



DRAFT

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF APRIL 6, 2022 SPECIAL MEETING

CALL TO ORDER

Chair Forssell called the meeting of the Utilities Advisory Commission (UAC) to order at 6:02 p.m.

Present: Chair Forssell, Commissioners Bowie, Johnston, Metz, and Smith
Absent: Vice Chair Segal and Commissioner Scharff

AGENDA REVIEW AND REVISIONS

None.

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

Chair Forssell invited comments on the March 2, 2022 UAC draft meeting minutes.

Commissioner Johnston moved to approve the draft minutes of the March 2, 2022 meeting as submitted.

Commissioner Bowie seconded the motion.

The motion carried 5-0 with Chair Forssell, and Commissioners Bowie, Johnston, Metz, and Smith voting yes.

Vice Chair Segal and Commissioner Scharff absent

UNFINISHED BUSINESS

None.

UTILITIES DIRECTOR REPORT

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

Annual Walking and Mobile Gas Leak Survey - The City of Palo Alto Utilities (CPAU) begins its annual gas leak detection survey of the City this month. This routine inspection of our gas distribution system is conducted every year to ensure the safety of all who live and work in Palo Alto. Two types of gas leak surveys are performed; a walking survey of residential areas and a mobile survey of all business districts. Approximately one-half of the City is covered every year by the walking survey so that the entire gas distribution system can be reviewed in a two-year period. This year the walking survey will cover the northern section of the City. Once the surveys are complete, over 200 miles of gas mains and pipelines will be checked through this thorough review. If any gas leaks are found, they are documented and repaired according to CPAU's policies. Find details and survey area map at cityofpaloalto.org/safeutility

Drought Update - Statewide drought conditions persist; reservoir storage in the Regional Water System is at 72.7% (normal is 81%) and the San Francisco Public Utilities Commission (SFPUC) expects to fill Hetch Hetchy Reservoir. There is still uncertainty associated with the State Board's curtailments in terms of how much runoff SFPUC can store. Palo Alto reduced water usage 3% from July 1, 2021 to March 31, 2022 relative to FY 2020 levels. However, with the driest January through March on record so far this calendar year, cumulative water usage in Palo Alto is 11% higher than the same months in FY 2020. In March, City Council approved water use restrictions in Stage I of Palo Alto's Water Shortage Contingency Plan for cutbacks up to 10%. Latest at cityofpaloalto.org/water

Electric Hydro Rate Adjuster – CPAU purchases electricity from several sources and in an average year, about 50% of the City's electric supply comes from hydroelectric power plants. The last three years of drought have severely impacted our hydroelectric resources, which means we must purchase power from other, higher-cost supply sources. In 2018, City Council adopted a hydro rate adjustment mechanism; a common tool used by utilities to increase or discount a utility's electric rates in response to hydroelectric conditions. The intent is to avoid dramatic swings in customer rates and maintain sufficient financial reserves. This temporary hydro rate adjuster was enacted for the first time by Council in March and went into effect April 1. CPAU customers will see a line item charge on their utility bill for 1.3 cents per kilowatt hour, which is an approximate increase of \$5.89 per month for the average single family. This charge is expected to remain necessary until hydroelectric generation levels improve. Council will review the hydro rate adjuster again this June, as part of the City's annual budget and rate adoption process, and on an as-needed basis in response to changes in hydroelectric generation. We are sharing information publicly and more information can be found at cityofpaloalto.org/ratesoverview

Electric Vehicle Events - In March, CPAU partnered with Acterra and Ride and Drive Clean to host three EV events, including a financial incentives workshop, EV 101 webinar, and neighborhood EV expo. The goal of these events is to raise awareness about electric vehicles, e-Bikes, and other electric modes of transportation. The climate crisis and record high gas prices are compelling many to switch to electric to drive and ride clean, save money, improve health, and take advantage of financial assistance and grants such as Clean Cars for All, Drive Clean Assistance, and county-specific programs in the Bay Area. Event attendees can receive guidance on identifying programs for which they qualify.

Upcoming Events – details and registration at cityofpaloalto.org/workshops

- Sunday, April 10, 3-5pm: EV 101 Workshop and EV Showcase, Mitchell Park Community Center.
Wednesday, April 20, 5-6 pm: EV 101 Class, online.
- Saturday, April 23, 10-noon: e-Bike Workshop and Test Rides, Mitchell Park Community Center.
- Saturday, June 18: Municipal Services Center (MSC) Open House - Back by popular demand! Join us for a behind-the-scenes look at the City services that keep our community running. The MSC will be open to the public from 10am to 2pm, with project demonstrations, displays, and fun activities from Utilities, Public Works, Facilities, Police, Fire, and Community Services.

NEW BUSINESS

ITEM 1: ACTION: Adoption of a Resolution Authoring the use of Teleconference for Utilities Advisory Commission Meetings During Covid-19 State of Emergency.

In answer to Commissioner Metz's query regarding the State of Emergency, Tabatha Boatwright, Utilities Administrative Assistant, explained the City was in a hybrid mode which required City Boards and Commissions to maintain the resolution to allow Commissioners to attend the meeting virtually.

ACTION: Commissioner Smith 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 Johnston

Motion carries 5-0 with Chair Forssell, and Commissioners Bowie, Johnston, Metz, and Smith voting yes.

Vice Chair Segal and Commissioner Scharff absent

ITEM 2: DISCUSSION: Discussion of Status Update and Preliminary Financial Business Models for Palo Alto Fiber

Dave Yuan, Strategic Business Manager, commented Staff presented two business models for fiber-to-the-premise (FTTP). Those two models were either a City-owned internet service provider (ISP) or a partnership model where the City would partner with an ISP provider. The advantage of having a City-owned ISP model was the City would have full control of the service offering. The disadvantage was the City would be responsible for the full construction cost, Staff resources and maintenance of the network. The advantage of having a partnership model, a partner may contribute to construction costs and would provide Staff to fulfill the core functions. The disadvantage was the City would have to relinquish control of the service offering and would have to share revenues with the partner. After discussion, the UAC recommended Staff explore the ISP model. Staff proposed two ISP models for UAC to consider. One was a 100 percent in-house Staffing and the second ISP model was a combination of insourcing and outsourcing key functions.

John Honker, Magellan Representative, shared that the engineering design for the fiber backbone and fiber-to-the-home (FTTH) was 60 percent complete. On the business planning side, 75 percent was completed and engagement and outreach were 50 percent completed.

In reply to Chair Forssell's question regarding if Magellan does the engineering design, Honker answered all the work was done in-house.

Honker continued to business planning and stated Magellan's analyzed how many of the core functions for the fiber network could be managed by the City and then identified the internal resources or potentially outsourcing for those functions. Included in the analysis compared Palo Alto's existing salary bands and labor overheads to outsourcing options in pro formas. The analysis identified that vendors could fulfill a role for a lower cost. Magellan continued to explore regulatory reviews the City would have to abide by to become an ISP. The next step was to analyze the governance modal for broadband and determine what management tier Palo Alto Fiber would be. Palo Alto Fiber has to be flexible to compete in a competitive environment. The first draft of the preliminary pro forma financial plan was completed but was subject to change based on further analysis. Magellan identified financing and accounting, general management, billing, customer service and legal were areas within the City that had existing resources. The City would still have to hire roughly 24 full-time equivalents (FTE) positions for sales and marketing, operation management, field service, service quality control over 5-years and increase the existing customer service Staff count.

In response to Chair Forssell's inquiry regarding the difference between what was existing in the City and the new commercial account manager position, Honker remarked the existing commercial sales account manager could be used for both residential and commercial.

Honker moved to strategic vendors and provided commodity services. Those groups included tech support, overnight customer service, network design, construction and construction management, and inspection. The benefit of outsourcing the work was lower cost. The negative of outsourcing was having a lower service level based on the vendor's ability to service and manage the account. To mitigate the negative impacts, the contracts with the vendors would include a strong service level agreement with penalties for non-performance and incentives for high performance.

In answer to Commissioner Johnston's question about whether the pros and cons of outsourcing the work considered the speed to start the system, Honker answered yes. Many cities will use vendors during the

implementation phase and then move the work in-house over time. Commissioner Johnston agreed it made sense to outsource the work during implementation. He stated it was critical to have a high-quality service from the beginning.

Honker mentioned the FTEs could be adjusted down to 17 if operational functions were outsourced.

In reply to Commissioner Smith's query regarding the removal of the customer service supervisor in the outsourcing model, Honker understood the customer service supervisor for the Electric Utility would manage the outsourced customer service firm.

Honker remarked the hardest part of business planning was assessing the overall Staffing cost in the different models. First Magellan compared an existing City salary band to a similar position for a broadband employee and then loaded the overhead into the model. On an annual basis starting in 2023, the annual Staffing cost for the insourced model was approximately \$2 million and then grew to \$6.5 million after the first 5-years. Staffing costs would then grow by 3 to 4 percent after the first 5-years. For the outsourcing model, staffing costs were reduced by 15 to 20 percent. After the first 5-years, the City would save approximately \$700,000 and that would grow to a savings approximately \$800,000 in perpetuity.

In response to Commissioner Johnston's question regarding total Staffing outsourced, Honker noted it included the key functions identified in the outsource ORG chart.

In reply to Chair Forssell's inquiry regarding the cost of the contractors and vendors, Honker confirmed the total Staffing outsourced included all of the strategic vendors that covered the identified key functions identified in the outsource ORG chart.

Honker stated vendors had to be evaluated to determine overall quality levels and to make sure that the quality was not compromised by outsourcing.

In answer to Chair Forssell's query regarding what outside city contracts were used to estimate the cost savings, Honker answered Johnson City, Tennessee and the City of Newport, Tennessee. In response to Chair Forssell's query about comparing the City of Palo Alto to Tennessee cities, Honker explained the price per prescriber was increased by 30 percent to account for the increases in California. He noted there were few cities in California or on the West Coast that offered city-owned broadband service. Chair Forssell expressed concern there may be surprises when Palo Alto contracts with a more local vendor. Honker explained vendors who interact with customers face to face or the infrastructure would be local vendors and the prices reflected local vendors in the comparing models.

Honker moved to the build schedule for the FTTH network. Magellan estimated a 3- to the 5-year build schedule. One of the most important goals was to connect as many customers as quickly as possible to help sustain the financial requirements of the network. The goal was to front-load construction in areas while equalizing construction across the City as well as focus on aerial constructions versus underground. A goal was set to connect 26,000 residential customers and 4,000 business customers by the end of the fourth year. There was estimated to be no take rate in the first year but it would then grow to a 3 percent take rate in the second year, 10 percent in the third year, 19 percent in the fourth year, 27 percent in the fifth year and 32 percent by the sixth year.

Commissioner Smith understood the preliminary build schedule used assumptions. In answer to his inquiry regarding conservative assumptions to make the model profitable, Honker confirmed the goal was to use the bare minimums and see if the model would break even. Commissioner Smith appreciated and agreed that doing a best case, worst case and the ideal case was the right approach. In answer to his question regarding the existing fiber network supporting customers now, Honker explained that the goal for the first year was to connect 6,000 customers. Construction would begin near existing fiber and near existing fiber facilities. The next phase of engineering would include evaluating how quickly customers could be connected with the

existing infrastructure. Commissioner Smith applauded the effort and encouraged Magellan to identify customers closer to existing infrastructure but inform them that the service would have bugs. Honker agreed that the more folks in a neighborhood who are connected to the broadband, the faster word would spread.

Honker presented the financial plan. He acknowledged that the COVID-19 Pandemic had affected the supply chain and the availability of materials. This had caused the current estimates to increase. If the fiber backbone and the FTTH were built together, there was a cost savings of \$8.7 million. The total current estimate was set at \$128.2 million but those were fluid estimates. To fund the projects, the existing Fiber Fund would contribute \$32.5 million and the Electric Utility would contribute \$10 million for a total of \$42.5 million of available funding. The remaining funding needed was \$83.7 million.

Commissioner Bowie mentioned there had been large influxes of funding from the Federal and State governments for infrastructure. In answer to his query regarding if those had been considered, Honker stated Federal and State funding discussions were being tracked daily. The traditional board band funding was based on access to the technology but it changed to having reliable and consistent service.

Honker reported the next step for the financial plan was to finalize it and then receive UAC input before the joint study session with the Council in August 2022. The final financial plan will include final cost estimates, the projection for materials and labor increases for the next 4-years, inflation rates, adjusted construction contingencies, potential hedging strategies, pro forma income statement, borrowing summary and sensitivity and business risk analysis.

Commissioner Bowie acknowledged the fiber project was happening at the same time the City was working towards full electrification and major infrastructure changes. He believed that was an opportunity for planning and a potential reduction of costs. In answer to his inquiry regarding exploring that opportunity further, Honker stated the key was coordination with the Electric Utility and would require good synergy. Dean Batchelor, Utilities Director, confirmed the City was exploring the coordination between electrification and the fiber network. Staff will be overlaying Magellan's engineering work over electrification to see where there is synergy and will use that synergy when feasible.

In response to Commissioner Smith's request for an update on how many folks have signed up on the fiber hub, Yuan noted he would provide an update soon to the UAC.

Commissioner Metz expressed his top concern was the risk of retaliation by incumbent broadband service providers as well as new broadband technologies coming online. Those two components were not touched on in the business plan. Regarding market assessment, his main concern was the take rate of 32 percent and felt it was too aggressive. He requested more data on what services customers want and what they'll pay for them. He expressed concern about not including a technology assessment that addressed technology becoming obsolete. He shared 5G wireless could be a financially and functionally strong competitor because it allowed folks to connect their internet to the cellular network. He expected all those concerns to be included in the financial pro forma and wanted the business plan to address competition, market details and technology. Honker confirmed they would be included in the final plan. Regarding competition and market details, those will be presented after the survey has been completed. The survey data will include existing providers, their services and what market share each provider has in the different speed tiers. The City will then set its speed and rates to capture as much market share as possible. He noted as Palo Alto builds out fiber, the latest technology will be used and that will be included in the business plan. Yuan mentioned the City has been contacted by local ISP providers who are interested in partnering with the City.

Commissioner Bowie mentioned the way the data is handled may be of interest to Palo Alto residents. Yuan agreed and added there are questions in the survey regarding that matter.

Chair Forssell shared Commissioner Metz's concern regarding the take rate and she wanted to see more data on existing providers. She supported the concept of taking refundable deposits from folks who are interested in Palo Alto Fiber and the hybrid outsourcing model.

Council Member Cormack recalled the reason to pursue fiber was to have customer service be a differentiator and not just cheaper. In answer to her question regarding the decision to outsource, Yuan answered it will be discussed at the governance level first and then brought to Council for approval. Staff will be meeting with the City's legal, human resources and finance departments to discuss governance. Council Member Cormack mentioned when the item comes to Council, Staff should break down the costs and potential savings. In reply to her query regarding addressing the \$86 million funding gap, Yuan mentioned Staff will be exploring all funding opportunities.

ACTION: None.

The UAC recessed at 7:40 p.m. and resumed at 7:50 p.m.

ITEM 3: DISCUSSION: Discussion of Wastewater CIP and Update on Utilities Quarterly Programs Report for Q2 of FY2022

Dean Batchelor, Director of Utilities, stated typically there is no discussion for quarterly updates. However, Staff requested UAC discuss the future of Wastewater Capital Improvement Project (CIP).

Tabatha Boatwright, Administrative Assistant, remarked two Commissioners provided questions to Staff about the quarterly report.

Silvia Santos, Water Gas Wastewater Engineering Manager, shared that the answers to the questions were included in the presentation. She reported the City's sewer was built in 1898 which included 216 miles of sewer mains. In the year 1990, the Council adopted a CIP/infrastructure program to invest in utility infrastructure. For wastewater, 78 miles or 36 percent, had been replaced or rehabilitated with 138 miles of sewer mains still needing to be replaced or rehabilitated. Since the implementation of the program in 1990, the average replacement rate was 2.5 miles per year. It recently was reduced to 1 mile per year due to increase in construction cost and utility rate stabilization. Staff recommended UAC reevaluate the replacement rate to address the remaining 138 miles of piping. Pipe assessment was done by a Closed Circuit Television (CCTV) inspection which rated each defect inside the pipe. Staff used defect scoring and wastewater operations to prioritize replacement projects. Defects were placed into two categories, one being operation and maintenance defects and the other structural defects. Many of the pipes were clay pipes that have been joined together with cement mortar. The mortar deteriorated over time and causes defects. Operation and maintenance defects included root intrusion, cracks and grease and those defects could be mitigated with regular maintenance. Recently, Council approved a new 3-year contract to outsource routine maintenance activities. Structural damage included broken pipe or missing sections of pipe which required replacement of the pipe. Staff believed the ongoing sanitary sewer replacement project and routine maintenance program were effective due to the decreasing number of sanitary overflows incidents. The 138 miles of existing pipe were installed between 1950 and 1970. If the City continued on a path of replacing 1 mile of pipe per year, the pipes will be 190 years old before the City can replace them. Based on experience, Staff determined clay pipes in Palo Alto had a useful lifespan of 100 years. Staff proposed the City resume its replacement program at 2.5 miles per year. Plastic pipes had a lifespan of more than 100 years and Staff suggested focusing on replacing the clay pipes first. Staff will be presenting a rate analysis to the UAC in the fall of 2022.

Commissioner Johnston recalled the reason why the City reduced the rate of replacement of the sewer lines was to address budget constraints when the COVID-19 Pandemic began. He strongly supported increasing the CIP allowance to facilitate a 2.5 mile per year replacement rate.

In answer to Commissioner Smith's query regarding how many years will it take to replace the remaining clay pipes, Santos answered it will take 55 years to replace the remaining 138 miles at the proposed 2.5 miles per year rate. In response to Commissioner Smith's inquiry regarding the benefits of replacing more than 2.5 miles per year, Santos noted the more miles the City has to replace, the longer it takes to complete the project. She stated that 2.5 miles per year was a manageable goal.

In response to Commissioner Metz's query regarding Staff's recommendation for lateral maintenance and main replacement, Santos explained operation Staff was removed from maintenance work because they took on the replacement of the lateral pipes. New tools have been implemented to balance the workload more efficiently. Batchelor clarified the Fiscal Year (FY) 2023 Budget did not include a rate adjustment to resume the 2.5 miles per year replacement. Staff will be seeking funding options for the FY 2024 Budget to resume the 2.5 miles per year replacement program.

Chair Forssell agreed the City should resume the previous rate of replacement. She echoed Commissioner Smith's comment about increasing the proposed replacement rate. Santos restated 2.5 miles per year was the right pace because some pipes do last for 100-years. Staff continued to evaluate pipes and prioritized pipes that were deteriorating faster. Chair Forssell recalled for every other year 5 miles are replaced and Santos confirmed that was correct. Santos explained if the budget is increased in FY 2024, Staff has several pipes that have already been designed and are waiting for funding.

ACTION: None

ITEM 4: DISCUSSION: Discussion of UAC Recruitment and Term Changes Resulting From the City Council's Adoption of Ordinance 5529, Establishing Term Limits and Consolidating Appointments to March of Each Year
Chair Forssell explained the Council has decided that all of the UAC's terms, which should end in May 2022, have been extended to March of 2023. Typically, the Chair and Vice Chair are selected in June but the proposal was to make the selections in May 2022. Following May 2022, the next selection of Chair and Vice Chair would be in April 2023. Also, Staff proposed the budget subcommittee be selected at the May 04, 2022 UAC meeting as well as select members for the fiber subcommittee.

Commissioner Smith supported the proposed plan. He strongly supported selecting the budget subcommittee earlier to help members digest the material and provide comments. The fiber subcommittee should be made up of UAC Members.

Commissioner Johnston seconded Commissioner Smith's comments.

Commissioner Bowie agreed and felt it made sense considering UAC's involvement in the Sustainability and Climate Action Plan (S/CAP).

In answer to Commissioner Metz's query regarding which Commissioner's terms will end on March 2023, Chair Forssell clarified the word term applied to the terms for members on the subcommittees and officer.

Commissioner Johnston noted some of the UAC Member's terms have been extended because of the change in the schedule for appointing new members.

Chair Forssell remarked all the subcommittees and the officers will be 1-year and will align with the Commissioner terms.

ACTION: None.

ITEM 5: DISCUSSION: Indication of Interest Among UAC Commissioners to Serve on S/CAP Working Groups, Including: Finance, Engagement, Technology and/or Community Scaling

Chair Forssell announced there are four different teams established to discuss the goals and implementation of the S/CAP. The four teams were exploring finance, technology, engagement and community scaling. She invited Commissioners to indicate if they have an interest in being involved in one of the S/CAP teams. Commissioners on a team will report back to the UAC during Commissioner comments and reports from meetings and events.

Council Member Cormack clarified Mayor Burt, Council Member DuBois and herself make up the Ad Hoc Committee for the S/CAP. There was also a working group that did not include members from the UAC. UAC Members were being asked to express interest in the teams, not the working group. The teams will include a Council Member from the Ad Hoc Committee, a lead Staff member, members from the working group and Members from the UAC. Each team will have a different meeting schedule.

In answer to Commissioner Smith's inquiries, Council Member Cormack confirmed there are four teams but community scaling did not have an established team currently. UAC Members could join the finance, community engagement and technology team.

Commissioner Smith indicated interest in volunteering to be on the Finance S/CAP Team.

Commissioner Johnston indicated interest in volunteering to be on the Technology and/or Finance S/CAP Team(s).

Commissioner Bowie indicated interest in volunteering to be on the Engagement and Technology S/CAP Team(s).

Commissioner Metz indicated interest in volunteering to be on the Technology S/CAP Team.

Chair Forssell indicated interest in Community Scaling and Technology S/CAP Teams.

ACTION: None.

COMMISSIONER COMMENTS and REPORTS from MEETINGS/EVENTS

None.

FUTURE TOPICS FOR UPCOMING MEETINGS: May 04, 2022

In reply to Commissioner Johnston's question regarding the date for the joint UAC/Council study session, Dean Batchelor, Director of Utilities, answered the joint session will be held on August 8, 2022. He requested an update regarding the modernization of the grid project. Batchelor explained Staff was in discussions with a contractor regarding the scope of work and establishing a timeline. When the scope of work has been established, Staff will be working on a roadmap of the electrical grid. Commissioner Johnston suggested Staff provide periodic reports on the progress.

Commissioner Smith requested regular informational updates concerning the counts on the fiber hub. Dave Yuan, Strategic Business Manager, shared that the current count was 239 on the fiber hub. Commissioner Smith noted if the counts increase, then the community was being reached. If there was a plateau, then that should be discussed. Batchelor remarked he will include the information in his Director Report.

Chair Forssell requested a quarterly update on electrical vehicle charger deployment. Batchelor believed it was included in the quarterly report already. Chair Forssell wanted a follow-up regarding water quality and total suspended solids as opposed to total dissolved solids. She noticed the calendar included a 5-year water, wastewater, gas and electric project review, but believed it use to be a 10-year review. Batchelor explained Staff only had data on the past 5-years of projects and Staff will present that material at the May 2022 UAC meeting. In answer to Chair Forssell's prediction that projects were not being completed, Batchelor

confirmed that some of the projects did fall off and Staff will discuss those with the UAC at the May 2022 meeting.

Batchelor inquired if there was a desire to take June, July, or August off for a summer break. Chair Forssell stated typically UAC breaks for July or August. Council Member Cormack remarked the Council take its break in July and encouraged UAC to align its break with Council. Commissioner Smith preferred July.

Chair Forssell concluded the suggested plan was to cancel the July UAC meeting.

NEXT SCHEDULED MEETING: May 04, 2022

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

Vice Chair Segal and Commissioner Scharff absent

Meeting adjourned at 8:42 p.m.

Respectfully Submitted
Tabatha Boatwright
City of Palo Alto Utilities