



FINAL

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF MAY 1, 2019 SPECIAL MEETING

CALL TO ORDER

Chair Danaher called the meeting of the Utilities Advisory Commission (UAC) to order at 5:00 p.m.

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

ORAL COMMUNICATIONS

Tom Kabat, Carbon Free Silicon Valley, shared the history of the gas utility in Palo Alto and historical fuel switching from town gas to natural gas. He emphasized that the Gas Utility could help the City meet City and State climate goal by evolving from delivering heat by chemical delivery to delivering thermal services directly through measures like district heating; and whether it could pivot once again to become a heating utility rather than a gas utility.

APPROVAL OF THE MINUTES

Chair Danaher noted Commissioner Ballantine had resigned from the Commission prior to the April meeting.

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."

Commissioner Johnston moved to approve the minutes of the April 9, 2019 meeting as amended. Commissioner Segal seconded the motion. The motion carried 5-0 with Chair Danaher, Vice Chair Schwartz, and Commissioners Forssell, Johnston, and Segal voting yes, and Commissioner Trumbull absent.

AGENDA REVIEW AND REVISIONS

None.

REPORTS FROM COMMISSIONER MEETINGS/EVENTS

Commissioner Segal reported she attended the Recycled Water Strategic Plan public meeting. The meeting laid out the current possible options for recycled water use, both potable and non-potable. She encouraged everyone to review the informative slides. There are many opportunities, economics, and timelines for use of recycled water, both potable and non-potable and within the City and beyond the City.

Catherine Elvert, Communications Manager, reported the slides would be shared with the Commission. The slides are valuable information to share with the community.

Commissioner Johnston advised that he attended a presentation by Stanford Professor Richard Luthy, who spoke about recycling treated water and stormwater runoff. Commissioners may be interested in hearing about options people are trying.

Vice Chair Schwartz indicated she attended the Energy Thought Leadership Summit. She was pleased that utilities are talking about customer engagement and implementing people-first programs. After hearing discussions about data privacy and data governance in relation to automated metering infrastructure (AMI), she suggested City of Palo Alto Utilities (CPAU) should understand data privacy and governance in order to ensure legacy systems are aligned. The Department of Energy (DOE) has produced a document that shows the benefits of AMI exceed the original business cases. Vice Chair Schwartz also attended the Low Income Energy Issues Forum, where she presented information regarding low-income community solar. Community solar projects become part of microgrids and other applications around sustainability and community buy-in that may be issues for Palo Alto. When combined with other things, local solar can be valuable at the local level.

GENERAL MANAGER OF UTILITIES REPORT

Jonathan Abendschein, Assistant Director of Resource Management, delivered the General Manager's Report.

Recycled Water Strategic Plan Public Meeting - Utilities, Public Works, and Valley Water hosted a public meeting yesterday to request input on possible projects the City could explore for expanding use of recycled water from the Regional Water Quality Control Plant. The information presented was similar to the material provided to the UAC in October 2018 and to City Council at a December 2018 study session. The discussion included options for both non-potable and potable uses of recycled water. The City should be able to follow up with interested stakeholders after reviewing public feedback.

Utilities Rates Adjustments – Staff has been developing a communication strategy and public outreach materials for the utilities rate changes proposed to take effect on July 1, 2019. You will see some of the key messages that will be incorporated into our outreach in the draft document before you tonight. This will be further refined for public circulation. In an effort to provide clear and transparent information to all affected stakeholders, we will communicate through a variety of outreach channels including web, utility bill inserts, social media, digital and print announcements. All water and wastewater customers will receive a printed letter in the mail within the next one to two weeks with details on those rates, per our notification requirements through Proposition 218.

Update on Crossbore Program – The City's Crossbore Verification Program investigates privately-owned and City-owned sewer lines to ensure that there are no natural gas lines accidentally crossbored through them. Utilities video-inspects sanitary sewer laterals and makes repairs free of charge to customers if a crossbore is found. Phase 1 of the program was completed in 2013. At that time, we identified 26 gas crossbores which were subsequently repaired, and verified that more than 7,000 other parcels were clear of a potential crossbore. Phase 2 of the program will include a 2-year contract to inspect remaining sewer laterals at various locations that have been determined to be a higher priority for inspection. The City received four bids from qualified contractors for the phase 2 contract. A bid submitted by AIMS Companies came in 45% lower than our staff's initial engineering estimate. Since this leaves available funding in our budget, we recommend taking this opportunity to increase the number of sewer laterals inspected in this phase of the program from 1,200 to 2,500 locations. The Council approval date is scheduled for June 24. The total not-to-exceed contract amount is about \$1.7 million.

Media Coverage of Palo Alto's Energy Resources – A local reporter for the Palo Alto Weekly has recently been publishing blog posts about our Utilities energy resources portfolio. After speaking with communications and resource planning staff, she is now writing a series of well-informed, educational articles which help share with the public more about what we do for environmental sustainability. This media

coverage provides an insightful look at how we procure energy resources, what is considered renewable versus non-renewable energy, what is Consumer Choice Aggregation (CCA), related legislation that could impact publicly owned utilities and CCAs, and what it means to be carbon neutral. We encourage you to take a look at this blog titled, "A New Shade of Green," in Palo Alto Online.

Mayor's Green Business Award – Join us at the Mayor's Green Business Leader Awards presentation on May 20. This award program recognizes property managers whose buildings earn an EPA Energy Star, LEED Gold or Platinum status. This year we will be honoring 27 buildings, representing over 2 million square feet of commercial space, which were Energy Star rated in 2018. We also have six properties that became LEED Gold certified and one property that obtained the elite LEED Platinum status. The awards ceremony will take place at the beginning of the May 20 City Council meeting.

COMMISSIONER COMMENTS

None.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: DISCUSSION: Discussion of Carbon Emissions Accounting Options for the City's Electric Supply Portfolio.

Lena Perkins, Acting Senior Resource Planner, reported the UAC has discussed the definition of carbon neutrality many times. The Palo Alto Carbon Neutral Electric Supply Plan was established in 2013 and called for carbon neutral supplies to match load on an annual basis. That made sense at the time because the emissions of the grid did not vary much throughout the course of the year. It was also consistent with the Climate Registry Protocol. The duck curve first appeared in 2013. Now, carbon emissions vary tremendously throughout the course of the day and throughout the course of the year. Over a year, CPAU has excess power in the summer months and power deficits in the winter months. In a 24-hour period, CPAU has power deficits throughout the day in January and excess power during parts of the day in July. In July, CPAU has excess power in the evening hours because CPAU dispatches its hydroelectric during peak evening hours. Currently, the accounting methodology for calculating the portfolio's carbon emissions is an annual basis. An average (as opposed to marginal) hourly basis is most appropriate for a portfolio inventory. 2020 changes relate to unbundled Renewable Energy Certificates (REC). These RECs currently show up as zero carbon on CPAU's power content label but will show up as carbon emitting on CPAU's 2020 power content label.

In response to Commissioner Forssell's question about the California Energy Commission (CEC) reaching a decision regarding the accounting methodology, Perkins replied the CEC has not made a decision. Over the past year, the CEC has been consistent that carbon emissions will be associated with bucket 3 RECs. CPAU buys bucket 3 RECs in a below-average hydroelectric year in order to green up market purchases. CPAU buys unspecified market power because CPAU does not have sufficient energy on an annual basis. The UAC previously expressed a preference for lowering costs, which means procuring as many bucket 3 RECs as allowed under a minimally compliant Renewable Portfolio Standard (RPS). Each year, 10% of load would be bucket 3 RECs, which would look dirty on the power content label under the CEC's methodology, which would be a communications challenge to explain.

Vice Chair Schwartz remarked that using the word "dirty" to refer to fossil-fueled generation is simplistic when reliability and having lights and heat at night are also considerations. Perkins said that she was attempting to use the simplest words possible and suggested the use of "carbon emitting" in place of "dirty."

In reply to Commissioner Forssell's inquiry regarding unbundled RECs and bucket 3 RECs being equivalent, Perkins advised that they are the same. Commissioner Forssell clarified that the carbon emissions were going to show up on the power content label only in a dry hydroelectric year. Perkins stated the previous feedback

from the UAC was to maximize unbundled REC bucket 3 purchases in order to have the cheapest electricity portfolio possible. Staff had not implemented that because the accounting methodology change was being considered by the CEC. Jonathan Abendschein, Assistant Director of Resource Management, explained that CPAU currently has about 10% more carbon-free energy than its load in an average hydroelectric year, a surplus on an annual basis. The current definition of carbon neutrality is on an annual basis. CPAU is exceeding its Carbon Neutral Portfolio goals in an average hydroelectric year and could sell energy while still complying with the current policy. In a significantly below-average hydroelectric year when CPAU's renewable and carbon-free energy drops below 100%, CPAU would buy unbundled RECs under the current policy. Staff heard the UAC's interest in reducing costs as much as possible. If the City retained an annual accounting methodology, CPAU could eliminate the 10% surplus and reduce renewable energy to match load, while still reporting no carbon emissions in an average year. CPAU could also sell even more of the renewable energy from long-term contracts, and buy unbundled RECs instead. That would be the cheapest possible portfolio that is compliant with CPAU and State policies, but it would appear carbon-emitting under the CEC's power content label methodology. In reply to Commissioner Forssell's question about selling bundled RECs and buying unbundled RECs in an average hydroelectric year in order to arbitrage the bundle/unbundled financial opportunity, Abendschein commented that that policy option is a possibility. Perkins added that there is a difference between what the power content label shows and RPS eligibility. She corrected an earlier statement in that 10% of CPAU's RPS compliance would be potentially unbundled RECs or bucket 3 RECs. If CPAU's RPS mandate is 40% in this period, then 4% of the portfolio would appear dirty.

Perkins continued the presentation, stating if CPAU continues with annual accounting, a change from the CEC would cause CPAU's portfolio to appear dirtier. Average emissions are calculated as total emissions of the grid divided by total energy generation. Marginal emissions are the emissions intensity of the last unit called upon to deliver the last unit of electricity. Marginal emissions are useful for thinking about an individual action, especially load shifting. When reviewing the carbon emissions of the entire portfolio on an inventory basis, marginal emissions would not be appropriate.

Vice Chair Schwartz remarked that changing the methodology would demonstrate leadership in the industry. From a positioning standpoint, she proposed Commissioners look at this as measuring true decarbonization and to define decarbonization as a process. Commissioners should emphasize that the process is ongoing. In answer to Vice Chair Schwartz's query regarding staff's ability to use marginal emissions to analyze the effect of everybody in Palo Alto switching to heat pump space and water heating, Perkins indicated the analysis was possible because staff had a new reporting tool for energy efficiency into which staff has incorporated electrification measures. Staff is using marginal emissions for that tool.

Chair Danaher commented that the goal is to be as accurate as possible regarding the carbon load. Hourly accounting appears to be much more accurate than annual accounting. CPAU is an average user, and average emissions makes more sense than marginal emissions. Marginal overstates things. He asked Commissioners to nod if they agreed with that comment. He noted that all the Commissioners were nodding. Commissioners agree that average is the right methodology rather than marginal. Perkins remarked that CPAU's methodology could be more accurate, but noted the portfolio would still appear to be emitting carbon under the CEC regulations. Vice Chair Schwartz indicated CPAU's leadership is part of what caused the dilemma in the first place. CPAU owes it to everybody to be leaders and to be more accurate.

Commissioner Forssell felt it would be useful to consider the goal of communications when discussing communication challenges. The communications challenge has a lot of complexity. She had heard two Mayors refer to CPAU as 100% renewable. Perkins noted that it was unnecessary to have every customer receive only carbon-free electricity at all hours, treating Palo Alto as an island. In fact, it could be argued that a bucket 3 REC outside of California could be more impactful than buying a California REC to ensure Palo Alto customers received only carbon-free electricity at all hours. For example, an unbundled or bucket 3 REC could help make a coal plant less economical relative to wind and offset more carbon, even though it's cheaper than an in-state REC.

In response to Chair Danaher's inquiry regarding the CEC's rationale to exclude unbundled RECs, Perkins reported there was concern about customer confusion and accurately representing that the power is not 100% carbon free even if it appears 100% renewable on the power content label.

Vice Chair Schwartz stated Palo Alto and the Community Choice Aggregators (CCA) are relying on PG&E and other entities to provide the electrons at night. In order to tackle this problem as a society, society needs to know what it's dealing with.

Chair Danaher understood CPAU could buy offsets for times when CPAU did not have clean energy. The question is does it matter whether the offsets come from Wyoming or California. He favored using unbundled RECs rather than offsets.

In reply to Commissioner Johnston's query regarding RECs acceptable to the CEC, Perkins advised that bucket 1 RECs will continue to appear as carbon neutral. Bucket 1 RECs are projects connected to the California Independent System Operator (CAISO) and scheduled and bid into the CAISO. When those projects show up, they back down natural gas generators. Bucket 2 RECs are strips of power imports to the CAISO. They may or may not have carbon associated with them. Bucket 1 RECs cost about \$22 per MWh, bucket 2 RECs cost around \$9 per MWh, and bucket 3 RECs cost approximately \$1.50 per MWh. Offsets are separate and cost about the same as bucket 2 RECs.

In answer to Vice Chair Schwartz's question about REC purchases covering a geothermal baseload supply, Perkins indicated that gets into portfolio rebalancing. In portfolio rebalancing, CPAU could buy baseload renewables or other higher cost renewables. Rebalancing to perfectly match renewable generation to load would be the most expensive option. CPAU could also look at solar with storage, which staff is evaluating. Supply funds could pay for a baseload renewable resource or solar with storage resource, but CPAU would have to eliminate some existing contracts to do that. It would be substantially more expensive than using in-state RECs or out-of-state RECs.

In response to Vice Chair Schwartz's inquiry regarding whether CPAU sold RECs with their surplus energy or the surplus energy only, Perkins indicated CPAU holds the RECs and sells the energy in the market. Abendschein noted that the discussion of carbon accounting has three phases. The current discussion is informational or educational explaining what it would mean to have hourly accounting as a standard. The next discussion with the UAC would be about the most cost-effective rebalanced portfolio possible under the new policies. The most complementary and cost-effective way to achieve these low-carbon objectives will be the third discussion. Perkins added that committing to an hourly accounting would narrow CPAU's options to some extent and increase the amount of either RECs or additional renewable generation needed to match load on an hourly basis.

In reply to Vice Chair Schwartz's query regarding the Council's preference for low-cost or carbon-free power, Councilmember DuBois reported the Council will likely express both positions based on Council Members' level of understanding. The communications challenge is almost a separate issue that should be discussed. Abendschein clarified that discussions will be phased so that the Council understands the accounting methodology and its impacts.

Commissioner Johnston commented that knowing the cost impacts will be important because there is a tension between being cost effective and carbon free. Abendschein advised that staff has run some initial models about costs but is not ready to share those with the UAC yet. He noted staff did not intend to make portfolio decisions based on hourly accounting until the UAC and Council had a full understanding of the costs of adopting an hourly accounting methodology.

Perkins noted the marginal price of electricity is correlated with the carbon due to the Cap and Trade system. The last unit to come online in California sets the price for the five-minute interval. Because the price of carbon is included in that price of generation and by dispatching hydroelectric for the maximum value, CPAU

dispatches the hydroelectric to displace the most carbon. CPAU does that deliberately to maximize the value of hydroelectric resources. By generating the most revenue from those hydroelectric resources, CPAU is also displacing the most carbon. In the CAISO, which embeds a cost of carbon, CPAU hydroelectric resources displace a lot of carbon in the worst hours of carbon intensity of the grid. In following the marginal price signal, the price of carbon is actually increasing over time in the price signal. Following the price will be more closely aligned with following the carbon over time as the price of carbon elevates.

Commissioner Forssell favored thinking of CPAU's emissions in the context of the western interconnect or at least the CAISO rather than trying to think of Palo Alto as an island. She expressed interest in studies showing CPAU how CPAU could displace more carbon using out of state RECs. There could be an opportunity not to make a hard tradeoff. Displacing more carbon at a much lower price is worth learning about. In answer to Commissioner Forssell's question regarding the 6 a.m. peaklet and 8:00 a.m. peaklet on the Calaveras for the typical January day, Perkins suggested the peaklets could result from following the price signal because there are morning and evening peaks. The graph is probably generated using actual dispatches for a month averaged on a 24-hour basis so she wouldn't read too much into the 7:00 a.m. dip. Abendschein advised that staff will provide additional information.

Commissioner Johnston stated being able to explain what CPAU receives when buying an unbundled REC and the ecological value of that would be very important if the decision is to continue buying unbundled RECs.

Chair Danaher commented that if CPAU has to report both, CPAU should state the methodology is to measure on an hourly basis and to buy RECs.

Vice Chair Schwartz suggested the issues can be communicated simply without necessarily having everybody in town become an expert on bundled versus unbundled RECs. Communications can be both accurate and accessible. Perkins explained that staff wants to understand the UAC's and Council's preferences for being carbon free every hour of every day or carbon free on the power content label.

Commissioner Segal viewed communications as having two pieces, carbon emissions of the portfolio and impacting behaviors.

ACTION: None

ITEM 2: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Adopt: 1) a Resolution Approving the Fiscal Year 2020 Gas Utility Financial Plan, and 2) a Resolution Increasing Gas Rates by Amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service).

Eric Keniston, Senior Resource Planner, reported staff will present the gas cost of service adjustment (COSA) study when it is complete. Construction costs have been escalating. Generally, natural gas market prices are trending up. Transmission costs continue to increase. The cost of environmental programs continues to increase. Operations and maintenance (O&M) costs are increasing by 3%-4% per year. Salaries and benefits are increasing by 13%-24%. However, the total utility bill remains lower than utility bills for neighboring cities. Staff recommends an 8% rate increase for residential customers and a 2%-3% increase for commercial customers. About 65% of costs relate to distribution. About half of that relates to maintenance of the pipes in the ground. About 14% of costs relate to capital investment. Gas supply costs are pass-through costs. The rate increase is a distribution rate increase. The 8% rate increase on distribution will translate to about a 5% overall utility rate change. Of the distribution rate increase, about 4.6% relates to Capital Improvement Program (CIP) expense increases, about 3% relates to O&M expenses, and a little bit is due to load loss. Gas supply cost drivers are generally volatile and follow market prices, rising PG&E gas transmission rates, and rising Cap and Trade costs. The Carbon Neutral Gas Plan is saving a little bit of money from initial projections. Operations and capital cost drivers are a regular rate of main replacement, increasing underground

construction cost, temporary funding for the gas crossbore program, and increasing health, retirement and associated overhead costs.

In response to Vice Chair Schwartz's inquiring regarding difficulty recruiting staff for the Gas Utility, Dave Yuan, Strategic Business Manager, indicated recruiting for management positions is difficult, but overall recruiting for the Gas Utility is not as difficult as for the Electric Utility.

Keniston continued the presentation, stating generally residential gas bills are lower in the winter and higher in some of the summer months. The overall annual bill is lower than PG&E's bill. Commercial gas bills for customers at the lower end of the spectrum compare favorably to PG&E's bills, but bills for customers at the higher end of the spectrum are higher than PG&E's bills.

In reply to Commissioner Johnston's inquiry regarding the reason for bills being higher than PG&E bills in the summer, Keniston explained that Palo Alto has a monthly customer charge that PG&E does not have. Yuan added that the fixed meter charge is approximately \$13 per month, which is approximately 65% of the summer charge.

Keniston further stated most commercial customers will see a bill increase.

In answer to Vice Chair Schwartz's question regarding the potential effect on customer responses of expressing a rate increase as dollars versus percentages, Catherine Elvert, Communications Manager, reported the Assistant Director of Customer Support Services vehemently believes a dollar amount is the best way to communicate a rate increase. Keniston added that many utilities report dollar amounts only.

Keniston concluded the presentation by relaying goals of aligning rates with costs, using reserves to smooth rate increases, and replenishing and maintaining reserve health over the forecast horizon.

In response to Commissioner Johnston's inquiry regarding residential customers bearing the brunt of the rate increase, Keniston explained that the current COSA study and the 2012 COSA study both recommended the Gas Utility collect 42% of distribution costs from residential customers. Because residential customers are more spread out, they represent a higher share of distribution costs than their load. In answer to Commissioner Johnston's question about flexibility in the COSA study, Jonathan Abendschein, Assistant Director of Resource Management, reported staff has really no flexibility to deviate from the COSA study. Commissioner Johnston noted more of the monthly expense has shifted to a service charge rather than the volumetric charge. Keniston advised that growth in costs since the 2012 study can be attributed to the customer charge. Costs increase, but the number of customers does not; therefore, the charge per customer grows. Vice Chair Schwartz remarked that this has an implication for residential electrification. More fixed costs will be pushed onto a smaller number of customers who can't pay as much.

In answer to Commissioner Forssell's query regarding the Carbon Neutral Gas Plan saving money, Keniston clarified that the gas pre-pay option is saving money, not the Carbon Neutral Gas Plan. Approximately half of gas environmental costs are attributable to the Carbon Neutral Gas Plan. Yuan reported the actual carbon offset for fiscal year 2018 was \$1.3 million.

ACTION: Commissioner Forssell moved to recommend that the City Council adopt a Resolution approving the Fiscal Year 2020 Gas Utility Financial Plan and a Resolution increasing gas rates by amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service). 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 Commissioner Trumbull absent.

Commissioner Johnston hoped Staff would look for ways to ameliorate the burden on residential customers and low-volume customers. Keniston reiterated that staff cannot change the COSA study. Staff ensures the

methodology is consistent across COSA studies. Abendschein added that staff will look for cost-control measures and other ways to contain rate increases.

Commissioner Segal remarked that customers are punished for focusing on conservation because their bills increase as conservation increases. Methods to reward conservation would be great.

Vice Chair Schwartz suggested the rate assistance program could be renamed as an income-qualified program to remove the stigma of an assistance program.

ITEM 3: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Adopt the Proposed Operating and Capital Budgets for the Utilities Department for Fiscal Year 2020. Anna Vuong, Senior Business Analyst, reported key performance indicators include a 12% reduction in sewer overflows; 75 miles of sewer lines cleaned and flushed; 65 wood utility poles replaced; 92% compliance for backflow devices; an average outage duration of 70 minutes per customer; achieved gas efficiency savings; surpassed the State goal of achieving 50% of RPS savings by 2030; repair of 90 gas leaks; and total residential bill average 12% lower than neighboring cities' bills. Overall, the customer satisfaction rating is 86%. The fiscal year (FY) 2020 Proposed Budget totals \$317 million, 46% of which is commodity purchases.

In response to Chair Danaher's inquiry regarding debt service, Vuong indicated CPAU has debt service for bond repayment. Dave Yuan, Strategic Business Manager, added the Central Valley project.

Vuong continued the presentation, stating salaries and benefits are increasing approximately 12% due to recently approved contracts with Service Employees International Union (SEIU) and Utilities Management and Professional Association of Palo Alto (UMPAPA) and proactive pension funding. Commodity costs have increased approximately 6%. Ongoing costs reflect the reclassification of the Assistant City Manager/Utilities General Manager position to the Utilities General Manager position, the Power Engineer position to the Electric Project Engineer position and reorganization of the Resource Management Division. One-time operating costs include improvements to the Elwell Court office, the gas crossbore safety program, and a contract for electric overhead maintenance. The FY 2020 CIP Budget totals \$49.6 million or \$20 million for the electric fund, \$16 million for the water fund, \$3.7 million for the gas fund, \$1.5 million for the fiber, and \$8 million for the wastewater fund. Initiatives for FY 2020 are gas and wastewater cost of service studies, electric vehicle (EV) charger installations, a Recycled Water Strategic Plan, Fiber-AMI design, upgrade of the Colorado Power Station, water main replacement project 27, transmission repair at Old Page Mill, replacement of the Corte Madera Reservoir, replacement of sanitary sewer 28B, and extension of fiber from Dahl to Montebello. Within the electric fund, staff proposes an 8% rate increase, revenues of \$169 million, expenses of \$182 million, an operations reserve of \$32 million, and a CIP budget of \$20 million. Within the fiber fund, staff proposes a Consumer Price Index (CPI) increase of 4.5% for EDF-1 rates for pre-September 2006 customers, revenues of \$5.5 million, expenses of \$4 million, operations reserves of \$33 million, and a CIP budget of \$1.5 million.

Chair Danaher noted reserves are five to six times annual revenues. Yuan advised that reserves are growing approximately \$4 million a year, but growth will drop to \$2 million a year because of plans for more CIP projects.

In reply to Commissioner Segal's question about half the fiber employees being allocated for customer service, Yuan explained that a portion of customer service staff is allocated to fiber because each fiber customer is billed manually. Customer service staff includes operations and engineering staff. The contribution for unfunded liabilities and allocated charges has been budgeted to the fiber customer service cost center rather than distributed across all divisions.

In answer to Councilmember DuBois' query about flat fiber revenues year to year, Yuan indicated fiber has not gained any new customers, and rates have not changed.

Vuong further advised that within the gas fund, staff proposes a 5% rate increase, revenues \$49 million, expenses of \$44 million, operations reserves of \$19 million, and a CIP budget of \$3.7 million.

In response to Councilmember DuBois' inquiry regarding gas reserves not increasing, Yuan clarified that the revenues should be \$39 million rather than \$49 million.

Vuong continued the presentation, stating within the wastewater fund, staff proposes a 7% rate increase, revenues of \$23 million, expenses of \$27 million, and operations reserves of \$4 million.

In reply to Vice Chair Schwartz's query about increasing reserves, Jonathan Abendschein, Assistant Director of Resource Management, reported the figures are retrospective while plans are prospective. Some reserve funds are increasing. Commissioner Johnston remarked that the budget shows expenses exceeding revenues in all funds except fiber. Yuan explained that staff used reserve funds to reduce the rate increases.

In answer to Commissioner Forssell's question about pension and OPEB reserves, Abendschein indicated the reserves represent the unfunded pension and other benefit liability for retirees. Pension issues for Utilities are different from issues for the General Fund because Utilities salaries are a much lower percentage of overall costs.

Vuong further stated within the water fund, staff proposes a rate increase of 1%, revenues of \$50 million, expenses of \$59 million, operations reserves of \$34 million, and a CIP budget of \$16 million.

Commissioner Forssell commented that slide 9 and page 81 show different electric fund operations reserves. Yuan clarified that one is composed of operations and hydroelectric. With hydroelectric, operations reserves fall within the guideline range.

Vuong further reported since January the number of vacant positions has decreased from 44 to 31 positions. Staff is developing recruiting strategies and attending career fairs. In addition, the new SEIU contract increases compensation for difficult to fill positions.

In response to Commissioner Forssell's inquiry regarding the timing of the SEIU contract with the UAC workforce discussion, Yuan advised that terms of the contract were not public knowledge at the time of the discussion.

Vuong concluded the presentation by reporting staff is working on the My Utilities Account portal, the AMI business plan, and Geographical Information System (GIS) and Enterprise Resource Planning (ERP) upgrades. Staff has implemented several tasks of the Utility Strategic Plan.

Vice Chair Schwartz understood the Customer Information System (CIS) had to be upgraded before the ERP. Yuan indicated ERP will be upgraded first because the vendor no longer supports it. The CIS upgrade has been delayed by three to four years, and staff is looking at moving AMI forward a couple of years.

In reply to Commissioner Segal's question about retention of commercial dark fiber customers due to anticipated changes in the market, Yuan advised that the statement refers to retaining customers as Comcast and AT&T upgrade their networks. Staff is working on strategies to retain and attract commercial customers.

In answer to Commissioner Johnston's query regarding displacing cheap power with more expensive renewable power, Abendschein reported the conversion from less expensive fracked gas to more expensive renewable power concluded in 2018. One more contract will come online, but it will be offset by the expiration of other contracts. Major drivers for the rate increase are revenues have not caught up to cost increases, capital investment, load decreases, and transmission cost increases.

In response to Chair Danaher's inquiry regarding electric initiatives that were subject to discretion and that have a budget impact, Yuan indicated new initiatives are EV adoption to meet Sustainability and Climate Action Plan (S/CAP) goals and the upgrade of the Colorado Power Station. Abendschein added that other initiatives with a budget impact are rebalancing the electric portfolio and a number of sustainability and efficiency measures.

In reply to Commissioner Segal's question about CIP projects planned for FY 2020 that were delayed because of budgetary constraints, Yuan reported staff deferred underground rebuild projects.

In answer to Chair Danaher's query regarding a second transmission line, Yuan advised that a second transmission line is not a part of the FY 2020 budget, but funds for it have been set aside in reserves.

In response to Vice Chair Schwartz's inquiry about using the existing transformer from the Colorado Station as a spare part, Yuan stated staff decommissioned it because it was badly broken.

Abendschein reported discretionary items that are actionable on a short timeline are relatively small. Items with larger impacts happen over a longer period of time, such as replacing aging infrastructure and rebalancing the electric portfolio. The UAC will discuss those over the next year. Chair Danaher believed discretionary items should be discussed during the year before they are included in the budget. Abendschein related that staff has accelerated rates forecasting so that Assistant Directors have information to prepare their budgets. The UAC focus on workforce had a lot of impact. The SEIU contract will have a budget impact, but the contract is a positive and important investment.

Herb Borock commented that crossbore projects appear to be funded from the gas fund when only 1% of gas mains are affected by crossbores. With respect to the AMI project, it would make more sense to make decisions on the project as a whole instead of piecemeal.

In reply to Chair Danaher's inquiry about the UAC discussing rates more accurately reflecting pension accruals, Councilmember DuBois stated the enterprise funds are covering additional contributions to pensions. The Council is discussing pension contributions, and it may not be worth UAC discussion.

Chair Danaher noted the fiber reserve at \$36 million is either too big or a source for funding fiber to the node. In answer to Chair Danaher's queries regarding discretionary items for the gas and water funds the UAC should have considered, Yuan indicated the crossbore program, the pace for replacing mains, and the reservoir tank replacements. In reply to Chair Danaher's question of whether recycled water initiatives would be in the water fund, Abendschein replied most likely.

In answer to Commissioner Segal's inquiry regarding the goal to reduce water usage by 20% by 2020, Yuan explained the 1% is a single-year accomplishment while the 20% reduction is cumulative. Abendschein added that the staff achieved the 20% reduction by 2020 goal a few years ago. The State is establishing a new set of efficiency goals and regulations, which staff will review. Commissioner Segal cautioned staff to be sensitive to the disproportionate impact to residents who pay more even though they comply with water conservation measures, should new conservation measures be promulgated.

Vice Chair Schwartz remarked that leak detection, as a function of AMI, will eliminate unexpectedly high water bills for customers.

Chair Danaher noted the UAC did not form a subcommittee to review the proposed budget, which should be done annually.

In response to Councilmember DuBois' query regarding handling of the refuse and wastewater funds, Yuan reported Public Works handles those.

ACTION: Commissioner Johnston moved to recommend that the City Council adopt the Proposed Operating and Capital Budgets for the Utilities department for Fiscal Year 2020. 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 Commissioner Trumbull absent.

ITEM 4: DISCUSSION: Update and Discussion of Fiber and AMI Planning.

Dave Yuan, Strategic Business Manager, reported a Council update is scheduled for June. Staff is expanding the scope of work for the Request for Proposal (RFP) for cross-utility integration.

ACTION: None

In response to Mr. Borock's comments, Chair Danaher advised that the UAC reviewed AMI comprehensively in 2018. Vice Chair Schwartz added that utilities have implemented AMI with backend systems installed first and with meters installed first. Installing the backend system first can provide benefits from day one, but replacing aging equipment has benefits.

Commissioners and Councilmember DuBois requested agenda items for the DOE document regarding AMI benefits; a joint meeting with the Council; revising the strategy for promoting solar energy; expanding the Carbon Neutral Gas Plan to account for methane leakage; an update regarding revisions to regulations for undergrounding districts; Regional Water Quality Control Plant vulnerability to sea level rise; a presentation from Professor Luthy regarding storm water recycling; and an analysis of the cost effectiveness of energy efficiency spending programs.

NEXT SCHEDULED MEETING: June 5, 2019

Meeting adjourned at 7:44 p.m.

Respectfully Submitted
Tabatha Boatwright
City of Palo Alto Utilities