



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Utilities

Meeting Date: October 21, 2024

Report #: 2407-3303

TITLE

Approval of Contract Amendment Number 1 to Contract Number S25190354 with Larratt Bros Plumbing Inc. in the Amount of \$410,000 for the Residential Emergency Water Heater Replacement Pilot Program Within Electrification Programs; CEQA Status – Not a Project.

RECOMMENDATION

Staff recommends that City Council approve and authorize the City Manager or their designee to execute Amendment No. 1 to Contract No. S25190354 with Larratt Bros Plumbing Inc. (Attachment A) to expand the Heat Pump Water Heater Pilot Program in an amount not-to-exceed \$410,000 for the Emergency Water Heater Replacement Pilot Program. This amendment results in a revised total contract not-to-exceed amount of \$495,000.

EXECUTIVE SUMMARY

Staff is seeking approval for contract amendment No. S25190354 for the Single-Family Residential Emergency Water Heater Replacement (REWHR) Pilot Program to contribute to the success of the Advanced Heat Pump Water Heater (HPWH) Pilot Program in replacing a total of 1,000 gas water heaters. Staff is requesting to increase the contract an additional \$410,000, to enable expansion of the REWHR Pilot Program, by unencumbering funds from contract No. C23186588, the Advanced HPWH Pilot Program. This additional budget will have no impact on the General Fund or utility rates.

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 current S/CAP was adopted in June 2023 along with the 2023-2025 S/CAP Work Plan.¹ The 2023-2025 SCAP Work Plan includes work item 2.1 D for the launch of a HPWH pilot to achieve the replacement of 1,000 gas water heaters with HPWHs.

¹2023-2025 S/CAP Work Plan https://www.cityofpaloalto.org/files/assets/public/v/1/sustainability/reports/2023-2025-scap-work-plan_final.pdf

The “Advanced HPWH Pilot Program” was launched in March 2023.² It includes rebates for residents who hire their own contractors and a Full-Service program for those who want the City to take care of the whole process, as well as the more recent addition of the Emergency Replacement program in September 2024. As of July 22, 2024, 384 installations had been completed through a combination of the City’s rebate program and Full-Service program, with another 40 installations scheduled. Staff expects that the addition of the Emergency Replacement program will increase the rate of installation. Many of the customers signing up for the Full Service HPWH program have dropped out because they are in urgent need to replace a leaking or broken water heater. The Full Service HPWH program is not designed to accommodate emergency installations.

ANALYSIS

Gas tank water heaters typically last between 10 to 12 years. It is not uncommon for homeowners to wait until the water heater shows signs of needing a replacement before they call a plumber. Up to 85 percent of water heater replacements occur in an “emergency” when the current water heater fails.³ In such an emergency scenario, the task of switching from a gas water heater to a HPWH is often too complicated and takes too much time for the average homeowner to handle when they are focused on restoring hot water to their family.

The REWHR Pilot Program is designed to serve the many homes experiencing water heater failures that require rapid action, with a goal to restore hot water to customers within two business days while helping the homeowner switch from a gas water heater to a HPWH. Customers could opt to pay a premium covering work outside of standard business hours if faster service is desired.

Solicitation Process

The City issued an RFP on February 29, 2024. Through a competitive RFP process, staff identified Larratt Bros Plumbing as a provider with extensive experience performing HPWH installations.

Table 1 summarizes the details of the RFP.

Table 1: Request for Proposal #190354	
RFP Name/Number	Emergency Water Heater Replacement Service RFP No. 190354
<i>RFP Issued</i>	February 29, 2024
<i>Proposals Due</i>	March 22, 2024
<i># of Firms Notified</i>	3017
<i>Total Days to Respond to RFP</i>	22

² On October 3, 2022, City Council approved the contract with Synergy Companies, which includes, among other tasks, the administration of a Full-Service Heat Pump Water Heater Program within the 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>

³ New Buildings Institute, 2022. <https://newbuildings.org/scaling-up-market-transformation-for-heat-pump-water-heaters/>

<i># of Proposals Received</i>	5
<i>Non-responsive bidders/Responsive bidders</i>	2/5
<i>Public Link to Solicitation</i>	https://procurement.opengov.com/portal/palo-alto-ca/projects/83035
<i>Proposals Price Range per Installed Heat Pump Water Heater</i>	\$8,000 - \$25,500

The RFP responses (proposals) were evaluated based on several key criteria including the quality of proposals, the specifics of the proposed solutions, the experience of the contractors with heat pump water heaters and emergency water heater replacements, the proposed program costs, ability to install heat pump water heaters in a timely way, and prior record of performance for government agencies. Larratt Bros Plumbing was selected for this project because they scored the highest of all bidders. They demonstrated an innovative approach to replacing gas water heaters with heat pumps in a time sensitive and customer friendly way. They also received high customer satisfaction scores as well as high praise from former project collaborators.

Two of the bidders were deemed non-responsive due to lack of complete proposal packets. The proposal that was selected (Larratt Bros Plumbing) included installed heat pump water heater costs at the low end of the project cost range listed in Table 1, at \$8,000.

In August, CPAU established an \$85,000 contract with Larratt Brothers Plumbing to begin the HPWH ER Pilot, covering up to 20 homes. Staff proposes a contract increase of \$410,000 to cover 100 or more homes. This would cover the current rebate of 55% of project costs up to \$3,500 per HPWH, permit fees, home assessments, and the cost of loaner water heaters, where needed. The additional funds would ensure that HPWH ER Pilot can continue covering the first 100 homes as envisioned in the RFP. Their unique customer service tool, called Plunjr, allows homeowners to enter the program quickly and obtain an assessment and quote for a new HPWH.

FISCAL/RESOURCE IMPACT

The funding source for this contract is the budget for the Advanced Heat Pump Water Heater Pilot Program, which includes budgets in both the electric and gas utility funds and is funded by a combination of Public Benefits and Cap and Trade revenue sources.⁴ The HPWHs installed through the HPWH ER Pilot will count towards the goal of 1,000 HPWHs in Palo Alto. Program promotion and outreach will be funded through the climate reduction outreach budget established in the FY 2025 Adopted Budget.

⁴ For the Full Service HPWH Program, City Council approved \$1.25 million from Gas Cap and Trade Revenues, \$4.5 million from Electrification Reserve (funded by the electric utility's Electric Special Projects Reserve) at the September 27, 2022 Council meeting. See [Staff Report #14606](https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/2022/id.-14606-scap-update-reach-code-changes-and-advanced-hpwh-program.pdf).
<https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/2022/id.-14606-scap-update-reach-code-changes-and-advanced-hpwh-program.pdf>

POLICY IMPLICATIONS

The HPWH ER Pilot supports the Council-approved Sustainability Plan, the Council-approved Ten-year Energy Efficiency Targets, Comprehensive Plan Goals N4.2.1 (educate customers on efficient water use), N7.4.2 (implement cost effective energy efficiency programs for all customers) and N7.7.2 (explore the transition of existing buildings from gas to electric or solar water and space heating). The Pilot program also furthers the Utilities Strategic Plan Collaboration priority (Strategy 1, increasing communication and engagement with the community).

STAKEHOLDER ENGAGEMENT

Since December 2023, staff has reached out to customers who have signed up with the Full Service HPWH program to get their feedback. This feedback has been invaluable for ongoing improvements to the Full Service HPWH program and has also informed the design of the HPWH ER program. In January 2024, staff presented the initial program design and solicited feedback from the S/CAP Working Group on the HPWH ER Pilot, continuing discussions on this topic in April and May 2024. Staff has also been in communication with Peninsula Clean Energy, Silicon Valley Clean Energy, Marin Clean Energy, and Sacramento Municipal Utility District as they prepare to launch similar HPWH ER programs in their service territories.

ENVIRONMENTAL REVIEW

Council's approval of the attached agreement 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. In the alternative, Council's approval of this agreement is exempt from review under CEQA Guidelines Section 15302, as replacement of existing facilities, and Section 15308, as an action taken for the protection of the environment.

ATTACHMENTS

Attachment A: Contract with Larratt Brothers; Contract S25190354 Amendment 1
Attachment B: Contract with Larratt Brothers; Contract S25190354

APPROVED BY:

Dean Batchelor, Director of Utilities

Staff: Diane Bailey, Sustainability Programs Administrator