



DRAFT

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF FEBRUARY 3, 2016

CALL TO ORDER

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

Present: Chair Foster, Vice Chair Cook, and Commissioners Ballantine, Danaher, Eglash, Hall, and Schwartz

Absent: Council Liaison Scharff

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

Chair Foster moved to approve the minutes from the January 13, 2016 UAC meeting as presented and Commissioner Schwartz seconded the motion. The motion carried unanimously (7-0) with Chair Foster, Vice Chair Cook, and Commissioners Ballantine, Danaher, Eglash, Hall, and Schwartz voting yes.

AGENDA REVIEW AND REVISIONS

Chair Foster changed the order of the agenda items to accommodate staff schedules so that the New Business Item #1 (Update on Ongoing Preparation of a Sustainability/Climate Action Plan to Update and Replace the City's 2007 Climate Protection Plan) was moved up to just before the Reports from Commission meetings and events.

NEW BUSINESS

ITEM 1: DISCUSSION: Update on Ongoing Preparation of a Sustainability/Climate Action Plan (S/CAP) to Update and Replace the City's 2007 Climate Protection Plan

Chief Sustainability Officer Gil Friend provided a summary of the discussions at the January 24 Sustainability summit and the January 25 Council study session. He showed that ongoing actions will reduce GHG emissions, but new activities are needed to meet the large reductions that the state is contemplating. He showed a "waterfall" chart showing the different actions that would need to be taken to reduce emissions by 80%. The largest piece is replacement of gasoline-fueled vehicles with electric vehicles. He said that the analysis that supports these results will be part of the final report. He discussed the key actions that would be required under areas including mobility (transportation), energy, and water. For energy, electrification for building and water heating are key options. He said that rapid, short-cycle experimentation

and bundled services could be very effective. For water, capture of rainfall, reuse of water, onsite water treatment and usage are key actions. Energy initiatives include microgrids, smart grid initiatives, local renewable deployment, and the need to hedge against potential long-term changes in hydroelectric supplies. Rapid, innovative, and agile prototyping and deployment is essential to effective change.

Commissioner Schwartz noted that she attended the summit and found it helpful, but that the audience was largely those generally support these sustainability programs. She said that many enthusiastic suggestions were made, but that some of them defied the laws of physics. She said that we need to add a note of caution and that realistic assumptions are needed in addition to aspirational goals that are useful as rallying cries. She said that a reality check is needed for many of the ideas.

Commissioner Ballantine asked if zero carbon heating may be a better goal rather than electrification. For example, solar hot water heating could be a very good solution, especially in a power outage. He noted that the waterfall chart showed that heating is a large part of the gas usage and that could be replaced with solar heat. He added that microgrids may not be the best way for heating. He said that resiliency is very important as well.

Commissioner Danaher noted that building codes to increase building energy use efficiency should be central to planning, not just electrification. He said that the options should be rank ordered to show the best way to get the reductions. He noted that using offsets for the gas portfolio is also an option to reduce GHG emissions.

Vice Chair Cook stated that transportation is by far the biggest part of the City's remaining GHG emissions and noted that this is the most difficult piece to address. Friend said that commutes are a large problem for people so transportation solutions could be very supportive if they help to address commute convenience at the same time.

Commissioner Schwartz asked why the City's goals need to be so much more aggressive than the state's, especially since the state is so far ahead of the rest of the county. She said that more realistic goals may result in more communities being able to follow the City's lead. Friend said that the goals don't need to be more aggressive, but if the aggressive solutions are practical, economical and provide improved services, we may want to do them.

Chair Foster said that the solutions are not easy to find. He said that Palo Alto is well positioned to try to make this effort.

Commissioner Hall said that realistic steps that can be easily communicated may get more support, especially if those steps can be seen by the community. For example, replacing the City's fleet with electric vehicles is one action that is doable and visible to the community. If there are three or four things that can have prices attached to them that can be done in the utility environment, it would be good to focus on them, especially since creating cross subsidies is an issue for the utility funds.

Vice Chair Cook said that having electric vehicle (EV) charging widely available is an effective way to get people to convert to EVs. Commissioner Schwartz added that carpool lanes were very effective at converting vehicle stock to hybrids or EVs. Friend agreed that the incentives don't always have to be monetary to influence behavior.

Chair Foster asked if EV chargers were expected to increase revenue for the City or to encourage the use of EVs. He asked if the idea to charge fees to park is it to discourage driving downtown, or to collect revenue for the City. Friend said that it is to shift habits and change the incentive structure that free parking provides currently that effectively encourage solo car driving.

Commissioner Eglash asked how climate adaptation figures into the equation. He noted that rising sea levels and flooding could be issues of concern to the community. Friend said that adaptation—as well as mitigation—must be addressed. He said that sea level rise is the primary issue, but that rising temperatures will result in higher utility usage as well as higher crime rates. He said that certain key facilities such as the sewage treatment plant are at risk of higher sea levels. He said that the S/CAP needs to be broad and comprehensive in its thinking with identification of specific steps that make sense and that point the City in a positive direction. Commissioner Eglash said that adaptation is very important since sea level rise will create financial strain for the City and there doesn't seem to be enough attention paid to the topic. Friend noted that the city council is planning a study session on sea level rise in the near future.

REPORTS FROM COMMISSION MEETING/EVENTS

Commissioner Schwartz attended the all hands meeting for Eugene Water and Electric Board and noted that employees need to be on board with CPAU's plans. She also attended an advanced metering infrastructure (AMI) conference in Orange County and noted that utilities that haven't yet installed AMI equipment can leap frog ahead since new technologies continue to be developed. Finally, she reported that she will soon be testifying at an En Banc hearing of the California Public Utility Commission regarding using time-of-use (TOU) rates as the default rate.

UTILITIES DIRECTOR REPORT

1. Palo Alto CLEAN Program Applications

The City expects to soon receive its second application for a project under the Palo Alto CLEAN Program, a feed-in tariff program to purchase locally generated renewable electricity within City boundaries at a price of 16.5 ¢ per kilowatt hour for solar PV generation. On January 25, Council signed a lease agreement with Komuna Energy that will develop 1.3 megawatts (MW) of solar carport structures atop four City-owned parking structures and sell the energy and output to the City. The City received its very first application to the program on January 8 for a 113 kW solar carport installation at the Unitarian Universalist Church of Palo Alto for a 25-year contract term. When both applications have been received and processed, approximately half of the total 3 MW program capacity will remain.

2. Water Use Reduction

On May 5, 2015, the State Water Resources Control Board adopted an emergency conservation regulation that required Palo Alto to reduce water use by 24% from June 1, 2015 through the

end of February 2016 compared to usage in 2013. On February 2, 2016, the State Water Board extended the May 2015 Emergency Regulation so that the 24% water use reduction mandate is in effect until the end of October 2016 for Palo Alto. The City of Palo Alto's emergency water use resolution adopted by Council automatically extends, coincident with the State's action, the water use restrictions currently in place.

3. Communications

Emergency Operations for Super Bowl 50: Utilities communications staff is providing assistance to the City's Office of Emergency Services and public safety personnel for Super Bowl 50 at Levi's Stadium in the Santa Clara. Officials expect up to two million extra people to visit the San Francisco Bay Area to participate in events related to the game or attend the game itself. The City has activated the Palo Alto Emergency Operations Center (EOC) to monitor activities and support lead agencies – the City of Santa Clara's EOC and City of Sunnyvale, which is operating the regional Joint Information Center. If interested in receiving traffic and safety alerts, you can text SB50 to 888777.

El Nino Preparations: In addition to EOC activities for the Super Bowl, the City has focused on emergency response plans for predicted winter storms, El Nino-type rain events and flooding. Utilities has been coordinating with the City's Office of Emergency Services, neighboring cities, police and emergency personnel, Santa Clara Valley Water District, Caltrans and San Francisquito Creek JPA to share mutual aid resources in the event of a flood or other natural disaster incident. Regional agency public information officers have been collaborating on public messaging.

Programmatic Outreach Campaigns: The beginning of 2016 provided an ideal opportunity for CPAU to launch a robust marketing campaign in support of efficiency and renewable energy programs that can assist customers in greening their homes and lessen their carbon footprint. Using utility bill inserts, bill messaging, e-newsletter mailings, videos, social media, news releases and website promotion, CPAU is encouraging participation in the Home Efficiency Genie audit, PaloAltoGreen Gas carbon offsets program and Georgetown University Energy Prize Competition. The recent promotion has been effective at driving up program enrollment, which should help Palo Alto continue its savings for competition for the Georgetown Prize.

COMMISSIONER COMMENTS

None.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: DISCUSSION: Update on Ongoing Preparation of a Sustainability/Climate Action Plan (S/CAP) to Update and Replace the City's 2007 Climate Protection Plan
(See discussion above after "Agenda Review and Revisions".)

ITEM 2. DISCUSSION: Discussion of Pilot Approach for Commissioner-Initiated Placement of Items on Utilities Advisory Committee Agendas, Distribution of Informational Materials

Interim Utilities Director Ed Shikada stated that the written report describes some ideas for how to bring topics forward for discussion.

Public comment

Herb Borock said that distribution of information can be achieved through the commissioner comments portion of the agenda, or can information can be distributed in the packet. He said that the UAC should focus on what its duties are. The role of the commission is to review and recommend policy issues. The role is not to ask staff to provide a forum for UAC discussions on informational issues. He said that Council sets priorities and the UAC does not establish staff's work plan or priorities.

Chair Foster stated that the UAC is tasked with advising the Council on Utilities matters, but the commission does not set the agenda. This creates a problem when the commission desires to discuss a particular topic since it must be put on the agenda to be discussed, but the Utility Director, not the commission, sets the UAC agenda. So it has become impossible to talk about topics that the commission wants to talk about with all these Catch 22's.

Vice Chair Cook said that he agreed with the Chair. Commissioner Schwartz added that the commissioners are respectful of staff time and are not trying to add work for staff.

Commissioner Hall noted that in his experience at the SCVWD with committees that advise the board, the committees may wander a bit. If the committee prepares a paper on a topic for the board, then the board can direct the committee to work on (or not) the topic proposed. He said that there needs to be a way that the commission can check in with the Council before spending time on certain activities.

Commissioner Eglash noted that the UAC is well respected and impactful and that the Council relies on the UAC due to the technical nature of the Utilities business and that fact that the Council has so much on its plate to become experts in utilities issues. He said that the commission has changed over time from focusing on the facts to offering opinions. He said that this may not be the right direction for the commission. This change in focus may make the commission's advice more dependent on the individuals on the commission, rather than the facts being presented.

Chair Foster responded that the Council values the UAC's advice and that he believes that the Council would like the UAC to be more proactive, rather than being reactive. He asked if a topic is raised and there is agreement among at least two commissioners that it should be agendized at the next meeting—unless the Director says that staff time is unavailable or if the next meeting's agenda is too full. An alternative is that if two commissioners develop a commissioner memo, it can be sent to the Council.

Commissioner Danaher thanked Interim Director Shikada for taking the UAC's input into consideration.

Commissioner Schwartz said that we are at an inflection point in the utility industry and that, if the commission is only reacting to items brought forward by staff, they doing a disservice to the Council.

Commissioner Hall said that it would be good to check in with the Council to ensure that it wants the Commission to proceed. He is concerned that the Commission not veer away from what the Council may desire.

Commissioner Eglash agreed with Commissioner Schwartz that the utility is changing and noted that the Council is also more interested in utility topics.

Interim Director Shikada said that public engagement is important to him and noted that there are many venues for that including the annual meeting with Council, the development of informational reports as well as informal communications with Council.

ITEM 3. ACTION: Selection of Potential Topic(s) for Discussion at Future UAC Meeting
None.

ACTION:
None.

ITEM 4. DISCUSSION: Preliminary Financial Forecasts and Rate Changes for Electric, Gas, Wastewater Collection and Water Utilities

Assistant Director Jane Ratchye stated that this presentation is the annual initial review of the long-term cost drivers for each fund to give the UAC and the community an idea of the rate adjustments that are projected to be needed this year and the next several years. She said that the rate increases projected this year are slightly higher than projected last year and that much of that change can be attributed to the impacts of the drought. Ratchye cautioned that these projections are preliminary and things will change before they are finalized.

Ratchye reviewed that financial reserves that are managed for the Utilities funds and stated that the description and purpose of each reserve is described in detail in the Reserve Management Practices that are part of the long-term Financial Plans that are adopted by Council. As part of the annual preparation of the financial plans, staff conducts a risk assessment to determine the financial impact of a 10% loss of sales combined with an unexpected additional Capital Improvement Program (CIP) expense. This risk assessment level is generally slightly below the minimum level of the Operations Reserve for each fund.

Communications Manager Catherine Elvert explained that there is a comprehensive communications plan that includes reaching out to all stakeholders and communicating the value of the utility services as well as the reasons for the rate increases. She noted that many channels will be used for the communications.

Commissioner Hall asked how the drought impacts the wastewater and gas funds. Ratchye replied that the gas revenues have declined somewhat due to people reducing water use—including the use of hot water. Wastewater costs have increased as the concentration of

constituents in the City sewage has increased due to the drought. In addition, some of the wastewater revenue is based on water usage for commercial customers and that revenue has declined while costs are fixed.

Commissioner Danaher noted that the rate increases will result in an increase of \$600 over two years for the average customers, which is not insignificant. He asked if we know the impact on low use customers. Ratchye responded that the Financial Plan will contain the impact on customers using different levels, but that this information isn't available at this time. He asked if there are assistance programs for low income residents. Ratchye said that the City does offer financial assistance for electric and gas funds.

Electric Fund

Acting Rates Manager Eric Keniston said that a 10% electric rate increase is required for Fiscal Year (FY) 2017. He said that additional information received since the preliminary projections were developed indicate that an even higher—possibly 12%—rate increase may be required. He said that a rate increase of 8% is projected for FY 2018. The last electric rate increase was implemented in July 2009 and the new cost of service analysis (COSA) is pointing to a higher increase for residential customers than for non-residential customers.

Keniston said that the primary driver for the cost increases are the drought over the last several years, which has used up most of the available reserves, and the increasing cost of renewable energy contracts coming on line over the forecast period as well as increasing transmission costs. The forecast calls for completing drawing down the Supply Rate Stabilization Reserve and Hydro Stabilization Reserve by FY 2018. With the preliminary rate projections, the supply Operations Reserve is near the minimum level for the next several years and the Distribution Operations Reserve is between the target and the minimum levels in FY 2017. Keniston stated that this year's rate increase projections of 10% and 9% for FY 2017 and FY 2018 are higher than last year's financial projections, which included rate increases of 6% per year for FY 2017 and FY 2018. The reason for the change is the ongoing drought conditions that have severely limited the availability of hydroelectric resources.

Keniston said that the uncertainties for the electric fund include how long the drought will last and CIP costs. In addition, the Electric Special Projects Reserve may be tapped for a second transmission line and smart grid projects.

The commissioners had no questions.

Gas Fund

Keniston said that a 7% gas rate increase is planned for FY 2017 following by increases of 5% per year for the following several years. He said that transportation costs from PG&E are expected to double and CIP costs have increased. He noted that revenues have not covered costs in FY 2016 and that costs are expected to remain above revenues until FY 2021 by drawing down remaining funds in the Rate Stabilization Reserve by FY 2018. The Operations Reserve is expected to be at the target level for this fund throughout the forecast period. Keniston noted that the 7% rate increase for FY 2017 is exactly what was predicted last year. However, last year rate increases of 4% per year were anticipated in FY 2018 though FY 2020

instead of the 5% per year increases projected this year. Keniston noted that the Gas fund faces uncertainties including the extent to which sales volumes fall due to electrification. In addition, the cost for compliance with the cap-and-trade program are unclear after 2020.

Commissioner Schwartz asked if we have a take or pay contract for gas. Keniston replied that the City purchases all gas in the short-term markets and that gas commodity costs are passed on to the customers every month.

Commissioner Hall noted that it will be a communications challenge to explain the actual gas rate adjustment since commodity cost changes may make the actual rate increase seen by customers higher or lower than the stated rate change.

Wastewater Collection Fund

Keniston said that wastewater collection (sewer) rates are expected to increase by 9% in FY 2017 and 10% per year in FY 2018 and FY 2019. He said that updated projections for wastewater treatment costs and operations costs are higher than projected last year. Keniston noted that after a reprieve in FY 2014 when CIP costs fell so that staff could catch up with projects in the queue, revenues have not covered costs for several years. He said that the Operations Reserve was at the target level in FY 2016, but is projected to fall to just above the minimum level—but above the risk assessment level—by FY 2018. Keniston said that the 9% rate adjustment for FY 2017 is the same as what was predicted last year. However, the rate increases for FY 2018 and 2019 are higher than last year's projections of 9% per year.

Commissioner Schwartz said that she heard a news report on the issue regarding concentration of the constituents in sewage noting that this is not just an issue for Palo Alto, but many communities are dealing with the same issue and increased costs associated with sewage treatment.

Commissioner Hall asked when the treatment plant upgrade costs hit the sewer rates. He noted the need to be clear in communicating with the public about the ongoing cost increases.

Commissioner Eglash asked if the additional chemicals are part of treatment costs, or operational costs. He asked if the capital costs were for the treatment plant. Keniston explained that the operational and capital costs are for the Utilities wastewater collection system and the treatment cost category includes all costs that Utilities pays for treatment to the Regional Water Quality Control Plant (RWQCP). The treatment costs at the RWQCP do include capital and operating and maintenance costs for the operating the treatment plant.

Commissioner Ballantine warned against tying the rate increase to the drought too much since other costs are also driving up the rates. Ratchye clarified that the difference between this year and last year's rate adjustment is due to the drought, but the larger reason for the increases is due to the increasing treatment costs.

Commissioner Hall left meeting at the conclusion of the discussion of the Wastewater Collection Fund.

Water Fund

Keniston stated that a 9% per year water rate increase is projected for FY 2017, FY 2018 and FY 2019. He indicated that staff plans to propose a small change to the rate structure by separating out the commodity portion of the rate similar to what is done with gas rates. This will enable the wholesale water rate from the San Francisco Public Utilities Commission (SFPUC) to pass through to customers. For FY 2017, there is no expected increase to the distribution components of the rate so that the entire rate increase is driven by increases in the cost of the water from the SFPUC. Keniston remarked that the final wholesale rate is not known until quite late in the rate development process—often as late as June—so separating the commodity part out will make for more ratemaking certainty. Keniston expects that the drought surcharge currently in place will need to continue.

Keniston said that water revenues were less than costs for FY 2015 and are expected to be lower than costs until FY 2019. This has resulted in the drawdown of available reserves including the Rate Stabilization Reserve and the Operations Reserve. Although the Operations Reserve is expected to be above the target level in FY 2016 and FY 2017, it is expected to dip below the target level until FY 2023.

Keniston noted that the 9% per year rate increases for FY 2017 through FY 2019 are slightly higher than the 8% per year increases projected in last year's financial plan. He said that the major reason for that is the higher cost for SFPUC water and continuing lowered sales volumes. Keniston indicated that the uncertainties for the Water Fund include CIP costs, the extent to which sales volumes increase after the drought is over, seismic rehabilitation work that may be required in the foothills pipeline used to access some of the City's stored water and other impending costs that are forecast for the SFPUC's regional water system.

Commissioner Schwartz said that the water costs more, not that it costs the same since customers are using less. She noted that this concept is difficult to explain, but that it is important for the overall communication plan.

Commissioner Eglash asked if staff has any indication of what the changes to the water rates will be and whether there would be a change to rate structure itself. Ratchye said that staff will rely on the cost of service study completed last year, which is compliant with the cost of service requirements of Proposition 218, and that a major adjustment to the rate structure or the tiered rates is not anticipated. She said that the actual rate proposals for both water and wastewater collection will be presented next month with the long-term financial plans for both funds.

Overall

Keniston restated the overall preliminary rate projections for all funds for FY 2017: 10% electric rate increase, 7% gas rate increase, 9% wastewater collection rate increase, and 9% water rate increase. He said that with refuse rates increasing in FY 2017 by 9% and storm drain fees rising by 2-3%, the overall FY 2017 bill increase for the median resident is about \$23.25 per month. Keniston stated that the UAC and the Finance Committee will review the Water and Wastewater Collection Financial Plans and proposed rates for implementation on July 1, 2017 in March and April, respectively. The Proposition 218 notification process for the water and

wastewater rate changes will be sent to customers in April. The Gas and Electric Financial Plans and proposed rate adjustments will be reviewed by the UAC and Finance Committee in April and May, respectively. Council will consider the rate proposals and Financial Plans with the budget process in June.

Commissioner Eglash asked what the rate adjustments would be in FY 2017 if all the reserves were limited to the minimum levels. Keniston noted that the gas rate increase could come down a bit since there is some room in the gas reserves, but he hasn't done that analysis yet. Commissioner Eglash said that he sees a bit of wiggle room in gas and wastewater funds and, since it is a large impact, it would be best to know the minimum rate increases required. He said that the UAC may not support such a plan as that, but that having the information about those limits would be helpful. He added that it would be helpful to know the rate trajectory if all the financial reserves for each fund were to be at the target levels, too. This will provide context and more information when the UAC is faced with making recommendations on rate increases at its next two meetings.

Vice Chair Cook said that no one likes rate increases, but we want to maintain reliable and safe utility services. He said that the City needs to balance rate increases with running the utility well.

ITEM 5. DISCUSSION: Update and Discussion on Impacts of Statewide Drought on Water and Hydroelectric Supplies

Assistant Director Ratchye provided an update on the ongoing drought. She said that the City is exceeding its state mandate for water use reduction for the compliance period, but that the State Water Board has extended the compliance period to the end of October 2016, rather than the end of February 2016. She said that, although it has been raining lately in the state, it is only halfway through the water year so the Board felt it was prudent to extend the compliance period. The Board said it would revisit the water supply situation in May and, if conditions warrant, may consider terminating the mandatory compliance period for water use reduction.

Ratchye stated that the impact of the drought on the electric utility, which normally gets about half its supplies from hydroelectric resources is an increase in costs for FY 2016 costs by over \$10 million.

Meeting adjourned at 9:35 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities