



UTILITIES ADVISORY COMMISSION MEETING MINUTES OF MAY 1, 2024 REGULAR MEETING

CALL TO ORDER

Chair Scharff called the meeting of the Utilities Advisory Commission (UAC) to order at 6:00 p.m.

Present: Chair Scharff, Vice Chair Mauter, Commissioners Croft, Forssell (joined at 6:05 p.m.), Metz and Phillips

Absent: Commissioner Segal

AGENDA CHANGES, ADDITIONS AND DELETIONS

None

PUBLIC COMMENT

None

APPROVAL OF MINUTES

ITEM 1: ACTION: Approval of the Minutes of the Utilities Advisory Commission Meeting Held on April 3, 2024

Chair Scharff asked for a motion to approve the April 3, 2024 UAC draft meeting minutes.

ACTION: Commissioner Metz moved to approve the draft minutes of the April 3, 2024 meeting as submitted.

Commissioner Mauter seconded the motion.

The motion carried 4-0 with Chair Scharff, Vice Chair Mauter, Commissioners Metz and Phillips voting yes.

Commissioner Croft abstained.

Commissioner Forssell absent.

UTILITIES DIRECTOR REPORT

Utilities Director Dean Batchelor delivered the Director's Report.

Water Supply Update: SFPUC, Palo Alto's water supplier, confirmed water supply is in a solid position this year. SFPUC increased rates by 8.8% to \$5.67. This change resulted in a proposed CPAU water rate

increase of 11%. Last week, staff met with Finance regarding the proposed rates. Finance recommended lowering the CPAU water rate increase to 9.5%; therefore, staff will use funds from the Rate Stabilization Account. The proposed rate increase will be in the Financial Plan presented to Council in June and in the Proposition 218 notices.

Heat Pump Water Heater (HPWH) Program Update: As of March 7, the State's TECH Clean HPWH incentives were fully reserved. On April 15, City Council adopted the HPWH program budget with new pricing. A new 65-gallon HPWH installed through the full-service program is \$2300. The City will provide a credit up to \$1000 for site preparation work such as plumbing for the condensate line. There is a City rebate up to \$3500 for customers who use their own contractor for HPWH installation. As of April 25, 237 HPWHs were installed through the full-service program and 70 HPWHs were installed through the rebate program. Staff is in the process of selecting one or more vendors to implement an Emergency Water Heater Replacement Pilot Program.

Facilities Managers Meeting: Last Tuesday, the Commercial team hosted a Facilities Managers Meeting at the Cabana Crown Plaza Hotel. There were 20 participants. Staff presented a case study on the HPWH installation at City Hall, electrification incentives, landscape rebates and AMI. The meeting culminated with a tour of the heat pump HVAC system installed at the hotel.

Earth Day Event at Hewlett Packard: The City's Sustainability and Key Account Program Managers participated in a tabling event for HP's Earth Day Event to share information about the City's energy efficiency and electrification programs along with available rebates. City staff and HP's facility and sustainability staff explored potential partnerships and ways the City can support HP's sustainability initiatives and educational endeavors.

Commercial Energy Efficiency Webinar: Last Thursday, staff hosted its first Commercial Energy Efficiency Webinar. The discussion led by industry experts and engineers discussed strategies for making commercial buildings more energy-efficient, particularly through HVAC and lighting advancements. After the webinar, one attendee signed up for the Business Energy Advisor program and was interested in pursuing energy efficiency projects. With close to 60 RSVPs for this session and the success of this workshop, staff plans to put together other webinar opportunities for our commercial customers.

EV Charger Program: The EV Charger Program has 15 sites in the permitting or installation phase. Most of these projects will be completed by the end of the year. More than 30 additional properties are in earlier project phases, including site assessment, bidding and vendor selection.

EV Technical Assistance Program (EVTAP): The three-year extension with CLEAResult began April 16 to provide technical assistance to sites in the pipeline. The extension guarantees a minimum of 19 additional sites going live within the life of the contract. It takes at least two years on average to complete an EV charger project.

Events: The Commercial team attended an Earth Month Celebration at Stanford Research Park and a Sustainability Fair at Hewlett Packard. Staff tabled at the Downtown Palo Alto Farmers Market to promote the HPWH Program. On April 13, staff hosted an in-person workshop entitled "Tips & Tricks for Successful Turf Conversion" attracting over 60 people. On April 21, staff from Utilities, Public Works, Community Services and the Office of Transportation hosted the City's Earth Day Festival at Rinconada Library and had over 700 attendees. On April 23, Utilities staff participated in the Palo Alto High School

Earth Day event. More than 30 students came to the Utilities table to play an interactive game and learn about heat pump water heaters, EVs and PV systems.

The UAC will have tables at the park for the May Fete Parade this weekend. The yearly MSC open house is on July 27 from 10 to 2. Jenelle Kamian sent an email to the UAC about rescheduling the next UAC meeting to Monday, June 3 in the Community Room. Commissioners will receive a poll regarding not having a UAC meeting this August.

NEW BUSINESS

ITEM 2: ACTION: Recommendation to Retain the Current WAPA Hydroelectricity Base Resource Contract Allocation From 2025-2030

Sr. Resource Planner Lena Perkins, PhD, delivered a slide presentation on the WAPA contract background, history and recommendation. Dr. Perkins addressed commissioners' questions. The Valuation Estimate for WAPA Base Resource chart shows annual net value decreasing over time due to decreasing power market prices and increasing cost projections. The 20-year contract expires December 31, 2024 with five-year off-ramps. Western does not produce energy in the middle of the day when there is a surplus of solar and is paid for doing so.

ACTION: Vice Chair Mauter moved to approve Staff's recommendation that the UAC recommend that the City Council keep the City of Palo Alto's full share of its allocated hydroelectric resource under the current hydroelectricity supply contract, the 2025 Base Resource Contract from Sierra Nevada Region of the Western Area Power Administration (2025 WAPA Contract), as approved by Council in February of 2021 (Staff Report #11679).

Commissioner Phillips seconded the motion.

The motion carried 6-0 with Chair Scharff, Vice Chair Mauter, Commissioners Croft, Forssell, Metz and Phillips voting yes.

Commissioner Segal absent.

The UAC took a break at 6:38 p.m. and resumed at 6:43 p.m.

ITEM 3: DISCUSSION: Discussion of the Northern California Power Agency Issuing Bonds to Prepay for the Energy Received Under the 2025-2037 Geysers Power Purchase Agreement

Sr. Resource Planner Shiva Swaminathan addressed the UAC. In early 2023, the UAC recommended and the Council approved Palo Alto's participation in the 12-year PPA for Geysers Power Company. Staff anticipated receiving 5% of Palo Alto's energy from this geothermal PPA starting in January 2025 and up to 10% of our needs by 2027 at an annual cost of approximately \$7M (\$6M for energy products and \$1M for capacity products). The energy component is prepaid and was expected to yield 5% to 8% of energy cost savings at prevailing interest rate spreads, yielding a savings equivalent for Palo Alto of about \$300,000 to \$400,000 per year over 12 years. Staff seeks the UAC's input on this deal structure. Staff will seek the Finance Committee's input in June. If the consensus among NCPA member governing bodies is to proceed with the prepayment, staff will return to the UAC for formal approval to participate.

PFM Financial Advisors Managing Director Michael Berwanger explained the energy prepayment structure. Northern California Power Agency (NCPA) CFO Monty Hanks stated the PPA participants were Palo Alto 10%, Santa Clara 70%, Lodi 10% and five other entities totaled the remaining 10%.

Mr. Hanks stated that staff would seek input from the Finance Committee at their June 4 meeting. Approximately August 2024, NCPA will provide an informational update to the UAC, including the status of the CEC discussions, the result of Anaheim Electric's prepay transaction, the status of bond financing documents, an estimated savings update, market conditions and review of the schedule. Higher interest rates generate greater savings. In fall or winter 2024, Geysers PPA participants will seek their respective City Council approvals and NCPA will seek approval from their commission to issue bonds.

Mr. Swaminathan addressed commissioners' questions. As the community expressed concerns with past structures and this is Palo Alto's first prepay, staff was seeking the UAC's input today. In August, staff will ask the UAC to act. There is minimal or no financial risk. There is a regulatory risk. An interest rate risk does not exist after the deal is done.

Mr. Berwanger stated a custodian bank would bundle the separate payments and send one check to Geysers. Geysers is not prepaid for energy. Mr. Hanks remarked that Geysers would receive a check of \$2.5M per month paid from funds in a custodian account funded by a combination of the participants paying a premium with the discount and the prepaid counterparty paying the difference.

Mr. Berwanger explained the worst-case scenario was if the transaction terminates and participants no longer received expected savings; otherwise, this nonrecourse transaction does not financially harm participants. NCPA's obligation is take and pay. The debt does not come back to NCPA or any of the project participants.

There are contract provisions allowing the remarketing of energy to other municipal entities if there is too much energy coming off the project or if a project participant fails to pay or cannot take the energy. The first step is to look to the other participants within the project or other NCPA members to see if they can take the energy.

As this is a nonrecourse transaction, there is no obligation on NCPA to repay the debt. It is a take-and-pay obligation, meaning that as you take energy you need to pay for it.

Commissioner Phillips expressed his concern with the Bucket 1 risk from the CEC; however, he would recommend Council approval if Anaheim's prepay transaction was successful and Palo Alto does not have any risk.

Utilities Director Dean Batchelor commented that staff previously evaluated this option when interest rates were low but did not proceed because there was not much savings. In August, depending on interest rates, staff will evaluate the risks and savings.

ACTION: None

ITEM 4: **ACTION: Utilities Advisory Commission Recommendation to Adopt a Resolution Amending the Gas Utility Long-term Plan (GULP) Objectives, Strategies and Implementation Plan; Amending the Gas Utility Reserves Management Practices, Amending the FY 2025 Gas Fund Budget, and 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). CEQA status: Not a project under Public Resources Code 15378(b)(5) and exempt under Public Resources Code 15273(a).

Resource Management Acting Assistant Director Karla Dailey and Resource Planner Jason Huang delivered a slide presentation and proposed a strategy for mitigating a short-term natural gas price spike.

Mr. Huang stated that Council approved a capped-price winter gas purchasing strategy for winter 2023-2024 and a \$0.15/therm maximum gas commodity charge impact to purchase the price caps. Staff purchased \$2/therm price caps for half of Palo Alto's expected load for December 2023, January 2024 and February 2024 at a total cost of about \$1.5M. A \$0.055/therm adder was included in the gas commodity charge from November 2023 through October 2024, representing an increase of about \$1.80/month on a typical residential bill or a 2.8% increase, not including the underlying commodity price which is still based on the market index. Gas prices remained below \$2/therm during December 2023, January 2024 and February 2024, so the City did not use the price caps it purchased. Council directed staff to evaluate alternatives.

Staff recommended purchasing gas based on the monthly market price in addition to funding a reserve to offset future short-term price spikes. To fund the Gas Rate Stabilization Reserve, staff recommended an adder of \$0.103/therm to the gas commodity charge, representing an estimated 5.2% increase on the median monthly residential customer bill. Staff estimated \$2.8M would accrue each year up to a total of \$11.3M by November 2028. The reserve would have funds to maintain the gas commodity charge at \$2/therm for one month even if there were a price spike up to \$5/therm for that month. Staff proposed reducing the maximum commodity charge to \$3.50/therm in Fiscal Year 2026-2027, \$2.75/therm after three years, and \$2/therm after four years.

Ms. Dailey stated that staff would address the Finance Committee on June 4 and the Council in August. Implementation of the strategy would start in October 2024 for gas year November 2024-October 2025.

The Commission discussed alternatives as well as the importance of transitioning from gas to electricity, assisting low-income customers, an information campaign, and the possibility of using the Outage Management System to provide immediate notifications to customers of price spikes.

Ms. Dailey addressed commissioners' questions about neighboring communities. Long Beach and Vernon have gas utilities. PG&E passes the market price through every month. The CPUC requires PG&E to have storage, which in a normal year costs more money because storage is expensive. Usually, PG&E is around 6% higher than CPAU, although PG&E was lower than CPAU in January 2023 for an unknown reason but staff believed PG&E had some hedging in place.

Ms. Dailey reminded the UAC it could not build a reserve for low-income customers because of Proposition 26; however, the General Fund could help. Project PLEDGE allows customers to donate money into a fund that provides one time bill payment assistance.

Chair Scharff recommended that staff calculate the cost to protect low-income consumers who are unable to pay a one to three-month spike. Vice Chair Mauter wondered if CPAU saw a large increase in unpaid bills during the price spike. Utilities Strategic Manager Dave Yuan responded that there have been many unpaid bills accumulating since COVID but staff could do some research if the UAC wanted

an answer. Mr. Yuan pointed out that CPAU's Rate Assistance Program had about 500 participants in gas and 700 in electric. Staff can use the Rate Assistance Program to identify low-income customers.

The Commission's consensus was to assist low-income customers but not protect the broad populace against volatility in gas market prices over which Palo Alto has no control. Discussion ensued on the wording of the motion.

ACTION: Vice Chair Mauter moved to recommend the City Council advise Staff to investigate options to protect low-income customers and provide additional price spike informational campaigns and to consider the following:

1. Maintain the maximum gas commodity charge of \$4 per therm with the \$0.06 adder for 3 years, and for Staff to return for review in two years, or
2. Raise the maximum of the gas commodity charge to \$5 per therm with no adder.

Commissioner Forssell seconded the motion.

The motion carried 6-0 with Chair Scharff, Vice Chair Mauter, Commissioners Croft, Forssell, Metz and Phillips voting yes.

Commissioner Segal absent.

ITEM 5: ACTION: Staff Recommends That the Utilities Advisory Commission Recommend the City Council Adopt the Proposed Operating and Capital Budgets for the Utilities Department for the Fiscal Year 2025

Sr. Business Analyst Anna Vuong delivered a presentation. Next week, staff will seek the Finance Committee's recommendations. In June, staff will seek Council approval.

Projected FY 2025 rate increases in residential median bills: Electric Utility 9% increase, Gas Utility 9% increase, Wastewater 15% increase and Water Utility 9.5% increase for a total increase of about \$33 in the median monthly bill.

Ms. Vuong displayed slides on FY 2024 Department accomplishments, FY 2024 staffing report and Electric FY 2024 accomplishments. Electric FY 2025 initiatives included electrification-related business processes, efficiency programs and TOU rates; rebalance the electric supply portfolio; design and identify pilot area for residential whole-home electrification and gas decommissioning; enhance and accelerate HPWH installations.

The Commission provided feedback on the presentation slides. Accomplishments do not need to be included in budgeting unless it is an ongoing project. Have a more detailed discussion on initiatives. When making budgeting decisions, what were the first two or three things below the line and why did staff decide not to include them? If you had an additional \$5M, what would you do? Utilities Director Dean Batchelor responded that there was nothing below the line for Electric. When discussing the other funds, staff will mention any unbudgeted items.

Commissioner Metz asked when the UAC would have more details on grid modernization, which was about 80% of the total budget. Utilities Strategic Business Manager Dave Yuan replied that the City was using existing vendors for the pilot project. After the pilot, the City will issue an IFP (invitation for bid) for the construction project and would have a list of all line items and costs from vendors or suppliers.

Mr. Batchelor remarked that components of the large dollar amounts included building the hardware; costs for poles, wires, transformers and labor. Almost all the secondary needed replacement. Some of the feeder had to be replaced coming out of the substations. The substations needed upgrades. Oil breakers have to be replaced to harden the system.

In response to Commissioner Croft's question, Mr. Yuan explained why expenses exceeded revenues. The electric fund did not fully budget the bond financing. After the IFB and cost estimate, staff will perform a midyear (or later) revenue adjustment to account for the remaining bond finance.

Ms. Vuong outlined the preliminary plan for the FY 2024-2030 grid modernization project. Purchase equipment and construction to upgrade all overhead areas in Years 1 through 4. Purchase equipment in Year 3 for construction to upgrade substation transformers in Years 5 and 6. Purchase equipment in Year 5 for construction to upgrade all underground areas in Years 6 and 7. As pilots are completed, staff will bring forth information to the UAC for review, comments and recommendations.

The Fiber Fund FY 2025 initiatives included expanding the fiber backbone network into the foothills, conducting cost and benefit analysis study, as well as launching Palo Alto Fiber Internet in the pilot area.

Mr. Yuan remarked that the fiber pilot would launch in CY 2025 Q1 or Q2. After CEQA approval in June, construction and material purchasing can begin.

Gas initiatives for FY 2025 included Gas Main Replacement 24B, Cross-bore Phase IV, as well as conducting a study and identifying proof of concept area for downsizing the gas system.

Ms. Vuong explained the Customer Connection Project. Customers fully pay for gas connections but the City pays for the portions of work needed to meet the customer's needs in the public right of way or that benefit the City's gas distribution system.

Wastewater Fund FY 2025 initiatives included completing the Sewer Master Plan Study. Vice Chair Mauter was curious about the Sewer Master Plan Study objectives around changes in the magnitude of precipitation and if it's tied into resiliency work the City might be doing on flooding. Ms. Vuong was not familiar with the goals or scope other than flow analysis of the system and recalibrating the sewer system hydraulic model. Mr. Batchelor remarked Utilities was working with Public Works to evaluate what needed to be done in the flooding areas. A full hydraulic model of the sewer system is updated periodically.

Water Fund FY 2025 initiatives included Water Main Replacement Project 29, Water Seismic Project for Park and Dahl Reservoirs, as well as completion of alternative water resource approaches for the One Water Plan.

Discussion ensued regarding backflow devices. Mr. Batchelor stated that about 80% of customers have their backflow device inspected; however, 20% were repeatedly not in compliance. Staff addressed this problem with Legal. CPAU was advised they did not have the right to shut off water. Those 20% are causing us to be out of compliance with the State for the last four or five years. Staff discussed charging \$50 to \$60 for the City to certify backflow devices and have parts for making repairs if needed. CPAU will shut off service if the backflow is nonfunctional. There are 7800 backflow devices in Palo Alto.

ACTION: Commissioner Phillips moved to approve Staff recommendation the Utilities Advisory Commission recommend the City Council adopt the Proposed Operating and Capital Budgets for the Utilities Department for Fiscal Year 2025.

Chair Scharff seconded the motion.

The motion carried 6-0 with Chair Scharff, Vice Chair Mauter, Commissioners Croft, Forssell, Metz and Phillips voting yes.

Commissioner Segal absent.

COMMISSIONER COMMENTS and REPORTS from MEETINGS/EVENTS

Council Liaison Vice Mayor Lauing reported the Finance Committee approved Utility's rate proposals with one minor change. Last night, Council interviewed candidates for the UAC. One candidate was out of town, so Council will finalize their decision after meeting with the final candidate on Monday night.

FUTURE TOPICS FOR UPCOMING MEETINGS

Vice Chair Mauter asked what was the appropriate way of addressing separate meters for ADUs and/or bringing the topic onto the agenda for a future meeting. Utilities Director Dean Batchelor replied it was complicated because our Utilities rules and regulations do not allow two meters on one property. Staff had some discussions on engineering and Development Center permitting. Mr. Batchelor offered to provide an answer by the next UAC meeting or he could write up a short report and include the rules and regulations. Chair Scharff stated the UAC could recommend to Council that they change the rules and staff could provide their input.

Commissioner Phillips noted the UAC spent very little time on electric power service to business but spent a lot of time on residential, which was approximately 20% of the load. He would appreciate more than just the segmentation of the businesses and he urged staff to schedule an informational item.

In view of the court cases, Commissioner Metz wondered what were staff's views on the electrification strategy and its impact on the Gas Utility. Mr. Batchelor responded that Utilities would devise a strategy. The Development Center may change the Reach Code. Five cities use the Source Energy Margin model, including San Jose, San Luis Obispo and Santa Cruz. Those Cities have high goals for appliance efficiency that gas appliances are unable to meet. The courts or residents have not challenged the model. In response to Council's request for staff to come back to Council, staff is moving forward with a similar recommendation. If Council provides approval in June, staff will return to the UAC in July for a discussion.

NEXT SCHEDULED MEETING: June 3, 2024

ADJOURNMENT

Chair Scharff moved to adjourn.

Vice Chair Mauter seconded the motion.

The motion carried 6-0 with Chair Scharff, Vice Chair Mauter, Commissioners Croft, Forssell, Metz, and Phillips voting yes.

Commissioner Segal absent.

Meeting adjourned at 10:13 p.m.