



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Utilities

Meeting Date: May 27, 2025

Report #:2501-4040

TITLE

Approval of Professional Services Contract Number C25193676 With Franklin Energy Services LLC, in the Amount Not-to-Exceed \$7,054,863 over a three-year term to Administer Turnkey Home Electrification Program as Part of the Advanced Single-Family Electrification Program and Amend the Fiscal Year Budget Appropriation for the Gas Fund; CEQA Status: -- Not a Project under CEQA Guidelines 15378(b)(5)

RECOMMENDATION

Staff recommends that the City Council:

1. Approve and authorize the City Manager or designee to execute the attached Professional Services Contract Number C25193676 with Franklin Energy Services LLC to administer a turnkey home electrification program as part of the Advanced Single-Family Electrification Program for a Period of three (3) Years and a total not-to-exceed amount of \$7,054,863;
2. Amend the Fiscal Year 2025 Budget Appropriation for the Gas Fund (requires a majority vote) by the following:
 - a. Increasing the Contract Services expenditure by \$1,431,000; and
 - b. Decreasing the Gas Cap and Trade Reserve by \$1,431,000.

EXECUTIVE SUMMARY

Staff is recommending approval of a contract with Franklin Energy to administer a turnkey home electrification program as part of the Advanced Single-Family Electrification Program. The program will leverage a new electrification program provided by Peninsula Clean Energy and Silicon Valley Clean Energy, through Franklin Energy and their sub-contractors, to provide home electrification services with fixed pricing. The program adds to existing turnkey services, providing heat pump water heater installation, technical advising on home electrification, and a suite of home electrification rebates. With this contract, the Single-Family Residential

Electrification (SFRE) Pilot Program will expand City-provided turnkey services beyond heat pump water heaters to help homes throughout Palo Alto replace gas heating and appliances.

Staff is also requesting a budget of \$1.43 million, paid for using revenue from the City’s participation in the State’s gas cap and trade program, to enable this pilot program.

Implementation of this program will be informed by lessons learned from the Advanced HPWH Pilot Program as well as new information from the S/CAP Funding Study that began in 2024 and remains underway.

BACKGROUND

Staff and the community have been working to achieve the community’s greenhouse gas (GHG) emissions reduction goals of reducing GHG emissions 80% from 1990 levels by 2030, as adopted in the Sustainability and Climate Action Plan (S/CAP). The updated S/CAP was adopted in June 2023 along with the 2023-2025 S/CAP Work Plan.¹ Work Items 2.1D through 2.1H focus on establishing rebates and programs to facilitate single-family home electrification.

A variety of rebates and programs have already been established.

Table 1: Summary of Electrification Services Offered by City		
Equipment	Services	Service Launched
Heat pump water heater	Full-service replacement	March 2023
	Emergency replacement	September 2024
	Rebate and/or technical assistance for residents who hire their own contractor	2017
Heat pump space heater and other equipment	Rebate and/or technical assistance for residents who hire their own contractor	January 2025

The “Advanced HPWH Pilot Program” was adopted in October 2022 and launched in March 2023.² It includes a rebate program for residents who hire their own contractors and a full-service “turnkey” program for those who want the City to take care of the whole process. In September 2024, the Emergency Water Heater Replacement Pilot Program was added as the full-service program was not designed to accommodate emergency installations. As of January 30, 2025, 522 installations had been completed through a combination of the City’s rebate, emergency, low-income, and full-service programs. Although Palo Alto’s goal of installing 1,000

¹ 2023-2025 S/CAP Work Plan; https://www.cityofpaloalto.org/files/assets/public/v/1/sustainability/reports/2023-2025-scap-work-plan_final.pdf

² On October 3, 2022, City Council approved the contract with Synergy Companies, which includes, among other tasks, the administration of an Advanced Heat Pump Water Heater Pilot ([Staff Report #14542](https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/2022/10-03-2022-id-14542.pdf): <https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/2022/10-03-2022-id-14542.pdf>))

HPWH is taking some extra time, Palo Alto has installed HPWHs at three times the rate as other comparable programs when adjusted for the service territory population.

In January 2025 the City launched services to offer rebates and technical assistance to help Palo Alto homeowners replace gas appliances such as gas furnaces in their homes with clean and efficient electric alternatives, and ultimately to disconnect the gas meter at their house. This was intended to be the first phase of a two-phase launch of the City's electrification program expansion, with the first phase involving rebates and technical assistance and the second phase being the full-service home electrification program described in this staff report.

Staff anticipates interest in heat pumps growing among homeowners as several programs and policies unfold. In 2025, the State's Equitable Building Decarbonization program will begin serving low-income residents with greatly subsidized or no-cost electrification programs. In late 2024, the Inflation Reduction Act (IRA) income-qualified rebates, also known as Home Electrification and Appliance Rebates (HEEHRA), became available, providing significant additional subsidies to low- and moderate – income homeowners for electrification. While this program is slated to provide significant additional funding, its status is uncertain under the new federal administration.

In March 2023, BAAQMD updated the emission standards for gas water heaters (Rule 9-6) and gas furnaces (Rule 9-4), requiring a zero emissions limit for nitrous oxide emissions (NOx) beginning in 2027 and 2029 respectively, in order to help the region achieve federal clean air standards. The "BAAQMD Zero NOx Appliance standards" will apply to residential water heaters sold in the nine-county region starting in 2027, while similarly updated standards are slated to follow in Southern California, and are currently under consideration in the Sacramento area and statewide through the Air Resources Board.

ANALYSIS

This action will expand the City's residential electrification program services further to include a full-service (a.k.a. turnkey services) program component to help residents electrify home heating systems and other gas end-uses in addition to water heaters. With the addition of these services, staff is now referring to the entire suite of programs (including this program and the programs listed in Table 1 above) as the Advanced Single-Family Electrification Pilot Program. Launching this full-service program component requires a new contractual partner (see Attachment A) and additional funding in the FY 2025 budget.

Franklin Energy would run the full-service component of this home electrification program. The City will continue to handle most community outreach, generating leads. Franklin will provide customer intake, complete home assessments, help residents decide on an electrification plan, provide quotes, and manage the contractor to complete the project. They will also provide any post-installation support and issue resolution needed. Franklin currently has contracted with three sub-contractors to handle installations at customer sites, with plans to onboard additional

contractors in the future. These contractors have agreed to provide fixed prices on electrification upgrades, making electrification easier and price-transparent for residents.

Staff estimates that 500-700 households require furnace replacements each year. The proposed budget for this three-year contract is enough for about 150 homes. This is about 20% to 30% of annual replacements, a comparable market share to that accomplished by the heat pump water heater program. The program participation can be monitored, and increased funding pursued if needed.

If the budget amendment is approved, funding supports subsidies as described below for up to 150 homes (up to \$9,550 per home), plus \$211,000 to set up the program, \$369,000 per year for program administration, \$120,000 per year for home electrification plans and technical assistance. An optional additional contract item for a low-income (LI) turnkey electrification program covering household costs could be added for \$1.49 million for 45 homes, assuming \$19,000 in additional covered electrification costs per home; this option is included in the contract maximum and budget approval sought in this report. In total, a 3-year contract of \$7.1 million (including 10% for additional services) is recommended; \$4.9 million without optional LI program, or \$6.4 million with the optional LI program.

Table 2: Proposed Turnkey Home Electrification Annual Budget		
	PROPOSED INCENTIVE (PCE incentive / SVCE incentive)	Annual budget (150 homes per year)*
<i>Customer Incentives, paid directly to Franklin:</i>		
Heat Pump Air Conditioner/Heater (assume 80% of participating households)	\$2,500 (\$1,500 / \$2,500)	\$300,000
Heat Pump Water Heater (assume 2/3 of participating households)	\$3,500** (\$2500 / \$2,000)	\$350,000
Electric Circuits & Readiness (assume 80% of participating households)	\$500 per circuit, max \$2,000 (same / same)	\$240,000
Electric Panel Upgrade (assume 20% of participating households)	\$1,000 (\$1,000 / \$1,000)	\$30,000
Attic/Roof Insulation (assume 20% of participating households)	Up to \$1,000 (none / none)	\$30,000
Gas Meter Removal (assume 20% of participating households)	\$2,500 (none / \$500)	\$75,000
Permitting costs	\$250 (none / none)	\$55,000
<i>Franklin Contract:</i>		
Home Electrification Plan (assume 33% conversion rate)	\$267	\$120,150
Program Set Up		\$211,000
Concierge Service	\$2,462	\$369,294
First Year Contract		\$1,780,519

Table 2: Proposed Turnkey Home Electrification Annual Budget		
	PROPOSED INCENTIVE (PCE incentive / SVCE incentive)	Annual budget (150 homes per year)*
* Continuation of the contract to years two and three is contingent on approval of funding in the FY 2027 and FY 2028 budgets.		
** Existing rebate from current program, must be included here if contractor pass through.		

Procurement Process

An exemption to competitive solicitation pursuant to Palo Alto Municipal Code section 2.30.360 (k) was approved by the City Manager via Procurement Officer, after determining that another RFP Process described below was substantially similar to the City’s standard RFP, saving the City time and resources that would otherwise be necessary to issue a separate RFP.

Franklin Energy was selected by Peninsula Clean Energy (PCE) and Silicon Valley Clean Energy (SVCE) after a formal RFP process in 2023 with contracts approved by the boards of the two CCAs in February and March of 2024 respectively.^{3, 4} In August 2023, PCE issued the request for proposals (RFP) to select an implementation team for a multi-year single-family home electrification turnkey installation service.⁵ In October 2023, five proposals were received, and two of those were invited for interviews. PCE and SVCE selected Franklin Energy to implement the program based on their pricing and experience. The City Attorney and Procurement Officer have reviewed the process and approved the program as eligible for adoption in Palo Alto following the terms and pricing established by PCE and SVCE, although Palo Alto would not be bound to adopt the full program and could choose the segments of interest. Franklin Energy has confirmed that the same pricing will be available to Palo Alto.

FISCAL/RESOURCE IMPACT

Staff recommends funding the Franklin Energy contract with an amendment to the Fiscal Year 2025 Budget Appropriation for the Gas Fund to increase the Contract Services expense appropriation by \$1,431,000 funded from the Gas Cap and Trade Reserve. Program promotion and outreach will be funded through the climate reduction outreach budget established in the FY 2025 Adopted Budget. The program will be launched and operated using existing staff. The entire Advanced SFRE Pilot Program is projected to require 2 FTE in CY 2025, with staff time requirements likely declining slightly once the program is launched.

³ Peninsula Clean Energy Authority Board Meeting, February 22, 2024; see item 6 for a 3-year contract with Franklin Energy with a not-to-exceed amount of \$26 million that was approved.
<https://d3n9y02raazwpg.cloudfront.net/peninsulacleanenergy/0eb565b4-ab64-11ee-bb82-0050569183fa-ccc1c33b-19c1-486c-b92a-8827a6a99940-1708564392.pdf>

⁴ Silicon Valley Clean Energy Authority Board Meeting, March 13, 2024; see item 6 for a 3-year contract with Franklin Energy with a not-to-exceed amount of \$14 million that was approved.
<https://svcleanenergy.org/wp-content/uploads/Meeting-Minutes-from-March-13-2024-Board-Meeting-F-scrubbed.pdf>

⁵ All PCE RFP documentation can be found at <https://www.peninsulacleanenergy.com/solicitations/rfp-single-family-home-electrification/>.

The contract with Franklin Energy would be on the City's professional services contract template, which permits the City to terminate without cause/for convenience by providing 30 days' written notice to the contractor. In the event the City finds itself facing a challenging budget situation, and it is determined that City resources need to be refocused elsewhere, the City can terminate for convenience. Other options include termination due to non-appropriation of funds or amending the contract to reduce the cost, for example, by reducing the scope of work. The contract may also be temporarily suspended by written notice of the City Manager.

STAKEHOLDER ENGAGEMENT

Staff has done some level of stakeholder engagement for each of the programs listed above and intends to do more in development of new programs:

- Staff held several Working Group and S/CAP Committee meetings on this program throughout 2023 and 2024.
- Staff learned from participants in each of its existing programs through customer surveys and discussions with individual participants, as well as outreach to contractors.
- Planned stakeholder engagement is slated to continue with additional meetings with the S/CAP Committee and Working Group, community partners, and regional partners, as staff continues to refine electrification programs.

ENVIRONMENTAL REVIEW

Council's approval of this contract and budget revision for Single-Family Residential Electrification Programs are not subject to CEQA review, as administrative government activities that will not result in any direct or indirect physical change to the environment (CEQA Guidelines section 15378(b)(5)). Potential environmental impacts of the Advanced Heat Pump Water Heater Program were analyzed as part of the Sustainability and Climate Action Plan (S/CAP) Addendum to the Comprehensive Plan Environmental Impact Report. On June 5, 2023 (Staff Report #2303-1158)⁶ Council certified the Addendum, which found that the S/CAP programs would not result in any significant or substantially more severe effects beyond what was previously analyzed in the Comprehensive Plan EIR.

ATTACHMENTS

Attachment A: Contract with Franklin Energy; Contract C25193676

⁶ 6/5/23 Council Meeting:

<https://cityofpaloalto.primegov.com/Portal/Meeting?meetingTemplateId=12530> Agenda Item 14, <https://cityofpaloalto.primegov.com/Portal/viewer?id=1906&type=0> SR 2303-1158 - Adoption of a Resolution Approving an Addendum to the 2017 Comprehensive Plan Environmental Impact Report and Adopting the Sustainability and Climate Action Plan (S/CAP); Approval of the 2023-2025 S/CAP Workplan; and Review of the 2023 Earth Day Report.

APPROVED BY:

Kiely Nose, Interim Director of Utilities

Staff: Diane Bailey, Sustainability Programs Administrator