



DRAFT

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF DECEMBER 1, 2021 SPECIAL MEETING

CALL TO ORDER

Vice Chair Segal called the meeting of the Utilities Advisory Commission (UAC) to order at 5:01 p.m.

Present: Vice Chair Segal, Commissioners Bowie, Johnston, Metz, and Scharff
Absent: Chair Forssell and Commissioner Smith (arrived at 5:15 pm)

ORAL COMMUNICATIONS

David Coale stated he sent in a letter regarding issues with solar permitting. He encouraged the City to have transparency to address the reoccurring problems. He noticed in the last two permitting reports, Staff has not addressed what the City is doing for permitting solar plus storage systems. Solar contractors partnering with the City are no longer installing solar technology in the City due to the long delays in the permitting process and City only requirements. He inquired if the City is still implementing the Palo Alto only requirements for solar. He acknowledged an overzealous City inspector is causing most of the problems. He encouraged the Utilities Advisory Commission (UAC) to be proactive with the topic and make recommendations to Council.

Daniel Dulitz encouraged the UAC to read the letter that was sent in by Mr. Coale. He confirmed that personally, a solar installation contractor canceled his project because the company was no longer installing solar within Palo Alto due to the City only requirements and the strict ways they are applied. He recommended any City only requirements sunset after 2-years and the UAC discuss the topic as an action item.

APPROVAL OF THE MINUTES

Commissioner Johnston noted two typos on pg 5 of 8 second line of the first paragraph "shelled" should be "shelved". Two paragraphs down Commission Scharff stated should be "broad direction" rather than "board direction".

Commissioner Johnston moved to approve the draft minutes of the November 3, 2021, meeting as amended. Commissioner Metz seconded the motion. The motion carried 5-0 with Vice Chair Segal, and Commissioners Bowie, Johnston, Metz, and Scharff voting yes.

Chair Forssell and Commissioner Smith Absent

AGENDA REVIEW AND REVISIONS

Item No 2 moved ahead of Item No 1

REPORTS FROM COMMISSIONER MEETINGS/EVENTS

None.

UTILITIES DIRECTOR REPORT

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

Responsible Appliance Disposal Leadership Award – Responsible Appliance Disposal (RAD) is a voluntary partnership that brings together utilities, retailers, manufacturers, and state and local government agencies to recycle refrigeration materials. On November 17, the RAD Program hosted its annual Partner Meeting and recognized CPAU's Refrigerator Recycling Program with the 2021 RAD Champion Award. CPAU was among 14 partners who were recognized for their accomplishments in reducing ozone depleting substances and GHG emissions through insulation foam recovery, significant growth of an appliance recycling program, and in demonstrating a notable commitment to advancing the goals of the RAD program. CPAU was recognized as one of the top 10 partners with the highest percentage of refrigeration units collected for foam recovery processing.

Hydro Conditions

After several years of drought, the 2021-2022 water year got off to a great start with the atmospheric river event of late October that dropped several inches of rain on the Bay Area – and roughly a foot on Northern California. Unfortunately, conditions have been relatively dry since then, so seasonal precipitation totals for Central California are now only slightly above average for this point in the year. Reservoir levels also remain fairly low – across Northern and Central California, reservoirs are now only about 25-35% full, which is about 45-65% of their average level for this point in time. As a result of these conditions, Palo Alto's hydroelectric generation projections for FY 2022 remain quite low. Combined, these resources are projected to produce around 330 GWh this fiscal year, which is about 40% of our total load and about 31% below the long-term average level of hydro output. And unfortunately, this is all coming at a time when electric and natural gas market prices are significantly higher than they have been in several years. For 2022 overall, power prices are now almost double where they were at this point a year ago.

High Natural Gas Prices - Natural gas prices have been going up for the past few months and are currently higher than usual due to changes in the market supply and demand. Palo Alto's gas rates are a pass through of market prices which can fluctuate greatly from month to month. From July through November 2021, residential gas prices have increased 22% for G-1 Tier 1 customers and 13% for G-1 Tier 2 customers. Forward market prices are high through February 2022. CPAU staff are working on messaging to inform customers about these higher gas prices and recommend efficiency measures to keep utility bills down. Some no-cost and low-cost efficiency tips are provided at cityofpaloalto.org/efficiencytips.

Water Supply Update – Drought conditions continue in California and Palo Alto's water supplier, the San Francisco Public Utilities Commission (SFPUC), is experiencing uncertainty associated with the State's curtailments of Tuolumne River diversions. On November 23, SFPUC declared a water shortage emergency, requesting 10% voluntary water use reductions for the Regional Water System. SFPUC will move to mandatory water use reductions next year if needed. SFPUC will likely increase wholesale water rates more than previously projected in the next fiscal year. Wholesale customers such as Palo Alto will need to reduce water use by about 14% on average relative to the fiscal year 2020 baseline. Water will then be allocated among wholesale customers in accordance with the wholesale customers' agreement (known as the "Tier 2 Plan"). Palo Alto's expected voluntary water use reduction is 8% from the FY 2020 baseline. For July through November 2021, Palo Alto has reduced water use close to 7% relative to this time period. July through October bills show that residential customers reduced usage by 7% while non-residential customers reduced water usage slightly over 4%. Staff plan to bring a resolution to City Council to declare Stage 1 of Palo Alto's Water Shortage Contingency Plan in accordance with the 2020 Urban Water Management Plan. Stage 1 focuses on educational outreach about water efficiency and demand side management programs. Stage 1 does not add water use restrictions beyond the permanent water waste ordinance currently in place.

Water Efficiency Workshops - While many public events and workshops were canceled in response to the COVID-19 pandemic, the city has continued partnering with the Bay Area Water Supply and Conservation

Agency (BAWSCA) to offer virtual water efficiency workshops since Spring 2020. The goal is to provide educational tips and resources so residents can learn to save water and improve the sustainability of their homes and landscape. We recently hosted a virtual workshop on November 17 on the topic of Lawn Conversion, Native Trees and Plants. Residents learned how converting turf grass to native trees and plants can help save money while benefiting the planet, and about available rebates to help pay for relandscaping projects. Recordings of our workshops are available at cityofpaloalto.org/workshops.

NEW BUSINESS

ITEM 2: ACTION: Adoption of a Resolution Authorizing Use of Teleconferencing for Utilities Advisory Commission Meetings During Covid-19 State of Emergency

Vice Chair Segal stated that the item is to allow a virtual meeting to take place for the January 2022 UAC meeting due to the new COVID-19 variant surge.

Dean Batchelor, Director of Utilities, added that the City Manager and the Mayor discussed starting hybrid meetings in February of 2022.

Commissioner Smith announced his support for the resolution to continue with virtual meetings.

Vice Chair Segal reminded the UAC that the resolution covers only the January 2022 meeting. If a virtual meeting is required for subsequent meetings, a new resolution will have to be adopted.

ACTION: Commissioner Johnston moved Staff recommendation that the Utilities Advisory Commission (UAC) Adopt a Resolution (Attachment A) authorizing the use of teleconferencing under Government Code Section 54953(e) for meetings of the Utilities Advisory Commission (UAC) and its committees due to the Covid-19 declared state of emergency.

Seconded by Commissioner Metz.

Motion carries 6-0 with Vice Chair Segal and Commissioners Bowie, Johnston, Metz, Scharff and Smith voting yes.

Chair Forssell absent

ITEM 1: DISCUSSION: Discussion and Update on the Fiscal Year 2023 Preliminary Utilities Financial Forecast and Rate Projections

David Coale stated that he has always been impressed with the long-range planning for utility rates. He noticed that there is no mention in the staff report of closing down the Gas Utility. He believed that long-range planning should account for the closure.

Eric Keniston, Senior Resource Planner, announced that the preliminary rate projects are for the Fiscal Year (FY) 2023 through 2026 for all utilities. For FY 2023, Staff predicted an 8 percent rate increase for the Electric Utility, 4 percent rate increase for Gas Utility, 3 percent rate increase for the Wastewater Utility, a 3 percent rate increase for the Water Utility, a 3 percent rate increase for Refuse, and a 3 percent rate increase for Storm Drain.

Lisa Bilir, Acting Senior Resource Planner, confirmed that Staff is proposing a 3 percent rate increase for FY 2023 with 5 percent rate increase in each subsequent year for the Wastewater Utility. The drivers for the increase are to maintain a stable rate of sewer main replacements, avoid future spikes in the collection system replacement needs, and keep up with the treatment plant cost increases. The proposal continues the annual capital contribution to the Capital Improvement Project (CIP) Reserve as well as transfers of \$1 million from the Operations Reserve to the Rate Stabilization Reserve in FY 2025 and FY 2026 to prepare for increasing treatment debt services costs in FY 2027. During FY 2021 and FY 2022 to date wastewater

revenues from the non-residential customer classes are lower than forecasted associated with the COVID-19 pandemic. Staff estimate that non-residential customer class revenue will be lower than pre-pandemic levels by \$1 million in FY 2022. Staff expect non-residential customer class revenue to recover by FY 2026. Concerning the Water Utility, Staff's proposal was a 3 percent overall rate increase for FY 2023. The rate increase included a 1 percent increase in the Distribution Rate and a 5.4 percent increase for the San Francisco Public Utilities Commission (SFPUC) commodity rate. SFPUC has stated that due to the drought, the proposed increase will likely be greater than previously predicted. Staff will not know what the increase will be until January 2022. The City has seen no increase in the distribution rate for 2-years and SFPUC has not increased the wholesale rate since 2017. The FY 2021 year-end Water Operation Reserve is above the guideline level and that surplus will be returned to ratepayers or used for the utility within 1-year. The preliminary rate proposal assumes a 10 percent voluntary water rationing for the Regional Water System and that Palo Alto will recover from the drought by July 2023. Staff proposed an alternative scenario if the drought worsens which included a 3 percent distribution rate increase with the 5.4 percent commodity rate increase.

In response to Commissioner Johnston's observation regarding the Water Operations Reserve projection, Bilir explained that in the alternative scenario assumed a much bigger drop in water sales. The chart included in the presentation slides for the alternate scenario used a different assumption about water sales and assumed water conservation would be at 20 percent.

In reply to Vice Chair Segal's question regarding will the reserves absorb the SFPUC rate increase, Bilir mentioned that the utility's reserve will absorb it and the utility has a 30- day notice pass through provision.

Keniston continued with the presentation with the Electric Utility. The FY 2023 proposal included an 8 percent rate increase with the option to go up to an 11 percent increase. For FY 2021, electric revenues were lower than predicted and had higher forward costs for both contracted land crews and purchase costs. Currently, the City has \$15.4 million in the Hydro Stabilization Reserve and \$24 million in the Electric Special Projects Reserve. To facilitate an 8 percent rate increase, \$13.4 million would be drawn from the Hydro Stabilization Reserve and \$7 million from the Electric Special Project Reserve. This action will trigger the condition whereby the City will need to activate the Hydro Stabilization Reserve come June 2023. In drought situations where there is poor hydro, the City can add between .65 cents to 1.3 cents to customers' bills. Concerning the Electric Special Project Reserve, historically the City has used those funds as loans and has paid back any funds at future dates. For FY 2021, 2022, and 2023, Electric Utility revenues are projected to be well below the expense amounts, and so the City must raise rates to make up the difference. In subsequent years, the rates are projected to be lower. He encouraged the UAC to discuss how much should be drawn from the reserves, what level of rate increase is appropriate, and what information should Staff bring back to help the UAC with their decision.

Commissioner Johnston appreciated the importance of maintaining the reserves. In answer to his query regarding averaging out the increases, Keniston explained that for every reduced percentage point, \$1.3 million is needed to cover that reduction. Funding can be drawn from the Electric Special Reserve Fund to reduce the rate increase, but that will have to be paid back at a future time. Commissioner Johnston requested that Staff model those alternatives.

In answer to Commissioner Bowie's inquiry regarding Automated Metering Infrastructure (AMI) cost savings, Keniston confirmed that there will be savings in the long term, but not short term.

Vice Chair Segal reminded the UAC that there was no rate increase for FY 2022 and that is the reason for the proposed 8 percent increase for FY 2023. She announced that she is comfortable reducing the reserves to help reduce the 8 percent increase. She acknowledged that the City has not been creative about implementing other ways to cut costs. In answer to her question regarding whether extending projects to alternative years has been helpful with cost savings, Batchelor mentioned that most of the cost is attributed to system maintenance. The Electric Fund does not have a lot of cost savings in terms of CIP work. Vice Chair Segal encouraged Staff to explore creative ways to increase cost savings.

Keniston moved to the Gas Utility. The proposal included a 4 percent increase for FY 2023 with no cost reduction. This assumed rate included a sales decline of 10 percent and that was anticipated through 2022. For subsequent years, Staff estimated a 4 percent increase for FY 2024 through FY 2026. The proposal held the Gas Operating Reserve at the target level. He noted that gas commodity costs, which are passed through to customers and are not part of the distribution rates, have increased drastically over the past several months.

In response to Commissioner Metz's query regarding a scenario with the drought continuing beyond FY 2024, Bilir stated that Staff can model that. Commissioner Metz confirmed that it is a possibility that the drought will not subside by FY 2024 and that it is worth modeling those scenarios. Bilir mentioned that the drought surcharge is a tool that is available to address a continuing drought and that the City did implement a drought surcharge during the last drought, but there is a possibility that there are enough funds in the Water Operations Reserve to not have to implement a surcharge.

In reply to Commissioner Bowie's inquiry regarding if the model assumed climate change, Bilir mentioned that for the water financial plan, sales are forecasted and then the long-term downward trend of sales is modeled. The model does not contain specific details for climate change. For supply planning, the model is more sophisticated. Commissioner Bowie stated that folks will be needing to water their lawn in a much longer window than they have historically. Keniston mentioned that a longer-term drought impact on the Electric Utility will increase electric prices, but Staff has little data pertaining to long-term temperature changes.

Vice Chair Segal suggested that the projections show how the Gas Utility prices will be impacted as more folks electrify their homes.

ACTION: No Action Taken.

Commissioner Smith left the meeting at 6:00 pm.

COMMISSIONER COMMENTS and REPORTS from MEETINGS/EVENTS

Commissioner Metz announced that Commissioner Bowie and himself will be issuing a Commissioner Memo to agendaize a discussion on emergency preparedness and response.

FUTURE TOPICS FOR UPCOMING MEETINGS: January 05, 2022

None.

NEXT SCHEDULED MEETING: January 05, 2022

Commissioner Johnston moved to adjourn. Commissioner Scharff seconded the motion. The motion carried 5-0 with Vice Chair Segal, and Commissioners Bowie, Johnston, Metz, Scharff voting yes.

Chair Forssell and Commissioner Smith absent

Meeting adjourned at 6:05 p.m.