UTILITIES ADVISORY COMMISSION VIRTUAL MEETING
MINUTES OF MAY 20, 2020 SPECIAL MEETING

CALL TO ORDER
Chair Danaher called the meeting of the Utilities Advisory Commission (UAC) to order at 9:02 a.m.

Present: Chair Danaher, Vice Chair Forssell, Commissioners Jackson (joined at 9:05), Johnston, Scharff, Segal, Smith
Absent: None

ORAL COMMUNICATIONS
None.

APPROVAL OF THE MINUTES
Commissioner Segal requested the deletion of "even though she would prefer a higher rate increase" from her comments at the top of page 6.

Commissioner Scharff moved to approve the minutes of the April 15, 2020 meeting as amended. Commissioner Johnston seconded the motion. The motion carried 6-0 with Chair Danaher, Vice Chair Forssell, and Commissioners Johnston, Scharff, Segal and Smith voting yes, and Commissioner Jackson absent.

AGENDA REVIEW AND REVISIONS
None.

REPORTS FROM COMMISSIONER MEETINGS/EVENTS
Commissioner Smith reported Commissioner Jackson and he attended the Finance Committee meeting, discussed the sale of Bucket 1 Renewable Energy Certificates (RECs), and requested the Finance Committee review the sale of Bucket 1 RECs again during the meeting.

UTILITIES DIRECTOR REPORT
Dean Batchelor, Utilities Director, delivered the Utilities Director’s Report.

Utilities Rate Assistance and Payment Relief for Residential and Commercial Customers – When the coronavirus (COVID-19) shelter in place public health order took effect, Utilities expanded payment relief and rate assistance programs to help our residential and commercial customers. We want to ensure the lights stay on and the water continues to flow for customers experiencing financial challenges during this time. The City’s proclamation of a local emergency in March instituted a moratorium on disconnections for non-payment, late payment fees, and full-bill payment requirements. Customers can make partial payments without penalty and without risk of disconnection for non-payment. The total of missed payments (except late fees, which will be waived in their entirety) will continue to be owed, but customers will be eligible for an extended payment plan of up to 18 months from the proclamation termination.
Residents may qualify for our Rate Assistance Program, which provides a 25% discount on gas and electricity charges and 20% discount on storm drain service fees. Both residential and commercial customers can equalize their monthly bill payment into twelve equal amounts through our Bill Payment Plan. Another helpful resource is ProjectPLEDGE, which allows commercial and residential Utilities customers in good standing with their own accounts to donate funding on a one-time or recurring basis to help another resident in Palo Alto. Residents who are struggling to pay their utility bills may apply to this program for one-time assistance. Details for anyone wishing to donate or apply for the program can be found at cityofpaloalto.org/projectpledge.

Utilities Customer Service can help answer questions associated with any of these payment relief and rate assistance programs. Customer support is available through the call center at (650) 329-2161, the MyCPAU online customer account service, or by email at UtilitiesCustomerService@cityofpaloalto.org.

**Outreach** – CPAU has stepped up outreach about these financial assistance programs in an effort to get the word out to anyone needing help during this difficult time. This information is being shared in community email updates, on the Utilities and cityofpaloalto.org/coronavirus websites, in social media, and utility bill inserts, including one currently running during the month of May.

**Modifications to Utilities Programs** – In accordance with the County order lifting restrictions on construction activities, some energy efficiency projects are resuming. Examples of allowed activities include commercial energy efficiency projects, solar installations, EV charger installations, and other work that does not require staff or consultant visits inside occupied residential dwellings. The County’s construction protocols must be followed. Large projects in spaces over 20,000 feet of floor space require one set of protocols be followed: https://www.sccgov.org/sites/covid19/Documents/appendix-b-2-lg-project-04-29-2020.pdf. Small project in spaces less than 20,000 square feet require a different set of protocols: https://www.sccgov.org/sites/covid19/Documents/appendix-b-1-sm-project-04-29-2020.pdf.

Although all visits inside occupied residential dwellings are temporarily on hold, many Utilities programs have been modified to continue to provide value to the community. The Home Efficiency Genie, one of Palo Alto’s most popular offerings, is available for phone consultations. Refrigerator recycling is available via curbside pickups. Customers may join waitlists for our low income and multifamily energy assistance programs. Heat pump water heaters may be installed if there is a health and safety issue caused by lack of a working water heater. Water conservation activities administered by Valley Water are also available through Do-It Yourself Home Water Survey Kits which can be mailed to customers and are accessible online. Customers may join a waitlist for Waterwise Outdoor Surveys. Rebates that do not require pre-inspection measurements, such as weather-based irrigation controller rebates, irrigation equipment, or rainwater capture components may be processed and approved without a site visit. Also, due to the shelter in place public health order, all Utilities events and workshops have been canceled until further notice.

**Saving Energy and Water While Sheltering in Place** – Staff are committed to finding additional ways to innovate and expand energy and water related programs in the shelter in place environment. Recognizing that unprecedented numbers of people are working and studying from home and will likely experience increased costs on their utility bills, we have been running a social media campaign to share tips and tricks for saving energy and water and making the home environment more comfortable.

**MyCPAU is Here!** CPAU has fully launched our new online utility account management system, MyCPAU for our residential and business utility customers. MyCPAU offers new features and functionalities so customers can easily manage their utility account services online. MyCPAU has replaced our former My Utilities Account customer site, and the My Utilities Account site has been discontinued. Customer account information was automatically migrated to the new MyCPAU site. To inform customers of this, we send out email notices with a temporary password and instructions for registering on the new site. We are also providing outreach through utility bill inserts, email newsletters, printing info on utility bills, mailing postcards to everyone in Palo Alto, and sharing through social media, including with a new announcement video. Our Customer Service
Representatives stand ready to answer any questions and help people use the new site. Thank you to those of you who helped us with the soft launch beta testing and shared feedback to help us improve this service. Your input was helpful, and we encourage you to continue sharing feedback.

COMMISSIONER COMMENTS
In response to Commissioner Segal’s inquiry about the recent power outage near the Community Center, Dean Batchelor, Utilities Director, advised that the outage occurred after hours, and a crew was called to replace a bad transformer.

Councilmember Cormack announced the Bay Area Water Supply and Conservation Agency (BAWSCA) has launched virtual landscape classes. The public can register for classes at bawsca.org.

UNFINISHED BUSINESS
None.

NEW BUSINESS
ITEM 1: DISCUSSION: Update and Discussion of the COVID-19 Health Emergency and the City’s Response.
Dean Batchelor, Utilities Director, shared modifications to public health orders, new shifts for operational crews, symptom checks for employees, resumption of meter reading, and number of staff working onsite and remotely.

ACTION: None

Jonathan Abendschein, Assistant Director of Resource Management, reported the Utilities Department is heavily involved in the carbon-reducing aspects of the Sustainability and Climate Action Plan (S/CAP). In April, the Council directed staff to present amended goals and key actions for the S/CAP. Staff requests the UAC’s feedback regarding goals and key actions that would be useful or productive in achieving carbon reduction goals. Technical feasibility rather than cost or difficulty of implementation should be the criterion for suggestions.

Christine Luong, Sustainability Manager, reviewed S/CAP components and focus areas, the proposed update process, and a timeline of S/CAP events. Not counting natural gas offsets, emissions are down about 36%. Road transportation accounts for 64% and natural gas about 32% of the remaining emissions. Counting offsets, emissions are down about 56% with road transportation accounting for 94% of the remaining emissions. The City needs to reduce about 300,000 metric tons (MT) of CO₂ equivalent in order to reach the 80% reduction by 2030 goal. Natural gas consumption has not changed much since 2013. The community has provided feedback on proposed goals and key actions. AECOM will prepare an impact analysis of suggested goals and key actions. The Council will provide input regarding the updated goals and key actions on June 8.

In response to Chair Danaher’s questions about Council study sessions and the impact analysis, Luong advised that the Council has received an informational report and held a study session on April 13. The Council will review updated goals and key actions on June 8 and the impact analysis and all proposed key actions in the fall. The impact analysis will provide the dollars per ton of carbon avoided and a breakdown of natural gas usage by type of customer and by appliance, space heating, and water heating.

Commissioner Jackson suggested if complete electrification of Palo Alto at some future time is a goal, information should state explicitly that as a consequence there will be no natural gas and the City will not sell natural gas. Additional suggestions are to consider banning any new installation of natural gas-based appliances and implementing on-bill financing of heat pump water heaters, HVAC units, and induction cooktops. In reply to his question about the goal of facilitating 50% of vehicles owned by low-income
households to be electric vehicles (EV) by 2030, Shiva Swaminathan, Senior Resource Planner, explained that the object of the goal is to have 50% of low-income households own and drive EVs. The Low Carbon Fuel Standard program provides funding for EV incentives and requires almost 50% of funds received to be devoted to low-income customers beginning in 2023. City of Palo Alto Utilities (CPAU) is allowed to define low-income households. Commissioner Jackson believed CPAU should facilitate the availability of EV charging to low-income households and multifamily residences. Abendschein added that staff is wrestling with ways to encourage EV purchases. Commissioner Jackson expressed strong support for implementing an all-electric utility rate.

Commissioner Smith agreed with Commissioner Jackson’s comments. An additional reduction of 118,000 MT of CO₂ emissions from mobility is a big target. He asked how CPAU is poised to implement mobility-related measures that have been defined as opportunities, assuming the rates effective July 1, 2020 remain in place for the next two to three years. Swaminathan indicated currently 300,000 MT is associated with transportation, and 80% of 300,000 MT is 240,000 MT. Of the 300,000 MT related to transportation, about half is attributed to residents and half to nonresidents traveling within the City. The goal is more like a reduction of 240,000 MT. Staff, the community, and outside agencies define 300,000 MT as 1 billion vehicle miles traveled (VMT). The question is how to reduce the VMT of gasoline-powered vehicles to 80%. The City can utilize transportation demand management (TDM) programs to impact nonresidents’ travel within Palo Alto. Funding for EV charging in general over the next three years totals about $8 million, most of which comes from the Low Carbon Fuel Standard program. Most of the funds have been dedicated to multifamily residential, not-for-profit, and mixed-use properties. Telecommuting is another strategy for emissions reduction. Residential customers can be divided into multifamily and single-family homes. The City has 15,000 single-family homes and 10,000 multifamily homes. Based on a community survey and community engagement, staff has not dedicated any funding to EV chargers for single-family homes. In 2020, 20% of funding will be allocated to the Clean Fuels Rebate program, which offers rebates of $1,000-$2,000 per EV. In 2023, 50% of remaining funding will be allocated to low-income EV purchases. In answer to Commissioner Smith’s query regarding the impact of the health emergency on the stability of funding from the Low Carbon Fuel Standard program, Swaminathan advised that the City has already received about $4 million, but staff anticipates the amount of funding will decrease in the short term. Abendschein added that in July the UAC will hear about near-term programs. A straightforward role for the City is to build an EV charging network, and a number of programs focus on that. Commissioner Smith reiterated that the reduction goal is tremendous, and there is not sufficient funding to reach the goal.

In reply to Commissioner Scharff’s inquiry regarding eliminating gas offsets or educating the community as to their value, Dean Batchelor, Utilities Director, reported Staff recommended the Council eliminate the gas offset program as a cost-cutting measure because of the community’s negative perception of gas offsets. In response to Commissioner Scharff’s query about the purchase of gas offsets funding carbon reductions elsewhere, Abendschein related that staff purchases offsets that have not been approved by the California Air Resources Board (CARB) but could be approved by CARB if staff submitted them for approval. Generally, purchase of the offsets funds programs such as destruction of refrigerant and preservation of forests. The community has expressed concern that relying on offsets to achieve the 80% by 2030 goal is not sustainable and reduces the urgency of achieving goals. Luong added that the overwhelming feedback from the community is offsets were always meant to be a bridging strategy. Commissioner Scharff remarked that the community accepts RECs but not gas offsets. Incentives help the City move incrementally toward its goal, but they probably will not achieve the goal. He wanted to know the impact of telecommuting on the City’s progress if telecommuting continues after the public health orders are lifted. Abendschein indicated AECOM’s analysis will include needed trip reduction and EV penetration. Incentives are a part of the solution but not the solution. CPAU has little ability to incentivize the purchase of EVs or telecommuting for nonresidents, but staff will share some new ideas with the UAC on June 8. Commissioner Scharff suggested staff educate the community regarding gas offsets if they effectively reduce carbon emissions. Luong reported the Carbon Disclosure Project and the ICLEI Protocols allow offsets in GHG reporting. The Bay Area Air Quality Management District (BAAQMD) conducted a study that found traffic in the Bay Area has
decreased 50%-85% since the shelter-in-place order was instituted. The traffic reduction is equivalent to a 20%-30% reduction in CO₂ equivalents.

Chair Danaher commented that individuals within the community may share and express the same opinion, but that should not be misconstrued as the community having a single voice.

Vice Chair Forssell observed that companies have found that if they build EV chargers, the vehicles come. The goal of ensuring adequate numbers and types of EV chargers to support the growing number of EVs could be phrased more assertively such that the goal is framed as building out public charging in advance of EV adoption. Perhaps the City could provide a carshare service such as Zipcar as a means to provide electric mobility to people who live or work in Palo Alto. The City could explore a partnership with Uber and Lyft if there is some opportunity to facilitate electrification of those fleets. In answer to her query regarding electrification of the City fleet, Swaminathan advised that the City has about 700 vehicles in its fleet, and about 250 of those are light-duty vehicles, which are amenable to electrification. The Public Works Department has committed to replacing gas vehicles with EVs when they reach their end of life unless there is a compelling reason not to do so. Staff is in the process of assessing the budgetary impact of that. With respect to the Zipcar concept, staff has approached some low-income programs to fund Zipcars parked on low-income properties. Property managers at some locations were worried about liability and not enthusiastic about the idea. Staff continues to pursue that type of idea. Vice Chair Forssell suggested parking EVs on City-owned property near low-income housing. Commissioner Jackson's comments about the gas utility and goals for gas usage are intriguing. The key action to explore electrification of City-owned facilities could be to electrify City-owned facilities. She supported an all-electric utility rate. In answer to her question regarding industrial processes in the City that use natural gas, Chair Danaher noted laundromats utilize gas dryers. Abendschein indicated a few industrial processes are located in the City, but the number decreases every year. Natural gas is used in facilities such as hospitals and large plants where heat pump technology is not available. It may not be necessary to electrify 100% of the City to achieve the carbon goals.

Commissioner Segal noted the community feedback indicated a lack of understanding of the goal to increase active transportation mode share and encouraged staff to draft goals free of jargon. She expressed concern that it will be a long time before shared transportation returns to pre-pandemic levels. In reply to her inquiry about possible reasons for virtually no change in progress towards goals since 2013 except for offsets, Abendschein indicated programs are not as impactful as staff would like, but they do have some impact. Efficiency programs have had significant impacts over the last several years. However, the impacts have gone towards offsetting load growth in utilities. Commissioner Segal wanted to understand whether staff could use existing levers, over which the City has some control, more assertively to increase emissions reductions because funding may not be available for incentives in the short term. Programs that spread out the cost of electrification for customers would be great. Staff should consider all opportunities to make EV adoption easier for customers interested in EVs.

In response to Commissioner Johnston's query regarding group-buy opportunities for EVs, Abendschein indicated the annual SunShares program is an EV group-buy opportunity for the community, but the scale needs to increase to accelerate EV adoption. Commissioner Johnston agreed that the main action for EV adoption is increasing access to EV chargers. In response to his question regarding use of biogas, Abendschein reported the use of biogas is technically feasible, but it is costly and the supply is limited.

Hiromi Kelty, Resource Planner, advised that CPAU offered a new EV group-buy opportunity through Drive Clean Bay Area in 2020. Unlike the SunShares program, Drive Clean Bay Area offers all EV models. Commissioner Johnston believed widespread advance notice would be key in generating interest in the event.

Councilmember Cormack related that questions raised by Commissioners will have to be presented to the Council. AECOM's work will be important in answering questions. She wanted to focus on goals and actions
in the categories of energy, mobility and EVs. Continuing the sale of natural gas is another major question. Fundamentally, key actions and goals will be based on costs.

Chair Danaher indicated in a few years the majority of EVs should be electric bikes, scooters, and other micro mobility, which are the most effective way to reduce energy consumption. In addition, group buys could benefit students, low-income people, and residents in multifamily dwellings. There should be crowd sourcing of data and suggestions. EV adoption is dependent on chargers, and the UAC's monthly or quarterly report should track the number of chargers in the City. Staff should more aggressively seek third-party chargers. Projects are working on the production of carbon-neutral gasoline at competitive prices, and it may be available in the next few years. The Cap and Trade program is the most economically sensible approach to reducing carbon. The City's carbon footprint is not limited to emissions in Palo Alto because the manufacturing of goods utilized in the City occurs outside the City. Offsets are a viable approach to reducing emissions and should be an important part of policy. He wanted to review cost-benefit data for space heating, water heating, and cooking because funding may not be utilized cost effectively. On-bill financing for EVs and appliances should be a priority. Automated Metering Infrastructure (AMI) should not be delayed. With increased telecommuting and online shopping, Fiber to the Premises (FTTP) should be accelerated. The difficulties of permitting solar and EV infrastructure should be addressed. The water program has to consider efficiency and water reuse as well as supply sufficiency.

**ACTION:** None

**ITEM 3:** DISCUSSION: Discussion of Accounting for Leaked Natural Gas in Palo Alto Greenhouse Gas Emissions. Vice Chair Forssell reported leaks occur throughout the natural gas system. CPAU accounts for distribution leakage within Palo Alto only. The questions are whether CPAU should account for leakage throughout the system and whether the carbon accounting methodology should utilize a 20-year or 100-year time horizon for the global warming potential (GWP) of methane. CPAU currently uses a 100-year time horizon. A shorter time horizon is appropriate given the immediacy and urgency of climate change. Including leakage and a 20-year time horizon for the GWP will impact the GHG inventory significantly and might impact actions to lower the City's GHG footprint.

In reply to Chair Danaher's question about the impact of upstream leakage and changing the time horizon, Vice Chair Forssell explained that changing the GWP from 21 to 86 would increase emissions by approximately 20,000 MT. Including upstream leakage and changing the GWP would increase emissions by 158,000 MT.

In response to Commissioner Jackson's query regarding the impact of reporting natural gas emissions on staff resources, Jonathan Abendschein, Assistant Director of Resource Management, advised that an informational report to the UAC and Council would have a modest impact on staff, which could be absorbed in existing resources.

Commissioner Segal added that a 20-year time horizon would be a more accurate way to consider methane emissions. A 100-year time horizon appears to be used because of convention.

In answer to Commissioner Scharff's inquiries about the request for an informational report and the purpose of such a report, Vice Chair Forssell related that an informational report can raise the UAC's and the Council's awareness of the issue. The original thought was to suggest increasing the purchase of offsets to cover leakage, but this is not the right time for increasing expenditures. Awareness of increased emissions could change the priority of S/CAP action items. Commissioner Segal indicated an approach or a priority for reducing gas emissions has not been determined. Commissioner Jackson added that gas leakage is part of building a case against natural gas usage and for ending the Gas Utility. Chair Danaher stated a more complete view of gas emissions will aid the cost-benefit analyses of different spending measures for reducing GHG.
Lena Perkins, Senior Resource Planner, advised that these changes will affect the dollars per ton avoided for in-City programs versus out-of-state offsets.

**ACTION:** None

**ITEM 4:** ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend the City Council Adopt the Proposed Operating and Capital Budgets for the Utilities Department for Fiscal Year 2021 Report.

Dave Yuan, Strategic Business Manager, reported the fiscal year (FY) Utilities Proposed Operating and Capital Budgets contain minimal rate increases and commit to providing essential services. Due to the COVID-19 emergency, staff has amended the Proposed Budget to withdraw a request for two new positions and freeze five vacant non-critical positions. Staff proposes to recruit and fill critical positions in operations and engineering. Operating Reserve Fund balances are projected to exceed minimum guideline levels, and recommended 0% rate changes for most Utilities will have minimal impacts. In reviewing the Proposed Budget, the Council recommended 0% rate increases for the Electric, Water, and Wastewater Utilities, a 2% rate increase for the Gas Utility, and a 2.5% Consumer Price Index (CPI) rate increase for the Fiber Utility. With a reduction in the monthly gas service charge, the average residential customer will see a decrease in their monthly gas bill despite the rate increase. Residential customers with higher usage will see an increase in their monthly bill. Commercial customers will see a $250-$500 increase in their monthly bills depending on their usage. Staff anticipates a revenue loss of about $18 million in the Electric Fund due to the 0% rate increase and a load reduction; proposes to freeze 1.85 full-time equivalents (FTE) in vacant positions; recommends postponing non-critical electric underground rebuild projects; and proposes to reevaluate the purchase and sale of RECs.

In response to Chair Danaher's question regarding the loss due to load reduction and offsets for reductions in purchases, Yuan advised that the anticipated revenue loss does not include a $9 million offset for purchases.

Yuan continued his presentation, stating staff projects net revenue from the sale of in-state (Bucket 1) RECs and the purchase of out-of-state (Bucket 3) RECs over five years will total $16.735 million. The net revenue is based on current hydroelectric generation projections, load projections, and REC market prices. Because the California Energy Commission (CEC) does not consider out-of-state RECs an eligible renewable resource, CPAU's Power Content Label (PCL) will reflect 80-90% carbon-free energy.

In reply to Commissioner Jackson's query regarding the PCL, Yuan indicated the Electric Utility's emissions will be 100% carbon free even though the PCL reflects only 80%.

In answer to Commissioner Smith's questions about increasing the sale and purchase of RECs and a timeframe for realizing the projected net revenue for FY 2021, Yuan clarified that a policy change allows the purchase of Bucket 3 RECs. The market price will determine the amount of net revenue for FY 2021. Jim Stack, Senior Resource Planner, indicated the State has not relaxed its requirements for the use of in-state RECs. Prior to the pandemic, the State discussed requiring all in-state RECs. With each month that passes, CPAU loses the opportunity to sell RECs and earn the projected revenue.

In response to Commissioner Jackson's inquiry regarding delaying the sale of July and August RECs, Stack explained that once CPAU generates RECs, it can sell them as Bucket 3 RECs only. Bucket 1 RECs have to be sold prior to their generation. Bucket 1 RECs provide the most profit. To realize the projected revenue of $3.8 million for FY 2021, the Council would have to amend the Carbon Neutral Plan in June so that July RECs could be sold as Bucket 1 RECs by the end of June. A two-month delay could result in the loss of around $1 million in potential revenue. Jonathan Abendschein, Assistant Director of Resource Management, indicated amendment of the Carbon Neutral Plan has not been agendized, but a motion to recommend the City Council approve the budget could include a direction to staff to pursue the program. Given the lead times for staff reports, staff may not be able to present an amendment to the Carbon Neutral Plan to the UAC in June, which means the Council would not consider an amendment until September.
In reply to Commissioner Segal's query about the UAC's previous consideration of amending the Carbon Neutral Plan, Abendschein related that the previous discussion pertained to the sale of surplus RECs. A motion directing staff to pursue an exchange of RECs below the surplus as part of the budget could accomplish a Carbon Neutral Plan amendment before July.

In answer to Councilmember Cormack's inquiry regarding legal review of the proposal, Abendschein indicated the proposal is subject to a number of internal reviews, which includes review by the City Attorney.

Commissioner Smith liked the policy of exchanging RECs because it provides an option for the Council and staff to further electrification efforts via a funding source other than the State or Federal governments. In a year's time, when the health emergency has hopefully ended, the Council could reverse the policy.

Yuan further stated projections for Electric Operation Reserves at the end of FY 2021 are slightly below target levels. Under the projections, the Electric Utility can maintain services, invest in critical infrastructure, provide customer support, promote efficiency programs, and continue implementation of S/CAP programs and capital improvement projects. The majority of Fiber Utility customers will not be affected by the 2.5% rate increase. Projected ending Reserves for the Fiber Utility are $34 million. Staff proposes to freeze 0.25 FTE in vacant positions and increase funding for the Fiber Optics Network Rebuild project. A design contract for the Fiber Optics Network Rebuild project will be presented to the Council for approval in June.

In answer to Chair Danaher's inquiries regarding the phasing of the project, Yuan indicated Phase 1 for analysis and design will extend for about six months. Phase 2 for construction will take six to nine months. Phases 3 and 4 will study FTTP and will be presented to the UAC in about a year.

In response to Commissioner Smith's query about installation of a portion of AMI in FY 2021, Yuan advised that the Request for Proposals (RFP) will close in mid-June, and contracts may be awarded by the beginning of calendar year 2022. Dean Batchelor, Utilities Director, added that fiber will be installed with AMI collectors because fiber will transmit data from the collectors to the billing system. Shiva Swaminathan, Senior Resource Planner, clarified that data can be transmitted via fiber or the cellular network, which is the default method. Fiber provides a robust and secure connection.

Yuan continued his presentation, stating a $3 million reduction in the Gas Utility will be needed to maintain Reserves. Staff proposes to reduce the scope of the gas main replacement project, freeze 1.15 FTE in vacant positions, and postpone the gas meter replacement project. Gas Operation Reserves are projected to fall slightly below target levels at the end of FY 2021. The Gas Utility will maintain the cross-bore safety inspection program, continue the main replacement project, increase the frequency of Citywide leak surveys, and evaluate and elevate gas meter testing.

In answer to Commissioner Segal's inquiry regarding meter testing, Batchelor related that meters will be tested for accuracy and leakage.

Yuan further stated staff proposes to reduce the scope of future sewer main replacement projects and the sewer sanitary rehabilitation project in the Wastewater Collection Utility. Bond financing of capital projects is an option if construction costs decrease during a recession. The Wastewater Collection Operation Reserve is projected to fall below the target level at the end of FY 2021. Staff will complete the cost of service study, continue to assess and design future sewer main replacement projects, procure a new mobile management software system, continue the sewer system rehabilitation, and purchase new construction equipment. In the Water Utility, staff proposes to freeze 1.15 FTE in vacant positions, postpone water meter replacement, and evaluate and elevate water meter testing. The Water Operation Reserves are projected to reach the reserve maximum at the end of FY 2021. The Water Utility expects revenue losses due to reduced consumption and flat rates for two years. The seismic water tank replacement and water main replacements projects will continue.
Bret Andersen remarked that amending the Carbon Neutral Plan will be a notable change because there is a qualitative difference between Bucket 1 and Bucket 3 RECs. He understood revenues generated from the sale of RECs would be used for electrification projects.

Commissioner Johnston commended staff for softening the impact of budget constraints on customers. He concurred with modifying the Carbon Neutral Plan to reduce the impact of the pandemic.

Commissioner Smith recalled the UAC's discussion of RECs in February. Given the economic impacts of the pandemic and the goal of a carbon-free Palo Alto, helping the City find revenue to accomplish goals is logical.

Commissioner Scharff believed some of the proposals for the Gas Utility requires direction from the City Council. The majority of savings are obtained through reducing the gas main replacement project. He questioned staff not proposing bond financing for capital projects when the projects involve safety and the Gas Utility will not be eliminated in the next ten years. Batchelor noted the Council raised the same issues, and the Council probably recommended a 2% rate increase in order to fund capital projects. Gas leaks are minimal, and testing for leaks will continue. Bond financing remains an option for capital projects. Funding could be taken from the Reserves, but he preferred not to do that. Commissioner Scharff supported the use of carbon offsets for the Gas Utility. Without the offsets, the Gas Utility will not be carbon neutral. In answer to his question regarding alternatives to eliminating the offset program, Batchelor indicated funding for the program could be taken from Reserves or capital projects could be reduced further.

At Chair Danaher's request for an explanation of bond financing, Yuan reported multiple utilities may seek financing. Developing a bond offering typically takes about three to four months. Abendschein added that the minimum amount is usually $5 million, but staff should evaluate $10 million. Financing would be across multiple utilities, but each utility has to pay its share of debt service costs. Chair Danaher proposed staff evaluate bond financing to accelerate capital projects and save on construction costs. Eliminating the offset program could send the message that the City will neglect environmental goals to fill budget shortfalls.

In reply to Commissioner Segal's queries about using bond proceeds to pay off existing debt and customer connections, Yuan was not sure the proceeds could be used for existing debt, but the existing debt could be refinanced in the new offering. CPAU could save money by refinancing the existing debt, and staff will evaluate that. Batchelor explained that customer connections are revenue neutral because the customer pays a fee for a first-time connection to a building or residence. Yuan clarified that the utility bears a portion of the cost if improvements to the system are made at the same time as the connection. Batchelor reported before internal crews bore for any type of new service, they have to inspect the sewer line with a video camera to ensure it was not bored into. All capital projects for replacement services require contractors to record inspections of sewer lines to prove cross-bores have not occurred. Commissioner Segal suggested FTTP could be part of a carbon reduction program as it is important for telecommuting. Yuan advised that a new study will evaluate combining undergrounding, fiber, and electrification into one package for neighborhoods. In answer to Commissioner Segal's inquiry about the number of customers seeking bill assistance, Yuan indicated the number of customers applying for assistance has increased but not as much as staff expected. Some customers have submitted incomplete applications. Staff has asked customers inquiring about payment arrangements to inquire again when the emergency ends and the total balance due is known. Donations to ProjectPLEDGE have increased. The number of past-due residential bills has declined significantly probably because MyCPAU reminds customers of due dates. Staff anticipates the number will continue to decrease. The number of past-due commercial bills has increased. Commissioner Segal concurred with comments not to eliminate the gas offset program.

Commissioners reached consensus to continue the gas offset program. Commissioner Smith preferred to fund the offset program with proceeds from the sale of Bucket 1 RECs. Commissioner Johnston qualified his support based on Staff finding funding for the program.
Commissioners supported bond financing as a means to fund and perhaps accelerate capital projects, particularly FTTP. Commissioner Smith noted civil infrastructure contractors continue to be extremely busy; therefore, he did not anticipate a decrease in construction costs.

Commissioners supported a policy change to sell Bucket 1 RECs and purchase Bucket 3 RECs to meet the full load. Vice Chair Forssell emphasized the importance of framing the issue as replacing Bucket 1 RECs with Bucket 3 RECs, which are legitimate carbon-reducing entities. Commissioner Johnston hoped the Electric Utility could return to purchasing Bucket 1 RECs to cover load. Commissioner Segal concurred with Commissioner Johnston and expressed concern that a drought would reduce potential revenue. Batchelor advised that the policy would not become effective in June because the Council would have to discuss the issues and understand that technically the Electric Utility would be carbon neutral but not from a State perspective. In addition, the Council's break is scheduled for July.

Councilmember Cormack acknowledged the fast pace of changes and the inability to study topics in detail. The use of Reserve Funds is appropriate. The Council pushed Director Batchelor hard regarding the gas rate increase, and he admitted the cross-bore and main replacement projects could continue with a 2% rate increase. She did not believe reducing the scope of the projects would create safety issues. She inquired about restrictions on the use ofBucket 1 sale proceeds. Abendschein reported funds associated with the Electric Utility may only be used within the Electric Utility. Otherwise, there are no restrictions on the use of sale proceeds unless the Council establishes restrictions. Councilmember Cormack emphasized that sale proceeds cannot fund General Fund expenditures.

**ACTION:** Commissioner Smith moved to recommend the City Council 1) adopt the Proposed Operating and Capital Budgets for the Utilities Department for Fiscal Year 2021 with an amendment to reinstate the natural gas offset program and 2) amend the Carbon Neutral Plan to sell Bucket 1 Renewable Energy Certificates and purchase Bucket 3 Renewable Energy Certificates. Commissioner Scharff seconded the motion. The motion carried 7-0 with Chair Danaher, Vice Chair Forssell, and Commissioners Jackson, Johnston, Scharff, Segal and Smith voting yes.

**ITEM 5: ACTION:** Selection of Potential Topic(s) for Discussion at Future UAC Meeting.
Chair Danaher requested a discussion of bond financing and updates regarding market rates for capital projects and a discussion of accelerating the FTTP project. Dean Batchelor, Utilities Director, remarked that accelerating the FTTP project is unlikely because a new RFP will be required. The selected contractor is capable of doing a high-level design, which will require six to nine months. The Council will then have to approve the design and construction, which is Phase 2. Chair Danaher clarified that the contractor should proceed with design. A detailed discussion of FTTP could surface new ideas. Commissioner Jackson added that the discussion could be preparation for Phases 3 and 4 of the projects.

Vice Chair Forssell requested gas leakage return as an action item.

Commissioner Scharff requested discussions of the S/CAP, gas offsets, gas leakage, the future of the Gas Utility, and goals for electrification. Chair Danaher suggested the discussion follow receipt of AECOM's analysis of S/CAP goals and actions. Commissioner Segal requested the discussion include the City's or CPAU's ability to mandate behavior versus incentivize and encourage behavior. Jonathan Abendschein, Assistant Director for Resource Management, advised that S/CAP goals and key actions following the Council discussion in June could benefit the discussion. Over the summer, staff will conduct some preliminary analyses of the impacts of rapid decarbonization on the Gas Utility. August or September could be a good time for the discussion.

Chair Danaher noted agenda items for water and AMI are scheduled for June.

**ACTION:** None
NEXT SCHEDULED MEETING: June 17, 2020

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

Meeting adjourned at 12:38 p.m.

Respectfully Submitted
Tabatha Boatwright
City of Palo Alto Utilities