



## City Council Staff Report

**From: City Manager**

**Report Type: CONSENT CALENDAR**

**Lead Department: Utilities**

**Meeting Date: January 16, 2024**

Staff Report:2308-1939

### **TITLE**

Approval of Professional Services Contract with Energy and Environmental Economics, Inc. (E3) for a Not-to-Exceed Amount of \$945,286 for the Sustainability and Climate Action Plan (S/CAP) Funding Study; Amendment to Professional Services Contract with Sterling Communications, Inc. to Amend the Scope, Extend the Timeline, and Increase Total Not-to-Exceed Compensation by \$75,000 (from \$85,000 to \$160,000); and a Budget Amendment in the Electric Fund for Acceptance of \$75,000 DEED grant for S/CAP Funding Study; CEQA Status – Not a Project.

### **RECOMMENDATION**

Staff recommends that Council:

1. Approve of Professional Services Contract Number C24188769 with E3 in an Amount Not-to-Exceed \$945,286 for the S/CAP Funding Study for a Period of One (1) Year;
2. Approve an amendment to Professional Services Contract Number S23187670 with Sterling Communications, Inc. to increase the Not-to-Exceed compensation in the amount of \$75,000 for a total of \$160,000, to expand the scope to include other electrification initiatives, and to extend the timeline for Advanced Heat Pump Water Heater Pilot Program outreach;
3. Approve the acceptance of the American Public Power Association's Demonstration of Energy & Efficiency Developments (DEED) grant of \$75,000;
4. Amend the Fiscal Year 2024 Budget Appropriation for the Electric Fund (requires a 2/3 vote) by the following:
  - a. Increasing the Contract Services expense appropriation by \$75,000; and
  - b. Increasing Other Revenue by \$75,000.

### **BACKGROUND**

The City of Palo Alto (Palo Alto or City) adopted its 2022 Sustainability and Climate Action Plan in 2022 outlining the strategies needed to meet our sustainability goals, including the goal of reducing GHG emissions 80 percent below 1990 levels by 2030. The S/CAP Funding Study will assess the funding needs and explore funding sources to meet Palo Alto's building and

transportation electrification goals and will center around the development of an analytical model to estimate the “community cost to electrify” and to structure the financing of future electrification programs. As part of this study scope, there will be multiple sub-studies to collect inputs to the model such as gas appliance saturation, EV charging needs, and funding and financing sources/methodologies. Key outputs from the model include: the total cost, net of any benefits, of the necessary equipment and infrastructure upgrades, utility rate impacts, and bill impact to different customer groups. Results from the study will inform the development of electrification programs to meet the City’s Sustainability/Climate Action Plan (S/CAP) goals.

City staff applied for and were awarded the American Public Power Association’s Demonstration of Energy & Efficiency Developments (DEED) grant, which can provide \$75,000 in funding towards completing this Funding Study.

One major electrification program is already operating, the Advanced Heat Pump Water Heater Pilot Program. This program has required significant outreach to drive program participation. The program has not yet reached its budgeted program capacity and is continuing into 2024.

## ANALYSIS

This report requests approval of two S/CAP items:

1. Approval of a consulting contract to complete the City’s S/CAP Funding Study, and
2. Amendment of a contract for the Advanced Heat Pump Water Heater Pilot Program outreach to continue the program through June 2024 and include additional electrification programs.

### S/CAP Funding Study Contract Approval

The City published the Request for Proposals (RFP) for the Funding Study on the City’s eProcurement platform, on August 14, 2023. The City received five responsive Proposals from Buro Happold Consulting Engineers, Arup US, Black and Veatch, Quanta Technology, and Energy and Environmental Economics (E3).

*Table 1. Summary of RFP Process*

<b>RFP Name/Number</b>	<b>Consulting Services Funding Study for Electrification Goals RFP No. 188769</b>
<i>Request for Proposals Issued</i>	August 14, 2023
<i>Proposals Due</i>	September 25, 2023
<i>Number of Firms Notified</i>	2,848
<i>Total Days to Respond to RFP</i>	42
<i>Number of Proposals Received</i>	5
<i>Non-responsive bidders/ Responsive bidders</i>	0 / 5

RFP Name/Number	Consulting Services Funding Study for Electrification Goals RFP No. 188769
<i>Public Link to Solicitation</i>	<a href="https://procurement.opengov.com/portal/palo-alto-ca/projects/56912">https://procurement.opengov.com/portal/palo-alto-ca/projects/56912</a>
<i>Proposals Price Range</i>	\$396,541 to \$645,000

An evaluation committee comprised of Resource Management Division staff carefully reviewed each firm’s qualifications and submittals in response to the criteria identified in the RFP:

1. Quality and completeness of proposal
2. Quality, performance and effectiveness of the solution, goods and/or services to be provided by the Proposer
3. Proposer’s experience, including the experience of staff to be assigned to the project, the engagements of similar scope and complexity
4. Cost to the city
5. Proposer’s financial condition and stability
6. Proposer’s ability to perform the work within the time specified
7. Proposer’s prior record of performance with the City or other local, county, or state agencies
8. Proposer’s compliance with applicable laws, regulations, policies (including City policies), guidelines and orders governing prior or existing contracts performed by the proposer

The City received five responses. The evaluation committee identified a preferred service provider based on the best overall score from the proposal and an interview. Based on this approach, staff recommends contracting with E3, who provided a comprehensive approach to the scope of work, demonstrated a clear understanding of Palo Alto and its needs, has extensive experience working with California utilities and governments on projects involving building and transportation electrification and financing solutions, proposed an aggressive timeline for completion with a reasonable budget and a competitive average hourly rate, and demonstrated exceptional project management experience.

The scope of work E3 proposed includes the following tasks, to be completed within a 7-month process, beginning shortly after the contract is executed, anticipated for January 2024 (\$614,286):

1. *Funding Source Survey* - An extensive summary of all potential financing mechanisms that Palo Alto could use for funding citywide electrification, including a review of those used by other agencies to identify new potential mechanisms. The timing, structure and method of raising capital for the City’s proposed transactions are key elements to the financial plan.

2. *Building Sector Studies* - A study of the single-family, multi-family, and non-residential sectors with the objective of characterizing the equipment used in the buildings, estimating the cost of electrifying that equipment, identifying cost-effective efficiency opportunities, and using this to identify least cost electrification opportunities and as an input into the calculation of the total cost of the building electrification efforts needed to achieve the City's 80x30 goals. These studies will be used as an input to the funding model.
3. *EV Charger Strategic Plan* – A plan developed to provide a blueprint on alternatives for future City actions to build the necessary infrastructure to support large scale EV growth in the most cost-efficient and user-friendly way possible, and to project the community cost and funding needs related to these actions. This study will be used as an input to the funding model.
4. *Funding Study* - An Excel model that estimates the community cost to electrify using building and transportation electrification outputs from the Building Sector Studies and EV Charger Strategic Plan, paired with results from other parallel studies completed by the Utilities Department to analyze Palo Alto's potential electrification needs and costs, available funding, and financing options. This model will be used by E3 in collaboration with City staff to produce a report with options for funding the S/CAP for Council consideration.

In addition, the RFP requested proposals for optional tasks that could be added to the contract at the City's discretion. These were tasks that required skill sets and data closely tied to the S/CAP Funding Study. Staff is proposing to include the following three optional tasks in the S/CAP Funding Study contract (\$250,000):

- A. *Electrification Grid Impacts* – This additional service will enable the City, at its discretion, to have the consultant model the impacts on the City's electric distribution system from the electrification measures analyzed in the S/CAP Funding Study. This could be useful if the City needs to validate assumptions in its grid modernization study and can help with evaluating the distribution benefit of flexible energy technologies.
- B. *Affordable Housing Study* – This additional service enables the City to direct consulting resources used to complete the Building Sector Study for the multi-family sector to include a more in-depth study of electrifying the affordable housing complexes in Palo Alto.
- C. *Low Carbon Commute Strategies* – This additional service enables the City direct the consultant to explore regulatory and other transportation management tools focused on employers that could drive employee adoption of low-carbon transportation generally.

There is also \$81,000 included in the contract for additional services if needed to complete the base contract work or optional tasks due to factors unanticipated in the original scope.

Sterling Contract Amendment

The City has an existing \$85,000 contract in place with Sterling Communications (S23187670) that was put in place following an informal request for proposals (RFP). Staff is seeking to amend it to expand the scope, extend the timeline, and increase the maximum compensation by \$75,000 to \$160,000. This contract is to provide communications consulting services for program outreach related to the Advanced Heat Pump Water Heater (HPWH) Pilot Program and electrification more generally. This contract has resulted in innovations in how the City does its program outreach by developing engaging campaign themes, improving design of the City's program outreach materials, implementing new outreach strategies (such as audience-targeted Google advertisements with specialized landing pages), and advising on how the City can help participants through the program. Staff wishes to retain this consulting assistance through June 2024 while in parallel doing a broader RFP for S/CAP communications and outreach to begin in July 2024.

Staff had anticipated the original \$85,000 to be adequate but has found during the first few months of the program that it requires more outreach than expected. Typically, professional services contracts with estimated expenditures exceeding \$85,000 are solicited by formal RFP, per Palo Alto Municipal Code (PAMC) section 2.30.330 (Professional services Contracts), instead of an informal RFP, as this one was. To meet that code requirement would have required ending this contract and doing a formal RFP for a new one. However, staff determined that performing a formal RFP and allowing this contract to lapse would require stopping outreach, which would seriously impact program participation, leaving program installers unable to retain staff, leading to problems meeting demand later on when the City expands its outreach again. For those reasons staff has approved a competitive solicitation exemption, pursuant to PAMC section 2.30.360 (b)(2) and recommends amending this contract to allow work to continue through June 2024. For future work in July 2024 and beyond, staff is starting a formal RFP for marketing services for the S/CAP more broadly, including all electrification programs, not just the Advanced HPWH Pilot program.

### **POLICY IMPLICATIONS**

The S/CAP Funding Study will contain specific policy, project, and program recommendations. The study will aim to create a plan for staff and Council review for further actions, identifying funding and financing opportunities to enable the City to successfully implement policies and programs to encourage building and transportation electrification and achieve our sustainability goals.

### **FISCAL/RESOURCE IMPACT**

Funding for the core elements of the S/CAP Funding Study was approved by Council as part of the FY 2024 budget. However, staff received a \$75,000 grant from the American Public Power Association's (APPA) Demonstration of Energy & Efficiency Developments (DEED) Program for

this study. Staff recommends an increase in Contract Services appropriation of \$75,000 in the FY 2024 Electric Fund operating budget, offset by an increase in Other Revenue.

The S/CAP Funding Study contract totals \$945,286 and is funded as follows:

- For the base contract tasks totaling \$614,286:
  - \$475,101 from the General Fund Office of Sustainability budget (previously approved in FY 2024 budget)
  - \$64,185 from the LCFS Reserve for the EV Strategic Plan
  - \$75,000 funded by new revenue from the APPA DEED grant, which will be for the S/CAP Funding Study generally (aligns with budget appropriation action recommendation 4 in this report)
- For the optional tasks totaling \$250,000:
  - Up to \$200,000 from existing Utilities consulting budgets for electrification grid impact studies
  - \$50,000 from the Electric Cap and Trade Reserve for the low carbon commute strategies study
- For the additional services of \$81,000, the budget to be used is to be determined based on whether it is needed for the base contract tasks or the optional tasks.

The amendment of the Sterling Communications contract requires an additional \$75,000. This will be funded by the Gas Cap and Trade Reserve. It should be noted that an additional cost of \$37,000 is expected for outreach materials and online advertising associated with the program outreach strategies designed by Sterling, and these supply and material costs will be paid as incurred, also funded by the Gas Cap and Trade Reserve.

## **STAKEHOLDER ENGAGEMENT**

The scope of this study was reviewed with the Council Ad Hoc S/CAP Committee and the S/CAP Working Group in August of this year.

The City provided the public procurement process through its eProcurement platform and notified 2,848 firms to encourage participation. In addition, nine firms were contacted directly by Procurement staff to announce availability of the Request for Proposals. Of those notified, 593 firms viewed the project and 47 firms downloaded the proposal documents.

Specific to the project, E3 will be engaging with multi-family and nonresidential building managers in order to complete on-site surveys of equipment and will be coordinating with local contractors to determine equipment and labor availability pricing, etc. in Palo Alto's electric appliance markets. E3 will be engaging with City of Palo Alto Utilities staff regularly to ensure continued project alignment. The E3 team will also attend up to six public hearings, four meetings with the Council Ad Hoc S/CAP Committee, and two public stakeholder meetings.

**ENVIRONMENTAL REVIEW**

Approval of the attached agreements described in this staff report does not meet the definition of a project under the California Environmental Quality Act (CEQA), pursuant to the California Public Resources Code Section 21065, because it is not an activity that will cause a direct physical change in the environment.

**ATTACHMENTS**

Attachment A: C24188769 E3 S/CAP Funding Study

Attachment B: S23187670 Sterling Communications Amendment 1

**APPROVED BY:**

Dean Batchelor, Director of Utilities

Staff: Jonathan Abendschein, Assistant Director of Utilities/Resource Management