



FINANCE COMMITTEE SUMMARY MINUTES

Special Meeting
February 1, 2022

The Finance Committee of the City of Palo Alto met on this date in virtual teleconference at 6:01 P.M.

Present: Kou, DuBois (Chair), Filseth

Absent: None

Oral Communications

None

Agenda Items

1. Preliminary Rate Projections for Electric, Gas, Water and Wastewater Collection Utilities for Fiscal Year 2023, and Recommendation That Finance Committee Recommend Council Adopt a Resolution Amending Electric Rate Schedule E-HRA (Electric Hydro Rate Adjuster)

Eric Keniston, Senior Resource Planner presented the item to the Finance Committee (Committee). Preliminary rate increase recommendations are a 5 percent increase in the system average electric rate, 4 percent increases in gas and water rates, a 3 percent wastewater collection rate increase, and a 4.2 percent storm drain rate increase. Cost containment is an ongoing priority and annual cycle.

Lisa Bilir, Senior Resource Planner provided an overview of Wastewater Collection rate projections for Fiscal Year (FY) 2023. Regional Water Quality Control Plant needs rehabilitation. Operational and capital costs are projected to increase until staffing levels and capital and maintenance spending levels are achieved. Collection system clean-in-place (CIP) work is also increasing, but at a lower rate. Staff projects a 3 percent rate increase is needed in FY 2023 and 5 percent for the rest of the forecast period.

Vice Mayor Kou asked what is considered near-term and which years the projects are anticipated.

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Ms. Bilir advised the Sedimentation Tank loan repayment will begin in FY 2025; Outfall Pipeline in FY 2026; and Laboratory/Operations Center and Secondary Treatment Upgrades in FY 2027.

Vice Mayor Kou asked about the treatment costs.

Ms. Bilir explained that the treatment costs are shared among Stanford, East Palo Alto, Los Altos Hills, Los Altos, and Mountain View. Palo Alto (City) pays approximately one third of the costs.

Kiely Nose, Assistant City Manager indicated there would be an annual contribution to settle the capital improvement debt.

Vice Mayor Kou appreciated the exposition.

Council Member Filseth noted that CPI is increasing 3 to 4 percent per year. He asked what is increasing faster than CPI.

Ms. Bilir commented that treatment costs increasing at a higher rate due to necessary infrastructure replacements.

Council Member Filseth asked if the City was not saving enough.

Ms. Bilir stated that there has been an effort to keep the rate increases to a minimum. The Wastewater Collection side was deferred and reduced last year to plan for the treatment cost increases.

Chair DuBois asked if the City anticipates any grants for the projects.

Ms. Bilir answered that the treatment plan expects a variety of loans.

Chair DuBois asked what happens if the commercial side is not covered by FY 26.

Ms. Bilir explained that the revenue for the Wastewater utility is generally very stable and having the level of reduction in restaurant and commercial revenue is significant. It would be revisited if it is not covered by FY 26.

Ms. Bilir provided an overview of projected water rates. Staff expects a 4 percent overall rate increase in FY 2023, a 5 percent overall rate increase in the scenario of a worsened drought. The overall increase for Proposal FY 2023 would be approximately 9 to 13 percent with the distribution rate and commodity rate combined. There would be a system average rate impact for water customers of \$8.10 to \$11.80. Construction costs have not declined.

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Vice Mayor Kou asked when San Francisco will inform about the decision for a 4 percent or 5 percent increase.

Ms. Bilir explained that she presented an alternate scenario to show the alternate for the distribution rate side for the Palo Alto distribution rate so that options could be presented.

Chair DuBois wanted to know why the San Francisco Public Utilities Commission (SFPUC) increase was so high.

Ms. Bilir shared that SFPUC did not increase the cost projection, but a smaller number of units of water is expected to be sold.

Council Member Filseth asked how Palo Alto's water conservation compares to other cities.

Ms. Bilir stated that the City's reduction percentage is among the lowest.

Mr. Keniston summarized the electric rate FY 2023 proposal for a 5 percent overall increase. Changes to and activation of the Hydro Rate Adjuster will be necessary with a 5 percent increase. Electric Distribution costs were approximately 40 percent. Low hydroelectric conditions and high market prices due to increased natural gas costs have dramatically increased electric supply costs. Medical/retirement benefit costs, capital investment costs, and underground construction costs continue to increase. Palo Alto's monthly residential electric bill is 34 percent below Pacific, Gas, and Electric (PG&E) average. Operation, capital investment, and electric commodity costs are expected to increase. Staff requested the ability to activate the Hydro Rate Adjuster to help supplement the reserve position and continue at a base level of 5 percent.

Dean Batchelor, Utilities Director was concerned about the impacts on electrification if the electric rate increased to 8 percent. He suggested not yet increasing the rates to 7 or 8 percent, and instead presenting to Council for approval to turn on the Hydro Rate Adjuster.

Council Member Filseth asked for clarification regarding the City's current rates for doubling electricity consumption not covering the capital cost of upgrading the transformers.

Mr. Batchelor answered yes.

Council Member Filseth supported the Hydro Stabilization Reserve. He asked if there would be a significant impact on the City's price position versus PG&E.

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Mr. Keniston answered no. There would have to be substantial rate increases to get near PG&E.

Chair DuBois asked about increasing the hydro adjuster to smooth the rates and whether there would be complications in the case of an extended drought.

Mr. Keniston answered yes. Normally, excess money obtained from surplus sales get pumped back into the Hydro Reserve, which is then used in times of drought.

Chair DuBois asked if the rates were a Palo Alto construction.

Mr. Keniston answered yes and explained that a risk assessment was composed based on previous years and the level of impact that could be seen from poor hydro years.

Chair DuBois wanted to know if there was a longer-term plan to attempt moving off hydro and if solar could be secured.

Mr. Batchelor advised that longer-term projects involving solar are being explored, but there would still need to be some mixture of hydro.

Chair DuBois asked if any distribution lines need to be replaced to get more power out to neighborhoods.

Mr. Batchelor stated that the feeder lines and substations are satisfactory. Distribution transformers and the secondary line running to homes are a concern and will need replacing.

Ms. Nose noted that additions of staffing resources as part of the mid-year budget including a senior engineer for electrification are being recommended.

Mr. Batchelor added that there would also be three additional project engineers for the Sustainability and Climate Action Plan (S/CAP).

Vice Mayor Kou asked if Table 1 Projected Residential Rate Changes would be updated.

Mr. Keniston stated that the Table 1 projection currently includes only the base rate increases without any commodity estimates. He asked if the Committee wanted it modified to show the Hydro Rate Adjuster.

Council Member Filseth suggested including a range with a footnote.

Chair DuBois wanted to show the most realistic possible percentage.

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Vice Mayor Kou suggested an additional chart to show the difference and how much lower Palo Alto is compared to PG&E for both gas and electric.

Mr. Keniston confirmed that a table could be created to show an updated rate comparison versus PG&E for both gas and electric.

Mr. Batchelor was concerned about confusion with including the gas rate comparison to the hydro rate adjuster when presenting to Council.

Vice Mayor Kou agreed to keeping the gas rate and hydro rate adjuster separate.

Mr. Keniston presented gas rate options for the FY 2023 proposal. Staff recommends a 4 percent increase with no cost reductions. Approximately 40 percent of gas fund expenses are for supply and relatively 60 percent are for distribution. Most supply costs change monthly according to market conditions. The cross-bore investigation will continue for FY 22 and FY 23. Palo Alto median was 14.4 percent below PG&E regarding the FY 21 monthly residential bill. Staff is projecting a preliminary rate increase of 4 percent. Gas supply costs show an increase in FY 22 and FY 23. Operation costs are increasing. Debt service costs will reduce near the end of FY 26.

MOTION: Council Member Filseth moved, seconded by Vice Chair Kou for the Finance Committee to recommend that the City Council:

A. Activate the Electric Hydro Rate Adjuster (E-HRA) rate

MOTION PASSED: 3-0

Future Meetings and Agendas

Kiely Nose, Assistant City Manager advised that the next scheduled meeting would be in March to explore ballot measures and discuss the Downtown Business Improvement District (BID) and Business Registry Certificate (BRC) Program.

Adjournment: The meeting was adjourned at 7:54 P.M.