



FINAL UTILITIES ADVISORY COMMISSION MEETING MINUTES OF SEPTEMBER 3, 2014

CALL TO ORDER

Chair Foster called to order at 7:08 p.m. the meeting of the Utilities Advisory Commission (UAC).

Present: Commissioners Cook, Eglash, Foster, Hall, Melton and Waldfogel
Absent: Commissioner Chang and Councilmember/UAC Liaison Scharff

ORAL COMMUNICATIONS

David Carnahan, Deputy City Clerk, advised the Commissioners that the city is currently recruiting to fill two positions on the Architectural Review Board, four positions on the Historic Resources Board, and two positions on the Planning and Transportation Commission.

He noted the specific requirements for the positions to the Boards and Commission.

The Architectural Review Board consists of five members. Of the five members, at least three shall be architects, landscape architects, building designers or other design professionals.

The Historic Resources Board consists of seven members, one of which shall be an owner/occupant of a category 1 or 2 historic structure, or of a structure in a historic district; three members shall be architects, landscape architects, building designers or other design professionals and at least one member shall possess academic education or practical experience in history or a related field.

The Planning and Transportation Commission consists of seven members, and the only requirement is to be a resident of the city.

Carnahan noted that applications are available in the clerk's office.

APPROVAL OF THE MINUTES

Director Fong proposed amending the minutes from the August 6, 2014 UAC meeting. The first paragraph of the draft minutes under Item 1, referring to comments by Vice Chair Foster, reads: "Vice Chair Foster stated that he and Commissioner Cook had served for a long time. He was willing to continue or serve as Chair." Director Fong proposed amending the sentence as

follows: “Vice Chair Foster stated that Commissioner Cook and he had served as chair and vice-chair for a long time, and so that if any other members of the UAC would like to serve as chair or vice-chair, they should do so. He said he was, however, willing to continue serving as chair or vice-chair, if other members were not interested in serving in those roles at this time. Commissioner Waldfogel said that he would be willing to serve as vice-chair.”

Commissioner Hall moved and Commissioner Eglash seconded the motion.

Commissioner Hall noted that he was abstaining from approval of Item 5 of the August 6, 2014 minutes because he had not been present due to a conflict of interest.

The motion carried unanimously (6-0, with Commissioner Chang absent). The minutes were approved as amended.

AGENDA REVIEW AND REVISIONS

Chair Foster moved Items 5 and 6 moved ahead of Items 3 and 4 to accommodate Commissioner Hall’s conflict of interest.

REPORTS FROM COMMISSION MEETING/EVENTS

None.

UTILITIES DIRECTOR REPORT

1. Communications Update

- **Drought Outreach**--Communication about dry year conditions continued in August and an interdepartmental team of City staff has been established to address new water use regulations as mandated by the State. Staff is tracking reports of water waste incidents, preparing a report for City Council on our drought response plan, monitoring weekly water use and savings towards reduction goals, as well as hiring a dedicated water waste coordinator.
- **Annual “Mobile Gas Leak Survey”**--As part of its gas system maintenance program, the City conducts both walking and drive-by inspections of the gas distribution system each year. Contractors will conduct the survey this month, accompanied by a City employee.
- **Annual Gas Safety Awareness Survey**-- CPAU is federally mandated to conduct an annual survey of people who live along a gas pipeline to insure they have adequate information about gas safety measures. Approximately 15,000 randomly selected residential customers and non-customers will receive a “robocall” from a new third-party administrator, Gatesman+Dave, later this month with questions about gas safety.

2. Community Outreach Events and Workshops

Qualified Water Efficient Landscaper training on August 25–27 for anyone interested in becoming more effective at water efficient landscape design, irrigation system operation and maintenance.

3. Marketing Services Update

PV Partners - Residential PV Partners Program funds have been fully reserved (approximately \$2.7M). New applications are currently being placed on a wait list. For the Commercial PV Partners Program an estimated \$1.9M is currently available.

3rd Party EE Program RFP —Energy Efficiency (EE) program proposals were received on July 29 across the three program categories. Staff teams rated the proposals and have short-listed vendors. Vendor interviews are scheduled during the week of September 8. After the first round of evaluation of the EE proposals:

- For Category 1 (Residential EE programs), we are inviting four vendors for interviews
- For Category 2 (Small to Medium Commercial EE programs), we are inviting four vendors for interviews
- For Category 3 (Commercial EE programs), we are inviting three vendors for interviews

Vendor interviews will be conducted during the week of Sep 8, and we expect to notify the selected vendors by Sep 22.

Enhanced Drought Rebates – A Palo Alto water customer has expressed strong interest in an enhanced water efficiency rebate under the Landscape Removal Program. If the project goes forward, it will be the largest single turf-removal project ever undertaken in the city. Discussions are continuing, so project details and customer privacy is being maintained for the current time.

UNFINISHED BUSINESS

1. Selection of Potential Topics for Joint UAC/Council Meeting

This item will be continued until the next UAC meeting.

NEW BUSINESS

ITEM 1: DISCUSSION: Presentation on Palo Alto Regional Water Quality Control Plant Biosolids Facilities Plan from Public Works

James Allen, acting Assistant Director of Public Works, presented on the Regional Water Quality Control Plant (RWQCP) Biosolids Facilities Plan. Allen described Palo Alto's partnership with other agencies in the RWQCP; the capital addition program for the Wastewater Treatment (WWT) Fund and partner approval process; the need to retire the aging sewage sludge incinerators; and the process to evaluate market solutions to organics' processing. Council canceled the RFP for private operators of sludge processing in May 2014. Staff recommended owning and operating a biosolids facility rather than outsourcing it due to the cost savings that could be achieved. The best technology appears to be thermal hydrolysis pretreatment followed by traditional wet anaerobic digestion. The Measure E site is unnecessary for this Biosolids Facility. The facility plan includes three phases. The first phase (Component 1) is the construction of a dewatering and truck load-out facility. The second phase (Component 2) is the construction of a digester. Until the digester is constructed, biosolids would be shipped to EBMUD in Oakland and/or a composting facility in the Central Valley. The third phase (Component 3) would be consideration of a food scrap processing facility to add food waste to the digester. The next steps in the process will be to apply for a low-interest State Revolving Fund (SRF) loan, initiate the CEQA study for the project, and begin pre-design work for the digester. The timeline will be refined in late 2014. CPAU's share of the \$71M project is 38%, or \$27M. This is offset by savings from retirement of the incinerator. The breakeven point for the project is 36 years, but it isn't feasible to continue to haul sludge to EBMUD for that whole time, so staff is recommending building the digester. In September, Public Works will be hiring

a design/CEQA consultant and program manager. Partner agreements are expected to be modified by March 2015. The Component 2 digester project would begin in 2018 and be completed in 2021.

Commissioner Waldfogel asked about the size of the generators. Had Public Works considered sizing the generators larger and supplementing the biogas with natural gas?

Allen said the project included three 800 kW generators. EBMUD had oversized their generating capacity, but then had seen a reduction in waste flows, and now continually had to seek additional waste streams to use that capacity. The generators were sized for Palo Alto's projected feedstock of about 1.6 to 2.4 MW for biosolids based digester gas, landfill gas, and potential food scrap based digester gas.

Commissioner Waldfogel asked whether it would be possible to upsize the generator to use more efficient technologies like gas turbines.

Allen said it was possible to do so, but there wasn't enough feedstock to supply biogas to a larger generator or turbine, and the plant was not planning to burn natural gas in the generator when the City's electric utility supply plan is based around a carbon neutral portfolio.

Commissioner Hall asked for a definition of thermal hydrolysis.

Allen said it was a process discovered by a professor at Stanford in which the organics were pretreated with steam, which breaks down the cell walls, making the sludge easier to pump and improves methane gas production. It allows for a smaller plant footprint with higher methane output. The process is heavily used in Sweden, Norway, and the UK, but US facilities are just beginning to look at the process, including Washington DC (operational in October), Hampton Roads Sanitation District, and the San Francisco PUC.

Commissioner Hall asked what is the lifespan of an anaerobic digester.

Matt Krupp, Zero Waste Administrator for Public Works, said digesters can last over 50 years. San Jose's digesters were built in 1956, and two are still running, though somewhat poorly. Most plants around the Bay Area are using retrofitted digesters built in the 1950s.

Commissioner Hall asked about how much the food waste portion of the project could be scaled up.

Allen said the food waste stream in Palo Alto was 80% commercial and 20% residential. Currently, there is no collection system for residential food waste.

Commissioner Hall asked whether the partners were interested in sending food waste to the treatment plant.

Allen said the City has sent two letters recently to the RWQCP partners on this issue but had not yet received any responses. He was continuing to follow up. One issue was who would pre-process the food scraps and where that would happen.

Commissioner Hall asked whether it would be possible to upsize the generator if they're able to get a lot of food scraps.

Allen said one way to handle additional food scraps was to use the third redundant engine. According to Public Work's consultant on this project, this would reduce engine utilization from 100% to 90% since these engines would occasionally have to be taken offline for maintenance without a redundant backup, but it was an option.

Commissioner Cook asked whether there was discussion about launching a residential food waste collection system.

Krupp said that there was recently a food scrap pickup pilot involving 670 homes in the Green Meadow neighborhood, and that it was a successful pilot in that they were able to collect about 1,000 pounds of material per week from that neighborhood. He said that Public Works was considering options for collecting residential food waste and handling it in a composter on 3.8 acres of the Measure E site, or taking it to the SMART station in Sunnyvale. He said that Public Works would be taking a proposal on residential food scrap collection to Council in December, with the intent of starting a collection program around the middle of 2015.

Commissioner Cook asked whether burning the methane reduces its global warming potential.

Krupp said that was true and that some estimates indicate that methane is 26 times more powerful as a greenhouse gas than carbon dioxide; Allen said methane from the landfill and from digesters was also a biogenic source, a replacement for fossil-based methane.

Chair Foster said that when methane was burned it resulted in CO₂ and water, which had less global warming potential.

Vice Chair Waldfoegel said he had met with a large east coast city that was encouraging residents to put food scraps down the drain in order to combine all of their food waste and sewage into a single stream.

Krupp said he thought Waldfoegel was talking about Philadelphia. He said it takes a lot of energy to pump air through that waste stream in order pull those organics out of the wastewater and get them into a digester. The West Coast was more focused on using trucks rather than sewer pipes to deliver food waste. He said using the sewer system for food delivery puts additional stress on the sanitary sewer system and creates grease buildup in the sewers.

Allen noted that there would be economies of scale available if food waste were to be collected and treated locally, in that there was some excess truck hauling capacity and thermal hydrolysis capacity so there would be little additional capital costs needed to extend the collection system to include food scraps. He also noted that the Refuse Fund would have to pay for some aspects of the food scrap treatment if it were done at the plant, as the RWQCP partner members did not want to subsidize a food scrap collection program in Palo Alto.

ITEM 2: DISCUSSION: Impact on Utilities of the Biosolids Facility Plan, including the Anaerobic Digester

Jim Stack, Senior Resource Planner, presented on the impact of the anaerobic digester on utilities. He said he was here to discuss the impact of the project on the electric, gas, and wastewater collection utilities. He started with the impact on the electric utility. The treatment plant could either use the energy generated by the project on site, or could sell it to the utility. The City Council had established a purchase price for the electricity, and Public Works had determined it was better to use the energy on site and sell occasional surplus energy to the utility at market prices. The net impact on the Electric Utility ratepayers was negligible. The impact on the Gas Utility ratepayers was larger due to the retirement of the incinerators, about a 1% decrease in revenue. The Biosolids Facility would have an estimated 2% impact on Wastewater Collection ratepayers.

Herb Borock said there was no resolution to establish a 9.3 ¢/kWh energy price. The only established price was the 7.7 ¢/kWh floor price in the previous year's resolution. He asked about previous estimates of the impact on the Electric Utility.

Vice Chair Waldfogel asked whether the utility would accept all surplus electricity and whether the treatment function was schedulable to optimize the energy price.

Stack said that the current plan is for the electric utility to accept all surplus electricity that the RWQCP has to sell. And Allen indicated that the power purchase agreement between the RWQCP and the electric utility would prohibit the plant from doing so.

Commissioner Cook asked whether the operations of the plant could be modified to shift the surplus generation to a peak time in the day.

Allen said that the RWQCP electric load shape is based on the sewage flow, and that it wasn't really feasible for a plant this size to store the sewage in order to shape the plant's electric load because it would require equalization basins and there isn't enough land at the RWQCP to accommodate those.

Commissioner Hall asked whether the revenue impact to the Gas Utility represented the cost of the distribution system that was previously paid for by the plant that would now be underutilized and the cost of maintaining it spread to other ratepayers.

Jon Abendschein, Senior Resource Planner, said this was the case.

ITEM 3 (PREVIOUSLY ITEM 5): ACTION: Selection of Potential Topics for Joint UAC/Council Meeting

Chair Foster said the upcoming Joint UAC/Council meeting had been canceled. The UAC had two options: just go about their business and wait for the Council to schedule a joint meeting, or ask the Council to schedule a meeting. Foster recommended the latter if the rest of the UAC was amenable. Director Fong had pulled together a list of items discussed in UAC meetings since the last joint meeting. He asked Commissioners for their thoughts.

Commissioner Melton said if the UAC asked the Council for a meeting, they should suggest the list of items to be discussed. He suggested the individual Commissioners review the list and have a discussion at a later meeting.

Commissioner Eglash said the joint meetings were important for a variety of reasons, and should be scheduled before the end of the calendar year.

Vice Chair Waldfogel recommending reaching out to the Mayor and asking if she had a sense of urgency to have a meeting, and if she didn't, waiting until after the election to get feedback from the new Council.

Commissioner Hall said the joint meeting was an opportunity to get feedback on the performance and focus of the Commission.

Commissioner Eglash agreed that the pending election was an issue. He suggested recommending a post-election meeting to the Mayor but saying they would be open to an earlier meeting if the Council wanted it.

Chair Foster noted that the new Council wouldn't be seated until January.

Commissioner Eglash agreed that it was better to wait until January or February.

Chair Foster said his inclination had been to meet before the end of the year to get feedback from Council members who were stepping down. He thought the election was focused on land use issues, and thought it might be difficult to get feedback on utility issues from newly elected Council members.

Commissioner Cook agreed with that thought. It had been nearly two years since the last joint meeting, and it was good to get some feedback from the departing Council. Both options had value, though.

Commissioner Eglash suggested the possibility of two meetings, one with the old Council and another with the new Council.

Director Fong recommended reaching out to the UAC liaison, Councilmember Scharff.

Chair Foster said he could reach out to Scharff and others on the Council. He mentioned a previous meeting of the Council where part of the meeting was open-ended, with Council raising whatever topic they wanted. He suggested having something like that in the meeting. He asked Fong to agendize this discussion at a future date.

ITEM 4 (PREVIOUSLY ITEM 6): ACTION: Potential Topics for Future UAC Meeting

Commissioner Hall suggested a discussion of the future of PV Partners.

Director Fong said it had been discussed as part of the Local Solar Plan, but staff could return with an update.

Chair Foster said that type of agenda item would be a good time to discuss shifting rebate money between the commercial and residential parts of the programs.

Jessica Mullan, Senior Deputy City Attorney recommended that the item be characterized as an action item rather than an update if that would be discussed.

Commissioner Hall asked that staff choose the most appropriate title.

Chair Foster asked whether the meeting could be scheduled for the following month.

Chair Foster suggested the November meeting since the community solar program would be discussed at that time.

Commissioner Hall was also interested in an update on electric vehicle charging stations.

Commissioner Eglash also suggested looking at the results of the time of use pilot and how it was working for EV owners.

Commissioner Eglash suggested that the update focus on the number of electric vehicles now in Palo Alto.

Chair Foster was interested in an update on the impact on grid from electric vehicles.

Vice Chair Waldfoegel recommended an update on the emerging technology program.

Director Fong noted it was in the quarterly report.

Chair Foster recommended including it as a discussion item as well, not just an information item.

ITEM 5 (PREVIOUSLY ITEM 3): ACTION: Staff Recommendation that the Utilities Advisory Commission Recommend that the City Council Approve Design Guidelines for the 2014 Water Utility Drought Rate Cost of Service Study

Abendschein said staff was seeking feedback on a set of guidelines for a cost of service study for drought rates, with the goal of aligning the rate designs with policy guidance to the extent possible while respecting cost of service limitations. Drought rates are used to replace lost revenue associated with reduced water consumption and to send a price signal for customers to reduce consumption. Drought rates are one tool to manage the utility's financial position during a drought. Other tools include temporary cost reductions and use of reserves. Abendschein summarized the design considerations included in the guidelines, including ensuring that the rates are cost based, reflect the required consumption reductions, minimize business and landscaping investment losses, provide adequate water for personal use, and are flexible and easy to implement. He then gave an overview of the key rate design components

of the proposed guidelines, including the separation of the commodity portion of the rate from the non-commodity portions, tiered non-commodity rates for commercial customers, and a third tier for residential customers.

PUBLIC COMMENT:

Susan Rosenberg, a Board Member of Canopy, spoke regarding the staff proposal. She said Canopy was concerned that the proposal's sole focus on conservation and financial stability did not take into consideration the impact of the proposal on trees. Canopy considered trees to be the most valuable part of the urban landscape that were not heavy water users and provided most of the benefits of the urban landscape. Ms. Rosenberg questioned the distinction between indoor and outdoor uses of water to determine what was "wasteful" and argued trees were not wasteful uses of water. She asked that staff explain the mechanism by which a third tier would enable customers to maintain their investment in efficient landscape investment. She said that in the past Canopy had advocated for an allocation-based methodology of determining water rates similar to the methodology used by the Irvine Ranch Water District. She wanted to know how long it would take to implement such a program and how much it would cost. She asked that the City undertake a citywide marketing campaign focused on preserving trees, and that the City's Arborist be included in discussions regarding the drought.

Resident Herb Borock commented on the staff proposal. He said with drought rates the utility had to balance conservation and cost of service. He agreed that a three tier pricing methodology was an appropriate strategy to look at and he recommended using the three tier proposal previously discussed by Council which had been rejected when a resident with a large lot complained about it. Mr. Borock talked about the portion of the proposal involving passing through the supply cost, saying the lower tiers would be more heavily affected by such a strategy and that one way to manage that would be to use a fixed charge to recover distribution costs. He suggested that the discussion regarding the urban forest should take place in the context of a discussion of basement dewatering. He said the rate schedule should not vary based on the number of people or size of the landscape as these were personal choices and not reason for higher water allocations.

The Commissioners generally appreciated the opportunity for UAC input prior to a cost-of-service study (COSA).

Commissioner Eglash appreciated that one of the design considerations listed in the guidelines was to minimize landscape investment losses and he recognized the value of trees in Palo Alto. He supported a structure that was easy to communicate as rate increases are difficult enough to communicate during a drought. Commissioner Eglash also stressed that drought rates should not produce a revenue windfall and ratepayers should not pay more in absolute dollars than they would have if there had not been a drought. He noted the SFPUC may also need to raise its rates due to the decreased consumption and the new rate design should take into account any need to pass through those increases as the drought proceeds.

Commissioner Melton said one of the big challenges in designing these rates will be that revenue stability is achieved through fixed charges but price signals are achieved through variable charges. Balancing those two effects was a challenge the UAC always faced with water rates. He was encouraged that the high level objective was keeping the fund solvent in the face

of drought use reductions. Rates, reserves and other tools would have to be used to make sure the fund was kept on a sound basis. He said any conclusions from this COSA would likely carry over to future normal year rates. The City should think far enough ahead to understand the impacts of any pricing scheme on non-drought years.

Commissioner Cook agreed that messaging was important because it was difficult for people to understand why their bills do not decrease when they conserve. He asked how rates were designed to differentiate between indoor and outdoor usage given that there was only one meter and Director Fong explained it came down to a comparison of winter vs summer usage. Commissioner Cook said it was important to incorporate comments from Canopy and other stakeholders. He agreed it was a good idea to use a separate commodity rate component because it would make it clear how much of the rate increase came from the SFPUC.

Vice Chair Waldfogel said he was forced to disagree with some comments from colleagues. He mentioned that the president of one of Palo Alto's garden clubs had intended to be here, but was unable. He was concerned that two years ago staff completed a COSA and that costs had not changed in that time, but instead revenues had fallen. He said that if a 10 or 15% change in demand undermines a COSA it brings into question the quality of the rate study. He said under pricing structure previously adopted there had been unwillingness to set fixed charges equal to fixed costs. He was not recommending doing that, but the consequence was that a reduction in demand sends revenues below cost. Vice Chair Waldfogel's opinion is that the original COSA was still valid and that we should be having a pricing discussion within the existing COSA, not a new COSA. He also felt that the community would be concerned that we were willing to do individual allocations for business customers but not for residential customers to accommodate landscaping issues. He said given the huge variations in lot sizes setting arbitrary limits and saying anything above that level was wasteful was not an accurate way to portray water use. The consequence was that trees and other landscaping would die.

Abendschein said the basic structure of our costs had not changed. The COSA from two years ago had not incorporated a drought scenario. This was not a new COSA but an update to the previous COSA to include drought level consumption and rates necessary to cover costs.

Vice Chair Waldfogel said that meant that the pricing used in that COSA was too sensitive to demand. He agreed that the financial viability of the fund was important, but it did not mean there was a cost analysis problem, it was a price analysis problem.

Commissioner Melton said that once the COSA was established, deviating from it was not a good idea. If the COSA did not include rates that worked during the drought, then it was insufficient and a new COSA was necessary.

Vice Chair Waldfogel said the COSA set the amount of revenue to be collected from fixed versus variable charges. He said if the COSA could not survive relatively small changes in demand it called into question of whether the City was on the right track with this study.

Abendschein said staff was comfortable with the COSA under normal conditions. It needed something added to address an extended water shortage. Every agency struggled with the issue of collecting fixed costs through variable charges. There was a constitutional mandate to

not waste water. The California Urban Water Conservation Council which includes advocacy groups and water utilities established best management practices for water agencies. One of these practices was that no more than 30% of fixed costs should be recovered through fixed charges. The way other agencies dealt with lost revenue in a drought was to have different rates for different drought scenarios. Roseville was one example of an agency with that practice. What was being proposed tonight did not call into question the validity of the previous study.

Abendschein said the goal tonight was to get feedback from the Commission, and if the balance between fixed and variable costs was not what they hoped to see, this was the time to get that feedback.

Chair Foster asked whether it made sense to achieve resolution now. He asked if anyone wanted to recommend anything other than the staff recommendation.

Commissioner Cook asked how the rates would revert to normal rates if it rained.

Abendschein said staff intended to get the rates designed and ready for adoption, and if it rained in December the rates would not be adopted and would instead be adopted in June.

Commissioner Cook asked about the mechanism for reverting to normal rates.

Abendschein said that the rates would go through the Prop 218 process and be ready in case of a drought. The trigger for activating them would be the declaration of drought conditions by the SFPUC, and the trigger for deactivating them would be the end of that declaration.

Commissioner Eglash questioned staff on the purpose of this action item to approve guidelines and considered it unprecedented to have the UAC or Council approve design guidelines. Abendschein pointed to other examples of UAC review and approval of design guidelines, such as the Palo Alto CLEAN program. Abendschein also explained how the guidelines would form the basis for the COSA and it would be challenging to deviate from the COSA after the fact.

Director Fong reminded the Commission that staff had been criticized in the past for not providing the UAC an opportunity to provide more definitive action prior to completing a rate analysis. Commissioner Melton agreed and said he was a supporter of UAC input early in the process.

Commissioner Eglash explained his concerns with the guidelines as presented and his main issue with Attachment A were items 2a through 2i and what implications they had for rate design. Abendschein explained these items were a restatement of policies already included in the Urban Water Management Plan and that none of these items implied a specific rate design. They were broad goals that staff was to keep in mind when designing rates. When staff returned with a rate design, they should be able to explain how that rate design is consistent with these goals.

Commissioner Eglash also had a concern that there was a disconnect between the presentation and the guidelines. For example, the presentation said one goal was to achieve the water use reductions mandated by the SFPUC, but the guidelines did not talk about that at all.

Director Fong said she thought the presentation and guidelines were fairly similar, noted several bullets that were identical, and pointed out that guideline three discussed the need to achieve water use reductions, but she invited recommendations for changes.

Commissioner Eglash said he interpreted guideline three to mean that the rates should be designed to cover costs in the event usage dropped to those levels, but that using rates to achieve those mandated water use reduction levels was something different. Abendschein agreed that the presentation could be worded better, and that the intent was to communicate in the presentation that guideline three was intended to mean that rates should be designed to cover costs in the event usage dropped to those levels, not that the rates would be designed to achieve those levels.

Vice Chair Waldfogel said that the staff report had documented that price signals were not the primary mechanism for achieving the reductions. He said the report noted a price elasticity of -0.15 to -0.17, which was a bit higher than he had seen in other studies for water rates, but not high enough to achieve the required reductions on their own.

Director Fong noted that the water use reduction levels noted in guideline three were from the water contract with the SFPUC. They represented the water consumption allocated under the drought formula and Chair Foster said guideline three could be reworded to reflect that.

Vice Chair Waldfogel and Commissioner Eglash debated how conservation signals and design of rates to reflect the level of water use reductions should be handled. Further clarification that the rate design was intended to collect the revenue requirement and was not intended to be the primary mechanism for achieving water use reductions, thereby potentially over-collecting revenues, resulted in Commissioner Eglash's withdrawing his objections to the guidelines.

Chair Foster said there were three options: first, recommend the staff language, second, provide some general guidance to staff on changes, but not specific language, or third, provide staff with specific language.

Commissioner Eglash said he was now willing to recommend Attachment A (the design guidelines) as written.

Vice Chair Waldfogel said he would not support the design guidelines as written. He would support it with two changes. Guideline five should say "Rates for residential customers should provide an allowance for efficient landscaping," without saying anything about the number of tiers to be implemented. The number of tiers should fall out of costs and be cost driven. He also wanted to change "commercial customers" to "all customers" under guideline six and remove the word "excess."

Commissioner Eglash said he would not support the changes. He said rate design could be an important part of encouraging conservation. It was important to speak to tiers in guideline five

because all landscaping was not equally important. He said that trees were a longer term investment requiring only a modest investment of water. Shrubs and lawns were a lower priority. He thought that weakening guideline five would make it too easy for people to keep all of their landscaping, and this was not the right approach during a drought. He supported guideline five as written. He thought they recognized the need to preserve trees during a drought.

Director Fong said staff agreed with deleting the word "excess" in guideline six.

MOTION: Chair Foster moved, seconded by Commissioner Eglash, to approve the staff recommendation with the removal of the word "excess" from guideline six.

SUBSTITUTE MOTION: Vice Chair Waldfogel moved, seconded by Commissioner Melton, to approve the staff recommendation with the following amendments: 1) modify guideline five so it reads "Rates for residential customers should provide an allowance for efficient landscaping," without the subsequent language regarding tiers, 2) change "commercial customers" to "all customers" under guideline six, and 3) remove the word "excess" from guideline six.

Commissioner Melton said he had seconded the motion, but suggested to Vice Chair Waldfogel that guideline six not be modified. They were not in a position to do individual allocations for each residential customer.

Vice Chair Waldfogel said it was important to acknowledge different levels of reasonable landscape water use for smaller and larger lots. Setting the same tiers for all customers would result in the acceleration of dying landscape. He was already seeing both brown lawns and stressed trees around his neighborhood. He thought they were on track to accelerate this trend, and that there would be backlash from the community if there were individual allocations for commercial but not for residential customers.

Commissioner Eglash said that the individual allocations for commercial customers mainly had to do with economics, not landscaping.

Vice Chair Waldfogel agreed. He said this was about protecting the capital base of the city and the landscape investment. He asked if other Commissioners had a suggestion on how to capture his comments regarding capturing number of people and lot size in residential rate design.

Commissioner Eglash said that the word "excessive" in guideline six was unfortunate, and really the discussion was just about a second tier for landscaping. He asked whether staff had considered ways to deal with unusual landscape situations.

Abendschein said that guideline eight regarding variances addressed some of those concerns. He noted that non-residential customers were far less homogeneous than residential customers, and that the only way to make a distinction between indoor and outdoor use for non-residential customers was via individual allocations for indoor outdoor use. The indoor use represented the business use of water.

Vice Chair Waldfogel said he understood that argument, but still thought it would rub people the wrong way. Given the recent concerns about development in Palo Alto and the impact on neighborhoods, he thought that individual allocations that potentially might reflect businesses loading 8-10 people per thousand square feet versus 6 people per thousand square feet into a commercial space might rub people the wrong way. He did not want to support that in the context of all the other land use discussions going on in the community.

Commissioner Melton said that to him, Vice Chair Waldfogel's proposed edits to guideline five meant that, for residential customers, an allowance for efficient landscaping would be required, which would take into consideration lot size. That data was in the City's database. Lot size was a relatively good measure of landscaping.

Commissioner Eglash said that such a revision to guideline five turns the intent of the guideline on its head. He said that although the guideline used the word "allowance," the intent of the third tier was to be a higher rate that would provide a disincentive for using water for landscaping.

Vice Chair Waldfogel said the rates still had to be cost based. He said the cost basis for that tier would fall out of the COSA if there were one. All of the elasticity studies he had seen said that the largest users were the least price elastic consumers, so to create an incentive for them to reduce would require a high rate. This would lower the rate for low users, the ones with the highest price elasticity, sending them a price signal to use more.

Commissioner Eglash was sympathetic to Vice Chair Waldfogel's concerns, and the concern that there might be some unusual situations that required special consideration, but he was concerned that the modifications being proposed to the design guidelines would be a disaster for water conservation. He thought it would lead to too much bad behavior by too many people. He said Vice Chair Waldfogel was trying to engineer the rate structure to provide a small benefit to a small number of people and it would cause an overwhelming number of people to do the wrong thing. He thought they really did need a third tier that was moderately, not extremely, more expensive than the other two tiers.

Chair Foster said he did not support removing the language regarding three tiers, but asked whether removing it would really affect the outcome of the rate study.

Commissioner Melton asked whether tiers were even the only way to do it.

Chair Foster said he was asking a slightly different question. The revised language said "Rates for residential customers should provide an allowance for efficient landscaping."

Commissioner Eglash said that was an ambiguous sentence because of the word allowance. If that sentence were rewritten to say that the rates should provide an incentive to water landscapes efficiently, to use less water, that would be one thing, but as worded, without a reference to tiers, it could be interpreted to mean that customers should be allowed to water their landscaping like crazy, and that was not what was intended.

Chair Foster said that was an intriguing point. He was trying to figure out whether staff needed the reference to three tiers in the guidelines in order to implement a three tier rate structure.

Abendschein thought the wording left open a range of other possibilities. It did postpone the discussion the UAC was currently having until the rate study was completed.

Commissioner Eglash asked staff to elaborate on the word “allowance.”

Abendschein asked whether there had been some previous discussion of wording saying “Rates for residential customers should provide for efficient use of water for landscaping.”

Vice Chair Waldfogel said this wording put the city on a slippery slope. “Efficient” and “excess” were two sides of the same coin. The fact was, the City was already seeing a great response to its calls for action without changing any prices. He said the price signal was superfluous. The community was being responsive, perhaps excessively responsive with respect to trees and landscape. Now the discussion was about recovering from that response.

Commissioner Eglash said it was a feature of rate structures statewide that fixed costs were not fully recovered through fixed charges. To do so would send the wrong price signals. That bridge had been crossed many years before.

Vice Chair Waldfogel said he was not arguing to change that. The last COSA had settled on charges that had gone too far for some people and not far enough for others. Now the point was to develop prices that would withstand a decrease in demand, and to decide what other efficiency programs were needed to achieve the required reductions without destroying the entire urban forest and urban landscape.

Commissioner Eglash said there was no scenario where the rates would become significantly more aggressive than they are. He did not want to do anything to convey a desire to roll back the fact that current rates send a price signal and that the City might want to send a slightly stronger price signal. He did not want to paper over a disagreement, and thought it might be getting toward time to indicate to the Council that there is disagreement among UAC members.

Chair Foster asked if it would be possible to indicate to Council agreement on the staff recommendation but a split vote on the wording of guidelines five and six.

Director Fong said there was no decision if there was a 2-2 vote. The UAC could break the other language out from the main motion.

Mullan said there were two motions pending to be dealt with.

Vice Chair Waldfogel asked Commissioner Melton to reiterate his previous suggestion regarding guideline six.

Commissioner Melton said he suggested leaving guideline six as it was and removing the word “excess.”

Vice Chair Waldfogel asked whether he would be willing to remove guideline six altogether.

Commissioner Melton said that would leave no guidance with respect to commercial customers.

Vice Chair Waldfogel said it would indicate a desire to leave commercial rates structured as they currently are, with a single tier.

Commissioner Melton said the City had to change that due to drought conditions.

Vice Chair Waldfogel said with all the other discussions about development going on he did not want to support a proposal that would lead to lower rates for businesses with 80 people sitting in a small amount of space. He thought that was untimely. There was a discussion going on about retail spaces Downtown becoming offices and office spaces becoming more heavily used than had been anticipated when they were permitted. By setting up these individual allocations the UAC was stepping into that land use debate and he did not want to do that.

Chair Foster asked whether there was additional text Vice Chair Waldfogel could suggest adding to guideline six to address those concerns given the diversity of consumption patterns mentioned previously by staff.

Vice Chair Waldfogel said it was a defined customer class and it was not the UAC's problem if it had a lot of diversity.

Chair Foster asked whether it would make sense to remove the language regarding individual allocations from guideline six but keep the reference to tiers.

Commissioner Eglash did not think guideline six was relevant to the issue of densely populated buildings. The intention of staff was to make it a bit more difficult for commercial facilities with large lawns to continue to water them seven days a week, while not affecting their winter water consumption.

Vice Chair Waldfogel recommended an allocation based on the square footage and density of the planned occupancy.

Commissioner Eglash said the virtue of the staff proposal was that it worked for other types of occupancy as well. There were industrial operations and retail space. Staff did not want to come up with 1800 different types of allocations, instead basing it on winter water consumption for all customers.

Chair Foster asked what Commissioner Melton's concern was regarding the language of guideline five.

Commissioner Melton said he was comfortable with the language mentioned by staff earlier in the meeting. He was trying to provide more flexibility so that staff could consider allocation-based rates in addition to tiers.

Commissioner Eglash said the problem with that approach is that it would postpone the discussion until after the COSA was done.

SUBSTITUTE MOTION: Chair Foster moved, seconded by Commissioner Eglash, to approve the staff recommendation with the following amendments: 1) modify guideline five so it reads “Rates for residential customers should provide for efficient use of water for landscaping,” and 2) remove the word “excess” from guideline six.

Chair Foster said he would nominate an ad hoc subcommittee with Commissioners Eglash, Melton, and Waldfogel to work with staff on the rate design, which would provide Commissioners Melton and Waldfogel the opportunity to comment on staff’s proposed designs. He asked whether the absence of the words “three tiers” would prevent staff from pursuing a three tier structure.

Abendschein said the language provided enough leeway to staff to pursue different rate structures.

Commissioner Eglash said he was not available to be on the subcommittee.

Chair Foster said the ad hoc subcommittee would only include Commissioners Melton and Waldfogel.

ACTION: Motion approved (3-1, Vice Chair Waldfogel “no” with Commissioners Chang, Cook and Hall absent)

Commissioner Melton asked what the next steps were and whether the guidelines would go to Council.

Abendschein said the proposal would go to Finance Committee on the 16th. They would have to discuss with the Finance Committee whether it made sense to send the guidelines to Council.

Chair Foster appointed an Ad Hoc Committee of the UAC consisting of Commissioners Melton and Waldfogel to work with staff on rate design issues.

ITEM 6 (PREVIOUSLY ITEM 4): DISCUSSION: Update and Discussion on Impact of Statewide Drought on Water and Hydroelectric Supplies

Vice Chair Waldfogel indicated he would need to leave and could not stay. Because Commissioner Cook had left the meeting earlier, Vice Chair Waldfogel’s departure would mean the meeting needed to end for lack of a quorum. Vice Chair Waldfogel also chastised staff for failing to accurately indicate the amount of time needed to discuss drought rates and indicated the unanticipated lateness necessitated his immediate departure. The item was not heard.

COMMISSIONER COMMENTS

None.

Meeting adjourned at 10:13 p.m.

Respectfully submitted,
Marites Ward
City of Palo Alto Utilities