



FINAL

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF MARCH 27, 2012

CALL TO ORDER

Chair Foster called to order at 7:02 p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Cook, Eglash, Foster, Keller, Melton, and Waldfoegel

Absent: Council Liaison Greg Scharff

ORAL COMMUNICATIONS

None.

APPROVAL OF THE MINUTES

The minutes of the March 7, 2012 UAC meeting were approved as presented.

AGENDA REVIEW

No changes to the agenda were proposed.

REPORTS FROM COMMISSION MEETING/EVENTS

Chair Foster reported on Finance Committee meeting's review of changes to the LEAP guideline related to the Renewable Portfolio Standard (RPS). He mentioned that the Finance Committee recommended approval of the clarifications of the RPS as recommended by the UAC (at least 33% RPS by 2015 within the 0.5 cents/kWh rate impact limit), but struck the goal of 40% that was recommended by the UAC. In addition, the Finance Committee voted to recommend that the City adopt a 100% Clean Energy portfolio and that this definition may not include landfill-gas-to-energy projects.

UTILITIES DIRECTOR REPORT

1. **Hydro Update:** March precipitation is helpful, but not enough to make this an average water year. Normal precipitation, which is forecast for April and May, would result in spring runoff of 44-69% of average into reservoirs. Unfortunately, the Calaveras project is down near the 44% runoff area. Fortunately, reservoir operators have the flexibility to conserve as much water as they can while respecting the environmental health of rivers and the Delta.
2. **Status of Renewable RFP evaluation:** Staff has initiated negotiations with a solar electric developer for a 20 MW power purchase agreement to bring to the UAC for recommendation in May.

3. Demand-Side Management Updates:

- a. The OPOWER/Facebook application will launch on Monday, April 3. This application will allow residents who have a Facebook account to participate in an energy reduction and comparison game with groups of friends who also volunteer to participate in this application. These volunteers will have their utility usage automatically pulled into the game. Customers can choose the level of openness that their utility data has in the game (i.e., private to the person, to specific groups of friends or all friends, or to the public at large, similar to the privacy settings for other games and posts in Facebook). Staff is working with OPOWER to promote this launch.
- b. The installation process for the EcoHome at the Lucie Stern complex is continuing. The EcoHome is a small (390 square feet) demonstration house showing energy efficiency and new technologies. The ribbon cutting is scheduled for Saturday, April 21 at 2:00 p.m. The Mayor will provide the remarks and announce the winner of the Ugliest Home Contest.
- c. Staff is working on a large number of public events and workshops for the upcoming few weeks up to and through Earth Day, focused on water use, solar electric (PV), solar water heating and Earth Day. If anyone is interested in attending a workshop, registration can be made at www.cityofpal Alto.org/Workshops

4. Communications Update

- a. **Welcome Packet for New Customers**---we are now sending new Utilities customers a welcome letter with contact information and links along with a few selected program brochures including the annual gas safety brochure and water quality report. This month we sent welcome packets to new customers since January 1, 2012, but will be sending the packets on a monthly basis from now on.
- b. **Palo Alto Neighborhoods (PAN) Emergency Prep**---we created a brochure for residents on how to deal with various Utilities under emergency conditions (meter and valve shutoffs, handling downed power lines etc). This brochure is being used by PAN for their neighborhood emergency preparedness fairs and workshops.
- c. **Ongoing Youth Art Show**---we instigated an ongoing solicitation for school-aged artists to contribute images on various utilities-related topics ranging from energy and water saving ideas to renewable resources and safety issues. We made it a "show" rather than a "contest" to encourage wide participation and allow greater recognition of contributed works. We've received a couple dozen entries so far and next month will start posting them on our website and using them in outreach pieces as appropriate.
- d. **Palo Alto CLEAN creates substantial web buzz**--we have probably set a new record for the number of online articles, blogs, etc about a Palo Alto Utilities program as there are over 80 links that we are aware of thus far promoting the availability of our new feed-in tariff opportunity. We look forward to the publicity generating some good contracts!

Chair Foster asked if participants in the Facebook/OPOWER program must be recipients of the OPOWER reports. Director Fong confirmed this.

UNFINISHED BUSINESS

None.

NEW BUSINESS

ITEM 1: ACTION: Water Utility Proposed Rate Adjustments Effective July 1, 2012

Chair Foster called for public comments on the item.

Public Comment:

Joe Baldwin, President of Waverley Park condominiums, spoke about how the ten condominiums pay commercial rates for water, but residential rates for sewer. Since they are residential customers, they want to be on the residential rate for water with the first usage tier calculated by multiplying the W-1 first usage tier by the number of units. The homeowners association began through the long process to get remedy for the issues raised long ago and was told that only the Council can make a decision so they have been following the process, which starts here with the UAC. When reviewing staff's proposal, they saw that their issue was not addressed except for a small mention in the cost of service study. He views the issue as one of fairness and doesn't understand why CPAU can't address this issue and "eliminate this inequity." He stated that, if it's a billing system issue, then CPAU should address this issue.

Chair Foster clarified that commercial customers and master-metered multi-family units are billed a rate that includes a fixed charge and a volumetric rate. Staff confirmed this understanding.

Senior Resource Planner Ipek Connolly provided a presentation of the written report. She noted that the City's water supplier, the San Francisco Public Utilities Commission (SFPUC) lowered its wholesale rate projection for FY 2013 after the UAC reviewed the water financial forecast presented in February. This caused staff to lower the recommended revenue increase to 15%, or \$4.7 million. The need for the revenue increase is to pay for infrastructure investments both for CPAU's local system and for SFPUC's and to account for lost revenue due to lower sales than anticipated. As staff has been communicating for some time, SFPUC rates have increased and are expected to continue increasing for the next 5 years. The City engaged Raftelis Financial Consultants (RFC) to conduct a cost of service study to develop rates compliant with Proposition 218. After UAC review, the Finance Committee will review the rate proposal on April 18. If approved by Council in June, the rates will become effective on July 1, 2012.

Sudhir Pardiwala, Vice President of RFC, presented a summary of the Water Cost of Service Study. Pardiwala reviewed the objectives of the study and the proposed 15% revenue adjustment for FY 2013. He reviewed the cost of service concept, which is to follow the American Water Works Association methodology to assign costs to meet peak usage to those contributing to peak usage. The revenue requirement is then allocated to cost components and these costs are allocated to each customer class based on their usage characteristics. Finally, the rate structure and rate design is done to collect the revenue requirement from each class of customers.

Pardiwala discussed the rate structure review and noted that RFC recommended continuing with the existing rate structure and customer classes. This would mean that individually-metered residential rate W-1 would retain 2 usage tiers, but should increase the amount of revenue collected from the fixed monthly charge. RFC found no justification to charge different rates for customers in higher elevations and recommended continuing to use the W-4 rate for master-metered multi-family residential customers. Pardiwala noted that the W-4 volumetric rate was lower than the average volumetric rate for W-1 rate schedule since they have a lower peaking factor.

Overall, RFC recommends increasing meter charges for all customers to collect 15% of revenues from these fixed charges. For W-1, the recommendation is to increase the first tier volumetric rate while reducing the second tier rate. The average volumetric rate for W-1 is increased by 4%. The W-4 volumetric rate is increased 17% and the W-7 irrigation rate is reduced 9%. The customer impacts were shown for each customer class for a variety of usage levels. Overall, CPAU's rates are higher than most of

the neighboring communities, but the comparison does not include rate adjustments that other agencies may undertake this year.

Chair Foster asked if master-metered multi-family residences can install single meters for each individual housing unit and, if they did, what rate schedule would they be on. Connolly said that it is possible to replumb and install separate meters, but there are costs to do that, and, if they did, they would be on the W-1 rate schedule. Chair Foster asked Mr. Baldwin if he was proposing to be on the W-1 rate and pay the tier 1 rate for usage up to 6 ccf and pay the tier 2 rate for usage above that. Mr. Baldwin said that the usage for the 10 units ranges from 37 to 44 ccf per month so that the per household is much lower than 6 ccf per household.

Commissioner Keller asked if the cost allocation is driven by peak usage. Pardiwala responded that the costs are allocated by how the customers use the system.

Commissioner Keller asked if the cost of the water relates to how much we use relative to how much is used by other communities who buy water from SFPUC. Pardiwala responded that if you use more water, it will cost more from SFPUC and that cost is figured into the rates. SFPUC looks at the amount of water it sells to the wholesale entities and uses that to determine how to set the rate to collect the total amount it needs to cover its costs. If more water is used, then the unit rate goes down. Ratchye added that the volumetric rate charged to each BAWSCA entity is the same and doesn't depend on how much each agency uses. So to the extent Palo Alto can reduce its share of the total water use, its costs are reduced, but the rate charged by SF is set to recover its costs.

Commissioner Waldfogel asked what percentage of the actual system capacity is consumed at the max hour. Pardiwala said we know average, max day and max hour usage so if you are looking at it as how much you use as a max day basis, it is 1.5 times the average day. Commissioner Waldfogel said that the system is somewhat overdesigned and that the system would be overloaded if all meters used the max amount at the same time. Pardiwala confirmed that this is true and that the system takes into account the fact that people use the system at different times and not all at once.

Commissioner Eglash asked for the justification for multiple tiers for residential customers within the cost of service study. Pardiwala said that there are many reasons for tiers for residential customers. Many agencies have different water supplies which are priced differently so that the higher priced water is incorporated into the higher priced tiers. Another factor that is taken into account in tiers is the peaking costs that are passed on to send the proper signal to encourage conservation of a precious resource. Since residential customers are a relatively homogeneous customer class, tiers are able to be used equitably. Most agencies have this inclining tier structure to encourage conservation since residential customers are the most amenable to this type of rate design.

Commissioner Eglash commented that the comparison of Palo Alto's bills and rates, including volumetric rates, are all higher than surrounding communities, but all the agencies get their water from the same source at the same price. Pardiwala said that the cost of water is about 50% of the total costs and the other costs such as CIP and operating costs are the other 50% of the costs that are recovered by rates. Other differences are type of system, age of the system, how it was financed, size of agency, number of customers, etc. Ratchye added that the surrounding agencies do not all get all their water from SFPUC. For example, Santa Clara only gets a small fraction of their water supplies from the SFPUC and that the majority of the water is groundwater and treated water from the Santa Clara Valley Water District.

Commissioner Eglash added that, although the costs are not a part, per se, of the cost of service study, CPAU should be prepared to explain why our water rates are already so high and we are being asked to raise them even higher. He noted that we may need to remind them that not all entities get all of their water from the SFPUC and that CPAU has been doing a great job replacing aging infrastructure. This is an important issue for public communicators to gain support for the higher rates.

Commissioner Melton stated that the proposed \$13.74 fixed meter charge is close to the meter charge being considered for FY 2013 last year. Connolly confirmed that the charge considered last year was \$14.95. Commissioner Melton asked how much of the fixed cost is covered by the fixed charge revenues. Pardiwala said that the fixed charges cover about 15% of the total revenues and fixed costs are about 45% to 50% of the total costs. However, Pardiwala stated that the California Urban Water Conservation Council guideline is to collect no more than 30% of the total revenues from fixed charges.

Chair Foster asked about fire meters, which are proposed to increase by an extraordinary amount, for example from \$44.48 to \$227.56 for a 10 inch meter. Pardiwala said that the costs recovered from these accounts were not covering the costs that are put on the system and said that the charges are not out of line for that size of meter. Chair Foster stated that it sounded like we are doing a major catch-up of revenue to costs and said that these large increases need to be communicated carefully to the affected customers who will be hit with very large cost increases.

Commissioner Eglash asked who generally pays for fire meters. Resource Planner Eric Keniston stated that fire service charges apply to any building with fire sprinklers in the building. The system must be able to provide water when needed in a fire. Fong stated that this was a small part of the total revenues.

Commissioner Keller asked if there was a consideration to add more tiers to residential rates or if additional tiers were considered at all if the goal is to lower demand. Pardiwala said that in this case there was an effort to tie the costs to the rate structure so there needs to be a rationale for additional tiers. Since there is no difference in costs for source of supplies, this cannot be used to justify additional tiers. In Palo Alto's case, the justification for tiered rates is to assign peaking costs to the second tier. A third tier could be developed, but some justification would be needed. If a third tier was added and, for example, the second tier rate was set equal to the average cost for the customer class, the third tier rate would be very high. The study did take a look at that and, if the third usage tier was set at 24 ccf, which represents about 85% of the usage of the customers, then the third tier rate would be about \$10/ccf. Since the second tier in the proposed rate is already quite high at \$7/ccf, a third tier did not seem to be justifiable.

Chair Foster clarified that a third tier could be justified. Pardiwala stated that it could be justified and it would send a very strong signal for conservation, however he cautioned that there could potentially be a large negative customer reaction to that high of a rate.

Commissioner Waldfoegel added that the idea of third tiers was rejected by Council last year based on advice from the City Attorney and didn't see any point in revisiting the idea of adding a third tier. Chair Foster noted that in answering the question posed, RFC stated that a third tier could be justified. Chair Foster asked the consultant to clarify that the cost of service study is driven by the need to comply with the cost of service requirements of Proposition 218. Pardiwala confirmed this understanding. Chair Foster asked if also the study was completed within the understanding of a somewhat conflicting state law requiring conservation pricing for water. Pardiwala said that his report is based on cost of service and was

not focused on conservation pricing, but that the rates do encourage conservation as they are quite high, especially for the second tier.

Commissioner Melton observed that the tier 2 residential rate is very similar to the w-7 irrigation rate and this is good signal since it is generally thought that the second tier is for irrigation usage in single-family residential customers. There is a very consistent tie between these two and it is a good link.

Vice Chair Cook asked why the rate proposed seems to punish smaller users. Pardiwala said that these were the rates that fell out from the cost of service. Connolly stated that the biggest change is the increase in the fixed charge and this hits the smallest users hardest in terms of a percentage increase. Fong reminded the UAC that last year we had a significant discussion on the issue of fixed charge and last year the decision was made to phase in the increase in fixed charge increase over two years, rather than take it all the way to cost of service in one year. This is the second year of the two year phase-in so staff is proposing to move to the cost of service study recommendation for the fixed charge.

Vice Chair Cook asked if the percentage changes would be similar for each customer class in future years. Pardiwala stated that this should be true. When the base is set at cost of service, the adjustments in future years should be very similar for each customer class unless there are changes in the cost structure or different usage patterns for customers classes. Vice Chair Cook stated that although the changes appear to discourage conservation, we are doing a one-time change to have costs reflected in the rates. Pardiwala said that this was the case. Chair Foster asked for more clarity on this point and, as an example, asked if the revenue increase needed was 10%, then would the changes for each rate component be 10% and not disproportionate on a class or a rate component. Pardiwala stated that this should be true unless the cost structure changed.

Commissioner Waldfogel noted that the rates still don't reflect the fact that all fixed costs are recovered through fixed charges; however, there may be political limits on how much can be recovered that way.

Commissioner Waldfogel asked how difficult it would be in the billing system to base a W-4 rate on a per unit basis for master-metered multi-family residential customers. Fong said that it would take significant staff time to get the data and change the billing system to do this. We know the number of units for some multi-family complexes, but not for all. Commissioner Waldfogel asked if there was a large range in the number of units per complex. Fong responded that there is a large range in the number of meters. Commissioner Waldfogel asked if we couldn't establish a first tier at, say 50 ccf, for these customers. Pardiwala said that if this class were to be treated separately, that each account would have to have an associated number of dwelling units in the billing system and that the tier 1 rate would likely be lower than that for single-family dwellings since the use is generally less water per dwelling – it could be 4 ccf, instead of 6 ccf for the first tier, for example the appropriate tiers would be determined after analysis including a review to ensure that the revenues would be recovered appropriately.

Commissioner Keller asked if there was a concern that the water system would be strained by peak water usage and that we would run out of capacity or should we establish rate schedules to reduce peak usage. Ratchye replied that Engineering would provide the best answer to this question, but that the City's overall water use today is 40% less than it was in 1976 so usage is unlikely to be reaching system capacity.

Commissioner Eglash stated that he supported many of the components of the proposed rates, but has a great concern about a couple of them. He said it was appropriate to do cost of service studies and base

rate structure changes on those conclusions, but maybe not appropriate to make the jump in one year if the impact on customer bills would be significantly impacted. For example, the fire service charges are increased so dramatically that the change should be phased in over time, rather than so abruptly all at once. The comments on master-metered multi-family units are well taken, but he does not think a solution should be proposed for just one building and the UAC does not have the information to develop a new rate for this class at this time, but supports staff looking into the problem and making some recommendation in the future. The biggest issue he has with the proposed changes to residential rates are not appropriate and it is socially unfair to have the smallest users hit with the largest percentage increase and while the largest users enjoy a bill and rate reduction. This is a big mistake and highly inappropriate in terms of water conservation and social fairness. Commissioner Eglash said he was not focused on the rates themselves, but the changes, which are what people relate to. Those least able to pay and those doing the best job of conserving water will see the largest increases with the effect that the incentive to conserve is reduced. The idea that we are encouraging water efficiency, but giving the largest users a rate decrease is not appropriate. Eglash noted that he had not had the opportunity to consult with the City Attorney on Prop 218, but nevertheless, he stated that it seems that we are behaving with an overabundance of caution on this issue. Regarding last year's Palmdale case, the legal reviews did not relate to tiered prices, but to parity between classes. Eglash remarked that his view is that we should not use Proposition 218 to back away from the tiered pricing we have now. The rates being proposed by staff level off the tiers and Commissioner Eglash does not support that change. Commissioner Eglash stated that he would prefer to increase the tier 2 rate so that the smallest users see less of an increase and the largest users do not see a rate reduction. He advised that it's important not to make such a significant change to the relative rates for the tiers. He said he would support increasing the fixed charge, but not increasing the tier 1 charge so much and did not support a decrease in the tier 2 charge. He stated that the tier 2 charge should definitely not go down.

Chair Foster asked if Commissioner Eglash would propose to keep the tier 2 charge the same or increase it. Commissioner Eglash stated that he did not have the mathematical models to design the rates, but was stating his policy preferences. He noted that the revenue requirement must be met, but that there should be a way to do that while increasing the fixed charge as proposed, but not decreasing the tier 2 charge since that has an unfortunate effect of reducing the water bill for those most able to pay.

Commissioner Melton suggested that if the W-1 tier 2 rates were kept at the same level, then the tier 1 rate could be reduced such that the total revenue collected from the customer group would be the same so that the revenue would be equal to the cost of service for the customer class as needed for Proposition 218.

Commissioner Waldfogel said that these rates were constructed after legal advice developed last year and that changing the rates without the mathematical model is hazardous. He suggested that, perhaps, legal advice is needed and that the proposed rates are the ones presented as being based on the cost of service. He said that the proposed rates are the ones that are consistent with advice received and that no changes should be proposed, but that the UAC could take up a study item for future rate design decisions. Commissioner Eglash agreed that the UAC did not have the advantage of having advice from the City Attorney, but he wants to make a recommendation based on what they do have in front of them tonight. He stated that the Finance Committee and Council will likely have that advice available. Commissioner Eglash said that he has not heard any information or evidence from the consultant that pulling back from the City's current degree of conservation pricing would expose the City to risk of litigation.

Commissioner Keller said that she is still interested in having a third tier, if that is legal, to provide a strong message to conserve water. She said that tier 1 seems to be the indoor water use and tier 2 is for irrigation, but that a third tier could be for wasteful irrigation. Such a structure would provide a strong motivation to cut back on irrigation.

Commissioner Cook stated that he wants the City's policy to ensure that Palo Alto's rates are fair and that they are structured to encourage conservation.

Chair Foster announced that he had received another card from the public wishing to comment.

Public Comment:

Mr. Buchanan, stated that, like Mr. Baldwin's, his homeowner association cannot understand why their 8-unit condominiums are classified as commercial customers since it is residential in every respect. Also, he suggested that in this region of geniuses, we should be able to figure out a way to divide the amount of water by the number of units to develop a rate. The wastewater rate is already based on the number of units so the number of units must already be known.

Chair Foster agreed with Commissioner Eglash's suggestion to have staff work with master-metered multi-family residents to find an acceptable solution to the problem raised by the speakers. Chair Foster suggested that perhaps interested customers could request or apply to be moved to a different rate schedule. Fong stated that resources would be required to do the research and synch up the billing system and database for this change and that they would not want to do one-offs with specific customers who request different treatment, but would ensure that all similarly situated customers are treated the same.

Commissioner Eglash said that he could develop a recommendation to Council to ask staff to find a solution to the problem. He suggested that some study needed to be done since he didn't want to see any unintended consequences and wanted to hear what would need to be done to address the issue. He suggested that it was not an issue that needed to be studied by the cost of service consultant as it was not that kind of issue. He expects that staff can identify the problem and find a solution. He is not convinced that a cost of service study needs to be done to address each customer class. Commissioner Eglash added that a cost of service study does not need to be done every year or every time rates are changed, but should only be done once every other year or every five years. Fong said that it would be good to have a third party to develop what the rate should be, but the data first needs to be collected.

Chair Foster made a motion, seconded by Commissioner Melton, to recommend Council:

1. increase revenues by 15% as recommended by staff;
2. accept staff's recommendation for commercial W-2 rates;
3. not change specific rates in such a way that violates the requirement of California law that water utilities pursue conservation pricing and, therefore, change the W-1 rate as follows:
 - a. do not change the tier 2 rate from the current rate of \$7.34/ccf;
 - b. decrease the tier 1 rate in order to collect the revenue requirement for the W-1 class; and
4. direct staff to find a solution to the treatment of master-metered multi-family residential customers as commercial customers;
5. increase the W-7 rate from the proposed rate of \$7.19/ccf to be at least the same rate as the W-1 tier 2 rate (\$7.34/ccf); and
6. phase in the fire service increases over four years.

Commissioner Cook seconded the motion.

Commissioner Cook made a friendly amendment to the motion to remove the part to phase in the fire service increases. He said that this change was least important and that they were already recommending a number of more important changes that should be the focus of their direction. Commissioner Eglash agreed that their recommendation should be focused on the most important issue at hand. Chair Foster accepted the amendment to the motion.

Commissioner Waldfoegel stated that he was very strongly opposed to the motion as it exposes the city to too much legal risk. He recommended recommending the rates staff proposed. He said that the UAC could take up the issues raised in the future, but should not do that now as the cost of service study has concluded that the proposed rates achieve the cost of service requirement of the law. He said that making these changes on the fly is rash. He said that we the UAC has no information that the rates in the motion will be based on the cost of service. He also said that raising the irrigation rate (W-7) is also counter to legal advice.

Commissioner Eglash said that the changes recommended in the motion are modest changes as they only change by a small amount and keep the cost of service by customer class objective met. Commissioner Melton said that the W-1 tier 2 rate of \$7.34 is an established rate so there is little risk under Proposition 218 if it is simply maintained. Chair Foster said that rather than drop the W-7 rate from the current \$7.86/ccf to \$7.19/ccf as proposed, it could be made the same as the W-1 tier 2 rate of \$7.34 since this rate is really for irrigation.

Commissioner Eglash cautioned against changing the W-7 rate at all as it gets to the heart of the cost of service study and changes allocations between customer classes and serves to undermine the changes that they are really trying to do. Commissioner Eglash, therefore, proposed a friendly amendment to remove the recommendation to change the W-7 rate. Commissioner Melton agreed with Commissioner Eglash that the UAC should stay away from moving costs between customer classes. He said that the UAC should stay with the cost of service study recommendations for the average volumetric rates for each customer class, including the \$6.04/ccf for W-1, \$5.75/ccf for W-2, \$7.19/ccf for W-7, since those do comply with Proposition 218. Commissioner Melton said that they can tinker around with the tier rates for W-1, but should ensure that the average rate stays \$6.04 for W-1. Chair Foster agreed to take that part out of the motion. Commissioner Cook also accepted the amendment.

Commissioner Eglash proposed another friendly amendment to change the wording in the motion from: "not change specific rates in such a way that violates the requirement of California law that water utilities pursue conservation pricing" to "not change specific rates in such a way that undermines conservation pricing". Chair Foster accepted that change, but reminded that the focus is always on Proposition 218, but the state's constitution also requires conservation pricing. Commissioner Eglash said that it was Article 10, Section 2 that states that rates shall encourage conservation and efficiency.

Director Fong said that a cost of service study was completed and it is a legitimate analysis and that you may want to phase in the results that are in the cost of service. Commissioner Eglash stated that the proposal in the motion is aligned with the cost of service study and there are no recommendations to shift cost from one customer class to another. The only suggestion is to make an adjustment in the tier pricing for the W-1 rates. Commissioner Eglash stated that the changes recommended are small and that the cost of service study results are still valid, but the development of the rate is misaligned by putting too much

weight on peak usage instead of the need to conserve water. Further, because, water is a scarce resource and conserving it is of paramount importance the cost of service analysis is lagging behind what is needed in the current world in which we live. In addition, basing everything on peak demand is not realistic as we are not near the peak capacity of the system so to put so much weight on that factor is not reasonable.

Chair Foster said that the requirement for conservation pricing is the driver of the motion and that the cost of service study correctly aligns customer class, but the proposed structure to reduce the tier 2 rate is not consistent with conservation obligation.

Commissioner Keller asked if the recommendation to address the master-metered multi-family customers could be taken up in a separate motion. Chair Foster agreed with that suggestion to remove that part of the original motion and offered to make a second motion with that recommendation.

ACTION:

Chair Foster's amended motion, seconded by Commissioner Melton, is that the UAC recommends that the City Council:

1. Increase overall retail water rates and annual revenues for the Water Fund by 15%
2. Not change specific rates in such a way that undermines conservation pricing.
3. Amend the water utility rate schedules as recommended by staff except as follows:
 - a. The volumetric charge for residential (W1 rates) tier 2 would remain at the current rate of \$7.34 per ccf, not decrease to \$7.06 per ccf as recommended by CPAU staff; and
 - b. The amount of the increase in the volumetric charge for residential tier 1 would be recalculated and reduced so that the overall increase in volumetric charges for residential customers would increase by the amount recommended by staff, which is to the average rate of \$6.04 per ccf.

The motion passed by a vote of 5-1 with Commissioner Waldfogel opposed.

Chair Foster made a motion to direct staff to investigate and make a recommendation on the apparent anomaly of charging master-metered multi-family buildings commercial rates for water. Commissioner Cook seconded the motion. The motion passed unanimously (6-0).

ITEM 2: ACTION: Wastewater Collection Utility Proposed Rate Adjustments Effective July 1, 2012

Having read the written report, the commissioners were ready to vote on the item without discussion. Staff confirmed that there was no new, or additional, information that needed to be conveyed besides the information in the staff report for the item.

ACTION:

Commissioner Cook made a motion, seconded by Commissioner Waldfogel, to support staff's recommendation to recommend that the City Council:

1. Increase overall retail wastewater collection rates and annual revenues for Wastewater Collection Utility by 5.0 percent, or \$715,000, effective July 1, 2012;
2. Effect a change to utilize winter-based water usage rates for commercial customers under Rate Schedule S-2 Section C.3; and,
3. Amend Wastewater Collection Utility Rate Schedules S-1 and S-2, and add new Wastewater Collection Utility Rate Schedules S-6 and S-7, as attached.

ITEM 3: ACTION: Potential Topic(s) for Discussion at Future UAC

Commissioner Cook asked how the UAC will address the Finance Committee's recommendation to achieve a 100% Clean Energy portfolio. Chair Foster stated that the May meeting would be right after the Council considers the Clean Energy portfolio recommendation along with the recommendation to develop a carbon neutral plan. Director Fong advised that the UAC's May meeting was generally focused on the budget and that the UAC's rolling calendar had an item on the definition of carbon neutral on its July agenda. Chair Foster asked if the UAC could put something on the June agenda to talk about the Council action with no staff report being required. Fong agreed to put the item on the agenda.

ACTION:

None.

COMMISSIONER COMMENTS

None.

Meeting adjourned at 9:15 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto