



UTILITIES ADVISORY COMMISSION MEETING MINUTES OF FEBRUARY 3, 2021 REGULAR 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 Danaher moved to approve the minutes of the January 6, 2021 meeting with the revisions of the date. Commissioner Johnston seconded the motion. The motion carried 7-0 with Chair Forssell, Vice Chair Segal, and Commissioners Danaher, Jackson, Johnston, Scharff, and Smith voting yes.

UNFINISHED BUSINESS

None.

UTILITIES DIRECTOR REPORT

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

Utilities Sales and Delinquencies

Water and electric utility sales continue to be at or above forecasts for FY 2021. Electricity consumption continues to be 5% to 10% below previous years, as forecasted, while water use continues to be at or above previous years, which is higher than forecasted. Gas consumption was low in summer and fall, below forecasts, but as winter started gas consumption rose significantly and consumption is now roughly the same as in previous winters. Bill delinquencies continue to rise. As of the end of December, delinquencies for all utilities totaled roughly \$1.2 million. While delinquencies continue to rise gradually, they are still well within the amounts estimated in our financial forecasts. And many customers with delinquent accounts will eventually pay their delinquent balances off, based on prior experience.

Status Update on the Water Year To-Date

While it is still early in the water year, precipitation is currently at only about 40% of normal for the year in the Northern Sierras, the primary watershed for the hydroelectric generation we receive from the Central Valley Project, and 30% of normal in the Central Sierras, where the Calaveras hydroelectric project is located as well as the water sources for the SFPUC. A bad water year can result in as much as \$8 million to \$10 million

in additional costs for the electric utility. The electric utility has hydro stabilization reserves of \$11.7 million currently, which is lower than the target level of \$17 million, but well above the \$3 million minimum. This is an issue we will be tracking through the spring and we may need to come back to the UAC and Council to discuss options for the electric utility if the water year does not improve. The City's water supply, on the other hand, is in a better position. The SFPUC may consider voluntary restrictions on water use if the water year does not improve, but is not signaling a need for mandatory restrictions at this item.

Clean Fuel Rewards Program: Under the statewide program all Palo Alto residents purchasing new electric vehicles are eligible for a Clean Fuel Rewards point-of-sale \$1,500 rebate at participating dealerships. Since its launch in November 2020, the program has received ~15,000 rebate applications and roughly 5,000 rebates have been paid as of Dec 31, 2020. The number of applicants from Palo Alto is not known at this time. The total new EV sales in California is projected to be 250,000 in CY 2021, with Palo Alto anticipating about 1,500 additional EV registrations.

CALeVIP: The California Energy Commission's California Electric Vehicle Infrastructure Project (CALeVIP) launched in Santa Clara and San Mateo counties on Dec 16, 2020. This project provides rebates for Level 2 and Level 3 EV charger installation. CPAU has committed \$1 million of Low Carbon Fuel Standard (LCFS) funds to receive \$1 million in matching grant funding. In addition to rebate applications from the community the City's public works department for five DC fast charger rebates for installation in public garages and has been provisionally approved for \$350,000 in rebates.

Home Efficiency Genie Virtual Audit: The Home Efficiency Genie is now offering virtual home energy and water efficiency assessments using a smart phone-based interactive platform for \$49. This adapted version of the advisor visit allows the Genie technician to engage with residents in a live review of their home. After the assessment, the technician sends a report outlining the findings, discussion points and possible next steps. Residents are offered a safe delivery of energy and water saving devices like a smart power strip, LED light bulbs, high efficiency shower heads and faucet aerators. Since the launch of the virtual program in November, seven virtual assessments have been performed with positive feedback.

Recent Offset Purchases: Following Council's approval of the updated Carbon Neutral Gas Plan in December 2020, staff solicited proposals for carbon offsets from five brokers with whom the City has agreements in place. Staff received three proposals, and on January 7th, the City purchased 120,000 metric tons (MT) of carbon offsets from four projects at an average price of \$5.81/MT CO₂, well below the Council-approved maximum price of \$19/MT. The offsets purchased and retired were from 53% coal mine methane capture, 43% forestry, and 4% livestock project types and adhered to all criteria outlined in the Carbon Neutral Gas Plan. These offset purchases make the city's gas sales carbon neutral through December 2020.

Rosamond Solar virtual ribbon cutting: Please join us at a virtual ribbon cutting ceremony for the Rosamond Central Solar Project on February 3 at 10 am. The Rosamond project will provide CPAU with 26 MW of solar electricity beginning in 2023. Rosamond is the sixth large-scale solar project to come online to supply Palo Alto with renewable energy. Solar energy will now supply 44-45%, close to half, of Palo Alto's total electric needs each year. We will share the link to the ribbon cutting event with the UAC via email.

Commissioner Danaher reported that he had no objections to postponing the discussion regarding home electrification permits.

In reply to Commissioner Jackson's inquires of if the 2nd transmission line will be above or below the ground and sea level rise impacts, Director Bachelor explained that the existing line is on towers and the new line will also be on towers. The towers are roughly 70 to 80 feet in the air which mitigates any sea level rise impacts.

NEW BUSINESS

ITEM 1: ACTION: Staff Recommendation That the Utilities Advisory Commission Recommend the City Council Adopt a Resolution Approving the FY 2022 Wastewater Collection Utility Financial Plan Including Transfers to and From Wastewater Collection Utility Reserve Accounts and an Amendment to the Wastewater Collection Utility Reserves Management Practices; and Adopt a Resolution Adjusting Wastewater Rates 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 Discharger).

Dean Bachelor, Utilities Director, introduced Lisa Bilir who presented the item to the UAC.

Lisa Bilir, Resource Planner, confirmed that the discussion is focused on the Wastewater Collection Utility Financial Plan. In 2020 City Council did not increase the wastewater rates and the current rates had been in place since July 1, 2019. Staff recommended a 3 percent overall revenue increase, an additional 3 percent increase in FY 2023, and a 5 percent increase annually starting in FY 2024 through FY 2026. Staff provided an alternate proposal of a zero percent increase but if adopted, the Wastewater Utility Fund would need to reduce spending or differ capital spending on the Collection System of approximately \$200,000 per year during the 5 years. The key drivers for a 3 percent increase were due to a series of large increases in the treatment costs during the 5-year planning period as well as addressing the on-going needs of the Capital Improvement Projects (CIP) in the Collection System. To keep the increased percentage to 3 percent, staff had reduced the size and cost of each sewer replacement in the Collection System as well as differed two sewer replacements by one year. A Cost of Service Analysis was completed and the results of the study were incorporated into the rate proposals. Staff also proposed changes to the CIP Reserve to reflect the CIP spending on the Collection System as well as the revenue that is used in the CIP Reserve. With a zero percent increase and no further cost cuts, the Wastewater Operations Reserve yearend balance would drop close to the reserve minimum in the projected 10-year forecast. With a 3 percent increase, residential customers would see their bill increased by \$1.95 per month, commercial customers would see an increase of \$.12 per Centum Cubic-feet (CCF), and restaurant customers would see a reduced of \$.26 per CCF. One highlighted of the Cost of Service Analysis was the importance of flow volume and flow volume is the volume of wastewater discharge from each customer class as well as from the City as a whole. Over the last 10 to 12-years, wastewater flows have declined across all customer classes, but the non-residential flow volumes have decreased more than residential flow volumes. That change reflected why there is a larger increase for residential customers than commercial customers. The City continued to have lower residential rates than surrounding Cities by 29 percent and the City will maintain that status through the projected 5-years. Commercial continued to be higher than surrounding Cities by 10 percent and restaurant bills were lower than surrounding Cities by 6 percent. Staff requested support from the UAC for the annual \$4.35 million of funding to the CIP Reserve, a transfer of \$2.2 million from the Operations Reserve to the CIP Reserve in FY 2022, and the associated changes to the reserve guidelines.

In response to Commissioner Johnston's questions regarding decreasing the size of several of the sewer projects and postponement of projects, Silvia Santos, WGW Engineering Manager, answered that it meant that the amount of sewer footage that is being replaced has been reduced. Bilir confirmed that several projects were postponed to a subsequent year. In reply to Commissioner Johnston's inquiries regarding if residential meant single-family only and if it mattered if a multi-family building had a common water line, Bilir noted that single-family and multi-family are on the residential rate schedule. Jonathan Abendschein, Assistant Director of Utilities Resource Management, explained that multi-family buildings that contain central water using facilities may be charged a commercial rate for water but individual residents receive individual flat rate charges for their wastewater. In answer to Commissioner Johnston's ask of how many years the new Cost of Service Study applies to, Bilir disclosed that there is not a set amount of time and staff will reevaluate the rate burden balance between the three classes if there are changes in the data. Commissioner Johnston announced that he is concerned that residential customers have a higher burden in terms of rate increases for wastewater. He supported the contribution of a leveled amount to the CIP Reserve on an annual basis.

In answer to Vice Chair Segal's inquiry of if the Cost of Service Study was drafted traditionally in terms of evaluating flow versus strength versus customer service costs, Bilir confirmed that the new study was drafted in a way that is similar to the existing study. She agreed that as flow decreases, concentration increases and the assumption in the study is that the strength difference across the customer classes remained the same as in the previous study. Abendschein added that there is both capacity and strength related costs in transporting and treating wastewater. James Allen, Manager Water Quality Control Plant, clarified that 34 percent of the cost is for the flow and 66 percent is for strength. If the wastewater is more concentrated then there is a cost reduction and all partners see that reduction. In response to Vice Chair Segal's query on why residential customers are carrying a bigger portion of the overall cost if the strength of the wastewater coming from restaurants is increasing because the flow is decreasing, Bilir noted that on the Collection System cost side, more of the cost went to flow. Also, residential customers make up 94 percent of the number of customers and because restaurants are a small customer class, very small changes in the flow make a big difference in the proposed rate. Vice Chair Segal disclosed that the changes in the reserves made sense, is in alignment with the other utilities, and she supported it. In reply to her question of if the budget included sea level rise impacts to treatment plant facilities, Allen disclosed that there is a \$12 million project that once completed will carry more water from the plant and that will address sea level rise up to 3-feet. Also, as facilities are constructed, the elevation of those facilities is being raised to accommodate for sea-level rise. Karin North, Assistant Director of Public Works, specified that in parallel to the work being done at the plant, a Sea Level Rise Vulnerability Assessment is underway and staff is working with the Army Core of Engineers on levy improvement projects.

Commissioner Scharff stated that the City of Menlo Park, Redwood City, and the City of Hayward skewed the comparison of monthly residential bills and gave a false impression for Palo Alto's bill. He encouraged staff to revisit the residential monthly bill comparison. He did not support the notion of having residential customers paying more for the wastewater than commercial customers. In answer to his queries of what the driving costs are for wastewater and why flow is what determines the Cost of Service Study, Bilir mentioned that the Cities used in the comparison are the Cities that are used in all of the utility comparisons. In terms of cost, 50 percent of costs go to the treatment of wastewater, 34 percent goes to flow and on the Collection side, 97 percent of costs go to flow. In response to Commissioner Scharff's query about why is the Cost of Service Study using flow if it is a fixed cost, Santos explained that the issue is the conditions of the pipes and the cost reflects the replacement of pipes. Abendschein added that in the short term, costs do not change based on flow, but the fixed costs are based around the peak amount of flow that is associated with the system. Costs for the system are allocated based on how much each of the different customer classes use the capacity and does not reflect short term fluctuation. The goal of the Cost of Service Study is to make sure that the only allocations that take place are ones that as necessary based on data. In answer to Commissioner Scharff's question of how does staff determine how much pipe is needed to be replaced, Santos noted that a condition assessment is conducted on the pipelines to prioritize replacements. The City has been replacing the pipeline on average 1 mile to 2 miles every other year. Batchelor added that the 3 percent increase helps pay for past replacement projects and treatment plant projects. Staff predicted that treatment costs will continue to rise.

Commissioner Smith mentioned that the City of Los Altos was not a good City to compare to for both residential and commercial bills. In answer to his question regarding if the City of Los Altos's wastewater infrastructure is newer, Bilir confirmed that staff will investigate further why the City of Los Altos has a lower bill than Palo Alto. Abendschein clarified that staff does not know what other City's infrastructure maintenance plans are and maintenance plays a large role in rate increases and decreases. In response to Commissioner Smith's queries regarding the CIP Reserve and if a study had been conducted to see if the City could transfer only \$2.2 million annually instead of the proposed \$4.35 million, Bilir clarified that the \$4.35 million is the average for the entire Collection System CIP Budget. The \$2.2 million is a catch-up transfer from the Operations Reserve to the CIP Reserve to be able to fund the upcoming sewer replacement project. Abendschein added that to maintain the 5 percent increase in the outer years while absorbing the increased treatment costs, the utility is drawing on the CIP Reserve slightly. The intention is not to fund the CIP less,

the transfer is a management strategy of dealing with higher treatment costs in later years. Allen noted that in terms of treatment cost drivers, Palo Alto's share of the fixed asset is 38.16 percent and that is the total project cost.

In reply to Councilmember Filseth's prediction that 100 percent of the costs are fixed and any variable costs were associated with flow and strength, Abendschein agreed that broadly the cost of running the collection system is entirely fixed. Allen shared that electricity costs were associated with strength as well as flow. In answer to Councilmember Filseth's summary that the practice is to allocate the fixed cost to who uses how much flow, Allen shared that there is a breakdown of strength and flow costs between the different pieces of equipment. Councilmember Filseth commented that the issues raised are common among utilities regarding large fixed costs and unfairly distributed rate percentage allocations. In answer to Councilmember Filseth's ask of why the City of Menlo Park and Redwood City have higher bills than Palo Alto, Bilir shared that they have newer treatment plant facilities than Palo Alto. Allen confirmed that Palo Alto is more efficient with its CIP projects than other peninsula Cities.

Commissioner Scharff emphasized that the City of Santa Clara is an extremely well-run utility for wastewater and Palo Alto should be proud that its utility is better than Santa Clara's. He requested that staff breakdown the reasons why surrounding City's have the average bill cost that they have.

In reply to Chair Forssell's query about how much has the wastewater flow decreased and why water usage is down, Bilir disclosed that wastewater flow decreased by 11 percent overall since the last Cost of Service Study was drafted 10-years ago. The assumption from the prior Cost of Service Study was compared to the new data and that comparison showed a decrease in water usage. Another change that the new Cost of Service Study reflected is that all industrial customers are now listed under commercial customers. In answer to Chair Forssell's question of why did the strength assumptions almost double between the two studies, Bilir predicted that it was because there was a slight increase in the amount of infiltration assumption, but staff will investigate it further. In answer to Chair Forssell's inquire of why there is a recommendation to eliminate the fixed monthly charge for commercial and restaurant customers, Abendschein clarified that the recommendation is to eliminate a minimum charge, not a fixed charge. It was not normal to have a fixed monthly charge in a Wastewater Utility, but staff will return with a follow-up answer.

ACTION: Commissioner Danaher moved that the Utilities Advisory Commission (UAC) recommend the Council:

1. Adopt a resolution approving:
 - a. The Fiscal Year (FY) 2022 Wastewater Collection Financial Plan; and
 - b. Up to a \$4.35 million transfer from the Operations Reserve to the Capital Improvement Projects Reserve in FY 2022; and
 - c. Up to a \$2.2 million transfer from the Operations Reserve to the Capital Improvements Projects Reserve in FY 2021; and
 - d. Amendments to the Wastewater Collection Utility Reserves Management Practices in Appendix C to the FY 2022 Wastewater Collection Financial Plan and separately in Attachment D.

Commissioner Scharff seconded the motion. The motion carried 7-0 with Chair Forssell, Vice Chair Segal, and Commissioners Danaher, Jackson, Johnston, Scharff, and Smith voting yes.

ACTION: Commissioner Danaher moved that the Utilities Advisory Commission (UAC) recommend the Council:

2. Adopt a resolution approving:
 - a. Adjustments to Wastewater Collection Utility Rates Via the Amendment of 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 Discharger).

Commissioner Johnston seconded the motion. The motion carried 7-0 with Chair Forssell, Vice Chair Segal, and Commissioners Danaher, Jackson, Johnston, Scharff, and Smith voting yes.

The UAC recessed at 5:47 p.m. and returned at 5:55 p.m.

ITEM 2: DISCUSSION: Discussion and Status Update on the 2020 Sustainability and Climate Action Plan.

Bret Andersen appreciated that the plan focused on the shift from gas to electric. The report indicated that the commercial sector does have the potential to reach the goal of reducing carbon emissions by 80 percent by the year 2023 (80 by '30). The report also indicated that the neighborhood level electrification pattern has many challenges and seemed like long-term planning instead of short-term planning. He wanted to see a focus on a short-term plan. He concluded that if the Utilities Department can remove any barriers and implement easy to adopt programs, there will be little to no resistance from the community to move to all-electric.

Jonathan Abendschein, Assistant Director of Utilities Resource Management, disclosed that the goal of the presentation is to give a brief update on the Sustainability and Climate Action Plan (S/CAP). Several City departments have worked on the plan. Modeling has been moved to in-house and staff predicted that those and the analysis will be completed in the coming weeks. As the analysis comes to a close, key points have been raised which included that there are costs to taking no action on climate change, costs and logistics of taking action are significant, and while the costs appear to be large, they are manageable. No plan is complete without a way to protect low-income residents, small businesses, and all the other lower financial sectors. The analysis has indicated that the whole community has to commit to all technically feasible avenues to achieve the 80 by '30 goal. That meant greatly reducing vehicle miles traveled for employees and residents within the City. Businesses and multi-family non-residential facilities must commit to as much electrification as possible, but staff recognized that it will be challenging. For that reason, residents will be incentivized to electrify their homes even more and staff recognized that residents will need financial support, programs to make the conversion as easy as possible, and possible side benefits if they electrify. The philosophy that staff used to design the S/CAP goals and key actions included, but were not limited to, educating and raising awareness, activation of early adopters and ensuring positive experiences, and rewarding neighborhood-level action. If the community is not ready for mandated pricing within the next 2 to 4-years, staff predicted it will be hard to achieve the 80 by '30 goal. Several foundational implementation activities were identified to move electrification forward. Those included launching high participation voluntary programs, having an extensive awareness campaign, having customer-friendly permitting, preserving and enhancing electric reliability and resiliency, and developing a plan for scaling up programs to achieve emission reduction goals.

In reply to Commissioner Jackson's request of what 'cost in line with the annual energy cost' meant, Abendschein confirmed that the short-term impact may be doubled energy costs. Commissioner Jackson shared that residents who are retired may be part of the vulnerable groups who need more assistance when electrifying their homes. He found the report very exciting and agreed that finding ways to help early adoption is a key point.

Commissioner Danaher indicated that it is important to continue monitoring what is happening at the state level and in neighboring communities. He requested there be quarterly updates on how the City is coming along with the installation of charging networks within the City.

Commissioner Johnston found the presentation very exciting and encouraging. He appreciated that staff is exploring financial incentives and making the transition customer friendly. He agreed that there needs to be reliability within the electric utility to create trust with electric customers.

Vice Chair Segal agreed with the comments regarding working with the state and neighboring Cities and resiliency in the Electric Utility. She wanted to see more efforts to reach citizens be made by testing different

communication channels. She agreed that more extreme weather patterns are on the horizon and ensuring that the power will stay on is key to building trust for electrification in the community. She concluded that she is concerned about relying on contractors to do foundational services for customers. Abendschein agreed that many customers are not being reached and that there is a staffing issue. Dean Batchelor, Utilities Director, confirmed that staff is working with the state on making changes to the apprenticeship program and making the ratio one linemen per one apprentice linemen instead of three to one.

Commissioner Scharff found the electric vehicle (EV) information encouraging and felt that the state will help facilitate the change from gas-powered vehicles to EVs. He was concerned about the push of 100 percent electrification of single-family homes. He wanted to see more discussion and data around vulnerable populations and how the community will be impacted by supporting them. He expressed that the goal of Palo Alto doing all this is to show that a model can be implemented to help reduce emissions, but he wanted Council and staff to think about how much this program will cost the City and if the tradeoffs are worth it. He concluded he is concerned that the City is not being straightforward and transparent about discontinuing the Gas Utility. Abendschein agreed, but he explained that releasing costs has to be done sensitively and research must be included to ensure a positive outlook towards electrification. He emphasized that there are easy steps that can be taken in order to not sticker shock the community. In terms of financing for electrifying buildings, staff is exploring ways to tie the costs to the building and not to individual owners. Staff continued to explore a financial mechanism that does not affect housing values, does not affect credit scores, and does not factor in an owner's financial position.

Commissioner Smith appreciated the efforts staff is putting towards educating the public and the neighborhood-level action plan. He suggested that staff think about the Cubberley community engagement model and how that can be applied to outreach for electrification. He wanted to see the community engagement process started now. In answer to his question regarding the UAC study session that is proposed for May of 2021, Christine Luong, Sustainability Manager, reported that staff will be bringing forward the findings of the Impact Analysis.

Chair Forssell appreciated the report, the discussion, and the approach that staff is taking. She agreed that Palo Alto is small and reducing its emissions is small, but she felt that the City can be an example of what a community can do. She also agreed that state mandates will be the driving force behind folks converting their vehicles to EVs, but she added that the City can help with that effort by removing barriers for EV users. She appreciated that the report disclosed co-benefits of EVs. In response to her question of is there qualified talent to fill the staffing positions that are needed to implement the plan, Abendschein predicted that filling the linemen and engineering position will be challenging. Batchelor disclosed that most likely the City will have to hire a contracting firm to analyze the existing system as well as rebuild the system along with City crews. Abendschein added that internal discussions will take place regarding staffing for voluntary programs. Chair Forssell suggested that staff explore having an all-electric model home and have it open to the public. Abendschein concurred and added that regional collaboration could make that happen.

In answer to Commissioner Scharff's query regarding why the S/CAP goals still supported vehicle hybrids, Abendschein noted that some folks have strong vehicle preferences and the S/CAP reflects that sensitivity. Luong added that plug-in hybrids are also a bridging strategy for renters. In reply to Commissioner Scharff's inquiry of if reducing traffic is different than reducing emissions, Abendschein clarified that reducing traffic is a cheaper way to reduce emissions than electrifying vehicles. Commissioner Scharff noted that for a long time the City has pushed to reduce vehicles on roadways and yet traffic continued to stay steady or even increased. He did not believe that large numbers of folks will change their driving habits. Abendschein agreed that the City needed to be realistic about how much can be achieved.

Councilmember Filseth shared that the report was exactly what Council has asked for. He confirmed that there were still several areas that needed further work such as informing folks that they need to reduce their vehicle trips.

ACTION: None

COMMISSIONER COMMENTS and REPORTS from MEETINGS/EVENTS

Commissioner Johnston thanked the staff for the report regarding the 2nd transmission line and he looked forward to hearing more about it in the future.

Commissioner Jackson reported that he had attended the conference Northern California Power Agency (NCPA) had put on.

Vice Chair Segal confirmed she had also attended the NCPA conference.

Chair Forssell concurred she also attended the virtual conference as well as the virtual ribbon cutting ceremony for Rosamond Solar.

Commissioner Scharff disclosed that he will continue to inform the UAC on events that NCPA puts on.

Dean Batchelor, Utilities Director, shared that it is important that the NCPA see the UAC Commissioners attending their events.

FUTURE TOPICS FOR UPCOMING MEETINGS: March 03, 2021

Vice Chair Segal wanted to see an update on sea level rise planning.

Chair Forssell appreciated the quarterly report that was included in the Packet.

NEXT SCHEDULED MEETING: March 03, 2021

Commissioner Danaher moved to adjourn. Commissioner Jackson 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 7:19 p.m.

Respectfully Submitted
Tabatha Boatwright
City of Palo Alto Utilities