



UTILITIES ADVISORY COMMISSION MEETING MINUTES OF MAY 3, 2023 REGULAR MEETING

CALL TO ORDER

Chair Segal called the meeting of the Utilities Advisory Commission (UAC) to order at 6:06 p.m.

Present: Chair Segal and Commissioners Croft, Forssell, Mauter, Metz, Phillips, and Scharff

Absent:

AGENDA CHANGES, ADDITIONS AND DELETIONS

None

PUBLIC COMMENT

None

APPROVAL OF MINUTES

Chair Segal invited comments on the March 1, 2023 UAC draft meeting minutes.

Commissioner Scharff moved to approve the draft minutes of the March 1, 2023 meeting as presented.

Commissioner Forssell seconded the motion.

The motion carried 4-0 with Chair Segal and Commissioners Forssell, Metz, and Scharff voting yes.
Commissioners Croft, Mauter and Phillips abstained.

Chair Segal invited comments on the April 12, 2023 UAC draft meeting minutes.

Commissioner Croft moved to approve the draft minutes of the April 12, 2023 meeting as presented.

Commissioner Phillips seconded the motion.

The motion carried 7-0 with Chair Segal and Commissioners Croft, Forssell, Mauter, Metz, Phillips, and Scharff voting yes.

UTILITIES DIRECTOR REPORT

Dean Batchelor, Utilities Director, delivered the Director's Report.

Rebates for High Winter Energy Costs: City of Palo Alto Utilities (CPAU) residential customers will see a Winter Rebate automatically credited on their April or May utility bills, depending on their meter reading

and billing schedule. City Council approved rebates of \$70 to \$100 for gas and \$20 to \$65 for electric. Additional rebates of \$100 for electric and \$100 for gas were available to residents in the Rate Assistance Program (RAP) or with past due balances greater than 180 days. CPAU calculated the rebate based on customers' January electric and/or gas utility bills. CPAU decided to use General Fund dollars instead of Utility dollars because rebates were only for residential customers, to avoid using monies from commercial rates for residential rebates. Supplemental assistance was available to residents who do not qualify for RAP but have experienced financial hardship.

Utilities Rates Update: Staff will address proposed utilities rates in more detail under New Business. Staff will present the capital and expense budgets to Finance on May 9. Finance passed the proposed electric and gas utilities rates. The water and wastewater rates required Proposition 218 notification. Staff will present the final financial plans and proposed utilities rate changes to City Council on June 19, which if approved by Council would become effective July 1. The projected bill change for an average residential customer with six utility services was around \$11/month. CPAU will inform customers of the rate changes and the reasons for the rate increases. This outreach would include conversations with local media as well as direct communication with customers through utility bill inserts, email newsletters, website, social media, and business groups. The main reasons for rate increases this fiscal year are due to the City's delay of utility rate increases during the pandemic, reserves falling below minimum guidelines, aging infrastructure, as well as inflation and cost increases for construction, operations, energy and water supplies. CPAU will inform customers of the many programs and resources available to use energy and water efficiently to keep utility bill costs low. For more information, visit cityofpaloalto.org/ratesoverview.

Electric Hydro Supply Update: Due to the recent rise in temperatures, snowfall received during the past winter was starting to melt and flow into our reservoirs that generate our hydroelectric power. This led to a significant increase in hydro generation this spring and our hydro projections for the next couple years are much higher. As of May 1, precipitation totals in Northern California and Central California are about 25% and 60% above average, respectively. The overall snowpack level was more than twice the average amount for this time of year. The City's hydro resources will produce approximately 104% of the long-term average level of output in Fiscal Year (FY) 2023 and 122% in FY 2024.

Drought Update: On April 11, Palo Alto's water supplier, San Francisco Public Utilities Commission (SFPUC), rescinded the Water Shortage Emergency Declaration but kept the voluntary San Francisco Regional Water system-wide 11% water use reduction until the State's emergency regulation expires in June. At that time, staff anticipated that Palo Alto would lift the watering restriction of two days per week. The State would likely continue restrictions on watering within 48 hours after a rain event and ban irrigating non-functional turf with potable water at commercial customer sites.

Full-Service Heat Pump Water Heater Program: The program provided customers two alternatives: \$2,700 upfront or \$1,500 upfront plus \$20/month for five years added to their residential bill. This program generated a lot of community interest. More than 450 residents were awaiting assessments. There have been six water heater installations. Staff worked together with our vendors to identify and implement process improvements to decrease the backlog.

Earth Month Events: There were two electric vehicle (EV) workshops, two EV expos and a sold-out e-bike test ride event at Mitchell Park in April. CPAU staff participated in two Earth Day community events. One event was at Stanford Hospital's celebration. Attendees could spin a wheel and staff gave out fun facts about various electric appliances and clean energy sources. The second event was at the Rinconada

Library, which included a garden tour and staff spoke about water conservation and the Full-Service Heat Pump Water Heater Program.

Upcoming Events:

This weekend is the 99th May Fete Parade at 10 a.m. If anybody was interested in walking, you are welcome to meet at Emerson and University at 9:30 a.m.

May 3, 7-8:30 p.m.: Tree Selection, Watering, and Care
May 13, 10 a.m.-noon: Goodbye Gas, Hello EVs! EV expo
May 15: EV 102
May 31, 5-6 p.m.: EVs for Backup Power

NEW BUSINESS

ITEM 1: ACTION: Approval of UAC Chair and Vice Chair to Serve a Short Term of May 3, 2023 to March 31, 2024

Commissioner Forssell opined that Chair Segal did a great job and nominated her for a second term.

ACTION: Commissioner Forssell moved to approve UAC Chair Segal to serve a short term of May 3, 2023 to March 31, 2024.

Seconded by Commissioner Scharff.

Motion carried 7-0 with Chair Segal and Commissioners Croft, Forssell, Mauter, Metz, Phillips and Scharff voting yes.

Commissioner Forssell nominated Commissioner Scharff as Vice Chair because he was a senior commissioner and very experienced.

ACTION: Commissioner Forssell moved to approve Vice Chair Scharff to serve a short term of May 3, 2023 to March 31, 2024.

Seconded by Chair Segal.

Motion carried 7-0 with Chair Segal, Vice Chair Scharff and Commissioners Croft, Forssell, Mauter, Metz, and Phillips voting yes.

ITEM 2: ACTION: Approval of UAC Budget Subcommittee Members to Serve a Short Term of May 3, 2023 to March 31, 2024

ACTION: Commissioner Croft, Commissioner Phillips, and Vice Chair Scharff volunteered to be on the Budget Subcommittee to serve a short term of May 3, 2023 to March 31, 2024.

ITEM 3: DISCUSSION: Discussion and Presentation of Utilities Strategic Plan Implementation

Public Comments: None

Dean Batchelor, Utilities Director, stated that Council and the UAC approved CPAU's current five-year strategic plan in 2018. Tonight, CPAU will present the updated strategic plan for the next five years, which was composed of four high-priority focus areas.

Dave Yuan, Strategic Business Manager, discussed the technology priority. The strategies for this priority included a five-year roadmap to guide technology investments and customer programs, citywide AMI deployment, enhance customer interaction via MyCPAU customer portal and the outage management system (OMS). Mobile applications and paperless forms will improve field operations. CPAU will provide training to employees on existing and new technologies. MyCPAU had an adoption rate of about 78% (over 24,000 customers), which was high for a customer portal. About 55% of our utility bill payments come through the portal. Given its popularity, CPAU is investing more into this portal.

Initiatives for the coming year include planning and deployment of advanced metering infrastructure (AMI). There have been about 1200 AMI meters deployed and another 1000 more meters will deploy by the end of this summer. Residential will be complete by the end of 2024 and commercial by mid-2025. The new OMS will be deployed by the end of this summer or beginning of winter. It will notify customers when there is an outage and provide a status update every 30 or 60 minutes during outages.

Commissioner Croft queried what software would interface with AMI that we could recommend to residents. Mr. Yuan replied that staff could discuss internally if they would provide recommendations. The AMI meter provided next-day interval data. If a customer wanted real-time reads, a home device could connect with a ZigBee radio attached to their smart meter. Staff was designing time-of-use rates to incentivize people to charge EVs and use other appliances off-peak, usually after 9 p.m.

Commissioner Phillips inquired if AMI installation required physical access to someone's property and if anybody had resisted. Mr. Yuan responded yes, they need access to the property. Customers were notified at least two or three times, an email or letter was sent one week in advance, a door hanger was left a couple days in advance, and a knock on their door on the day of installation. Most meters were outside the gate. Staff would schedule an appointment if a meter were behind a locked gate. Customers could opt out of AMI. A couple customers were on the opt-out list.

Commissioner Phillips asked if there needed to be 100% residential installation of AMI before using time-of-use pricing. Mr. Yuan stated that time-of-use pricing was still in the design phase. Staff would like to pilot it for the early installers if there were an opportunity.

Commissioner Mauter suggested thinking about how the customer was likely to interface with AMI and how CPAU can use AMI data to establish time-of-use pricing signals across the utilities, how workflows might be established for collecting and disseminating data from AMI, and using AMI data in strategic planning and operational decisions. An AMI roadmap would help derive the greatest value from this new technology. Mr. Yuan commented that they would do parallel bill testing to make sure our manual meter reads and AMI reads were the same. They were targeting electrification homes to obtain better data on transformer loads at different times of the day. If anybody wanted to be part of the early phase of AMI, let staff know. Commissioner Forssell thought it would be great to include the entire Commission, unless somebody was not interested. Mr. Yuan replied he could accommodate them in the next rollout of 1000 meters.

Commissioner Forssell asked what features OMS would provide that we currently do not have. Anna Vuong, Senior Business Analyst, is the project manager for outage management. OMS would provide

notifications to customers. If a customer called to report their power is out, they could request a call back, text or email notifications on the outage status,. There was a possibility of posting to Twitter. Mr. Yuan added that the system stored up to five phone numbers for each household. If your phone number were not in the system, you would need to call to request a call back. You would be notified automatically if your phone number were in the system. Staff was gathering contact information from customers for automated outage notifications. Currently, Catherine or Jordan manually post messages to the City's Twitter feed. Mr. Batchelor noted the OMS had a notification feature to call in advance of planned outages. Currently, staff dropped off flyers at each home to notify customers. Ms. Vuong clarified that the portal would accept two phone numbers, so you have to call Customer Service if you wanted to add more than two phone numbers.

Commissioner Metz did not see technology initiatives for the electric grid or in the roadmap. Mr. Yuan replied that they would discuss the plan in the CIP budget section and they were applying for grants.

Commissioner Croft commented on the unmet 90% KPI for paperless tools by 2019. Mr. Yuan remarked that customers could elect paperless. There was an initiative to move more customers to paperless by promoting or defaulting future customers to only paperless and converting ones who were currently selecting both options to only paperless. Engineering's maps were larger documents and difficult to put on a tablet or phone. He thought the new platform they would have in a couple years could zoom in on maps better. Operations transferred most of their paper into paperless with our mobile apps.

Chair Segal asked if there was a communications plan for paperless customers to see the information they would have received in their mailers. Mr. Yuan responded there was a bill insert website but it was not obvious to find, so staff will try to promote it better and put it on MyCPAU as well. Chair Segal suggested emailing the bill inserts. Mr. Yuan agreed it was a good idea and maybe the bill insert could be included with the bill notification email.

Chair Segal thought the outage map was a nice tool and wondered if it would be more precise after the upgrade. Mr. Yuan replied that that the goal was to have the outage map be more precise. It needed a lot of data cleanup and surveying in the field, which was why it had taken longer than planned.

Catherine Elvert, Utilities Communications Manager, noted that information found on bill inserts was available electronically. Customers' email notifications include a link to the bill insert webpage.

Next, Ms. Elvert addressed the UAC regarding collaboration. Community focus was one area of the collaboration priority. Staff was very proud of the Heat Pump Water Heater Program. It was a key priority in the Sustainability and Climate Action Plan (S/CAP) in order for us to meet our greenhouse gas emissions. We have contract approval and began work with a marketing consultant last fall to roll out an outreach campaign to meet our goals. You will start to see some of those marketing materials soon.

Staff was working with the Public Works Department to identify electrification potential at City facilities. Other initiatives include collaborating with regional agencies on climate change, such as government agencies, nonprofits, environmental organizations, Northern California Power Agency (NCPA) and California Municipal Utilities Association (CMUA) as well as establishing regional contracts to take advantage of economies of scale to roll out programs across the region.

Close to 70% of our surveyed customers would very likely recommend CPAU energy and water efficiency programs. The most successful survey responses were among residents who participated in our Home

Efficiency Genie. We do not have comparison benchmarks because we do not have access to data from our previous vendor. CPAU will work with a new vendor through CMUA to survey our business and residential customers yearly. In our business survey, about 80% of customers were very happy with CPAU. We want to continue to drive improvement in this area. Staff will look at other municipal utilities and investor-owned utilities in the region to see what metrics they were setting.

Commissioner Croft asked if we benchmarked ourselves against other cities and shared information with each other. Ms. Elvert responded that we participate in a number of regional committees that include cities, special districts in the county, nongovernmental organizations and environmental organizations. The Reach Codes team is a statewide initiative where we share best practices and lessons learned. Palo Alto was progressive in our S/CAP goals. Our goals were higher than the State. We have contracted with NCPA within the last few years to offer regional programs. We are involved with the energy efficiency group through NCPA. Mr. Batchelor added that there were 14 cities in the Association and directors usually met twice a year to talk about initiatives and KPIs.

Commissioner Phillips wanted to know if staff tracked objective KPIs on complaints, if it was or was not resolved to the customer's satisfaction and the length of time until satisfaction. He suggested identifying patterns in the reasons for customers not being happy.

Regarding the success with instant permitting for the Heat Pump Water Heater Program, Commissioner Mauter wondered if there were other instant permitting opportunities to ease the transition to new technology adoption. Ms. Elvert responded that the City reduced the length of time required to receive a permit for solar but it was not instantaneous because of logistical and safety reasons. Staff will continue to evaluate other opportunities to reduce the length of time for permitting.

Commissioner Mauter asked if CPAU engaged with local colleges and universities for summer internships and if so, could commissioners help advertise the internship program. Ms. Elvert replied that she recruited an administrative intern through work with NCPA. The requisition went out to a variety of colleges including Stanford, San Jose State and Santa Clara. Our resource management group recruits interns throughout the summer. Through Climate Fellows and educational institutions, we look for people who can help us on an ongoing basis or for special projects.

Jonathan Abendschein, Assistant Director of Utilities Resource Management, addressed the Commission on Sustainability, Finance and Infrastructure. This priority had shifted its focus since the initial adoption of the Strategic Plan, in part due to completion of certain strategies within the priority and partially due to a refocusing of strategic needs. The name had changed from Finance and Resource Optimization to Sustainability, Finance, and Infrastructure. The previous five strategies had been replaced with seven new strategies, some of which included elements of the previous five. The first new strategy involved maintaining a focus on infrastructure replacement and maintenance. The second and third strategies involved evaluating the community's future water supply needs and examining the City's energy supply plans. In 2024, the City needs to decide how it wants to move forward with its federal hydropower contract. The City previously assigned its share in the California-Oregon transmission project, but that will return to the City in 2024 and staff will need to evaluate what role that transmission line may play in the City's long-term energy portfolio. Staff is determining how to manage the load growth associated with the transition to an electrified community, strategy four. It is not only increasing capacity to accommodate electrification but also modernizing the grid to handle new technologies such as solar smart panels and the ability to provide price signals for customers to manage their loads to run during times when it saves cost and reduces emissions on the grid.

This will impact the gas utility. Managing a utility through declining sales was complicated and required planning, which was embodied in strategy five. Part of Utilities' role in the S/CAP will involve assessing this transition from a financial standpoint, the funding mechanisms needed and the impact on utility rates. Staff has had early discussions on a plan for gas infrastructure transition study. The grid modernization study was completed.

Staff was developing a work plan to present to Council in May. Several other programs were in the work plan, including whole-home electrification, commercial rooftop HVAC, and partnerships with major facility owners to help them reduce emissions from their facilities as well as commuters.

Strategy was the S/CAP funding study. The draft scope was ready but there was a funding issue. There will be discussions in May with the Finance Committee on the budget and funding for this study.

Staff was preparing for modernization of the first neighborhood under the electric grid modernization plan. Commissioner Forssell asked if the completed grid modernization study was available to the public or commissioners. Mr. Abendschein replied they were internally discussing how and when to provide an update. Mr. Batchelor did not have a timeline for releasing the study, if they chose to make it public. He was concerned with the community asking questions that the high-level study did not address.

Commissioner Metz inquired when the UAC will see the plans referenced on Packet Page 62, Presentation Page 24, particularly S2, S3, S4 and S5. Mr. Abendschein responded that the UAC had already had initial meetings on the electric integrated resource plan and One Water Plan (S2 and S3). Karla Dailey, Acting Assistant Director, Utilities Resource Management, added that the One Water Plan had a delay because of staffing but they hoped to get it to Council by the end of this calendar year and the UAC would see it late summer. Mr. Abendschein stated that for S4 and S5, they addressed the grid modernization study. The electric reliability and resiliency strategic plan did not have a timeline because Council assigned it to the S/CAP Committee as a work item. S4 included infrastructure work needed to accommodate the community transition, including grid modernization, building capacity to accommodate electrification, retirement of the gas system as well as the order and method in which those would be done. The first budgets for grid modernization are in the FY 2024 capital budget and our rate plan factored in the funding.

Chair Segal commented on S3, the One Water plan. She wanted to add language that reflected the UAC's discussion on efficient, sustainable, clean water supply. Ms. Dailey remarked that they would only consider water that was clean and drinking water quality. Mr. Abendschein agreed to add the language.

Anna Vuong, Senior Business Analyst, addressed the Commission on workforce. Staff developed a training template for classifications in water, gas and wastewater engineering to let our employees know what it takes to get to the next step in their career. Staff was refining the template to use it in other divisions. The City was exploring daycare options after surveying our employees about their daycare needs. The City will continue exploring retention options. The turnover rate was 13% but the KPI was less than 10%. The KPI for positions filled annually was 90% but we were at 77%.

Vice Chair Scharff asked about the employee satisfaction survey results and lessons learned. Ms. Vuong replied that about 50% filled out the survey. They need to perform analysis of the responses.

In response to Vice Chair Scharff querying if our hiring and workforce was compared to other publicly owned utilities such as Santa Clara and Alameda, Ms. Vuong answered they had not. Vice Chair Scharff

encouraged comparisons to determine if we had more problems hiring than our peers or if our salaries were competitive. Mr. Batchelor remarked that SEIU received a new contract and the comp study included Alameda, Santa Clara, Roseville, Anaheim and Long Beach. For full benefitted positions, we were behind Santa Clara but above Alameda and well above Long Beach. The issue with SEIU was explaining to their other 400 members why Utilities had a separate cost rate than Public Works or CSD. Utilities received a larger increase than the General Fund workers did but we still have difficulty attracting people to work for Palo Alto in critical positions. Santa Clara started their first apprenticeship program because they were losing linemen and were not able to replace them. They have four linemen classifications open that they will fill with apprentices. Alameda is down one. Lodi was down two. Roseville was full. Being further away from the Bay Area has helped because of cost of living.

Commissioner Mauter asked if there was a deficit in the number of applications or the number of qualified applicants. Tabatha Boatwright, Utilities Administrative Assistant, is an HR liaison (HRL). They have seen a rise in applications but there was a lot of attrition. People who have worked for the City for a few decades were leaving, so we promoted other employees, therefore leaving a position open. Once we fill the open position, somebody retires. As soon as we hire someone, someone else leaves. The line crew was a difficult position to fill. We have a much larger crew. We need 12 people, so you have to consider that when you compare our vacancies with other cities that have smaller crews. We have three trained linemen. Mr. Batchelor added that they had not seen applications for linemen or engineering. Staff visited Sacramento State and San Luis Obispo because they were the only two schools in California with power engineering programs.

Commissioner Phillips inquired if this was a problem in 2018 or if it was a post-COVID problem. Ms. Boatwright explained that for linemen it was a consistent issue. Many linemen come from far away and return to their hometown when they finish our four-year apprenticeship. City Hall closed during COVID and many people enjoyed working from home. Once we reopened, some employees feared coming back and they resigned to find a job that allowed them to work permanently from home. The City has a work schedule of two days in the office and three days at home. We lost a number of people in engineering because they chose to consult from home.

City Council Member Ed Lauing advised having a consultant perform a departmental analysis of what else we could do. He asked if people were turning down our offers and why. Ms. Boatwright replied that there were three positions that people turned us down based on salary. Council approved salaries and negotiated with unions. Council Member Lauing suggested being more aggressive with the HR department. Ms. Boatwright, with the Director of HR and the City Manager's permission, had a digital billboard outside Ikea for three months that invited people to come work for Palo Alto. Two different advertisements ran for 8 seconds every 60 seconds. We do not know if it had any impact because HR asked applicants how they heard about us but the billboard was not one of the options.

Commissioner Forssell heard about the new Palo Alto School Board policy to allow City employees' children to attend Palo Alto Schools and wanted to know if it would be helpful in recruitment and retention. Ms. Boatwright opined it was a huge deal because some employees had a long commute to and from their children's school. Deputy City Manager Chantal Gaines was promoting the new policy in our recruitment posts. Mr. Batchelor added that PAUSD was willing to do this because their schools started to have low attendance.

In response to Commissioner Croft's query if we needed more people to work on the hiring process, Ms. Boatwright answered that Utilities does not control that because HR is their own department. CPAU paid

the salary for one full-time dedicated HR recruiter for Utilities. We created three HRLs to help with recruitments and they meet weekly but they were limited in how much they could do because HRL tasks are in addition to their regular jobs. HR was recruiting for two recruiters but it was a difficult position to fill because many recruiters prefer to work from home.

ACTION: None

The UAC took a break at 8:15 p.m. and returned at 8:26 p.m.

ITEM 4: ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend the City Council Adopt the Proposed Operating and Capital Budgets for the Utilities Department for Fiscal Year 2024

Alexandra Harris, Senior Business Analyst, delivered a slide presentation on the preliminary budget that will be proposed to the Finance Committee next week. HR, OMB and the City Manager's Office reviewed the budget change requests. Staff released the proposed budget packet to the public. Workshops are scheduled between the Finance Committee and Council before Council adopts the budget on June 19.

Grant opportunities would enable the City to accelerate some large infrastructure investments necessary to meet our S/CAP initiatives. There have been ongoing discussions about what was needed to upgrade the City's electric grid system. Potentially, a second study would help determine and mitigate load impacts from EV and solar usage as well as evolving technologies. There will be a pilot program continuing through Fiscal Year (FY) 2024 to rebuild secondary networks and install transformers to increase capacity to about 500 homes within Embarcadero, Louis and Amarillo. The plan was to complete a design by December 2023 and construct the first 10% of the system in spring 2024.

The FFTP project will provide broadband internet to the community. The contract amendment approved on Monday (Report #2303-1215) will provide program management for the construction of the backbone and Phase 1 of FFTP, network ops, tech support and electric make-ready engineering work. Staff planned to return to Council with a summer update and possible RFPs.

Staff was aggressively pursuing grant opportunities from the bipartisan infrastructure bill passed a couple years ago. One recent application was for approximately \$11M for the smart grid AMI project and currently we are applying for a 50% match grant of \$100M to \$150M for the grid modernization project. Our gas team is actively pursuing a gas grant of about \$9M. The budget does not presume we win these grants.

Commissioner Phillips queried if receiving the grants would allow us to reduce our rates. Jonathan Abendschein, Assistant Director, Utilities Resource Management, pointed out that our reserves were \$8M to \$10M below the minimum guideline. Any additional revenue would go toward replenishing reserves. Receiving one-time grant proceeds would not allow us to lower rates because they are one-time cost savings as opposed to ongoing cost savings. If we won multiple grants, it might replenish reserves enough to allow us to phase in some of the later year rate increases over a longer period.

These are federal grants. The grid modernization grants were from the Department of Energy (DOE). In reply to Commissioner Mauter inquiring if CPAU was aware of a California cost share program that added \$1M to federal grants, Ms. Harris answered no. Commissioner Mauter explained that you need to apply

to CPUC prior to applying to DOE and CPUC would provide an extra \$1M automatically if DOE awarded the grant.

Ms. Harris stated they had new information that affected the water rates but the table did not reflect the change. Water rates were comprised of distribution and commodity costs. We pass through commodity costs to the customers based on SFPUC rates. We anticipate those rates will change from 11.6% to 9.6%. This change would slightly reduce the water rates, decreasing from 6% to 5%, from \$5.90 down to \$5.21 in the estimated monthly bill.

See links in Staff Report #2302-0949 for the preliminary electric fund budget. The first five links were for a preliminary view of the capital budget organized by fund and included a detailed budget summary table and details per project. The last link was a preliminary view of the Utilities operating budget organized by fund, starting with an overview, various budget summary tables and ending with a detailed reconciliation from the prior year budget to this year's 2024 budget.

Construction started recently to increase the physical security at our electric substations. Staff will continue their efforts to apply for grants and explore any alternative funding resources, work on the electric grid modernization plan, complete a new electric cost of services analysis and launch the new outage management system.

Commissioner Metz wanted to understand what was included in the electric fund grid modernization. Ms. Harris explained that the budget presented to the UAC was very high level and contained preliminary cost estimates. A more in-depth study and further details were forthcoming, such as the numbers of transformers needing upgrade.

Electric fund reappropriations from one year to the next were for projects postponed to align with grid modernization efforts, limited engineering resources, supply chain issues or difficulty procuring transformers. The electric fund FY 2024 revenues were approximately \$265M, about \$80M more than the adopted FY 2023 budget. In addition to the increases in retail sales, it also reflected the debt financing for the grid modernization project to help fund it through bonds. There was one-time \$24M revenue from the lawsuit we won in FY 2023 but originally anticipated it for 2024 so it's still reflected in FY 2024 in this preliminary budget. FY 2024, expenses were about \$260M and were mostly comprised of capital improvement expenses and commodity purchases.

A slide was shown comparing CPAU's electric bill with PG&E and Santa Clara. Although CPAU was lower than PG&E, we were slightly higher than Santa Clara because they generate their own electric power.

Commissioner Metz requested further explanation of the rate increase. Mr. Abendschein explained that electric revenues were about 20% below costs, so reserves were very low in the electric utility. The \$24M we received from the settlement from the federal hydropower project was used to replenish our reserves and repay an outstanding internal loan to our electric special project reserves. We use a reserve to balance our hydroelectric from year to year and our reserve target is about \$19M. As of the end of last year, the reserve balance was \$400,000, so some of the money from that settlement went toward replenishing that reserve. A lot of the revenue from the strong hydro generation this year will go toward replenishing the hydroelectric stabilization reserve. Customers will see an average decrease of 5% in their bills with removal of the hydroelectric rate adjustor (HRA) and 21% base rate increase. Staff could improve the HRA design. The HRA managed the variability associated with hydroelectric generation. Increases in our core continuing costs and long-term increases in the cost of energy drove the base rate increase. There was an

overall 11% increase this year in the median residential bill but the previous two years had 1% increases. When you annualize it over those three years, the increases were about 4%. Utility costs and utility rates nationwide were increasing above inflation because of investments in aging infrastructure.

Commissioner Croft noted the increase from 2022 to 2023 in electric demand from \$2.9M to \$8.3M and a similar demand bump on the gas budget. Mr. Abendschein remarked that a lot of it was related to S/CAP. He believed the cost of the Advanced Heat Pump Water Heater Pilot Program was \$5.7M. The multifamily electric vehicle charging program had a significant budget. The money was for cutting emissions and doing energy efficiency work.

Ms. Harris stated that they would add two new dedicated fiber employees (dark fiber engineering and a market analyst). Some upcoming fiber initiatives included plans to add fiber in the foothills, continue searching for alternative funding sources and to issue construction bids and proposals related to the fiber backbone and FTTP projects.

The anticipated fiber fund FY 2024 revenues were \$4.6M from our existing dark fiber business. Most of the \$36.75M was comprised of capital improvement costs for the fiber backbone and the FTTP project. Other major expenses were salary and benefits as well as allocated charges for internal overhead costs such as IT or HR support. The City contracted Magellan to support the next phases of the fiber project.

Dave Yuan, Strategic Business Manager, addressed Commissioner Forssell's questions regarding the difference between the FTTP Phase 1 and the initiative to add fiber in the foothills. FTTP Phase 1 is more in town and the City would be the ISP. Adding dark fiber in the foothills was due to the community wanting to form their own ISP for internet access.

Chair Segal asked how much it cost us to make the \$4.6M revenue. Mr. Yuan replied that the cost was minimal, only for salaries and benefits because the infrastructure was paid for 20 years ago and was very low maintenance. Fiber paid about \$1.5M toward the University Avenue upgrade project.

Anna Vuong, Senior Business Manager, delivered a presentation on the gas, water and wastewater funds. About 3700 sewer laterals need to be inspected for cross bores. One initiative is to complete construction work on Gas Main 24B. There will be a gas decommissioning study in 2024 to evaluate the approach for downsizing the gas system and identify any potential locations for proof of concept. Due to the spikes in last winter's gas prices, staff will evaluate winter hedging strategies to mitigate future price spikes. Staff will apply for federal grants for gas. Gas preliminary capital budget expenses for FY 2024 are about \$7M, including reappropriations of about \$300,000. Gas revenues will increase about \$19.6M compared to the FY 2023 adopted budget.

A slide showed a comparison table of monthly residential bills. CPAU's median residential bill was about 11% below PG&E.

Wastewater fund initiatives include construction of Wastewater Collection Replacement Project 31. A sewer master plan study will be done in 2024 (last done in 2004) to help determine our present and future capacity for wastewater collection as well as future areas for replacement projects. There will be replacement of 39 monitoring units for sewer sanitary overflow throughout various areas of the city, which have been helpful in bringing down our overflow numbers because it alerts us before it overflows.

Chair Segal noted that almost half of the wastewater operating budget expenses was for Utility Purchase and asked what that encompassed. Mr. Yuan explained that it was not a commodity purchase. Utility Purchase was the treatment charges for the regional water quality demand, meaning that is how much they charge us to clean our wastewater. The City shares about 32% of the treatment plant with four or five partners but we are doing an assessment to see if that was the correct percentage.

Ms. Vuong stated that the expenses in the wastewater capital budget did not reflect some recent changes. The adopted budget will reflect the replacement rate increase from 1 or 1½ miles to 2½ miles per year. The spike starts in FY 2026, increasing from \$5.2M to about \$11M for our replacement project.

The wastewater collection fund anticipated revenues increased about \$2.1M due to the rate increase. Expenses increased \$700,000 for treatment plant charges. There may be incremental increases over the next 7-10 years for the \$300M rehabilitation project. Although the \$300M is outside of the five-year plan, it was included in the financial forecast. There will be bond financing for most of that money, so we are only repaying the 30% debt service.

A slide showed of a comparison table of residential and nonresidential sewer bills. CPAU was 28% below comparison cities for residential customers, 7% higher for commercial customers, and 12% lower for restaurant customers. CPAU had a flat rate for residential customers. For commercial customers, the rate was based on their water usage.

Commissioner Mauter asked if there was a data-driven plan or ranking for when and where to replace sewer mains. Ms. Vuong responded yes, this year's sewer master plan would provide information on the age and deterioration of the pipes.

Chair Segal was curious why Hayward was one of the comparison cities. Mr. Abendschein remembered that Hayward was across the bay from us and had similar water supplies but he would need to ask Lisa Bilir if she remembered why they were included as a comparison.

Chair Segal inquired when the study would determine our percentage obligation for the plant. Mr. Yuan replied that Water Quality led that endeavor, so Public Works would hire a consultant to check all the cities' flows.

Ms. Vuong stated an assessment would be completed by June 2023 to determine whether to replace or rehabilitate Park Reservoir. Then, they will design and construct Park Reservoir. Complete construction of Water Main Replacement Project 28 and beginning Project 29 will happen in FY 2024.

For FY 2023, \$27M was in the adopted budget, about \$14.4M will be spent and \$12.6M will be reappropriated, the bulk of that for Park Reservoir. In FY 2024, the water fund CIP is \$26M, including the \$12.6M reappropriation. For the water system supply improvements project, there was an initiative to replace security cameras as well as install generators at our booster stations and pump stations.

For the water fund, staff anticipated an increase of \$3M in revenues based on a 6% rate increase. For the adopted budget, staff will propose a 5% rate increase. Expenses increased about \$13M, which included capital improvement reappropriations from 2023, Water Main Replacement 29, and an SFPUC commodity rate increase of 11% (but now it changed to 9.6%).

A slide showed a comparison table of single-family residential and commercial water bills. CPAU residential water bills were about 14% above the comparison city average. We have proactive investment in our infrastructure. We are 100% Hetch Hetchy. Some of the comparison cities may have groundwater sources. CPAU commercial water bills were about 5% above the comparison city average.

Vice Chair Scharff commented on why we used Hayward as a comparison. He thought it was BAWSCA and they get Hetch Hetchy water. Many cities do not do their own sewer. Fremont, Newark and Union City belong to Alameda County Water District. He thought Oakland and most other North Alameda cities belong to East Bay MUD.

Commissioner Phillips noted a \$21M gap between water fund revenues and expenses. Mr. Yuan explained that part of it was reappropriation of \$10M encumbered in 2023 but moved to 2024. Water will still have healthy reserves because revenues were higher than projected due to people working from home during COVID.

Commissioner Croft commented on the difference between 2024 proposed budget expenses of \$470M and revenues of \$413M. There were very large differences with expenses much higher than revenues in 2022 and 2023. Mr. Yuan replied that part of those expenses were reappropriation dollars, he guessed around \$20M for 2024. Budget expenses reflected the amount authorized to spend but normally they do not spend everything. For CIP, 25% to 50% of our budget is spent. We have a 20% vacancy, resulting in less money spent on salaries. We spend about 60% to 75% of authorized expenses. Mr. Abendschein added that when they reappropriate things from one year to another, money from the rates for those expenses then goes to the reserves and drawn down the following year. The practice was to spend more on CIP in some years and less in other years; for example, doing a main replacement project every other year to have a larger project, get more bids and manage staff capacity issues. Every year, staff brings a business plan and financial plan to the UAC for each utility that includes all these year-to-year variances and maps them against the reserves and rates to confirm the utilities are in a good financial position. He offered to forward the information to Commissioner Croft.

Ms. Vuong presented a staffing chart showing 57 vacancies, representing a 22% vacancy rate and 34 active recruitments. In Calendar Year 2022 and the first three months of 2023, there were 30 new hires, 23 promotions, 5 retirements and 31 separations, for a net loss of 6 FTEs.

There were alignments of 10% to the market rate and they will continue their efforts to reach market rate or be more competitive. A flexible remote work schedule is in place for certain positions. There are new apprenticeship programs. As part of the post AMI transition project, there was a training program to provide opportunities to our meter readers within the department. One meter reader went to customer service and another went to water transmission. The new contract with SEIU included hiring and retention bonuses. Another staffing recruitment strategy is career fairs. For FY 2024, regular FTEs will increase by 4.5 positions (mostly in the new Palo Alto Fiber division).

ACTION: Vice Chair Scharff moved to approve Staff Recommendation that the Utilities Advisory Commission Recommend the City Council Adopt the Proposed Operating Budgets for the Utilities Department for Fiscal Year 2024

Seconded by Commissioner Croft.

Motion carried 7-0 with Chair Segal, Vice Chair Scharff and Commissioners Croft, Forssell, Mauter, Metz, and Phillips voting yes.

ACTION: Commissioner Phillips moved to approve Staff Recommendation That the Utilities Advisory Commission Recommend the City Council Adopt the Proposed Capital Budgets for the Utilities Department for Fiscal Year 2024

Seconded by Commissioner Forssell.

Motion carried 6-1 with Chair Segal, Vice Chair Scharff and Commissioners Croft, Forssell, Mauter, and Phillips voting yes. Commissioner Metz voted no due to the absence of specifics on grid modernization.

COMMISSIONER COMMENTS and REPORTS from MEETINGS/EVENTS

Commissioner Forssell asked for any commissioners serving on the S/CAP committee to bring information to the UAC. Chair Segal remarked that there were no UAC commissioners on S/CAP with the change in mayorship and City Council. Mayor Kou will have a meeting with Commission chairs this month or next month and maybe that could be brought up then.

Vice Chair Scharff asked to see the COTP report. Mr. Batchelor explained that it was an informational report in tonight's packet but staff could bring it back next month for discussion because a decision needed to be made on whether to lay off this asset or examine it further. Staff was determining if there were financial resource impacts to us. We have close to \$1M if we kept it but staff was researching what we might be able to get and solicit some bids if we want to lay it off. Commissioner Metz inquired what the carbon intensity was of the electricity coming from COTP because it was important input to the decision. Commissioner Phillips would like to hear if it was Bonneville Power. Vice Chair Scharff thought there was an issue with liability of fires on the transmission line and would like to know how that affected the City of Palo Alto.

FUTURE TOPICS FOR UPCOMING MEETING

Commissioner Croft expressed interest in residents' experiences with AMI. Chair Segal thought the UAC would receive regular reports after AMI rolled out.

NEXT SCHEDULED MEETING: June 7, 2023

Commissioner Forssell moved to adjourn.

Commissioner Mauter seconded the motion.

The motion carried 7-0 with Chair Segal, Vice Chair Scharff, and Commissioners Croft, Forssell, Mauter, Metz, and Phillips voting yes.

Meeting adjourned at 9:45 p.m.