



# FINAL

## UTILITIES ADVISORY COMMISSION MEETING MINUTES OF APRIL 9, 2019 SPECIAL MEETING

### CALL TO ORDER

---

Chair Danaher called the meeting of the Utilities Advisory Commission (UAC) to order at 7:00 p.m.

Present: Chair Danaher, Vice Chair Schwartz, Commissioners Forssell, Johnston, and Segal  
Absent: Commissioners Ballantine and Trumbull

### ORAL COMMUNICATIONS

---

Esther Nigenda, Save Palo Alto's Groundwater, shared information regarding the effects of sea level rise on groundwater level rise. Groundwater level rise has the potential to impact communities as much or more than sea level rise. Solutions other than not building underground where the water table is high are unknown. The public is invited to attend a lecture by Dr. Hill, an urban planner and climate mitigation expert.

### APPROVAL OF THE MINUTES

---

Vice Chair Schwartz corrected her comments under Reports from Commissioner Meetings/Events in that "staff's approach to AMI implementation should prevent future problems" should be "staff's approach to the systemwide meter audit should reduce future problems."

Commissioner Segal moved to approve the minutes of the March 6, 2019 meeting as amended. Commissioner Johnston seconded the motion. The motion carried 5-0 with Chair Danaher, Vice Chair Schwartz, and Commissioners Forssell, Johnston, and Segal voting yes, and Commissioners Ballantine and Trumbull absent.

### AGENDA REVIEW AND REVISIONS

---

None

### REPORTS FROM COMMISSIONER MEETINGS/EVENTS

---

Vice Chair Schwartz had attended the Western Energy Institute (WEI) consumer and corporate symposium and Smart Energy Water (SEW) and Zpryme's WE3 conference, where she heard quite a bit of discussion about problems utilities are having in recruiting staff. To attract experienced staff, City of Palo Alto Utilities (CPAU) needs to review its compensation. Sacramento Municipal Utility District (SMUD) is willing to host a team from CPAU to share information about SMUD activities.

Chair Danaher reported costs to store electric power continue to decrease such that pairing solar and storage is becoming more economical. This could be a factor in CPAU's long-term planning.

## **GENERAL MANAGER OF UTILITIES REPORT**

---

Dean Batchelor, Utilities General Manager, delivered the General Manager's Report.

The Council will interview 13 applicants for the four open positions on the UAC on April 29. Commissioners are invited to participate in the May Fete Parade on May 4.

**Palo Alto Utilities Earns 5th Consecutive Tree Line USA Award** - For the fifth year in a row, CPAU has been recognized with the Tree Line USA award by the National Arbor Day Foundation. Tree Line USA promotes the dual goals of delivering safe and reliable electricity while maintaining healthy community trees. Tree Line USA recognizes CPAU for training employees in quality tree-care practices, educating the public about planting trees for energy conservation and helping homeowners plant appropriate trees near utility lines. Palo Alto is among an elite group of communities that are recognized as a Tree City USA, designated as a Tree Line USA Utility, and also a Tree Campus USA with Stanford University. This trio of honors is testament to our community's commitment to preserving the health of our urban canopy, as well as the collaborative management approach that exists among City staff. Congratulations to our entire team working toward these mutual goals!

**Upgrade Downtown Project on the Home Stretch** - The Upgrade Downtown project is near the final stages of construction along University Avenue. Utility infrastructure work on the last block of University was completed at the end of March. After all traffic signal, sidewalk and curb ramp work is complete, University Avenue will be repaved. Stay tuned for a community appreciation event later this spring! We want to thank everyone for their patience and cooperation as we replaced critical infrastructure as part of our goal to ensure safe, reliable utility services. An updated paving schedule and map will be available at [upgradedowntownpa.com](http://upgradedowntownpa.com).

**Visit from the Chinese Wuhan Environmental Protection Bureau** - On March 13, a delegation from the Wuhan Environmental Protection Bureau in China visited the City to learn about our climate action and sustainability initiatives. Utilities staff met with the delegates for a couple of hours to share information on past, current and future programs for energy and water efficiency services, renewable energy, carbon neutral electric and gas portfolios, as well as long-term plans for sustainable utility resource management. The delegates appreciated the opportunity to learn best practices for their region from a proactive agency such as CPAU.

**AMI Workshop** - On March 27, CPAU hosted an advanced metering infrastructure (AMI) workshop in partnership with BAWSCA and Valley Water. The goals of the workshop were to support member agency efforts to advance the implementation of AMI within their respective service areas, provide guidance on using AMI data to improve water use efficiency, and identify potential opportunities for regional coordination on AMI planning and implementation. It was a very successful event by all measures. More than 70 people were in attendance. There was great interest in collaborating moving forward.

**Great Race for Saving Water and Earth Day Festival** - This Saturday, April 13, join us for the City's Great Race for Saving Water and Earth Day Festival! This 6<sup>th</sup> annual event offers a 5K, 10K and Kids Dash fun run and walk at the Palo Alto Baylands. We will host a special ribbon-cutting ceremony immediately before the race begins to celebrate completion of a major flood control project with Valley Water and the San Francisquito Creek JPA. After the race, enjoy a free festival with electric vehicle expo plus EV test drives, live music, "green living" vendors, food, prizes, outdoor games, community booths with activities and demonstrations, environmental and public safety resources. No ticket or entry fee is required to attend the Earth Day Festival itself. Come join us for the fun from 9 am to 1 pm! Details at [cityofpaloalto.org/earthday](http://cityofpaloalto.org/earthday).

In response to Commissioner Johnston's query regarding the recent power outage, Batchelor advised that approximately 3,400 customers were without power between 12:30 and 4:30 p.m. and 51 customers were without power until 7:30 p.m. The repair crew had difficulty locating the issue, which was moisture in an elbow.

Vice Chair Schwartz noted Comcast suffered an outage the same day. Batchelor clarified that the outages were separate in that a Comcast contractor damaged a cable line.

---

**COMMISSIONER COMMENTS**

None

---

**UNFINISHED BUSINESS**

None

---

**NEW BUSINESS**

---

**ITEM 1: ACTION: Utilities Advisory Commission Recommendation that the City Council Adopt a Resolution Amending Utility Rule and Regulation 20 to Allow Neighborhood Funding of Certain Subsurface Equipment.**

Michael Maurier clarified that attorney Kent Mitchell is representing 35-40 residents of Green Acres. The residents appreciate Commissioners' attentiveness and responsiveness to their concerns.

Chair Danaher advised that undergrounding issues deserve careful study and consideration because the issues will affect all neighborhoods located within underground districts.

Debra Lloyd, Assistant Director of Utilities Engineering, reviewed the history of undergrounding in the Green Acres neighborhood. Pad-mounted equipment in underground areas is an industry and CPAU standard. CPAU grants an exception to the standard if a customer pays a special facilities fee and added construction costs. The exception typically applies to a single customer rather than a community. Staff proposes amending Rule and Regulation 20 to allow a community to request underground utilities if the community pays the additional costs for undergrounding. Amendments to Rule and Regulation 20 will require staff to send a notice to residents or property owners about CPAU's intention to replace equipment. A request for a petition form, signed by at least five property owners, must be filed with CPAU. CPAU will prepare a petition form describing the proposed project. Residents will have 45 days following receipt of the petition form to obtain signatures from at least 60% of property owners and to submit it to CPAU. Residents must submit with the petition form a payment sufficient to fund CPAU's costs of developing an engineering estimate for the project. Gregory McKernan, Senior Engineer, added that the typical advance engineering fee is \$5,000. Lloyd continued, stating CPAU will develop the engineering estimate and provide it to the residents. Residents will have 60 days to pay CPAU the full estimated cost difference between subsurface and standard installation. In the future, CPAU may have to respond to new safety rules and regulations promulgated by the State and Federal Government. Future capacity requirements in the underground districts may change with conversion to all-electric homes, use of electric vehicles, and general neighborhood load increases.

In response to Chair Danaher's request for recent design changes to mitigate safety issues, Lloyd explained that each vault will contain only one piece of equipment and the size of the vault is larger. Dean Batchelor, Utilities General Manager, added that a second vault, which will likely be located in the sidewalk area, will house secondary equipment.

In reply to Commissioner Johnston's query regarding adding secondary switches to isolate outages regardless of whether equipment is underground or pad-mounted, Batchelor indicated secondary switches will be a part of the redesign. The redesign will include predicted increases in load.

In answer to Commissioner Johnston's request for information about the difference in reliability between underground facilities and pad-mounted, Batchelor reported he could not find any information about the difference in reliability.

Commissioner Johnston requested the number of districts with fully underground utilities and with pad-mounted utilities. McKernan believed two districts have been rebuilt such that subsurface equipment was changed to pad-mounted equipment. Approximately seven districts have fully underground equipment.

In response to Commissioner Segal's query about the differential between underground and pad-mounted equipment in relation to locating the source of an outage, Batchelor related that including electronics in equipment will make finding the source of an outage easier. McKernan clarified that access to equipment determines the difficulty of locating an outage source. Underground vaults are sometimes filled with water that has to be removed before the equipment can be checked for a fault. Pad-mounted equipment does not fill with water.

Vice Chair Schwartz remarked that standards have evolved to increase safety. Putting people in small spaces where they risk electrocution is no longer considered safe. In walking through many neighborhoods over the weekend, she observed neighborhoods with and without pad-mounted equipment. Pad-mounted equipment does not detract from the beauty of neighborhoods. In Capitola, the transformer boxes are painted. If pad-mounted equipment is deemed necessary, perhaps neighborhoods could hold art competitions and select artwork for the transformer boxes. Some residents do not object to pad-mounted equipment and, if technically feasible, maybe the equipment could be located on those residents' properties.

Commissioner Johnston appreciated the desire for fully underground equipment; however, current safety rules prevent CPAU from undergrounding utilities in the same manner utilized in the past. Fully underground equipment is a benefit to the specific neighborhood in that all ratepayers do not share in the benefit. Neighborhoods should pay the additional cost of undergrounding.

Commissioner Forssell commented that CPAU did not grant the Green Acres neighborhood a right to underground utilities by installing the underground equipment in the 1970s. Equipment has a useful life, and the useful life of underground equipment in Green Acres has passed. Given that the benefit of underground equipment accrues to the particular neighborhood, it would be appropriate for the neighborhood to pay. Mr. Mitchell's letter seems to imply that the entire underground system will be placed aboveground. Much of the equipment will be underground, but the transformer boxes will be aboveground.

Commissioner Segal had not heard anything suggesting aboveground equipment does not meet CPAU's mission to provide safe, reliable, and cost-effective utilities. Belowground equipment may meet the safe and reliable components of the mission, but it does not meet the cost-effective component. An alternative design does meet the cost-effective component.

Vice Chair Schwartz felt asking all ratepayers to pay for removal of transformer boxes in a few neighborhoods is not reasonable. Staff proposes at least 60% of property owners must support the request to underground. The remaining 40% of property owners may be unfairly burdened with paying their portion of the cost. She did not wish to create divisiveness among neighbors.

Chair Danaher remarked that only a small portion of Palo Alto's population has access to fully underground utilities. Imposing the cost of undergrounding on the entire population is unfair. Neighborhoods should have the choice to pay for undergrounding utilities. If the majority of property owners want to underground utilities, CPAU should provide ways to spread the cost over time.

Vice Chair Schwartz could not believe an aboveground transformer would result in a loss of property value, given the high demand for property in Palo Alto.

Commissioner Johnston expressed concern regarding residents receiving a mailed notice of the project. The ten-day period for five property owners to submit a request for petition form seems short. The petition form should state the cost of developing an engineering estimate. The 45-day period and requirement for 60% support are fine. The 60-day period for full payment of the cost difference makes the proposal unworkable. Property owners should be able to pay over time, perhaps with interest. He was unsure whether property owners who want underground utilities or all property owners should pay the additional cost. Staff proposes all property owners contribute to the additional cost. Lloyd explained that the requirements mirror those for special facilities. When overhead facilities are undergrounded, each property owner pays for a service connection. If undergrounding is determined to provide a general benefit, CPAU shares the cost of undergrounding overhead wires and installing equipment with Comcast and AT&T. If undergrounding provides a local benefit, up to 75% of the cost could be allocated to property owners.

Commissioner Segal agreed that the 60-day period is not long enough. In response to her question about adding the cost to property owners' utility bills, Lloyd advised that would require a different process. To keep the process simple and to mirror the special facilities process, a collection mechanism other than the utility bill is needed. Batchelor clarified that the current billing system cannot process special charges. Staff would have to add a charge for undergrounding to each bill by hand.

Commissioner Segal was struggling with the approach to amending Rule and Regulation 20 being driven by the limitations of the billing system. The approach should be driven by what makes sense for a district.

Vice Chair Schwartz commented that allowing a neighborhood to determine the details of CPAU projects sets a bad precedent. In answer to Commissioner Johnston's query of whether Vice Chair Schwartz felt pad-mounted equipment should be required in all districts, Vice Chair Schwartz believed allowing neighborhoods to make engineering decisions is problematic. Commissioner Johnston asked if Vice Chair Schwartz was saying no neighborhood should have an option to underground. Vice Chair Schwartz replied no. Amending Rule and Regulation 20 is a policy change that could be applied to any project in the City. Chair Danaher did not believe the amendments to Rule and Regulation 20 have to be applied to other projects. Whether to apply the policy direction to other projects would be a future decision. Vice Chair Schwartz stated meeting with residents and discussing residents' preferences is appropriate, and staff should do that. That is not the same as changing Rule and Regulation 20. Commissioner Johnston noted Rule and Regulation 20 is specific to replacement of subsurface equipment. Any district in the same situation as Green Acres I would have the option to pay for underground facilities. Vice Chair Schwartz reiterated that amending Rule and Regulation 20 would set a bad precedent.

Chair Danaher believed the 10-day period should be at least 30 days. There should be an option for property owners to host a staff presentation about the project. The main issue is distributing the cost among property owners. Property owners could contribute based on household square footage or some property owners could pay more than their share. The default position could be a pro rata distribution of the cost with an option for property owners to voluntarily pay more than their portion of the cost. Property owners should be allowed to pay over a five, eight, or ten-year period.

Commissioner Forssell suggested property owners be allowed to determine the distribution of the cost among property owners. Property owners should be allowed to pay the special facilities fee over time but the cost of materials and labor upfront. Lloyd advised that a special assessment district may be needed. To provide property owners with the amount they need to pay would require another process.

Vice Chair Schwartz assumed the new billing system would support on-bill financing.

At Chair Danaher's request for a brief update regarding Computer Information System (CIS) implementation, Batchelor reported the Information Technology (IT) Department wants to delay the CIS upgrade by two years because of limitations on resources and the need to determine the desired features of a CIS. It appears SAP will be upgraded to the most recent version.

In answer to Commissioner Segal's inquiry regarding the Green Acres project being on hold, Batchelor indicated it is on hold. Special fees are typically used for commercial accounts. CPAU does not have a rule and regulation that allows it to charge a district for work and provide on-bill financing for the work.

Chair Danaher clarified the recommendation as the City Council permitting neighborhoods to elect to retain underground transformers provided that the district absorbs the marginal cost. If the Council approves the recommendation, staff will return with a proposed process for neighborhoods to request retention of underground transformers.

Commissioner Johnston inquired whether staff prefers to present the Council with a concept that neighborhoods can elect to retain their facilities completely underground or with a detailed draft regulation. Batchelor preferred to present the Council with a proposed regulation.

Vice Chair Schwartz interpreted the attorney's letter as indicating Green Acres residents want fully underground facilities but do not want to pay for them.

[Comments made off camera and off microphone by a member of the public are inaudible.]

Commissioner Johnston stated Vice Chair Schwartz wants to know if the neighborhood's position is CPAU pays for the project or the neighborhood is not interested. In which case, Commissioners may not have to agonize about a payment procedure.

Vice Chair Schwartz suggested staff determine alternative placements for pad-mounted devices and ask property owners around the alternative placements if they are willing to host the devices.

Commissioner Segal noted the Council had not provided an opinion regarding undergrounding. The UAC should recommend a district pay the differential cost of pad-mounted versus underground equipment. If the Council approves the recommendation, the UAC can propose a mechanism for payment of the differential cost.

In reply to Chair Danaher's request for the number of households in the Green Acres district, McKernan indicated approximately 100 households.

Chair Danaher preferred to allow property owners to pay over time so that the charge would be less of a burden for residents.

An unidentified member of the public remarked that property owners have no information about the undergrounding project. Property owners are waiting for an opportunity to review alternative designs.

Chair Danaher suggested staff share alternative designs with residents so that residents can determine who might agree to bear the cost and whether an upfront payment or payments over time are preferable.

Lloyd reported that she had attempted to find less visible locations for pad-mounted equipment and presented information to the Green Acres Board. The Green Acres Board was not willing to discuss pad-mounted equipment, only fully underground equipment. Staff needs to know where equipment can be located in order to prepare an engineering study. Staff has prepared a design for a subsurface solution.

Commissioner Johnston believed the Council should determine before staff does further work whether CPAU will pay 100% of costs for fully underground equipment; whether the neighborhood will have an option to pay the cost of keeping equipment underground; or whether pad-mounted equipment will be required in all districts.

Batchelor concurred with presenting a concept to the Council and returning to the UAC to develop details as directed by the Council.

Vice Chair Schwartz believed the Council should decide whether anybody pays for the additional costs.

Commissioner Forssell proposed Commissioners indicate their support for CPAU paying 100% of costs, the district sharing in the costs, or CPAU requiring pad-mounted equipment in all districts.

Chair Danaher understood a number of Commissioners would support a choice for property owners with the property owners bearing the additional cost. Vice Chair Schwartz appears to be less inclined to allow a choice. Vice Chair Schwartz clarified that additional choices are available to property owners, such as finding eight to ten households who are willing to host pad-mounted equipment.

Commissioner Segal proposed a recommendation that a utility district pay the differential in expense to maintain transfers underground. Chair Danaher amended the recommendation to a utility district will have the option by supermajority vote of the residences to maintain transformers underground provided that the extra cost is borne by the district.

**ACTION:** Commissioner Segal moved to recommend to City Council that an underground utility district have the option with a supermajority vote of district customers to pay the differential in expense to maintain transformers underground. Commissioner Forssell seconded the motion. The motion carried 4-1 with Chair Danaher and Commissioners Forssell, Johnston, and Segal voting yes, Vice Chair Schwartz voting no, and Commissioners Ballantine and Trumbull absent.

Chair Danaher requested staff provide residents of Green Acres with the alternative designs for the undergrounding project.

Mr. Maurier stated the residents' main concern is the lack of information about proposed designs. Without information, residents cannot make any decisions.

Commissioner Johnston clarified that residents would receive information about the project along with the notice.

**ITEM 2: DISCUSSION:** Electric Supply Portfolio Carbon Accounting Analysis.

Chair Danaher announced this item is continued to the May meeting, and the UAC will hear item 4 followed by item 3.

**ITEM 3: ACTION:** Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Adopt: 1) a Resolution Approving the Fiscal Year 2020 Electric Financial Plan, and 2) a Resolution Increasing Electric Rates by 8% by Amending the E-1, E-2, E-2-G, E-4, E-4-G, E-4 TOU, E-7, E-7 TOU, E-14, E-EEC and E-NSE Rate Schedules.

Eric Keniston, Senior Resource Planner, reported rates are generally updated every four or five years with cost of service studies. Electricity generation and transmission and water supply from the Hetch Hetchy system are the two largest supply-related costs. Construction costs have increased. Electric costs have increased mainly due to rising transmission-related expenses. At this time, the San Francisco Public Utilities Commission (SFPUC) does not anticipate a rate change for Fiscal Year (FY) 2020, but that could change with SFPUC's final recommendation. Market prices and transmission costs for natural gas have increased slightly. Wastewater costs are increasing due to extensive Capital Improvement Program (CIP) work at the Regional Water Quality Control Plant. Operations and maintenance costs are increasing approximately 3-4% per year. Salaries and benefits comprise 13-24% of CPAU's budget. Palo Alto's total utility bill continues to be lower than bills for neighboring agencies. The balance of most operational reserve funds fall at the low end of the guideline range. For FY 2020, electric and water rates will increase approximately 4% for residential customers while wastewater rates will increase 7%, and gas rates will increase 9%. The overall bill impact will

be approximately 5% or \$15 per month. For FY 2020, electric rates will increase 5-9% for commercial customers, water rates will increase between -1% to 3%, wastewater rates will increase 7%, and gas rates will increase 9%. Electric costs are comprised of approximately 40% distribution costs and 60% supply costs. Transmission costs are growing significantly. Approximately half of the electric rate increase can be attributed to increases in electric supply costs. Expenses exceed revenues, and staff is attempting to balance the two. Over the last several years, loads have been decreasing faster than expected. As usage decreases and fixed costs increase, rates have to rise faster.

In response to Commissioner Segal's query regarding the reason for decreasing usage, Keniston indicated commercial and industrial customers have increased energy efficiency and decreased their usage. Supply cost drivers include decreasing overhead costs and dramatically increasing transmission costs.

In answer to Vice Chair Schwartz's inquiry about a decline in gas usage, Keniston indicated the decrease in electric usage has been greater than the decrease in gas and water usage. He had not anticipated the extent of the electric usage decrease.

Keniston further reported operations and capital cost drivers include medical and retirement benefit costs, capital investment in the electric distribution system, and additional contract expenses for a line crew. Residential customers will see a 4% rate increase. Commercial customers will see a 4-8% rate increase. With the proposed rate increases, Palo Alto's bills are considerably lower than PG&E's bills. Operations Reserve Funds are projected to reach or fall slightly below minimum guidelines. The balance of the Hydroelectric Stabilization Reserve Fund is \$7.4 million, which should be closer to \$17 million. The Electric Special Projects Reserve Fund balance is approximately \$41 million. Staff plans to repay a loan from the Electric Special Projects Reserve Fund by FY 2023. The 8% rate increase will not increase reserve fund balances, but it will prevent further losses in the funds.

Vice Chair Schwartz believed CPAU should prepare for sea level rise by acquiring equipment that may be needed in an emergency and that requires a long lead time to acquire. She asked if the budget could accommodate the \$3-\$4 million needed to purchase this equipment. Keniston indicated purchasing all the equipment at one time would be difficult. Purchasing the equipment over a four or five -year period could raise problems with storing the equipment. He would need to analyze various scenarios. Staff could request Council approval to purchase the equipment with monies from the Special Projects Reserve Fund as a resiliency measure. Commissioner Johnston suggested other things could have a higher priority than spare equipment in terms of resilience.

Chair Danaher requested a future agenda item for the topic so that staff could prepare information. Dean Batchelor, Utilities General Manager, reported staff could explore the equipment needed for an emergency. If equipment is needed immediately, staff with Council approval could utilize the Special Projects Reserve Fund and plan to repay the monies.

In answer to Commissioner Forssell's questions regarding the large percentage increase in the summer demand charges for nonresidential customers and the modest increase for Tier 2 residential customers, Keniston explained that the cost of service study determined the amount of demand-related costs that should be allocated to summer-related demand and winter-related demand. The model indicated most of the cost should be allocated to summer-related charges. Much of the cost increase pertains to distribution costs, and distribution costs affect Tier 1 customers more than Tier 2 customers. The non-residential customer usage of 2 gigawatt hours is provided for comparison. Two CPAU customers do consume that amount of energy.



**ACTION:** Commissioner Johnston moved to recommend that the City Council adopt (1) a Resolution approving the Fiscal Year 2020 Electric Financial Plan, and (2) a Resolution increasing electric rates by 8% by amending the E-1, E-2, E-2-G, E-4, E-4-G, E-4 TOU, E-7, E-7 TOU, E-14, E-EEC and E-NSE Rate Schedules. Commissioner Forssell seconded the motion. The motion passed 5-0 with Chair Danaher, Vice Chair Schwartz, and Commissioners Forssell, Johnston, and Segal voting yes, and Commissioners Ballantine and Trumbull absent.

**ITEM 4: ACTION:** Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Adopt: (1) a Resolution Approving the Fiscal year 2020 Water Utility Financial Plan; and (2) a Resolution Increasing Water Rates by 1% by Amending Rate Schedules W-1 (General Residential Water Service), W-2 (Water Service from Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service).

Lisa Bilir, Resource Planner, reported costs are divided approximately half to water supply and half to water distribution. In FY 2019, approximately 30% of overall costs are attributed to operations, 13% to capital investment, and 7% to debt service. Water supply costs are projected to remain stable over the next few years; however, in FY 2023 and beyond, the primary driver of water supply costs will be the SFPUC Water System Improvement Project. Drivers of operations and capital costs include the installation of backup generators at pumping stations and seismic upgrades for emergency water supply and reservoir rehabilitation. In FY 2020, rates and revenues are projected to remain fairly steady. The overall rate increase is 1%. The 1% increase has an impact closer to 4-6% on residential bills. Staff is preparing a cost of service analysis update, and it affirms that the methodology for allocating costs and calculating rate structures is fundamentally sound. The analysis update recommends some rebalancing of rates in FY 2020. Rate design changes will separate the commodity rate for SFPUC supply so that SFPUC rate changes are quickly and accurately reflected in Palo Alto's water rates and standardize the 5/8", 3/4", and 1" residential meter charges to ensure costs are allocated equitably and consistent with the cost of service analysis.

In reply to Vice Chair Schwartz's inquiry regarding the need for a larger meter, Eric Keniston, Senior Resource Planner, explained that the customer may need a larger meter due to special circumstances or to increase water pressure. The size of the meter is not based on water usage. Bilir added that standardizing to the 1" meter size will reduce CPAU's cost for procuring meters.

Bilir further reported the bill impact for residential customers with a 5/8" meter and usage at the annual median is 4%. As the usage level increases, the bill impact could be higher. The bill impacts for commercial and irrigation customers range from -1% to 3%. Certain projects originally planned for FY 2019 are being shifted to FY 2020. The Financial Plan will replenish the CIP Reserve Fund with a \$5 million transfer in FY 2020. The CIP numbers are higher in FY 2022 and 2024 because main replacement projects will be planned for every other year and will be larger projects.

In answer to Commissioner Johnston's query about using reserve funds to have consistent rates, Bilir indicated that is part of the plan. Keniston clarified that excess funds will be transferred to the CIP Reserve Fund to smooth the flow of the Operations Reserve and to fund the following year's higher CIP costs.

In reply to Commissioner Segal's inquiry regarding the impact of a two-year cycle on the desired range for reserve funds, Keniston explained that the CIP Reserve Fund balance will rise and fall, but the Operations Reserve Fund balance should fall within the desired range each year.

Bilir continued the report, stating Palo Alto's residential bill is not the highest compared neighboring cities, but Palo Alto's residential bill is higher than the average of residential bills. Staff will conduct a study to understand why Palo Alto's rates are higher than neighboring cities.

In response to Vice Chair Schwartz's question about neighboring cities purchasing Hetch Hetchy water, Bilir advised that Hetch Hetchy water comprises a portion of the water supplies for Redwood City, Menlo Park, Mountain View, and Hayward.

In reply to Commissioner Forssell's inquiry about the impact of the 1% average increase, Bilir indicated some customers will see a 4-6% bill impact, and other customers will see a -1% impact.

In answer to Commissioner Johnston's request for an explanation of residential rates increasing and other rates decreasing, Bilir advised that the rates are affected by the standardization of the meter charges and the cost of service study analysis that recommends rebalancing the rates. The analysis is almost complete.

Herb Borock recalled that Palo Alto's rate structure at one time consisted of the commodity charge and a pressure zone charge. If staff has a recent report concerning the pressure zone concept, they should present it to the UAC or Council. Staff may want to review the past rate structure for pressure zones as well. The effect of chloramine on the reservoirs should be factored into a decision regarding pressure zones.

In reply to Commissioner Forssell's query regarding some bills increasing by 10% and others decreasing as much as 46%, Bilir reported the monthly service charge will change by those percentages. The total bills will not change by those percentages.

In answer to Commissioner Segal's inquiry regarding 13.5 miles of water pipe replacement over ten years, Silvia Santos, Senior Engineer, advised that the City's consultant recommends replacement of 13.5 miles of water pipe over the next decade. The 13.5 miles of water pipe consists of 2 miles of pipe in deteriorated condition, 10 miles of pipe within seismically sensitive areas, and 1.5 miles of pipe that will deteriorate over the next ten years. The plan to replace water mains every other year will accomplish replacement of 13.5 miles of pipe within ten years. Staff will continue to assess the conditions of water mains and replace them if necessary.

**ACTION:** Commissioner Johnston moved to recommend that the City Council adopt (1) a Resolution approving the Fiscal Year 2020 Water Utility Financial Plan and transferring up to \$5 million from the Operations Reserve Fund to the CIP Reserve Fund and (2) a Resolution increasing water rates by 1% by amending Rate Schedules W-1 (General Residential Water Service), W-2 (Water Service from Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service). Vice Chair Schwartz seconded the motion. The motion carried 5-0 with Chair Danaher, Vice Chair Schwartz, and Commissioners Forssell, Johnston, and Segal voting yes, and Commissioners Ballantine and Trumbull absent.

**ITEM 5: DISCUSSION: Update and Discussion of Fiber and AMI Planning.**

Dean Batchelor, Utilities General Manager, reported a Council update regarding fiber could occur in June or July. Staff anticipates the UAC having a larger role in fiber discussions and the Community Advisory Committee sunseting.

In response to Commissioner Johnston's inquiry about issuing the Request for Proposals (RFP), Batchelor felt the RFP could be issued in June.

**ACTION:** None

Chair Danaher noted Item 2 has been continued to the May meeting. A discussion of resiliency and purchasing equipment should be scheduled. The UAC usually cancels one summer meeting. He requested an update of the CIS upgrade.

Vice Chair Schwartz suggested scheduling the cancellation of one summer meeting wait until new Commissioners join the UAC.

Batchelor advised that staff is working on resiliency but has not determined a date to present it to the UAC. A discussion of purchasing equipment could be scheduled for September or October.

Debra Lloyd, Assistant Director of Utilities Engineering, reported the repaving of University Avenue will not be complete prior to the May Fete Parade. The work will occur on May 13, 14, and 15, and crews will work both day and night.

**NEXT SCHEDULED MEETING:** May 1, 2019

Meeting adjourned at 10:00 p.m.

Respectfully Submitted as corrected:

- Vice Chair Schwartz requested the second paragraph on page 7 state "Commissioner Segal believed the Council should decide whether anybody pays for the additional costs." In the next paragraph, "Vice Chair Schwartz appears to be less inclined to allow a choice" should be deleted. The following sentence should be "Vice Chair Schwartz clarified that while it is important to listen to community concerns, it would be a better choice to find eight to ten households that are willing to host pad-mounted equipment."

Tabatha Boatwright  
City of Palo Alto Utilities