TO:   HONORABLE CITY COUNCIL
FROM:  CITY MANAGER           DEPARTMENT: UTILITIES
DATE:  OCTOBER 20, 2008                CMR: 397:08
REPORT TYPE:  CONSENT
SUBJECT: Adoption of a Resolution Amending Utility Rate Schedules E-1, E-1-G, E-2, E-2-G, E-4, E-4-TOU, E-4-G, E-7, E-7-TOU, E-7-G, E-18, E-18-G, G-1, G-2, G-3, G-4, G-6, S-1, S-2, W-1, W-2, W-3, W-4 AND W-7; Repealing Utility Rate Schedules E-8, E-9, E-10, E-11, E-12, E-13 and E-17; Amending and Restating W-1-B and W-1-C as New Utility Rate Schedule RW-1, and Utility Rate Schedule G-COG as New Utility Rate Schedule G-8; Amending Utility Rules and Regulations 2, 3, 4, 5, 6, 7, 9, 11, 12, 21 and 23; Repealing Rule and Regulation 19; and Adding a New Utility Rule and Regulation 29

RECOMMENDATION
Staff recommends that the City Council approve a resolution (Attachment A) to:
   2) Terminate the Electric Direct Access Program, which involves repealing Utilities Rate Schedules E-8, E-9, E-11, E-12, E-13, and E-17 and Utility Rule and Regulation 19;
   3) Repeal Utilities Rate Schedule E-10;
   4) Amend and restate Utilities Rate Schedules W-1-B and W-1-C as new Utility Rate Schedule RW-1;
   5) Amend and restate Utility Rate Schedule G-COG as new Utility Rate Schedule G-8;
   6) Amend Utilities Rules and Regulations 2, 3, 4, 5, 6, 7, 9, 11, 12, 21 and 23; and
   7) Add new Utilities Rule and Regulation 29.

These changes, if approved, would become effective November 1, 2008. No rate increase is associated with any of the proposed changes. See Attachment C for an Index of Utilities Rate Schedules, Rules and Regulations.

BACKGROUND
Presently, there are twenty-three Electric Utility Rate Schedules, ten Gas Utility Rate Schedules, eight Water Utility Rate Schedules, five Wastewater Utility Rate Schedules, three Refuse Utility Rate Schedules, one Storm and Surface Water Drainage Utility Rate Schedule, four Fiber Optic
Utility Rate Schedules, four Miscellaneous Utility Rate Schedules and twenty-seven Utilities Rules and Regulations (Rules) which set forth the conditions for providing utility services and associated charges by the City of Palo Alto (Attachment B).

The Rules address a wide range of operating procedures, conditions and customer requirements, including the rendering and payment of bills, replacement of overhead and underground distribution facilities, customer deposits, electric voltage and frequency control, and reasons for discontinuance of service. The last major revision to the Rules was in 1998 (CMR 196:98), but individual rules have been brought before Council from time to time as the need for revisions arose. The Rate Schedules are also updated as required based on rules and regulations governing the Utility operations. The last revision to the Rate Schedules was in June 2008 as part of the FY2008-09 Budget Adoption (CMR 269:08). Inevitably, there is an ongoing need to add new provisions, delete outdated sections or schedules, or update language to reflect current (and new) practices and procedures.

**DISCUSSION**

The proposed revisions to Utilities Rate Schedules and to Utilities Rules and Regulations are based on: 1) proposed changes to existing City Council policies or programs; and 2) updated existing operations and practices since 1998 and the identified need to eliminate inconsistencies between various rate schedules and rules.

1. Changes that involve revisions to current City Council policies or programs include:

   - **Termination of the Electric Direct Access Program.** Electric direct access programs were implemented in California after the legislature passed a law in 1996 to deregulate the electric utility industry in the state (AB 1890, the Electric Utility Industry Restructuring Act). Under direct access, electric customers could choose to have their electric supplies provided by a supplier other than the City. In July 2001, Council acted to change the requirements for customers who were eligible for electric direct access by requiring customers who choose to be served by the City to forfeit their eligibility for direct access in the future (CMR 259:01). Electric direct access in California was suspended for all investor-owned utilities pursuant to California Public Utilities Commission Decision D.01-09-060 effective September 20, 2001. No Palo Alto customers ever elected to receive supplies from alternative electric suppliers and all existing eligible customers gave up direct access eligibility and elected to receive service under the City’s non-direct access rate schedules. To effect the termination of electric direct access, electric direct access related Rule 19 and Rate Schedules (E-8, E-9, E-11, E-12, E-13 and E-17) are eliminated and Rule 3 is edited to delete the reference to Direct Access Service.

   - **Removal of Solar Energy Discount.** Currently, customers who installed a solar hot water heating system under an old program receive a 10 percent discount on electric bills. This program was closed to new applicants in 1987 and many of the systems installed in this old program no longer exist, but customers continue to get this discount. Even if these systems still exist, after more than 20 years, they have reached the end of their useful lives. A new program has been launched to encourage the installation of solar hot water heating systems (CMR 174:08). This program does not include a discount on electric bills, but does include an up-front rebate. Under the new program, customers who install solar water heating systems also receive lower natural gas bills related to water heating.
Customers currently receiving this discount will be notified by a letter from the Utilities Department explaining the changes and describing the new solar hot water heating program.

2. Changes that are recommended for accurate reflection and clarification for the customer and City staff of existing operations and practices and consistency across rate schedules and rules are reflected in Tables 1 through 5 below and include:

- Clarification of electrical engineering related requirements and language.
- Clarification of existing terms and conditions for discontinuance, termination, and restoration of service.
- Clarification of bill payment terms, collections processes, landlord/tenant disputes with regard to submetering/ resale.
- Replacement of uniform language associated with Usage Tiers (such as Tier 1, Tier 2) instead of specific units (such as 300kwh, 20 therms, etc.) to standardize rate schedules.
- Addition of descriptive language on the calculation of Usage Tiers in Special Notes section to clarify tier proration.
- Replacement of uniform language for Calculation of Cost Components, and inclusion of this language where applicable.
- Clarification and standardization of Seasonal Rate Changes language across rate schedules where applicable.
- Clarification and standardization of Demand Meter and Power Factor sections where applicable.
- Deletion of “domestic dwellings” definition in E-1 and S-1 and inclusion in Rule 2.
- Revision of “Applicability” statements to reflect all customers served by rate schedules.
- Revision of “Territory” statements to achieve uniformity across rate schedules.
- Clarification of gas charge calculations in some gas rate schedules for consistency
- Clarification of PaloAltoGreen participation language.
- Consolidation of Recycled Water Hauling Rate Schedules W-1-B and W-1-C as new Rate Schedule RW-1.
- Renaming of Gas for Electric Generation schedule G-COG as new Rate Schedule G-8.
- Replacement of Electric Net Energy Metering (E-10) with new Rule 29

Attachment B summarizes the proposed changes to Utility Rules and Regulations, Electric Rate Schedules, Gas Rate Schedules, Water and Recycled Water Rate Schedules, and Other Rate Schedules respectively. Attachments D through I present the actual revisions in underlined/strikeout format.

**RESOURCE IMPACT**

Proposed revisions are not expected to have a significant impact on Utilities revenues. The elimination of old solar hot water heating program discount will result in increased revenues of $50,000. No rate increase is associated with any of the proposed changes.
POLICY IMPLICATIONS

The proposed revisions include changes to two existing City policies: the elimination of the Electric Direct Access Program and the elimination of the Solar Energy Discount.

In 1997, Council approved the direct access program for electricity customers (CMR 460:97). The program allowed large customers to seek alternative suppliers of electricity to delivery electricity to their facilities over the City’s distribution systems. The program was intended to be expanded to smaller customers over time. In July 2001, Council suspended the expansion of the direct access program to additional customers and required direct access-eligible customers who choose to be served by the City to forfeit their eligibility for direct access in the future (CMR 259:01). No Palo Alto customers ever elected to receive supplies from alternative electric suppliers and all existing eligible customers gave up direct access eligibility and elected to receive service under the City’s non-direct access rate schedules. The action taken by the Council in July 2001 did not explicitly apply to new customers, so presumably they could be eligible for direct access. If the recommended actions are taken, the Electric Direct Access Program will be completely eliminated, removing the possibility of new customers electing to receive electricity supplies from vendors outside of the City.

The Solar Energy Discount would be eliminated under the proposed changes to the Utilities Rates. This discount of 10% on electric bills has been provided to customers who installed a solar hot water heating system on their homes under an old Utilities program that has been closed to new customers since 1987. Many of these systems are no longer in existence and all have likely reached the end of their useful life. A new solar hot water heating program (CMR 174:08) has been launched to provide an incentive for customers to install new solar hot water heating systems.

ENVIRONMENTAL REVIEW

The adoption of this resolution does not meet the California Environmental Quality Act’s definition of a project, pursuant to California Public Resources Code Section 21065, therefore no environmental assessment is required.
ATTACHMENTS
A. Resolution
B. Summary of Proposed Changes to Rate Schedules, Rules and Regulations
C. Index of Utilities Rate Schedules, Rules and Regulations
D. Utilities Electric Rate Schedules E-1, E-1-G, E-2, E-2-G, E-4, E-4-TOU, E-4-G, E-7, E-7-TOU, E-7-G, E-8, E-9, E-10, E-11, E-12, E-13, E-17, E-18, and E-18-G
E. Utilities Gas Rate Schedules G-1, G-2, G-3, G-4, G-6, and G-8
F. Utilities Wastewater Collection Rate Schedules S-1 and S-2
G. Utilities Water Rate Schedules W-1, W-2, W-3, W-4, W-7, W-1-B, W-1-C
H. Utilities Recycled Water Rate Schedule RW-1
I. Utilities Rules and Regulations 2, 3, 4, 5, 6, 7, 9, 11, 12, 19, 21, 23, and 29

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