



CITY COUNCIL SUMMARY MINUTES

Special Meeting
April 17, 2023

CALL TO ORDER

The City Council of the City of Palo Alto met on this date in the Council Chambers and by virtual teleconference at 5:00 p.m.

Present In Person: Burt, Kou, Lauing, Lythcott-Haims, Stone, Tanaka, Veenker

Present Remotely:

Absent:

CLOSED SESSION

1. CONFERENCE WITH CITY ATTORNEY – EXISTING LITIGATION California Court of Appeal, Sixth Appellate District, Case No. H049425 Subject: Hamilton and High LLC, et al., Appellants v. City of Palo Alto, et al., Respondents Authority: Government Code Section 54956.9(d)(1)
2. CONFERENCE WITH LABOR NEGOTIATORS City-Designated Representatives: City Manager and his Designees Pursuant to Merit System Rules and Regulations (Ed Shikada, Kiely Nose, Sandra Blanch, Tori Anthony, Molly Stump, and Jennifer Fine). Employee Organization: Service Employees International Union, (SEIU) Local 521, Utilities Management and Professional Association of Palo Alto (UMPAPA), Palo Alto Peace Officers' Association (PAPOA), Palo Alto Police Management Association (PMA), International Association of Fire Fighters (IAFF) Local 1319, Palo Alto Fire Chiefs' Association (FCA). Authority: Government Code Section 54957.6 (a)

MOTION: Mayor Stone moved, seconded by Council Member Lauing to go into Closed Session.

MOTION PASSED: 7-0

Council went into Closed Session at 5:03 p.m.

Council returned from Closed Session at 7:33 p.m.

Mayor Kou reported that the Council voted on Item 1 to authorize staff to seek review in the California Supreme Court of the Sixth District to appeal decision as follows: 6-1, Tanaka no.

SUMMARY MINUTES

Mayor Kou announced no reportable action for Item 2.

STUDY SESSION

3. Study Session Regarding Proposed Electric, Gas, Water and Wastewater July 2023 Rate Changes

If Council approved staff's recommendation, the proposed utility rates would be effective July 1, 2023. The levels of reserves in electric, gas and wastewater would be very low by the end of 2023. Staff is seeking Council's direction to proceed with Proposition 218 notifications of proposed water and wastewater rate changes as recommended by the Finance Committee.

Senior Resource Planner Lisa Bilir delivered a slide presentation. Palo Alto's cost to buy natural gas was five times more in January 2023 compared to January 2022. Contributing factors included high demand due to cold weather, low amount of gas in storage and constraints in supply across the west. The City supported the Governor's call for a federal investigation of the price spikes. Investigations are ongoing by regulatory agencies, including the CPUC and California ISO. Staff planned to bring options to the Council for a winter hedging program that could avoid similar price spikes in the future. The commodity rate for gas has decreased from \$4/therm in January 2023 to \$0.66/therm in April 2023.

The City provided various types of assistance for customers affected by high winter gas bills. Staff arranged payment plans of six to eight months and free consultations with the City's Home Efficiency Advisor. There is a Rate Assistance Program (RAP) and a free energy efficiency improvement program for income-qualified customers to help offset future gas bills. City Council approved a rebate program for gas and electric. The rebates provide \$90 to \$165 to each residential customer with natural gas and electric services and an additional \$200 for customers enrolled in RAP. Customers with utility bill arrearages greater than 180 days receive an additional \$200. We will pass through to customers our declining supply costs using the gas commodity rate adjustor and deactivating the electric hydroelectric rate adjustor in July 2023.

Staff expected gas and electric market prices to remain elevated long term, though below last winter's level. Rising gas and electric transmission costs as well as environmental charges will continue to increase utility bills in the coming years. The San Francisco Public Utilities Commission (SFPUC), our water supplier, has increased water rates as they continue to invest in the regional water system. The City minimized rate increases during the pandemic. Revenues were below cost in all our utilities.

We need to rehabilitate the wastewater treatment plant as well as accelerate the sewer main replacement rate. The electric utility has aging infrastructure and we need to modernize the grid as the community electrifies. Construction inflation is a difficult challenge for all Bay Area public agencies.

SUMMARY MINUTES

Staff proposed a 3% increase in the overall bill. Staff recommended a 21% increase to the electric base rate and deactivation of the hydroelectric rate adjustor. Staff expected electric bills to decrease by 5%. The City participated in litigation against the Bureau of Reclamation. This resulted in a \$24M refund of overcharges associated with the Central Valley project, therefore making the proposed decrease in electric rates possible. The proposed gas distribution rate would increase gas bills by 8%. When netted against the forecasted decrease in the gas supply rate, staff expected customers would pay about 13% less for gas in FY 2024 than FY 2023. Staff proposed a 9% increase in wastewater rates to pay for infrastructure replacements and treatment plant upgrades. Staff recommended a 6% increase for water, which included a 2% increase in the water distribution rate and a pass-through of SFPUC's 9.6% rate increase. The refuse rate did not change this year but staff expected it to increase in future years. The storm drain rate increased with CPI in accordance with the ballot measure.

Council Member Burt, Finance Committee Chair, commented that the Finance Committee spent a considerable amount of time on this topic. One of the lessons learned was that we should have passed along modest increases to avoid depleting our reserves to this extent.

Senior Resource Planner Bilir stated that the rate would be lower if Palo Alto pumped groundwater and paid Valley Water for the pumped water but expected the rate to increase higher than SFPUC's rate within the next five years. Mayor Kou asked staff for a chart of comparison rates for each of the water wholesalers.

About half of the water rate we charge customers pays for the water that Palo Alto purchases from SFPUC and the other half pays for the distribution system, including maintenance and necessary capital work as well as staff. There is no profit. It is a cost-based rate based upon the costs to maintain the system and keep reserves at a healthy level.

Proposition 218 required public notice. Staff will issue a public notice and there will be a public hearing at the Council Meeting on June 17. The public can protest water and wastewater rate increases. The number of protests would determine if the rate increase could proceed.

Council Member Tanaka queried if staff had a graph or table that showed what percentage of utility rates was for the General Fund transfer. Assistant Director of Utilities and Resource Management Jonathan Abendschein did not have that information but on Packet Page 499 was a chart showing FY 2024 Alternative 1 (18% transfer) was \$8.9M and Alternative 2 (15.5% transfer) was \$7.7M. Approximately 5% to 10% of the rate goes toward the transfer. In electric, the percentage was around 8% of the rate.

Council Member Tanaka pointed out that we do not have much control over commodity costs but we have control over the General Fund transfer amount and our staff costs. He requested a chart that showed each utility rate and what percentages of the rates were for the General Fund transfer and for staff costs. He wanted to have that information printed on customers'

SUMMARY MINUTES

utility bills. Senior Resource Planner Bilir replied that about 17% to 20% of the water and wastewater rate was for staff costs. Assistant Director Abendschein stated that 11.6% of the gas rate with Alternative 2 (15.5%) for FY 2024 was for the General Fund transfer.

Consent Item 10 included a chart that showed Palo Alto's current residential wastewater service in comparison with neighboring communities. Staff did not have bill comparison charts for refuse.

Comparing Palo Alto with PG&E for gas, we were lower in winter and higher in the summer but Palo Alto was about 11% lower than PG&E when calculated for the year. For electric, Palo Alto's rates were 46% lower than PG&E at the median usage level on an annual basis. Santa Clara was lower in all cases for electricity. Resource Planner Micah Babbitt noted that one of the primary differences was Santa Clara had many large data center loads, so they could spread their costs over a larger share of customers. City Manager Ed Shikada added that Santa Clara had a natural gas-fueled generation plant within their city, which avoided the transmission charges we incur from using the statewide grid and having electricity generated from solar in the Central Valley transmitted to Palo Alto.

Council Member Tanaka asked if there was a plan on changing the fixed capital cost of the wastewater plant to reflect current usage. Assistant Director of Public Works Karin North replied that staff was working with their partners and will have a consultant update our long-range facility plan because the cost was based upon the capacity of the treatment plant determined many years ago. Staff planned to return to Council before June with an informational report on the RFP and consultant work.

Council Member Tanaka liked geothermal but it seemed expensive. He wondered about the wisdom of choosing geothermal versus lower-cost energy sources. Staff responded that prices had been rising drastically in the power market. Staff believed it was a good deal although it was unknown how it would compare with alternatives over the 12-year contract.

Council Member Tanaka asked if there was a plan to assist struggling small businesses with their commercial rates. Assistant Director Abendschein replied that staff regularly reviewed rates. The City was expanding their efficiency programs to help businesses save money on their electric bills.

Senior Resource Planner Bilir believed there were 138 miles remaining for pipe replacement. The engineering team's estimate of a pipe's average useful lifetime is 100 years. We had an average rate of replacement of 2.5 miles but due to recent rising costs and maintaining lower rate increases during the pandemic, the average rate of replacement dropped to an average of 1 mile in recent years. Increasing the rate of replacement would increase residential customers' sewer bills by 9% (\$4/month), approximately \$1.8M. The rate does not fluctuate for residential customers but it does for non-residential customers.

SUMMARY MINUTES

The gas utility costs include purchasing and transporting gas, environmental charges as well as maintaining and operating the gas distribution system. On a monthly basis, we pass through to customers the cost of purchasing gas. The breakdown of the gas rate was distribution 40%, capital investment 11%, gas supply 32%, environmental 6% and transmission 11%. The proposed rate increase was to recover the reserves over the next several years and to cover the increasing costs of administration, salaries and benefits as well as rising construction costs.

Staff was looking at potential winter hedging strategies to bring to Council. If staff were to see a similar spike in gas rates, they will notify customers.

Assistant Director Abendschein explained that Measure L changed the General Fund transfer methodology for the gas utility to 18% of gross gas utility revenue unless the Council decided to transfer a lower amount. Staff's proposed gas rates used Alternative 2, a 15.5% transfer. Gas rates would be higher if Council chose a higher transfer percentage. The Utility Advisory Commission recommended Alternative 2 with one dissenting vote unrelated to the transfer. The Finance Committee recommended Alternative 2 with one dissenting vote because the committee member wanted an 18% transfer in FY 2024. Staff was seeking Council's feedback and decision regarding Alternative 1 and Alternative 2. Alternative 2 keeps the General Fund at about the CPI increase per year, which is the rate it historically increased in the gas utility. Alternative 2 was similar to the transfer amount estimate of \$7M to \$8M the City discussed when Measure L was on the ballot last year.

Staff's proposed rates will bring reserves gradually up to the minimum levels. For the gas utility, staff expected reserves to be below the risk assessment level by the end of FY 2023.

Vice Mayor Stone expressed his concern with the 15.5% transfer reducing the General Fund by about \$1.2M. Budget discussions begin early next month. He feared that the loss of revenue would prevent the City from restoring some critical services. The difference in transfer amounts of 15.5% versus 18% was about \$0.60/month for the ratepayer. It was a difference of 9% (\$5.80) versus 8% (\$5.20) increase.

Council Member Lythcott-Haims served on the Finance Committee and voted in favor of the 15.5% gas transfer because of recent gas and electric spikes, the prior year's budget surplus and the big settlement on overcharges. She wanted the public to feel confident we were balancing restoration and replenishment needs with the dollar impact to their pocketbook.

Council Member Tanaka pointed out that it makes the problem worse when the City gives raises beyond the rate of inflation. He thought hedging was important and a good technique. People were struggling with utility rates, so he wanted to keep the less fortunate in mind.

ACTION: None

SUMMARY MINUTES

AGENDA CHANGES, ADDITIONS AND DELETIONS

Item AA1 added to the agenda, a resolution to participate in settlement agreements regarding manufacture and distribution of opioid products.

PUBLIC COMMENT

1. Debbie Mytels urged the City to set an end date for gas. Over 420 people signed up on the City's website to participate in the electric heat pump water heater program. An article appeared in the *Mercury News* about a couple using their electric car battery to power their kitchen appliances, furnace and internet router using a \$220 inverter in their car trunk. Such bidirectional charging is commercially available in a half-dozen vehicles and more will be coming in 2024.
2. Shreya Vardhan is a member of 350 Palo Alto. She discussed the most recent report from the Intergovernmental Panel for Climate Change (IPCC). According to the report, there was strong scientific evidence that the increased heat waves, flooding and droughts seen worldwide were a result of greenhouse gas emissions from human activities. Palo Alto must continue to set an example for cities around the world. Global emissions need to start decreasing by 2025 at the latest. By 2030, natural gas emissions need to decrease by 34% below current levels.
3. Aram James commented on the Antioch police officers involved in a racist text message scandal. He questioned why Zach Perron was still on our police force. He wanted a discussion on the use of Tasers and canines.
4. Andrea Gara is a member of 350 Palo Alto. The Bay Area Air Quality Management District passed new rules that phase out the sales of emission-producing water heaters and furnaces in our area beginning in 2027. Methane gas-powered water heaters and furnaces do not meet the new standards and represent 90% of our methane consumption. There are environmental, health and safety concerns surrounding methane gas use. Setting a sunset date for methane gas allows time to make a robust plan. PG&E estimated that gas bills could increase 10x to 20x.
5. Lynn Chiapella would appreciate it if the Utilities Commission would consider tiered rates and charge significantly more per unit for higher use.
6. Phoebe Mota-Judges spoke as a representative of the Palo Alto Student Climate Coalition (PASCC). Friday, April 21, is the March and Rally for Climate Justice organized by PASCC, 350 Silicon Valley Palo Alto and many partner organizations. From 2:30 p.m. to 4 p.m., there will be a program for children and families. From 4 p.m. to 6:30 p.m., there will be speakers and food. She invited Council and the public to attend. The burning of natural gas

SUMMARY MINUTES

releases greenhouse gases, a major contributor to climate change. There was a link between toxins released by gas-powered stoves and numerous health issues. She urged City Council to set a sunset date to end the flow of natural gas. The importance of transitioning from natural gas to cleaner, healthier and more reliable energy sources will be a focus at Friday's rally.

7. Sue Chan invited people to celebrate the arts, culture and creativity. The Palo Alto Art Center Foundation is a 501(c)(3) nonprofit. They have programs for teens and disabled as well as a monthly arts program for low-income senior communities at Alta Housing and Stevenson House.

8. Mark Schultz highly opposed all utility rate increases. Salaries and benefits including pension fund contributions represent 60% of the total General Fund. He was in favor of eliminating the transfer to the General Fund and reducing rates by 11.6%. He thought that using 17% to 20% of wastewater rate increases to pay for staffing was too high.

CONSENT CALENDAR

Public Comment: Aram James was opposed to the City giving the Police Department a 13% pay raise plus \$200/month. A *Daily Post* article on Friday, April 7, noted that salaries under this proposal would increase for Zach Perron from \$256,792 to \$290,174, Lieutenant Kara Apple from \$230K to \$260K and Eric Ferguson from \$170K to \$192K.

Council Member Tanaka voted no on Agenda Items 8, 10, 11 and 13. For Item 8, he thinks voters deserve the right to vote on all new taxes, especially with high inflation and increased cost of living. On Item 10, even though some commodity costs have increased, we do not have to raise water and wastewater rates as much if we lowered the General Fund transfer amount. Regarding Item 11, looking at average salary and benefits plus the proactive contribution to the long-term pension, we are giving a \$67,000 a year raise to six people. They make about \$454,000 a year plus \$20K. The raise will increase their total compensation to about \$542,000. Many people in our community are struggling. There have been massive layoffs and big failures such as Silicon Valley Bank. Staff projected our total expenditures for the General Fund would be 1.4%. Every time we give increases beyond that amount, we have to ask ourselves where the extra money comes from, if it is from our ratepayers, from fees that people are paying, or fewer services. He does not support Item 13, the lease agreement for the Roth Building. He understands we want to celebrate our past but he thinks we should invest in our future, so he would much rather see a youth center than a museum.

MOTION: Mayor Kou moved, seconded by Council Member Burt to approve Agenda Item Numbers 4-13, AA1.

MOTION SPLIT FOR VOTING

SUMMARY MINUTES

MOTION PASSED ON ITEMS 4-7, 9, 12, AA1: 7-0

MOTION PASSED ON ITEMS 8, 10, 11, 13: 6-1, Tanaka no

4. Approval of Minutes from March 31, 2023 and April 3, 2023 City Council Meetings
5. Finance Committee and the Utilities Advisory Commission Recommend the City Council Approve and Authorize the City Manager or Their Designee to Execute a Third-Phase Agreement With Northern California Power Agency for the Purchase of up to 87,600 Megawatt Hours per Year of Geothermal Energy From Calpine Corporation's Geysers Power Company, LLC Over a Term of up to 12 Years for a Total not to Exceed Amount of \$76.2 Million; CEQA status: Not a project under CEQA Guidelines sections 15378(a) and (b)
6. Stanford University Medical Center (SUMC) Annual Report to Council for Fiscal Year 2021-2022
7. Approval of Amendment #3 with Professional Account Management LLC, dba Duncan Solutions Contract (C17164727) in the Amount of \$80,000 and to Extend the Contract Term to April 28, 2024 for Parking Citation Management; CEQA Status: Not a Project
8. **Resolution 10098** to Oppose the Taxpayer Protection and Government Accountability Act (Initiative 21-0042A1)
9. Approve Substantial Amendments to the Community Development Block Grant (CDBG) FY2021-22 and FY2022-23 Annual Action Plans and the Associated Budget Amendment and **Resolution 10099**
10. Staff Recommends that Council Approve Bringing the Water and Wastewater Rate Proposals to Council on June 19, 2023, Pending Proposition 218 Notifications, for a Public Hearing to Consider Two Resolutions: 1) Approving the Fiscal Year 2024 Wastewater Collection Utility Financial Plan, Proposed Reserve Transfers, and Increasing Wastewater Collection Utility Rates by Amending Wastewater Collection Rate Schedules S-1, S-2, S-6 and S-7; 2) Approving the Fiscal Year 2024 Water Utility Financial Plan, Proposed Reserve Transfers, and Increasing Water Rates by Amending Water Rate Schedules W-1, W-2, W-3, W-4, and W-7; CEQA Status: Not a project under Public Resources Code 15378(b)(5)
11. Adoption of a Memorandum of Agreement with the Palo Alto Police Officers' Association and the Police Management Association; Adopt an Amendment to correct the Fire Chiefs' Association salary schedules; and, Adopt revised Management and Professional salary schedules CEQA Status: Not a project

SUMMARY MINUTES

12. Approval of a Funding Agreement with the Santa Clara Valley Water District for Reimbursement Costs Incurred in Support of the Purified Water Project, and a Budget Amendment in the Wastewater Treatment Fund Advanced Water Purification Facility capital project (WQ-19003)
 13. Approval of Tenant Work Letter for Lease of 300 Homer Avenue Roth Building between the City of Palo Alto and the Palo Alto Museum; CEQA Status: Not a Project
- AA1. Adoption of a **Resolution 10100** Authorizing the City Manager to Execute Participation Agreements on Behalf of the City of Palo Alto to Enter Into Settlement Agreements Regarding Manufacture and Distribution of Opioid Products with Allergan Finance, LLC and related entities (Allergan); Teva Pharmaceutical Industries Ltd. and related entities (Teva); Walgreens Co.; CVS Health Corporation and CVS Pharmacy, Inc. (CVS); and Walmart, Inc. Agree to the Terms of the Memorandum of Understanding (MOU) Allocating Settlement Proceeds and Authorize Entry Into the MOU with the California Attorney General

CITY MANAGER COMMENTS

City Manager Ed Shikada delivered a slide presentation. He wanted to remind the community of available mental health and wellness resources. Palo Alto Youth Council hosted an event yesterday at Mitchell Park Community Center focused on resources available to youth as well as the general community. You can access the County's new TRUST program by calling 9-8-8 and it is part of the Suicide and Crisis Lifeline. Project Safety Net provides resources directly or through other organizations. The Children's Youth Council provides services focused on family and youth. Allcove provides mental health support for young people between the ages of 12 to 25. You can find information on these resources on the City's website.

There are several events planned for Earth Week. Friday, April 21 is the March and Rally for Climate Justice at City Hall. The Earth Day Photo Contest deadline is April 30. CityofPaloAlto.org/EarthDay has more details.

In the upcoming weeks, we will have discussions on the budget largely focused on our General Fund. A general update on City finances is on paloaltoconnect.medium.com. There will be a presentation to Council on the proposed budget on May 1. The Finance Committee Budget Public Hearings are on May 5 and 9. The Finance Committee will report their budget recommendations to the full Council on May 22. Early next month, staff will schedule general public information sessions so members of the community can view a presentation and ask questions.

SUMMARY MINUTES

There is a community meeting on Thursday, April 20, 6:30 p.m., at Duveneck Elementary School in conjunction with the San Francisquito Creek Joint Powers Authority and our partner cities on the status of San Francisquito Creek Reach 2 upcoming channel projects.

On Thursday, April 27, there will be a virtual community meeting regarding our ongoing evaluation and project development for car-free streets on Ramona and California Avenue.

Upcoming items on Council's agenda: On April 24, there will be a second set of candidate interviews for commission openings, a study session on Safe Routes to School, and final approval of the Council Procedures and Protocols document. On May 1, introduction of the FY 2024 proposed budget and a public hearing on a proposed project at 2147 Yale Street. May 8 is a joint session with the Planning and Transportation Commission regarding the Housing Element. May 15 will be final adoption and legislative discussion on the Sustainability and Climate Action Plan.

Council took a five-minute break.

ACTION ITEMS

14. PUBLIC HEARING: Adoption of a **Resolution 10101** Approving the Fiscal Year 2024 Gas Utility Financial Plan, Including Proposed Reserve and General Fund Transfers and Amending the Gas Utility Reserve Management Practices, and Increasing Gas Rates by Amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service); CEQA Status: Exempt/not a project under Public Resources Code section 21080(b)(8)

Assistant Director of Utilities and Resource Management Jonathan Abendschein discussed the proposed 8% increase in the overall gas bill that was driven by a 21% increase in the distribution rates and the need to recover our very low reserves over the next several years. Staff was seeking Council's decision on the transfer amount to the General Fund. Staff, UAC and Finance Committee recommended this motion. There was one dissenting vote on the Finance Committee and one dissenting vote unrelated to the gas General Fund transfer on the UAC.

Public Comment: Mark Schultz remarked that his bill at 426 Palo Alto Avenue was \$1430 last month and \$1114 this month.

Assistant Director Abendschein addressed Council Member Burt's question regarding the various programs to support low-income ratepayers. We used reserves instead of passing through all of the high gas costs to residents. Staff gave customers the option to pay off their bill over six to eight months. Council initiated rebates for gas and electric utilities. We offer free home efficiency evaluations. There is a Rate Assistance Program (RAP) and free home energy

SUMMARY MINUTES

upgrades for income-qualified customers. All income-qualified RAP customers will receive \$200 in electric and gas rebates.

Our gas rates were 11% below PG&E's average for calendar year 2022. We do not know how we compare with PG&E's rates for 2023 or 2024. PG&E's rates are dependent on gas market prices and their gas rates are different from ours because they are a large buyer.

Council Member Burt opined that these rate adjustments were necessary to replenish the drawdown in our reserves used to mitigate rate increases the previous two years during the pandemic. Our gas utility rates are 11% below PG&E and he thinks that is an accomplishment.

Vice Mayor Stone supported the motion. He offered a friendly amendment on (d) to change the transfer amount to 18%. The increase of \$0.60 per month would give us an additional \$1.2M in the budget. Mayor Kou was okay with amending (d) to 18%. Council Member Burt did not agree with the amendment. Vice Mayor Stone changed it to an unfriendly amendment.

Council Member Lythcott-Haims was against the amendment primarily for procedural reasons. The UAC and Finance Committee voted for 15.5%. The Finance Committee spent hours on this before making their recommendation. She was in favor of 15.5%.

Council Member Lauing concurred with 15.5% and believed we should honor the UAC's decision.

Because of the substantial impact on our most vulnerable, Council Member Veenker was disinclined to go with Alternative 1 and thus will not support the amendment. The idea behind Alternative 2 was to continue the historical practice of staying with CPI and modulating the impact of the recent spike. Staff proposed 15.5% for 2024, 11% for 2025 and 12.9% for 2026. Vice Mayor Stone withdrew his motion amendment.

Council Member Tanaka thought 15.5% was better than 18% but was opposed to the motion because he wanted to provide people some relief by lowering the transfer amount so we do not need a rate increase.

MOTION: Mayor Kou moved, seconded by Council Member Burt to adopt a resolution (Attachment A):

- a) Approving the Fiscal Year (FY) 2024 Gas Utility Financial Plan (Attachment B);
- b) Amending the Gas Utility Reserve Management Practices (Attachment C);
- c) Transferring up to 18% of gas utility gross revenues received during fiscal year 2021 to the general fund in FY 2023;
- d) Transferring up to 15.5% of gas utility gross revenues received during fiscal year 2022 to the general fund in FY 2024;
- e) Transferring up to \$3.82 million from the CIP Reserve to the Operations Reserve in FY 2023; and

SUMMARY MINUTES

- f) Increasing gas rates by amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service) (Attachment D).

MOTION PASSED: 6-1, Tanaka no

- 15. PUBLIC HEARING: Adoption of a **Resolution 10102** Approving the Fiscal Year 2024 Electric Utility Financial Plan and Proposed Reserve Transfers, Deactivating Utility Rate Schedule E-HRA, and Amending Utility Rate Schedules E-1, E-2, E-2-G, E- 4, E-4-G, E-4 TOU, E-7, E-7-G, E-7 TOU, E-NSE, and E-EEC; CEQA Status: Not a project under Public Resources Code 15378(b)(5) and exempt under Public Resources Code 15273(a)

Resource Planner Micah Babbitt delivered a slide presentation. Staff recommended deactivating the hydroelectric rate adjuster and increasing the retail electric rates by 21% across all rate classes.

Public Comment: None

Staff conducted an initial assessment of grid modernization costs and the outcome suggested it would cost between \$200M and \$300M. As the \$300M will last longer than five years, the five-year forecast reflected \$200M in funding but there is another \$100M for years beyond FY 2028. Council Member Lauing noted that electric use continued to decline according to Packet Page 606. Staff explained the various reasons. A number of commercial and industrial customers left Palo Alto's service territory over the last 20 years. We have seen the impact of energy efficiency in the last two decades, such as more efficient lighting. Staff looked at different load scenarios as part of their electrification work plan and expected loads to grow over the five years of this financial plan.

Council Member Burt expressed his concern that the projections do not include the likely accelerated pace of our transportation system switching to electrification in the next few years as well as electrification of commercial and residential buildings. He thought the UAC and S/CAP ad hoc committee should discuss electricity demand.

Council Member Tanaka wanted to split out 4 (a) for voting. City Attorney Molly Stump stated (a) was not separable because approving or not approving (a) impacted (b), etc.

MOTION: Council Member Burt moved, seconded by Vice Mayor Stone to adopt a Resolution (Attachment A):

- 1) Approving the FY 2024 Electric Financial Plan (Attachment B); and
- 2) Approving the following transfers at the end of FY 2023:
 - a. Up to \$12 million from the Supply Operations Reserve to the Distribution Operations Reserve; and

SUMMARY MINUTES

- b. Up to \$4.5 million from the Supply Operations Reserve to the Cap and Trade Program Reserve; and
- 3) Approving the following transfers in FY 2024:
 - a. Up to \$10 million from the Supply Operations Reserve to the Electric Special Projects (ESP) reserve; and
 - b. Up to \$8 million from the Supply Operations Reserve to the Hydroelectric Stabilization Reserve; and
 - c. Up to \$3 million from the Supply Operations Reserve to the Cap and Trade Program Reserve; and
- 4) Approving the following rate actions for FY 2024 (Attachment C):
 - a. Deactivation of the hydroelectric rate adjuster from customer bills effective July 1, 2023;
 - b. An increase to retail electric rates E-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-4 (Medium Non-Residential Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E-7 (Large Non-Residential Electric Service), and E-7 TOU (Large Non-Residential Time of Use Electric Service) of 21% effective July 1, 2023;
 - c. An increase to the Export Electricity Compensation (E-EEC-1) rate to reflect 2022 avoided cost, effective July 1, 2023;
 - d. An increase to the Net Surplus Electricity Compensation (E-NSE-1) rate to reflect current projections of FY 2023 avoided cost, effective July 1, 2023; and
 - e. An update to the Residential Master-Metered and Small Non-Residential Green Power Electric Service (E-2-G), the Medium Non-Residential Green Power Electric Service (E4-G), and the Large Non-Residential Green Power Electric Service (E-7-G) rate schedules to reflect modified distribution and commodity components, effective July 1, 2023

MOTION PASSED: 6-1, Tanaka no

COUNCIL MEMBER QUESTIONS, COMMENTS AND ANNOUNCEMENTS:

None

ADJOURNMENT: The meeting adjourned at 10:18 p.m.