



City Council Staff Report

From: City Manager

Report Type: **CONSENT CALENDAR**

Lead Department: Utilities

Meeting Date: **December 16, 2024**

Staff Report: 2408-3416

TITLE

Approval of Contract Amendment No 1 to Contract Number C22177024A with CLEAResult Consulting Inc., Extending the Term for Two Additional Years Through November 14, 2026, a Change in the Compensation Structure, and no Change in Not-to-Exceed Amount of \$2,571,714 for Efficiency and Electrification Program Services for Small to Medium Business and Commercial Customers; CEQA Status: Not a Project.

RECOMMENDATION

Staff recommends that the City Council approve and authorize the City Manager or designee to execute Amendment No. 1 to C22177024A with CLEAResult Consulting Inc. (Attachment A) for a 2-year extension through November 14, 2026, with a modified compensation structure and no change in not-to-exceed amount of \$2,571,714.

BACKGROUND

Council has adopted several policies which support funding programs that maximize the deployment of cost-effective, reliable, and feasible energy efficiency (EE) within the City. Council adopted the City's first 10-year electric and gas EE goals in 2007, with a cumulative reduction target of 3.5% electric and gas EE savings (35,000 MWh and 1,200,000 therms) between 2008 and 2017. Since then, Council adopted updates to the EE goals in 2010, 2013, 2017, and most recently, in May 2021 ([Staff Report ID # 12068](#)¹) for the 10-year period between 2022 and 2031. The cumulative electric savings target in the latest EE goals is 4.4% (or 37,940 MWh) of the City's projected electric usage in 2031. To achieve these aggressive EE goals, the City has contracted with CLEAResult since 2021 ([Staff Report ID # 13680](#)²), to address the need for EE and electrification support for the City's SMB and commercial customers.

¹ Staff report ID# 12068 <https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2021/id-12068.pdf>

² Staff Report ID# 13680 <https://portal.laserfiche.com/Portal/DocView.aspx?id=61770&repo=r-704298fc>

Along with its EE goals, Council adopted the ambitious goal of reducing the community's greenhouse gas (GHG) emissions 80% below 1990 levels by 2030 ("80x30") for the City's Sustainability and Climate Action Plan (S/CAP). As of 2021, the community's GHG emissions are 54% below 1990 levels, although emissions from the use of natural gas have remained largely unchanged, representing 38% of the community's emissions in 2021. To meet the 80x30 goal, the City must reduce natural gas use by emphasizing the importance of efficiency while encouraging the transition to electric equipment. However, there are significant barriers to electrification of commercial buildings, including customers' uncertainty about electric technology, high costs, and complexities related to permitting. To overcome these barriers, the City of Palo Alto Utilities (CPAU) engaged CLEAResult to deliver energy efficiency and commercial electrification programs to small and medium businesses (SMB) that include outreach, energy and electrification assessments, and ongoing technical assistance.

ANALYSIS

Through this contract, CLEAResult has provided 85 energy assessments and 73 electrification assessments since launching both programs. The assessments and ongoing technical assistance led to 15 efficiency projects and 5 electrification projects completed, which resulted in 1,646,531 kWh saved and 11.25 MT of CO₂ emissions reduction. The savings goals were not achieved in the first three years of this contract and staff is working to develop alternative programs. However, until new program(s) are identified, this remains the only program available to small and medium business customers. During this extended term, process improvements, increased customer participation since program initiation, and a steady flow of projects being installed will continue to support achieving the City's climate goals. This term extension will ensure continuity for customers currently working on projects with CLEAResult, while also allowing adequate time to re-envision the next iteration of the program. In parallel, CPAU staff plans to expand electrification incentives for commercial customers focusing on heat pump heating, ventilation, and air conditioning (HVAC).

The original not-to-exceed amount of \$2,571,714 will not change with this contract extension. Compensation rates within the contract have changed, including the site assessment rates for both programs, the virtual assessment cost added for the Business Electrification Technical Assistance program (BETAP), and the performance payment rates for the Business Energy Advisor (BEA) program. The assessment cost for the BEA program increased from \$1,000 to \$2,000, and the BETAP assessment cost increased from \$2,000 to \$2,500. The increase in assessment costs is due to the hours of work needed from CLEAResult engineers to complete in-person assessments and produce the customer reports. First, the changes to the assessment cost preserve the City's ability to meet the program goals while staying within the not-to-exceed limit. Second, though rare, a lower cost virtual assessment option was added to the BETAP program. Lastly, the BEA performance payment rates per kWh, CCF, and Therm were increased to reflect the level of effort needed from the CLEAResult team to assist customers with project installations. The adjusted performance payment costs are calculated assuming the contract energy, gas, and water savings targets are achieved. Staff also confirmed

recommended revised costs remain lower than other proposals received during the original RFP process.

Even with the operational cost increases, the programs offered under this contract provide value to customers and move the community closer to achieving its aggressive climate goals. Extending Contract No. C22177024A between the City of Palo Alto and CLEAResult Consulting Inc. will:

- Reduce energy consumption and water consumption by continuing to support and engage SMBs, while aligning with the City's S/CAP goals for cleaner and more energy efficient commercial operations.
- Reduce GHG emissions at commercial facilities by providing technical assistance to customers removing natural gas and installing efficient electric equipment on-site. This will aid the City in reaching its S/CAP goal of reducing carbon emissions in the commercial sector.
- Provide a service to SMB customers, which results in positive relationship development between Palo Alto businesses and the City.

Alternatively, Council could reject the contract extension and discontinue the programs. Customers already enrolled in the program would receive rebates for their electrification and efficiency projects. No programs would be available to small and medium business customers until a replacement program is in place, probably summer of 2025. The downside to this approach would be a gap in program offerings and a potential loss in momentum in the City's efforts to achieve the 80X20 greenhouse gas reduction goal.

FISCAL/RESOURCE IMPACT

Funding is available in the existing contract for the two-year extension. As of August 2024, there is approximately \$2,000,000 of the \$2,571,714 remaining in the contract.

If this extension is not approved, Utility Program Services staff will need to start the Request for Proposal (RFP) process, during which time the program for SMB and commercial customers would be suspended if a replacement program is not in place by January 1, 2025.

ENVIRONMENTAL REVIEW

Approval of the extension of the third-party agreement 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: CLEAResult, Contract C22177024A, Amendment No. 1

APPROVED BY:

Dean Batchelor, Director of Utilities

Staff: Shelby Sinkler, Utility Program Services