussion of Gas Utility System Average Rates Impacts of Electrification.

Lisa Bilir, Senior Resources Planner, shared that the item before the Commission was a back of the envelope analysis on average rate impacts of electrification and that final costs may differ significantly from the costs presented in the analysis. The scope of the analysis was limited to examining utility costs, not customer electrification costs, and the analysis focused on system average rate impacts. In the year 2016, Council adopted the Sustainability and Climate Action Plan (S/CAP) which included a goal to reduce the City's Greenhouse Gas Emissions by 80 percent from 1990 levels by 2030. The S/CAP identified two primary sectors, natural gas use in buildings and mobility-related measures, that needed to reduce their Greenhouse Gas Emissions in order to reach the 80 percent by 2030 goal. This analysis assumes 60% Greenhouse Gas Emissions reductions in the building sector by 2030 which is a level that staff estimates will allow the building sector to make its contribution toward the overall goal. Some of the reasons for focusing on single-family residential customers are that one of the proposed key actions of the S/CAP update is to target electrification of all single-family residences; this sector represents about a third of the total natural gas use within the City and nearly two-thirds of the gas utility customers. Additionally, the Utilities Department determined that it is likely possible to run a viable gas system that serves only commercial and some multi-family customers. Staff analyzed three scenarios to illustrate the different possible ways achieve the 80 percent by 2030 goal. Scenario 1 shows rate impacts in FY 2030 and assumed that all single-family customers were electrified, disconnected from the gas system and that other customer classes had cut back their usage. Scenario 2 shows the FY 2030 rate impacts and assumed that single-family residential had cut back their usage by 90 percent but all still remained connected to the gas system. Scenario 3 shows rate impacts in FY 2025 part way toward Scenario 1 where a portion of single-family residential electrification and disconnection has occurred. The key reasons for Scenario 1's system average rate reduction of 16% included the reduced size of the gas system and the associated costs to maintain, operate, and staff the smaller sized system. In Scenario 2, the system average rates were predicted to be 52 percent higher than the baseline scenario. That was because reductions were not realized in terms of reducing the size of the system and the cost to maintain, operate and staff the system was higher. Scenario 3 projected a transition period with higher costs for customers because of the cost of paying for disconnections which resulted in a system average rate increase of 17 percent. The analysis showed that widespread electrification without scaling down the gas system size could increase the system average rate for remaining customers. Even if the City was successful in reducing the system size by electrifying and disconnection, during the transition period there may be significant rate

impacts for remaining customers due to the costs of disconnection. The City may wish to continue to explore electrification incentives for renters, low-income residents, and small businesses during the transition.

Commissioner Scharff commented that many residents in single-family homes also within Palo Alto live on a fixed income and for them, electrification could be a huge cost burden. He wanted to see a cost analysis done that predicted how much it would cost the City to pay for all residents to electrify. Telling residents that they are going to be disconnected will create political anger and we need to think about the political implications of this. In answer to his question on when the analysis would be presented to Council, Jonathan Abendschein, Assistant Director of Utilities, indicated that Staff was still working on key issues and concerns that were raised within the analysis. Once those key issues and concerns were addressed, all the data would be presented to Council. In reply to Commissioner Scharff's inquiry about how much the Utility Fund transfer is, Abendschein shared that the transfer currently was approximately \$6 million per year. Commissioner Scharff advised Staff to take into account that the \$6 million may not be available anymore and how can the City make the idea of disconnecting from the Gas Utility more palatable to the community. He felt that electrifying and disconnecting the community would be very expensive and may cause political protest.

Commissioner Danaher emphasized that there have been no estimates of how much it would cost a single-family home to electrify. The estimated cost is a key component in finding out how to make it cost effective for customers to electrify their homes. Abendschein expressed that the concern raised regarding how much it costs to electrify a single-family home is a core element of the upcoming analysis and that staff would be sharing those findings within the full context of the S/CAP updates. Commissioner Danaher suggested to factor in the cost for a resident to install double pane windows and other measures.

Commissioner Johnston found the analysis eye-opening and that we have to get all the single-family residences off the system and be able to close parts of the system in order to make it cost effective. He agreed with all of the concerns that Commissioner Scharff and Commissioner Danaher had expressed. Disconnecting all single-family residents from the gas system would require significant incentives to cover the costs.

Vice Chair Segal echoed all of the previous comments and added that all cities within the State of California will face the same challenges due to the state having its own Greenhouse Gas Emissions reduction goals. She wondered what is going on at the state level such as funding that we could take advantage of. She predicted it would be cheaper to buy all residents an electric car instead of electrifying homes after seeing the analysis and wanted to see that concept be reversed.

Commissioner Jackson agreed with the other Commissioners. He emphasized that data on how much it would cost to electrify a single-family home is an important component as well as what incentives can the City provide to help with the financial burden. The City has to decide whether electrifying is a serious goal or not.

Commissioner Smith said that there was still a lot more work that needed to be done and he echoed the concern about the cost to a single-family residence. He appreciated the assumptions that were assumed in the analysis. In answer to his question regarding what disconnection meant in the analysis, Bilir confirmed that disconnection meant that the mains would be sealed at the valves and each service line would be individually sealed. All risers and meters would be disconnected from a single-family residence. All the work was estimated to be done by a City of Palo Alto utility crew. In reply to Commissioner Smith's request on why pipes need to be sealed, Dean Batchelor, Utilities Director, explained that pipes are sealed to prevent them from collapsing. Commissioner Smith suggested that the abandoned pipelines be used for fiber to the home and that could reduce the cost for both projects.

Commissioner Scharff believed that the Council would benefit from hearing the Commission's view on the subject after further analysis is done. Another key question he raised was how much Staff time should be spent on the subject if full electrification starts to look infeasible? Commissioner Scharff expressed concern about how residents would feel if they are faced with being required to electrify their homes and the difficulty of gathering data on the customer cost to electrify homes. Abendschein confirmed that Staff is close to

completing the residential cost component analysis including financing mechanisms for customers and that this will be presented to the UAC after completion. Batchelor added that an audit was underway that reviewed all of the utilities in terms of size of the mains, size of the meters, and other components. The audit will provide information on what size main and other information about each residential home has which will help determine electrification cost estimates.

Vice Chair Segal agreed that more data collection and analysis needed to happen. Suggested quantifying cost per CO2 equivalent unit of reductions. She suggested asking residents what option is the least painful.

In reply to Commissioner Jackson's inquiry regarding Scenario 3 and if the rate increase was caused by disconnections, Bilir confirmed that was correct. Commissioner Jackson was in favor of the Commission reviewing future reports and providing feedback to Council.

Chair Forssell concurred that there needed to be an analysis done on how much it would cost a homeowner to electrify. She felt it was important and valuable to have Staff continue to conduct related analyses. She predicted there could be a significant backlash if the City required electrification. Incentives such as providing fiber to the home while disconnecting from the Gas Utility as well as undergrounding were incentives she supported and she felt with such incentives in place, neighborhoods may volunteer to move forward with electrification.

Councilmember Cormack appreciated the time horizons predicted in the analysis and felt that Staff's approach to the problem was methodical. When the item comes to Council she wanted enough analysis done to understand a rough estimate for electrification for residents. The last time the S/CAP came before the Council there were dramatic choices in order to meet the goal; it is important to think about the time horizon. Council is releasing a package for boards and commissions including a handbook including establishing work plans. If the UAC feels that this would be one of the three top priorities for the year, this work plan could enable the UAC to inform Council of the UAC's discussions and feedback on topics.

ACTION: None

ITEM 2: DISCUSSION: Discussion and Update on Lifecycle Emissions for Gasoline, Natural Gas and Electricity Consumed in Palo Alto.

Lena Perkins, Senior Resource Planner, reported that the study was a request from the Commission on how lifecycle emissions are intertwined with S/CAP goals. Lifecycle meant the emissions from extraction, transport, refining, and use of a fuel. The impact on reported emissions varied between the different fuels. For every unit of gasoline used in the City, the total emissions were 34 percent higher than the emissions shown in the S/CAP. For Natural Gas, emissions per GWP 100 (Global Warming Potential over 100-years) was 49 percent higher than reflected in the S/CAP along with 5 percent higher for electricity and 34 percent higher for gasoline. Staff's proposed next steps included considering total emissions when setting incentives for voluntary programs, consider calculating total emissions reductions by programs and projects, and consider collaborating with other organizations to help the community understand the full carbon impact of different actions.

Vice Chair Segal appreciated the update and believed that it helped explain the impacts of electrifying or not electrifying to customers.

In response to Chair Forssell's inquiry regarding Staff's recommendation to not use lifecycle emissions for the S/CAP, Perkins answered the recommendation was made because very few near-term choices would be impacted by including lifecycle emissions. Chair Forssell commented that lifecycle emissions made a huge difference when compared against the footprint minus offsets. Jonathan Abendschein, Assistant Director of Utilities, commented that Council had directed Staff to review the S/CAP without offsets. Staff continues to explore ways to include lifecycle emissions in incentive calculations and how data is presented for the S/CAP and Carbon Neutral Program. In answer to Chair Forssell's question of what the International Council for

Local Environmental Initiatives (ICLEI) is, Perkins disclosed that ICLEI is the standard that communities use to do comparable Greenhouse Gas inventory and compare that inventory against other communities. Staff felt that the lifecycle emissions study could be communicated to the community without including it in the S/CAP because the S/CAP's primary role was to provide the California Environmental Quality Act (CEQA) analysis and certification. She added that offsets were a better fit for places where consumers do not have choices. Chair Forssell appreciated seeing the data for both GWP 100 and GWP 20 and suggested to continue to compare the two in future reports.

In reply to Commissioner Scharff's query about natural gas emission being less than electricity, Perkins explained that these were emissions per unit of fuel delivered to the customer (well-to-pump, not well-to-wheel). Abendschein and Perkins also explained that the heat provided from an electric heat pump water heater is three times the higher compared to the heat provided by natural gas which resulted in lower emissions per unit of heat delivered by the electric heat pump. Perkins also noted that the City only purchases carbon-free electricity in long-term contracts, so that the carbon footprint of Palo Alto's electricity supply is zero (other than transmission and distribution losses), whereas the carbon intensity shown and labeled in the report was for the 2020 *California* average electricity, not Palo Alto's electricity supply.

Gary Lindgren emphasized that half of the City's electricity comes from natural gas because the City used electricity from the grid. Perkins agreed that the City does pull electricity from the grid but the net impact on the market and the carbon intensity of the market is such that the City produces enough electric resources that even examining load, supply, and emissions on an hourly basis that the net effect of the City electricity supply is that it greens up the supply of the average grid and displaces as much carbon as it causes to be emitted. Mr. Lindgren announced that he would be in contact with Staff regarding the topic.

ACTION: None

REPORTS FROM COMMISSIONER MEETINGS/EVENTS

None.

FUTURE TOPICS FOR UPCOMING MEETING: February 3, 2021.

In reply to Commissioner Jackson's inquiries regarding permitting for electrification and which departments play a role in approving electrification for dwelling units, Dean Batchelor, Director of Utilities, confirmed that a person from the Development Center would be presenting. Jonathan Abendschein, Assistant Director of Planning, added that the Development Center spokesperson will be able to answer any questions related to fire and utility Staff can help with utility questions. The discussion will be focused on solar and storage versus electrification and electric vehicles (EV).

NEXT SCHEDULED MEETING: February 3, 2021.

Commissioner Scharff moved to adjourn. Commissioner Danaher seconded the motion. The motion carried 7-0 with Chair Forssell, Vice Chair Segal, and Commissioners Danaher, Jackson, Johnston, Scharff, and Smith voting yes. Meeting adjourned at 5:42 p.m.

Respectfully Submitted
Tabatha Boatwright
City of Palo Alto Utilities