



## **UTILITIES ADVISORY COMMISSION MEETING MINUTES OF MARCH 2, 2022 SPECIAL MEETING**

### **CALL TO ORDER**

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Chair Forssell called the meeting of the Utilities Advisory Commission (UAC) to order at 6:03 p.m.

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

### **AGENDA REVIEW AND REVISIONS**

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None.

### **ORAL COMMUNICATIONS**

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John Bowie announced that due to a sick family member, he will not be part of the discussion but will be listening in.

### **APPROVAL OF THE MINUTES**

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

Vice Chair Segal noted pg. 6, first paragraph, middle sentence, “of the bridge solution to help differ” should read “differed”.

Commissioner Johnson moved to approve the draft minutes of the February 2, 2022 meeting as amended.

Commissioner Metz seconded the motion.

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

Commissioners Bowie and Scharff absent.

Chair Forssell invited comments on the February 08, 2022 UAC draft meeting minutes.

Chair Forssell noted pg. 3, bottom, in the paragraph, Forssell appreciated “sense of the goal was to have a single data set to be gathered from market survey to a fiber hub” sound like a fiber hub the idea was to gather the same information so the data can be consolidated.

Commissioner Johnston moved to approve the draft minutes of the February 8, 2022 meeting as amended.

Vice Chair Segal seconded the motion.

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

Commissioners Bowie and Scharff absent.

## **UNFINISHED BUSINESS**

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None.

## **UTILITIES DIRECTOR REPORT**

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

**Hydro Production Forecast:** For water year 2021 to 2022 which is October 2021 to September 2022, total precipitation is currently 80-85% of average for the year to-date in the two watersheds that Palo Alto depends on for hydroelectric generation. Total actual hydropower for FY 2021 was 38% below the long-term average. Total forecasted hydropower for FY 2022 is 41% below the long-term average. Drier hydro conditions and higher market prices for electricity have resulted in increased cost. Council will consider activating the Hydro Rate Adjuster at its March 14 meeting.

**Water Supply Update:** Atmospheric rivers in October and December generated significant snowpack, but January 2022 was the driest January on record for the Hetch Hetchy gauge and dry conditions continued through February. Snowpack and total precipitation for the Hetch Hetchy system are both below normal. Regional Water System storage, however, is in fairly good shape. As of February 27, 2022, total storage was 74% full (normal system storage for this time of year is 82%). The SFPUC declared a local water shortage emergency on November 23 calling for voluntary systemwide 10% water use reductions. For January 2022, Palo Alto's water usage was almost identical to its water budget, but usage will exceed the budget in February. Staff is planning more outreach to encourage residents and business to save water while still caring for the urban canopy and to remind them of current water waste restrictions.

**Drought Outreach:** As a result of the dry conditions, CPAU is ramping up outreach about water supply conditions, water use restrictions, and resources for water use efficiency. Staff are working with the Bay Area Water Supply and Conservation Agency (BAWSCA) and Valley Water to coordinate public education events.

**High Natural Gas Prices:** Natural gas prices increased this winter and are currently higher than usual due to changes in the market supply and demand. Gas prices are dependent on the gas market and can fluctuate greatly from month to month due to factors such as national weather, gas production, storage levels, and international trade. CPAU purchases gas from the market on a monthly basis, therefore fluctuations in pricing can affect customers. CPAU is trying to inform customers about these higher gas prices and share ideas for energy efficiency measures to keep utility costs down. Our webpage [cityofpaloalto.org/efficiencytips](http://cityofpaloalto.org/efficiencytips) provides some no-cost and low-cost ways to help keep utility bill costs low.

**Upcoming Events** (details and registration at [cityofpaloalto.org/workshops](http://cityofpaloalto.org/workshops)):

- **EV Financial Incentives Clinic:** Thursday, March 10, 07-8PM - Think you can't afford an EV? Think again! Learn about the many financial assistance programs available to income-qualifying residents, including the Clean Cars for All grant, Driving Clean Assistance grant, and county-specific programs in the San Francisco Bay Area. Afterwards, attendees may request a free consultation for additional guidance in identifying the programs for which they qualify.
- **Neighborhood EV Expos:** Come talk with EV owners and drivers about their experiences driving and charging electric. Ask questions, get answers about these topics including pricing and incentives.
- **There are many dates throughout the year** – check the online calendar at [acterra.org/2022-ev](http://acterra.org/2022-ev). These events are sponsored by the City of Palo Alto and Acterra, and hosted by EV Ambassadors in the community. The events are planned to be in-person but are subject to change. **EV101:** Saturday, March 26, 10-11 am - Online event - Is an EV Right for You? - We'll review available models, charging

at home and on the road, incentives, total cost of ownership, and hear from EV owners what they love most about driving electric.

In answer to Commissioner Johnston's query regarding comments about utility bills made on NextDoor, Batchelor concurred that the comments were related to high gas charges. Commissioner Johnston suggested that Staff be proactive in outreach when prices will be high.

## **NEW BUSINESS**

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

**ACTION:** Commissioner Johnston moved Staff recommendation that the Utilities Advisory Commission (UAC) Adopt a Resolution (Attachment A) authorizing the use of teleconferencing under Government Code Section 54953(e) for meetings of the Utilities Advisory Commission (UAC) and its committees due to the Covid-19 declared state of emergency.

Seconded by Commissioner Smith

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

Commissioners Bowie and Scharff absent

### **ITEM 2: DISCUSSION:** Discussion and update on Palo Alto Fiber Community Engagement

Dave Yuan, Strategic Business Manager, shared that on February 24, 2022, the City hosted the Palo Alto Fiber community information session. Approximately 80 folks attended the session and based on questions, there was general support for the City to provide broadband. He invited John Honker to speak about the upcoming residential and commercial broadband surveys that were launched in May of 2022. At the April 2022 UAC meeting, Staff will provide another community engagement update as well as share preliminary financial business plans for fiber-to-the-home (FTTH) and fiber to the premise.

Chair Forssell moved to Item 3 due to the technical difficulties with Item 2.

John Honker, Magellan Representative confirmed that the first Palo Alto Fiber community meeting was positive and many folks expressed a want to sign up for service. The Community meeting focused on the benefits of City-owned fiber as well as the local ownership and control. Residents left their information to stay in touch about the project and were invited to participate in the coming surveys. The next community meeting will be scheduled for May of 2022. Staff has been doing community engagement ahead of the surveys to facilitate greater participation. The surveys will be sent out electronically to residents or businesses via email and each will have a unique tracking link. The goal of the surveys was to understand the value that consumers place on broadband and fiber as well as the value of the City providing services versus other providers. A subcommittee made up of UAC Members previewed the surveys and provided feedback. Staff predicted that the results of the surveys would be available in June of 2022, but the surveys will remain open to collect more information. After preliminary data is collected, it will take 3-weeks to run the analyses and establish final take rates, pricing, the elasticity curve and other components.

Commissioner Johnston agreed that the participants at the community meeting were enthusiastic about Palo Alto Fiber. He stated it is very important to reach as many folks in the community as possible with the surveys.

Commissioner Smith was thrilled with the outcome of the first community meeting. He stated that the survey will be the telling factor for Council. Honker predicted that there will be high participation numbers for the surveys. Commissioner Smith believed that the ambassador program can play a major role in spreading the

word about the surveys. He expressed that the target for statistical results needed to be a lot higher than 1.3 percent. In answer to his question regarding having the survey results in June 2022 as well as a presentation to Council in June of 2022, Batchelor confirmed that Staff planned to make a presentation to Council after their summer break in August of 2022. Commissioner Smith appreciated the proposed timeline. He recommended that the ambassador program be launched earlier than anticipated and begin having active engagement with the neighborhoods. He encouraged Staff to provide Council with preliminary survey results before their break. He emphasized that FTTH was not included in Council's core program goals for Fiscal Year 2023 and that the community's engagement was highly important.

Vice Chair Segal echoed the comments regarding the enthusiasm at the first community meeting. She seconded Commissioner Smith's concern regarding minimum responses to the survey.

Chair Forssell concurred with the previous statements and recommended that the survey be sent to folks who have different service providers in the City.

In answer to Council Member Cormack's inquiry regarding the questions asked at the community meeting, Honker noted that there were no questions that stood out. The questions were focused on when would fiber begin, pricing and how to sign up for service. Several questions were submitted after the meeting that Staff was still evaluating. In reply to Council Member Cormack's query regarding forwarding the survey, Honker noted that 90 percent of the City will receive the survey and there was no option for folks to forward it to friends and family. Council Member Cormack acknowledged that often multiple people live in one household but there is only one name on the utility bill. She expressed concern about missing those folks in the survey process.

**ACTION:** None.

Chair Forssell moved to Item 4.

**ITEM 3: DISCUSSION:** Discussion and Update on REC Exchange Program Results for 2021 and Projections for 2022-2027

Jim Stack, Senior Resource Planner, reported that the Renewable Energy Credit (REC) Exchange Program was approved in the year 2020 by the Council. The program allowed the City to sell a portion of in-state renewable resources and purchase less expensive out-of-state renewable resources. The revenue produced by the programs was used to reduce rates and fund local decarbonization efforts. For the year 2021, the Bucket 1 REC sale volumes and revenue totals were in alignment with Staff's projections. The net revenue for Bucket 1 and Bucket 3 sales and purchases combined was lower than Staff projected at \$2.4 million instead of the projected \$2.8 million. Revenue was lower due to the hydro generation diminishing throughout the year. Moving forward to the year 2023 and beyond, all revenue will be contributed to the City's decarbonization programs. Due to a low hydro season, the City had to purchase more market power than expected to comply with the City's Carbon Neutral Plan objectives. The City's overall Renewable Portfolio Standards (RPS) level dropped from 67 percent before the REC transactions to 32 percent due to the City not being able to count most of its unbundled REC purchases towards RPS compliance. Also, the average emissions intensity went from 26 kilograms (kg) CO<sub>2</sub> per megawatt-hour (MWh) to 155 kg CO<sub>2</sub> per MWh. The state-wide average for emission intensity for the year 2020 was 466 kg CO<sub>2</sub> per MWh.

In answer to Chair Forssell's inquiry regarding the based portfolio being 26 kg CO<sub>2</sub> per MWh when it should be carbon neutral, Stack answered that the City would have been 4 percent short due to the poor hydro conditions and the City had to purchase unbundled RECs, which the state does not count as carbon-neutral.

Stack continued to the year 2022's REC Exchange projections. Staff has issued a Request for Proposal (RFP) to sell a large quantity of Bucket 1 resources and then will purchase Bucket 3 resources for the year. Staff projected the net revenue total to be \$770,000 for the year 2022. The City had fewer Bucket 1 RECs to sell due to one of the larger wind energy contracts expiring in the year 2021. The City acquired a new solar

contract to replace this wind energy but it will not come online until the year 2023. Staff also predicted that hydro will have another low year and the City will have to purchase more Bucket 3 RECs. Staff projected that the RPS level will be 61 percent before the transactions. Emissions intensity before the transactions was projected to be 34 kg CO<sub>2</sub> per MWh and after the transactions, it was projected to be 153 kg CO<sub>2</sub> per MWh.

In response to Commissioner Metz's query regarding the state's RPS targets for future years, Stack confirmed that the City was on course to reach the mandated targets.

Commissioner Smith recalled that when the program was adopted, the City was facing significant budget and revenue shortfalls across the utilities. The program was to mitigate those shortfalls and then sunset at a later time. Stack noted that Council did not establish a sunset date in their authorization, but directed Staff to return to Council at a later time. Staff will be returning to Council within the year to review the authorization and determine if the program should continue.

In reply to Chair Forssell's question regarding which decarbonization programs are funded by the REC Exchange Program, Jonathan Abendschein, Assistant Director of Utilities, stated that the funds were being held in a reserve and the exact priorities of the funds are under discussion. In answer to Chair Forssell's query regarding why the wind contract and the new solar contract did not line up, Dean Batchelor, Director of Utilities, mentioned that the energy purchased by the City will be from the second phase of the project which resulted in a delay of a year.

In response to Vice Chair Segal's query regarding how the City decides whether to contract for solar or wind energy, Stack shared that Staff will soon be updating the 5-year Integrated Resource Plan which will evaluate the City's current resources and projected needs versus alternative supply options available in the market.

**ACTION:** None.

Chair Forssell moved back to Item 3.

**ITEM 4: ACTION:** Staff Recommends the Utilities Advisory Commission Recommend the City Council Adopt Two Resolutions: 1) Approving an Amendment to the Amended and Restated Water Supply Agreement Between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo County, and Santa Clara County, and Authorizing the City Manager to Execute the Amended Agreement; and 2) Approving a Minimum Purchase Transfer From the City of Mountain View to the City of East Palo Alto

Lisa Bilir, Senior Resource Planner, reported that the Minimum Purchase Amendment was an amendment to the Water Supply Agreement. The Water Supply Agreement was a contract that the City and 25 other wholesale customers have with San Francisco Public Utilities Commission (SFPUC). The Bay Area Water Supply and Conservation Agency (BAWSCA) has been hosting meetings with Staff throughout the 3 years to draft the amendments. BAWSCA is a government agency that was created by the legislature in 2003 and they provided a representative voice for the City and the other wholesale customers before the SFPUC. Of the 25 wholesale customers, four have a minimum purchase requirement from SFPUC for water because they can purchase water from other sources. The proposed Minimum Purchase Amendment protected the other customers from volatility in the water sales and revenues. SFPUC had an obligation to provide 184 million gallons of water a day (mgd) to the wholesale customers and that was called the Supply Assurance. The Supply Assurance was allocated among the wholesale customers, and 23 agencies have a portion of that Supply Assurance called an individual Supply Guarantee. Palo Alto does not have a Minimum Purchase requirement and has sufficient Individual Supply Guarantee for its current and future needs. Staff was confident that the amendment would not affect Palo Alto's financial risk or water supply.

The first amendment allowed for a paired transfer of Minimum Purchase and Individual Supply Guarantee. The Minimum Purchase could be transferred to wholesale customers with an Individual Supply Guarantee. The transfers were limited to 6 million gallons of water per day and 50 percent of the original Minimum Purchase for each Minimum Purchase Agency. Palo Alto will not be a participant in paired transfers of

Individual Supply Guarantee. One of the key benefits of the amendment was that removing the barrier to potential transfers would allow SFPUC to develop new supplies for water.

The City of Mountain View and the City of East Palo Alto were requesting that the other customers approve a second amendment that results in the conversion of 1.0 mgd Individual Supply Guarantee sold to the City of East Palo Alto into a transfer of up to 1.0 mgd of the City of Mountain View's Minimum Purchase plus Individual Supply Guarantee, in 0.25 mgd increments. This proposal applies the process in the first amendment to the transaction that took place between the two cities in 2017.

Commissioner Smith understood that there are some wholesale customers who no longer need the mandated amount under the Minimum Supply and they are requesting an out clause. Palo Alto does not need that type of amendment but Palo Alto must accept the amendment to allow the other agencies to move forward. Bilir confirmed that is correct. In answer to his query regarding an oversupply of water, Bilir confirmed that SFPUC is pursuing a water supply alternative while exploring additional water supplies. In reply to Commissioner Smith's question regarding SFPUC charging a higher rate to other customers if the water supply is not sold, Bilir clarified that the amendment does not change the way the wholesale customer rate is calculated. Staff believed that the amendment will not have a negative impact on Palo Alto and may have regional benefits. Commissioner Smith did not understand how the amendment would remove barriers for SFPUC to develop new water supplies.

Council Member Cormack explained that the City was evaluating the amendment not because it applied to the City, but because the City was a partner in the BAWSCA system and the amendment applied to all partners.

Commissioner Johnston stated he was comfortable with the amendments. He understood that Palo Alto having a 6 million gallon per day surplus and Karla Dailey, Acting Assistant Director of Utilities, confirmed that is correct. In answer to Commissioner Johnston's inquiry regarding how much water would be needed if Palo Alto fulfilled its Regional Housing Needs Allocation (RHNA) requirements, Bilir explained that the Urban Water Management Plan used the Comprehensive Plan population growth calculations. Staff has confirmed that Palo Alto will be under its allowable water supply usage to cover the additional needs in the future. Commissioner Johnston wanted to know more about future housing production and the City's water supply.

Chair Forssell requested that Staff email the chart that Council Member Cormack mentioned that was provided in the Colleague's Memo to the Commissioners.

In answer to Vice Chair Segal's query regarding maintenance cost across the system and how it is portioned out, Bilir restated that there will be no change to Palo Alto's portion. In reply to Vice Chair Segal's question regarding drought restrictions and how that affects the City of Mountain View and City of East Palo Alto's agreement, Bilir noted that in a drought, SFPUC can waive the Minimum Purchase requirements. Through an analysis of such a scenario, Palo Alto's risk and financial impacts were unchanged.

**ACTION:** Vice Chair Segal moved Staff recommendation the UAC recommend the City Council adopt two resolutions (Attachment A and Attachment B) as follows:

- 1) Approving the attached "2021 Amended and Restated Water Supply Agreement Between the City and County of San Francisco Wholesale Customers in Alameda County, San Mateo County, and Santa Clara County" (Attachment C) and authorizing the City Manager to execute such Agreement when final execution copies are prepared and distributed by the Bay Area Water Supply and Conservation Agency (BAWSCA);
- 2) Approving a Minimum Purchase Transfer from the City of Mountain View to the City of East Palo Alto.

Seconded by Commissioner Johnston.

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

Commissioners Bowie and Scharff absent

The UAC took a break at 7:52 p.m. and resumed at 8:03 p.m.  
Commissioner Smith left the meeting at 8:00 p.m.

**ITEM 5: ACTION:** Staff Recommendation That the Utilities Advisory Commission Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Water Utility Financial Plan, Including Reserve Transfers, and Increasing Water Rates by Amending Rate Schedules W-1 (General Residential Water Service), W-2 (Water Service From Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential MasterMetered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service).

Dean Batchelor, Director of Utilities, introduced Lisa Bilir who presented the item to the UAC.

Lisa Bilir, Senior Resource Planner, stated the proposal is for a 4 percent distribution rate increase for Fiscal Year (FY) 2023 with a 4 percent annual increase in subsequent years. The rate increases are to fund seismic upgrades for three reservoirs, main replacements and generators for wildfire and emergencies. Due to drought, the forecast assumed a net reduction of approximately \$2.6 million in revenue in FY 2022. The San Francisco San Francisco Public Utilities Commission (SFPUC) estimated in February 2023 that they will increase their rates by 15.9 percent. Staff proposed to use the reserves to mitigate the distribution rate increases. The Operation Reserve was at the maximum guideline level with an additional \$7 million above the maximum level. Those funds will be used within 1-year to pay for the operational cost and capital cost of the Water Utility. The Rate Stabilization Reserve had an additional \$9 million which will be used to mitigate the rate increases on the distribution side of the utility. The recommendation for the Capital Improvement Project (CIP) Reserve was to transfer \$13.96 million out of the fund to pay the remaining balance for the CIP-planned projects for the year 2022. Staff predicted that SFPUC will issue a notice of the rate increase in March 2022 and the rate increase will go to their Commission in May 2022. Staff will notify residents of the increase and it will be a pass-through charge to Palo Alto customers. The driver for SFPUC to increase their rate was due to the projected drop in sales for wholesale customers. Staff provided an alternative scenario with a worsening drought for the year 2023. This scenario would result in an additional \$4.2 million net reduction in revenues in the year 2023 and require a 5 percent distribution rate increase. The average annual median bill for customers will increase by 9 to 13 percent and commercial customers can expect an increase between 9 to 13 percent.

In answer to Chair Forssell's request for the distribution rate increase percentage, Bilir confirmed that it is a 4 percent distribution rate increase.

Bilir continued with the monthly water bill comparison. The City of Palo Alto was 14 percent above comparable cities averages for residential and 2 percent above comparable cities averages for commercial.

Commissioner Johnston remarked that the City has to increase its water rate due to SFPUC increasing its water supply cost. Bilir agreed that in December 2021, SFPUC was looking at a 5 percent increase and now they will be using a 15.9 percent increase. Another reason was Staff has refined the rate model, the CIP Budget, and the assumptions to reflect the Long Range Financial Forecast. In answer to Commissioner Johnston's query regarding what opportunities the City has to push back on SFPUC's proposed increase, Bilir clarified that SFPUC was not changing its revenue requirement. SFPUC was experiencing a significant reduction in sales. SFPUC would apply the credit of \$86 million in the balancing account to the year 2022 and 2023 to help mitigate the rate increase. In response to Commissioner Johnston's query regarding a 15.9 percent increase and customer's bills, Bilir answered a customer's bill will increase by 9.5 percent. Commissioner Johnston stated it is helpful to look at the overall impact of all of the rate increases for all

utilities on a customer's bill. He concluded that the rate increase is justified, but it would be helpful to see it in context.

Commissioner Metz understood from Staff that the housing mandates that the City faces are not baked into the financial plans. Those mandates could have a significant impact on all utilities and he requested that out-year planning incorporate those mandates.

Vice Chair Segal commented that the City must do a better job of letting folks know there will be a large increase in their water bill. Karla Dailey, Assistant Director of Utilities, concurred that Staff did do outreach regarding the large increase in the gas commodity and suggested using those outreach methods to warn customers about the water increases.

In response to Chair Forssell's request for clarification regarding why \$13.9 million has to be transferred from the CIP Reserve, Bilir answered that the money cannot be spent directly from the CIP Reserve.

**ACTION:** Commissioner Johnston moved Staff requests that the Utilities Advisory Commission (UAC) recommend that the Council:

1. Adopt a resolution (Attachment A):
  - a. Approving the Fiscal Year (FY) 2023 Water Utility Financial Plan (Linked Document);
  - b. Approving a transfer of up to \$13.964 million from the Capital Improvement Program (CIP) Reserve to the Operations Reserve in FY 2022; and
  - c. Increasing Water Utility Rates Via the Amendment of Rate Schedules W-1 (General Residential Water service), W-2 (Water Service from Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service)

Seconded by Commissioner Metz.

Motion carries 4-0 with Chair Forssell and Vice Chair Segal, Commissioners Johnston, Metz voting yes.

Commissioners Bowie, Scharff, and Smith absent

**ITEM 6: ACTION:** Staff Recommendation That the Utilities Advisory Commission Recommend the City Council Adopt a Resolution Approving the FY 2023 Wastewater Collection Utility Financial Plan Including Reserve Transfers and Increasing Wastewater Rates by Amending Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger).

Lisa Bilir, Senior Resource Planner, announced that Staff proposes a 3 percent overall revenue increase in FY 2023 and a \$5.33 million transfer from the CIP Reserve to the Operations Reserves in FY 2022. Staff expected significant increases in the treatment plant debt service cost. To prepare for the debt service coming online, the plan transfers \$1 million in FY 2025 and FY 2026 to the Rate Stabilization Reserve and will use those funds in FY 2027 to smooth the increase. The Wastewater Utility was experiencing revenue impacts associated with reductions in usage for non-residents of \$1 million in FY 2022. Revenues were recovering but were 12 percent below pre-Covid-19 levels for commercial and 20 percent for restaurants. The Operation Reserve remained within the guideline range but was expected to drop close to the minimum level in FY 2025. The rate impact for customers was \$1.30 for residents, \$3.40 for commercial customers and \$20.28 for restaurants. Compared to nearby cities, Palo Alto was below the average wastewater bill by 28 percent for residents, 7 percent higher for commercial customers and 14 percent lower for restaurants. The CIP Reserve would dip close to minimum levels but remained within guideline levels throughout the forecasted period.

In answer to Commissioner Johnston's query regarding what percentage is used for salary and benefit costs, Bilir clarified that the percentage is different for each utility and she estimated it was a 5 percent increase for FY 2023. Dean Batchelor, Director of Utilities, noted that salary and benefit-cost is based on a 4 to 5 percent increase which are spread across the operations for the Water, Gas, and Wastewater Utility. Dave Yuan,



Strategic Business Manager, added that the Budget based the salary and benefits on employee salaries and benefits those employees chose.

In reply to Commissioner Metz's query regarding the large capital projects, Bilir disclosed that the capital expenditures are shared and Palo Alto's share is 33 to 34 percent of the total cost. Karin North, Assistant Director of Public Works explained that new regulations are coming into play to remove nutrients and the secondary treatment upgrade project will remove nitrogen before the water is discharged into the Bay. In response to Commissioner Metz's inquiry regarding the headworks facility capital project, North summarized that the system protects the pumps and has to be rebuilt.

In answer to Chair Forssell's request for Staff to define near terms for capital projects, North reported that the sedimentation tanks are under construction, the new outfall pipeline has reached 90 percent for design, the secondary treatment upgrades and the advanced water purification system are in the design phase, and work has not begun on the headworks facility and the lab building. She noted it takes a year to design a project and then begin construction.

**ACTION:** Commissioner Metz moved Staff requests that the Utilities Advisory Commission (UAC) recommend that the Council:

1. Adopt a resolution (Attachment A) approving:
  - a. The Fiscal Year (FY) 2023 Wastewater Collection Financial Plan (Linked Document); and
  - b. Transfer amount of up to \$5.33 million from the Capital Improvement Projects Reserve to the Operations Reserve in FY 2022; and
  - c. Increases to Wastewater Collection Utility Rates Via the Amendment of Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger) (Attachment B)

Seconded by Commissioner Johnston

Motion carries 4-0 with Chair Forssell and Vice Chair Segal, Commissioners Johnston, Metz, voting yes.

Commissioners Bowie, Scharff, and Smith absent

**ITEM 7: ACTION:** Staff Recommendation That the Utilities Advisory Commission Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Gas Utility Financial Plan, Including Proposed Transfers, and 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).

Dean Batchelor, Director of Utilities, introduced Eric Keniston who presented to the UAC the Gas Utility Financial Plan.

Eric Keniston, Senior Resource Planner, reported that the proposal is to have a 4 percent overall increase for FY 2023 and then a 4 percent rate increase for subsequent years. The Operating Reserves were projected to remain near the targeted guideline levels. Gas commodity prices remain high, but future projections have those prices decreasing slightly. The City continued to have a lower rate than Pacific, Gas and Electric Company (PG&E) by 14 percent for residential customers.

Vice Chair Segal recalled that the City's approach is to have larger capital projects done every other year, but the budget has not increased to reflect that approach. Keniston noted that there are other CIP projects besides main replacements. Dave Yuan, Strategic Business Manager, confirmed that Vice Chair Segal is correct but the City budgets every year to smooth out the rates. In summary, the rates will raise \$5 million annually and then large capital projects will be constructed every other year. Batchelor added that the annual \$5 to \$6 million is added to the \$7 to \$9 million for capital projects. Karla Dailey, Acting Assistant Director of

Utilities, recalled that the every other year model was not able to be implemented over the last 2-years due to the Covid-19 Pandemic. Keniston noted that is not true. The City continued to plan through the pandemic a main replacement every other year.

Commissioner Metz suggested that the new housing mandates and the City's push to electrify should be baked into the financial forecast. Keniston noted that Staff is working on how to factor those two items into the plan for the future.

In reply to Chair Forssell's query regarding Council's direction, Keniston remarked that until a template is established on how to downsize mains and reduce the use of the Gas Utility. It is difficult to include the City's electrification plans in the financial forecast. Gas usage continued to decrease but at a slow rate. Commissioner Metz remarked UAC could seek direction from Council to help Staff with the process. Keniston added that Staff is working on components of the Sustainability and Climate Action Plan (S/CAP) and will be bringing those forward soon. Batchelor agreed that through more discussion with Council the plan will become clearer. Silvia Santos, Utilities WGW Manager, agreed that Staff could choose a block or neighborhood to electrify and discontinue gas to that area. Staff must evaluate whether the transformer for that block or neighborhood can accommodate the electrical load.

In answer to Chair Forssell's question regarding the reserve transfers, Keniston confirmed that the Rate Stabilization Transfer is to mitigate a large rate increase. The funds will be transferred from the Operations Reserve to the CIP Reserve and held in the CIP Reserve. Then transferred back to the Operations Reserve when the capital project is ready. In reply to Chair Forssell's question regarding a time delay for the pass-through commodity charge for the Gas Utility, Keniston explained that the gas price is published on the first day of each month. Dailey added that the City purchases gas at the market rate and then passes that cost through to customer for their usage that month.

Council Member Cormack appreciated the comments regarding S/CAP. She acknowledged that the City's infrastructure cannot accommodate electrification and the City must maintain the Gas Utility infrastructure until the electrical grid is modernized. She mentioned that teams are working on different aspects of the S/CAP and a UAC Member may be able to be involved in the work of the community scaling team looking at electrification.

**ACTION:** Vice Chair Segal moved Staff requests that the Utilities Advisory Commission (UAC) recommend that the Council adopt a resolution (Attachment A):

- a. Approving the fiscal year (FY) 2023 Gas Utility Financial Plan (Linked Document); and
- b. Transferring up to \$3 million from the Operations Reserve to the CIP Reserve in FY 2022; and
- c. Transferring up to \$2.766 million from the Rate Stabilization Reserve to the Operations Reserve in FY 2022; and
- d. 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) (Attachment B)

Seconded by Commissioner Johnston

Motion carries 4-0 with Chair Forssell and Vice Chair Segal, Commissioners Johnston, Metz voting yes.

Commissioners Bowie, Scharff and Smith absent

**ITEM 8: ACTION:** Staff Recommendation That the Utilities Advisory Commission Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Electric Financial Plan and Reserve Transfers, Amending the Electric Utility Reserve Management Practices, and Amending Rate Schedules E-1 (Residential Electric Service), E-2 (Residential Master-Metered and Small Non-Residential Electric Service), E-2-G (Residential

Master-Metered and Small Non-Residential Green Power Electric Service), E-4 (Medium Non- Residential Electric Service), E-4-G (Medium Non-Residential Green Power Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E 7 (Large Non-Residential Electric Service), E-7-G (Large Non-Residential Green Power Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service), E-14 (Street Lights), E-NSE (Net Metering Net Surplus Electricity Compensation), and E-EEC (Export Electricity Compensation).

Eric Keniston, Senior Resource Planner, reported that the proposal is a 5 percent rate increase with projected 5 percent rate increases in the subsequent years. To accommodate a 5 percent rate increase, the Hydro Stabilization Reserve will be depleted. The Hydro Rate Adjuster will be activated and will add \$0.013 per kilowatt-hour in revenue. Staff predicted that hydro conditions will not improve in FY 2023. Starting in FY 2024 and FY 2025, there may be a rate increase of 6 percent due to electrification and S/CAP implementation. The Operating Reserve will increase due to the influx of funds from the Hydro Stabilization Reserve and then will decrease rapidly. Staff requested that the Electric Special Project Reserve remain active through FY 2027 and not sunset at the end of FY 2022.

Commissioner Johnston appreciated that Staff did the work to spread the cost increases out and supported the proposal. In response to his understanding that CIP projects are not to modernize the electrical grid, Keniston confirmed that is correct. Commissioner Johnston emphasized that it is important to begin exploring what the costs will be to modernize the grid to meet the S/CAP goals.

In reply to Chair Forssell's inquiry regarding changes to the Hydro Rate Adjuster, Keniston explained that the changes would allow Staff to activate the Hydro Rate Adjuster quickly. In answer to Chair Forssell's question regarding local solar and if it is factored into the financial forecast, Keniston answered that local solar does not affect the general load. More efficient technologies have accelerated the path of general load decline. Chair Forssell requested that Staff provide a list of what districts have been undergrounded, which are planned for undergrounding, and which substations are being upgraded. Batchelor confirmed that Staff will provide that information in an email to the UAC.

In answer to Council Member Cormack's question regarding who decides how to spend Cap and Trade Program funds, Keniston shared historically the City used the funds for renewable resources. If the funds are not spent, the City has 10-years to spend the funds on appropriate programs. Jonathan Abendschein, Assistant Director of Utilities, added that how funds are spent is under the purview of the City Manager. In response to Council Member Cormack's request to explain Item 8 and 9 of Staff's recommended motion, Keniston explained that the changes reflected the avoided cost of electricity and is the same methodology the City has used historically. The discussions in the news regarding NEM 3.0 do not affect the City. For folks under the NEM1 Program, they are grandfathered in under a provision that the energy they generate. The City compensates those folks at the full retail rate. Under the NEM2 Program, there is no subsidy.

In answer to Chair Forssell's query regarding what the price for kilowatt-hour is for the electricity compensation rate, Keniston predicted \$0.10. In reply to Chair Forssell's query regarding the difference between the export electricity compensation and the net surplus electricity compensation rate, Keniston answered that one is used for NEM1 customers and one is used for NEM2 customers.

**ACTION:** Commissioner Johnston moved Staff requests that the Utilities Advisory Commission (UAC) recommend that the Council adopt a Resolution (Attachment A):

1. Approving the Fiscal Year (FY) 2023 Electric Financial Plan (Linked Document);
2. Amending the Electric Fund Reserve Management Practices, specifically amending Section 6: Electric Special Projects Reserve, as follows:
  - a. Amend part e) setting the goal to commit ESP funds by the end of FY 2023; and
  - b. Amend part f) setting the date to revert uncommitted funds to the Electric Supply Operations Reserve to five years after the commitment date (FY 2028)

3. Approving the following transfers at the end of FY 2022:

- a. Up to \$15 million from the Hydro Stabilization Reserve to the Supply Operations Reserve;
- b. Up to \$5 million from the Electric Special Projects (ESP) reserve to the Supply Operations Reserve; and
- c. As discussed in Staff Report #11556i, approve an allocation of Cap and Trade funds up to 1/3 of REC revenue to the Cap and Trade Program Reserve to be spent on local decarbonization programs;

4. Approving the following rate actions for FY 2023:

- a. An increase to retail electric rates E-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-4 (Medium Non-Residential Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E-7 (Large Non-Residential Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service) and E-14 (Street Lights) of 5% effective July 1, 2022;
- b. An update to the Export Electricity Compensation (E-EEC-1) rate to reflect current projections of avoided cost, effective July 1, 2022;
- c. An update to the Net Surplus Electricity Compensation (E-NSE-1) rate to reflect current projections of avoided cost, effective July 1, 2022; and
- d. An update to the Palo Alto Green program pass-through premium charge on the Residential Master-Metered and Small Non-Residential Green Power Electric Service (E-2-G), the Medium Non-Residential Green Power Electric Service (E-4-G), and the Large Non-Residential Green Power Electric Service (E-7-G) rate schedules (Attachment B) to reflect current costs, effective July 1, 2022

Seconded by Commissioner Metz

Motion carries 4-0 with Chair Forssell and Vice Chair Segal, Commissioners Johnston, Metz voting yes.

Commissioners Bowie, Scharff, and Smith absent

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**COMMISSIONER COMMENTS and REPORTS from MEETINGS/EVENTS**

None.

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**FUTURE TOPICS FOR UPCOMING MEETINGS: April 06, 2022**

Commissioner Johnston requested a follow-up presentation regarding modernizing the electrical grid.

Tabatha Boatwright, Utilities Administrative Assistant, stated that Council accept an ordinance that adjusted the terms for all City Boards and Commissions. The UAC's terms have been changed from May 31<sup>st</sup> to March 31<sup>st</sup>. At the April 2022 meeting, the UAC will be electing a new Chair, Vice Chair and selecting members for Ad Hoc Committees.

**NEXT SCHEDULED MEETING: April 06, 2022**

Vice Chair Segal moved to adjourn. Commissioner Johnston seconded the motion. The motion carried 4-0 with Chair Forssell, Vice Chair Segal, and Commissioners Johnston, Metz voting yes.

Commissioners Bowie, Scharff, and Smith absent

Meeting adjourned at 9:40 p.m.

Respectfully Submitted  
Tabatha Boatwright  
City of Palo Alto Utilities