Summary Title: Water Utility Rate Increases for Fiscal Year 2012

Title: PUBLIC HEARING: Approval of Water Utility Rate Changes pursuant to Proposition 218

From: City Manager

Lead Department: Utilities

Recommendation
The Finance Committee and Staff request that the City Council adopt a resolution to:

1. Increase overall retail water rates and annual revenues for the Water Fund by 12.5 percent or $3.4 million in Fiscal Year (FY) 2012; and
2. Amend Utility Water Rate Schedules W-1, W-3, W-4, and W-7, as attached.

The recommended rate increase triggered the notice and protest hearing procedures under Proposition 218.

Executive Summary
This report and attachments discuss the projected costs and revenue requirements for the Water Fund for FY 2012 through FY 2016, as well as recommended rate revisions for FY 2012.

Staff assessed major cost drivers and expected costs, the short-term risks, reviewed reserve guidelines, and determined the revenue requirements for the Water Fund for the next five years. Staff projects a revenue shortfall of $6.2 million in FY 2012 and requests a revenue increase of $3.4 million or an average rate increase of 12.5% for FY 2012. Due to sufficient reserve levels in the Water Rate Stabilization Reserves (WRSR), the remaining shortfall of $2.8 million in FY 2012 will be drawn out of the reserves. The five year projections beyond the budget year indicate requirement for additional rate increases of 17%, 16% and 8% for FY 2013 through FY 2015. Staff requests the Council adoption of rate changes for FY 2012 only at this time. The average rate adjustments projected for FY 2013 through FY 2016 are provided for information purposes and are subject to change. The proposed rate adjustments achieve a gradual increase of the revenue stream required to fund the expected operating expenses facing the Water Fund over the next five years. The projected adjustments achieve the goals of ensuring that the balance of the Water Rate Stabilization Reserve (W-RSR) is adequate and within the Council-approved reserve guideline levels for FY 2012 and for the long-term forecast horizon. In the interim years of FY 2013 and FY 2014, W-RSR is projected to go below the
minimum guidelines but recover starting in FY 2015 and end within the guidelines at the end of the forecast horizon.

In October 2010 and November 2010, staff brought to the Utilities Advisory Commission (UAC) and the Finance Committee respectively, an assessment of existing rate structures with respect to the relative cost to serve distinct customer classes within the City, utilizing cost of service analysis. Staff also discussed with the UAC and the Finance Committee certain rate making objectives. Staff recommends, in concurrence with these discussions including feedback from the UAC and direction provided by the Finance Committee, a re-allocation of revenue collection by rate class, in addition to the 12.5% revenue increase. The revenue-neutral rate adjustments result in an average rate increase of 4.2% for the residential class, an average rate decrease of 9.9% for the commercial rate class, an average increase of 14.2% for the irrigation rate class, and an average increase of 93% for the private fire hydrant rate class. Staff also recommends structural changes to existing residential (W-1) and commercial (W-4) rate schedules in order to promote more efficient use of water. The structural change involves adding one more tier to residential and commercial rate schedules resulting in a total of three tiers in residential rates and two tiers in commercial rates. Multiple usage tiers (inclining block rates) are used to provide a stronger price signal (financial disincentive) to high water use. They are characterized by an increasing unit price of water for incremental water block or tier.

Both the UAC at its February 2, 2011 meeting and the Finance Committee at its March 1, 2011 meeting indicated agreement with the staff recommendation on the annual revenue increase of 12.5%, the revenue-neutral rate adjustments between distinct rate classes reflecting the relative cost to provide service, and the addition of tiers to residential and commercial rate classes. The UAC and the Finance Committee, however, voted differing amendments to the “within” class rate designs, particularly regarding the allocation of costs between fixed and volumetric rate recovery mechanisms.

The UAC voted by five to two in favor of recommending that the Council adopt the rates proposed at the February 2011 meeting with the following modifications:

- Residential tier 1 and tier 2 prices would be increased slightly from current prices, and the additional revenue would be used to lower the fixed service charges;
- There would be no bill reduction for commercial customers as a result of proposed rate revisions.

The Finance Committee voted by three to one in favor of recommending that the Council adopt the rates proposed at the March 2011 meeting with the following modification:

- Fixed service charges to be increased to 50% of the Cost of Service Analysis (COSA) recommendation.

Table 1 shows the current and proposed water rates incorporating Finance Committee’s modifications for FY 2012 for the W1, W3, W4 and W7 rate schedules.
Table 1 - Proposed Rates for FY 2012

<table>
<thead>
<tr>
<th>Rate Schedule</th>
<th>Current Rates</th>
<th>Proposed Rates</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Applicable Volume</td>
<td>Rates (per ccf)</td>
<td>Applicable Volume</td>
</tr>
<tr>
<td>W1 – Residential</td>
<td>First 7 ccf</td>
<td>$3.949</td>
<td>0-6 ccf</td>
</tr>
<tr>
<td></td>
<td>Over 7 ccf</td>
<td>$5.624</td>
<td>7-29 ccf</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Over 29 ccf</td>
</tr>
<tr>
<td>W4 – Commercial</td>
<td>All ccf</td>
<td>$4.946</td>
<td>First 14 ccf</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Over 14 ccf</td>
</tr>
<tr>
<td>W7 – Irrigation</td>
<td>All ccf</td>
<td>$4.946</td>
<td>All ccf</td>
</tr>
</tbody>
</table>

Discussion

The Water Utility's revenue requirement increase is primarily driven by the rapidly rising cost of water supply. The City of Palo Alto (City)'s water supply costs are projected to increase by 37 percent in the next fiscal year and double by 2016, largely as a result of the infrastructure projects currently undertaken by the City's primary water supplier, the San Francisco Public Utilities Commission (SFPUC). SFPUC's $4.6 billion initiative includes the repair, replacement and seismic upgrades of the regional system's deteriorating pipelines, tunnels, dams, reservoirs, pump stations and other facilities. The City Council supports this program (CMR: 311:00), the cost of which is shared by all of the SFPUC's water customers.

Safe and reliable water delivery is also a local priority. The Water Utility has planned capital improvement projects for our local City water supply infrastructure, including necessary seismic retrofitting of Palo Alto's water tanks and this is reflected in the new rates.

Customer Bill Impact of Proposed Rate Changes

Table 2 shows the impact of the proposed rate increase on customer bills based on different consumption levels for the residential and commercial classes.
Table 2: Impact of Proposed Rate Increase on Customer Bills

<table>
<thead>
<tr>
<th>Customer</th>
<th>Usage (ccf)</th>
<th>Current Monthly Bill ($)</th>
<th>Proposed Monthly Bill ($)</th>
<th>Increase Amount ($)</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Residential (5/8” Meter)</td>
<td>6</td>
<td>$28.69</td>
<td>$31.60</td>
<td>$2.91</td>
<td>10.1%</td>
</tr>
<tr>
<td>Medium Residential (5/8” Meter)</td>
<td>14</td>
<td>72.01</td>
<td>80.24</td>
<td>8.23</td>
<td>11.4%</td>
</tr>
<tr>
<td>Large Residential (5/8” Meter)</td>
<td>35</td>
<td>190.12</td>
<td>$217.28</td>
<td>27.17</td>
<td>14.3%</td>
</tr>
<tr>
<td>Medium Commercial (3” Meter)</td>
<td>300</td>
<td>1,561.45</td>
<td>1,591.36</td>
<td>29.91</td>
<td>1.9%</td>
</tr>
<tr>
<td>Large Commercial or Industrial (6” Meter)</td>
<td>1200</td>
<td>6,195.63</td>
<td>6,334.76</td>
<td>139.13</td>
<td>2.2%</td>
</tr>
<tr>
<td>Large Commercial or Industrial (6” Meter) (irrigation only) (W-7)</td>
<td>3000</td>
<td>15,098.43</td>
<td>19,381.00</td>
<td>4,282.57</td>
<td>28.4%</td>
</tr>
</tbody>
</table>

If approved by Council, the proposed $3.4 million increase for FY 2012 results in a total revenue increase of $2.5 million (17%) from the residential customers and $0.9 million (8%) from the business customers. The impact of the proposed FY 2012 water rate adjustments is an additional $8.23 on an average 1 residential customer’s current monthly water utility bill of $72.01. The impact on an individual customer will vary depending on customer class and individual customer water usage levels.

Comparison of Palo Alto Water Rates and Surrounding Cities
For several years, Palo Alto’s retail water rates have generally been higher than those in surrounding areas. Staff initiated a Benchmark Study for the Water Utility in May 2010 and presented its findings to the UAC in October 2010 and to the Finance Committee in November 2010 and submitted to the Council in March 2011. The objective of the study was to develop benchmarks and to provide insight as to the main reasons for the higher water rates in Palo Alto. The findings of this study highlighted some key areas such as more spending by Palo Alto for replacement of aging infrastructure; lack of access to lower cost water supply; more expensive service terrain to serve; higher quality of service; and higher rent payment for its use of real estate in the service territory. Rent charges for the Water Utility’s use of real estate in the service territory are adjusted annually to market value based on a survey conducted by the City.

Table 3 below, which compares monthly water bills using municipal water rates as of January 1, 2011 for Mountain View, Redwood City, Santa Clara and Menlo Park, indicates that the average residential customer in surrounding cities pays approximately 24% less than the average Palo Alto customer.

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1 Average residential customer is defined as a single family customer with 5/8” meter using 14 ccf (hundred cubic feet) of water per month.
Alto residential customer. The residential bill comparison with the average benchmark city is seven percentage points lower this year compared to the same period a year ago as other cities facing similar cost increases have begun raising their water rates as well. There are indications that nearby cities that purchase water supplies from the SFPUC will continue to raise rates in FY 2012. At this time, the certainty or magnitude of their rate increases is not known.

Table 3 – Monthly Residential Water Bill Comparison (rates in effect as of Jan. 1, 2011)

<table>
<thead>
<tr>
<th>Water Customer</th>
<th>Usage (ccf)</th>
<th>Palo Alto</th>
<th>Menlo Park</th>
<th>Redwood City</th>
<th>Mountain View</th>
<th>Santa Clara</th>
<th>Average Benchmark</th>
<th>(%) Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>6</td>
<td>$28.69</td>
<td>$38.95</td>
<td>$33.07</td>
<td>$20.78</td>
<td>$16.44</td>
<td>$27.31</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Average</td>
<td>14</td>
<td>$72.01</td>
<td>$73.14</td>
<td>$60.37</td>
<td>$48.04</td>
<td>$38.36</td>
<td>$54.97</td>
<td>-23.7%</td>
</tr>
<tr>
<td>Large</td>
<td>35</td>
<td>$190.12</td>
<td>$165.38</td>
<td>$185.45</td>
<td>$153.21</td>
<td>$95.90</td>
<td>$149.98</td>
<td>-21.1%</td>
</tr>
<tr>
<td>Difference from CPAU</td>
<td>1.6%</td>
<td>-16.2%</td>
<td>-33.3%</td>
<td>-46.7%</td>
<td>-23.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Proposition 218 Water Rate Increase Procedure
Proposition 218 amended the California Constitution and set forth procedural requirements that public agencies must follow in order to enact or increase a property-related fee. Since Proposition 218 applies to the water rate increases described here, the City must provide written notice by mail to water customers subject to the proposed fees (notices were mailed April 25, 2011), followed by a public hearing held not less than 45 days after notice is mailed (the June 13, 2011 Council meeting). Per the requirements, the notice included the amount of the fee, the basis upon which the fee is calculated, the reason for the fee, and the date, time and location of the public hearing. If a majority of customers submit written protests against the proposed fees, the City may not impose the fee.

Possibility of Water Use Restrictions due to Water Shortage
In the event of a water shortage, the SFPUC will declare a water shortage emergency and impose mandatory water use reductions. If this action is taken, then staff will return to the Council with an updated proposal for a rate adjustment and water rate schedules. Staff does not expect a water shortage for FY 2012 at this time.

Board/Commission Review and Recommendations
The Finance Committee considered staff’s recommendation at its March 1, 2011 meeting. The Committee members discussed the five-year financial projections and the possible impacts on the reserve levels. They also discussed the rate design changes proposed by staff and the UAC, including the cost of service adjustments between customer classes, the impact of increasing the fixed service charge component in one year, and the level and effectiveness of the

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2 Based on the FY 2009 BAWSCA survey, the share of SFPUC as source of water supply was 89% for Menlo Park, 100% for Redwood City, 86% for Mountain View, and 12% for Santa Clara.
volumetric rates. Motions were made to direct staff to return to the Finance Committee with various alternatives to the fixed and volumetric rate components.

The Finance Committee voted by three to one in favor of recommending that the City Council approve staff’s and the UAC’s recommended Water Utility Rate Adjustments with the following amendment:

- Fixed service charges to be increased to 50% of COSA recommendation.

An excerpt of the minutes from the Finance Committees March 1, 2011 meeting are provided as Attachment G.

Resource Impact
Approval of this rate proposal will increase the Water Fund retail sales revenues by approximately $3.4 million for FY 2012.

Policy Implications
This recommendation does not represent a change to current City policies.

Environmental Review
The restructuring of water rates to meet operating expenses and financial reserve needs is not subject to the California Environmental Quality Act (CEQA), pursuant to California Public Resources Code Sec. 21080(b)(8) and Title 14 of the California Code of Regulations Sec. 15273(a)(1) and (3).

Attachments:
- Attachment A: Resolution for Water Rate Changes effective July 1 2011 (PDF)
- Attachment B: W-1 effective 7-1-2011 (PDF)
- Attachment C: W-3 effective 7-1-2011 (PDF)
- Attachment D: W-4 effective 7-1-2011 (PDF)
- Attachment E: W-7 effective 7-1-2011 (PDF)
- Attachment F: Staff Report to Finance Committee (PDF)
- Attachment G: Excerpts from Finance Committee Meeting Minutes 3-1-11 (PDF)
- Prop 218 Water Protests (PDF)

Prepared By: Ipek Connolly, Sr. Resource Planner

Department Head: Valerie Fong, Director

City Manager Approval: James Keene, City Manager
*Not Yet Approved*

Resolution No.________

Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedules W-1, W-3, W-4 and W-7

WHEREAS, pursuant to Chapter 12.20.010 of the Palo Alto Municipal Code, the Council of the City of Palo Alto may by resolution adopt rules and regulations governing utility services and the fees and charges therefore; and

WHEREAS, pursuant to Article XIIIID Sec. 6 of the California Constitution, on June __, 2011, the City of Palo Alto held a public hearing to consider all protests against the proposed water rate increases; and

WHEREAS, the total number of written protests presented by the close of the public hearing was less than fifty percent (50%) of the total number of customers and property owners subject to the proposed water rate increases;

NOW, THEREFORE, the Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-1 (General Residential Water Service) is hereby amended to read in accordance with sheets W-1-1 and W-1-2, attached hereto and incorporated herein. The foregoing Utility Rate Schedule, as amended, shall become effective July 1, 2011.

SECTION 2. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-3 (Fire Service Connections) is hereby amended to read in accordance with sheets W-3-1 and W-3-2, attached hereto and incorporated herein. The foregoing Utility Rate Schedule, as amended, shall become effective July 1, 2011.

SECTION 3. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-4 (General Non-Residential Water Service) is hereby amended to read in accordance with sheets W-4-1 and W-4-2, attached hereto and incorporated herein. The foregoing Utility Rate Schedule, as amended, shall become effective July 1, 2011.

SECTION 4. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-7 (Irrigation Water Service) is hereby amended to read in accordance with sheets W-7-1 and W-7-2, attached hereto and incorporated herein. The foregoing Utility Rate Schedule, as amended, shall become effective July 1, 2011.

SECTION 5. The Council finds that the revenue derived from the authorized adoption enumerated herein shall be used only for the purpose set forth in Article VII, Section 2, of the Charter of the City of Palo Alto.
*Not Yet Approved*

**SECTION 6.** The Council finds that a restructuring of water rates to meet operating expenses and financial reserve needs is not subject to the California Environmental Quality Act (CEQA), pursuant to California Public Resources Code Sec. 21080(b)(8) and Title 14 of the California Code of Regulations Sec. 15273(a)(1) and (3).

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

______________________________  ______________________________
City Clerk                        Mayor

APPROVED AS TO FORM:

______________________________  ______________________________
Acting Deputy City Attorney      City Manager

______________________________
Director of Utilities

______________________________
Director of Administrative
Services
**GENERAL RESIDENTIAL WATER SERVICE**

**UTILITY RATE SCHEDULE W-1**

**A. APPlicability:**

This schedule applies to all separately metered single family residential water services.

**B. TERRITORY:**

This schedule applies everywhere the City of Palo Alto provides water services.

**C. RATES:**

<table>
<thead>
<tr>
<th>Monthly Customer Charge:</th>
<th>Per Meter</th>
<th>Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>For 5/8-inch meter</td>
<td></td>
<td>$10.00</td>
</tr>
<tr>
<td>For 3/4 inch meter</td>
<td></td>
<td>$10.00</td>
</tr>
<tr>
<td>For 1 inch meter</td>
<td></td>
<td>$13.00</td>
</tr>
<tr>
<td>For 1 1/2 inch meter</td>
<td></td>
<td>$27.00</td>
</tr>
<tr>
<td>For 2-inch meter</td>
<td></td>
<td>$43.00</td>
</tr>
<tr>
<td>For 3-inch meter</td>
<td></td>
<td>$114.00</td>
</tr>
<tr>
<td>For 4-inch meter</td>
<td></td>
<td>$195.00</td>
</tr>
<tr>
<td>For 6-inch meter</td>
<td></td>
<td>$406.00</td>
</tr>
<tr>
<td>For 8-inch meter</td>
<td></td>
<td>$644.00</td>
</tr>
<tr>
<td>For 10-inch meter</td>
<td></td>
<td>$644.00</td>
</tr>
</tbody>
</table>

Commodity Rate: (To be added Customer Charge and applicable to all pressure zones.)

<table>
<thead>
<tr>
<th>Per Hundred Cubic Feet (ccf)</th>
<th>All Pressure Zones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 usage</td>
<td>$3.60</td>
</tr>
<tr>
<td>Tier 2 usage</td>
<td>$6.08</td>
</tr>
<tr>
<td>Tier 3 usage (All usage over Tier 2)</td>
<td>7.64</td>
</tr>
</tbody>
</table>

Temporary unmetered service to residential subdivision developers, per connection $6.00

**CITY OF PALO ALTO UTILITIES**

Issued by the City Council

Supersedes Sheet No W-1-1 dated 7-1-2009

Effective 7-1-2011

Sheet No W-1-1
D. SPECIAL NOTES:

1. Calculation of Cost Components

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or taxes. On a customer’s bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

2. Calculation of Usage Tiers

Tier 1 water usage shall be calculated and billed based upon a level of 0.2 ccf per day rounded to the nearest whole ccf, based on meter reading days of service. Tier 2 water usage shall be calculated and billed based on usage greater than Tier 1 and up to a level of 0.967 ccf per day, rounded to the nearest whole ccf, based on meter reading days of service. Tier 3 encompasses all usage over Tier 2 levels. As an example, for a 30 day bill, the Tier 1 level would be 0 through 6 ccf, and Tier 2 would be between 7 and 29 ccf. For further discussion of bill calculation and proration, refer to Rule and Regulation 11.
A. APPLICABILITY:

This schedule applies to all public fire hydrants and private fire service connections.

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides water services.

C. RATES:

1. Monthly Service Charges

   Public Fire Hydrant ........................................................................................................ $5.00

   Private Fire Service:
   4-inch connection .................................................................................................................. $7.27
   6-inch connection .................................................................................................................. 16.13
   8-inch connection .................................................................................................................. 28.53
   10-inch connection ............................................................................................................... 44.48

2. Commodity (To be added to Service Charge unless water is used for fire extinguishing or
testing purposes.)

   Per Hundred Cubic Feet

   All water usage .................................................................................................................... $10.00

D. SPECIAL NOTES:

1. Service under this schedule may be discontinued if water is used for any purpose other
   than fire extinguishing or water used in testing and repairing the fire extinguishing
   facilities. Such water used for other purposes is illegal and will be subject to the
   commodity charge as noted above and fines.

2. No commodity charge will apply for water used for fire extinguishing purposes.

3. For a combination water and fire service, the general water service schedule shall apply.

4. Utilities Rule and Regulation No. 21 provides additional information on Automatic Fire
   Services.

CITY OF PALO ALTO UTILITIES
Issued by the City Council

Effective 7-1-2011
Supersedes Sheet No W-3-1 dated 11-1-2008
5. Repairs and testing of fire extinguishing facilities are not considered unauthorized use of water if records and documentation are supplied by the customer.

6. Unauthorized use of water which is unrelated to fire protection is subject to criminal prosecution pursuant to the Palo Alto Municipal Code.

{End}
GENERAL NON-RESIDENTIAL WATER SERVICE

UTILITY RATE SCHEDULE W-4

A. APPLICABILITY:
This schedule applies to non-residential water service in the City of Palo Alto and its distribution area. This schedule is also applicable to multi-family residential customers served through a master meter.

B. TERRITORY:
This schedule applies everywhere the City of Palo Alto provides water services.

C. RATES:

<table>
<thead>
<tr>
<th>Monthly Customer Charge</th>
<th>Per Meter</th>
</tr>
</thead>
<tbody>
<tr>
<td>For 5/8-inch meter</td>
<td>$10.00</td>
</tr>
<tr>
<td>For 3/4-inch meter</td>
<td>$10.00</td>
</tr>
<tr>
<td>For 1-inch meter</td>
<td>$13.00</td>
</tr>
<tr>
<td>For 1 ½-inch meter</td>
<td>$27.00</td>
</tr>
<tr>
<td>For 2-inch meter</td>
<td>$43.00</td>
</tr>
<tr>
<td>For 3-inch meter</td>
<td>$114.00</td>
</tr>
<tr>
<td>For 4-inch meter</td>
<td>$195.00</td>
</tr>
<tr>
<td>For 6-inch meter</td>
<td>$406.00</td>
</tr>
<tr>
<td>For 8-inch meter</td>
<td>$644.00</td>
</tr>
<tr>
<td>For 10-inch meter</td>
<td>$644.00</td>
</tr>
</tbody>
</table>

Commodity Rates: (to be added to Customer Charge)

<table>
<thead>
<tr>
<th>Per Hundred Cubic Feet (ccf)</th>
<th>All Pressure Zones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>$4.486</td>
</tr>
<tr>
<td>Tier 2 (All usage over Tier 1)</td>
<td>4.946</td>
</tr>
</tbody>
</table>

D. SPECIAL NOTES:

DELETE: 5.00
DELETE: $5.00
DELETE: $6.50
DELETE: $12.27
DELETE: $19.37
DELETE: $77.65
DELETE: $130.60
DELETE: $260.43
DELETE: $383.67
DELETE: $383.67

DELETE: 0
DELETE: ¶
DELETE: ¶
DELETE: Per ccf
DELETE: 4.946

DELETE: 2009
DELETE: 11-1-2008

CITY OF PALO ALTO UTILITIES
Issued by the City Council

Supersedes Sheet No W-4-1 dated 7-1-2009
Effective 7-1-2011
1. **Calculation of Cost Components**

   The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or taxes. On a customer’s bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

2. **Calculation of Usage Tiers**

   Tier 1 water usage shall be calculated and billed based upon a level of 0.467 ccf per day rounded to the nearest whole ccf, based on meter reading days of service. Tier 2 encompasses all usage over Tier 1 levels. As an example, for a 30 day bill, the Tier 1 level would be 0 through 14 ccf. For further discussion of bill calculation and proration, refer to Rule and Regulation 11.
IRRIGATION WATER SERVICE

UTILITY RATE SCHEDULE W-7

A. APPLICABILITY:

This schedule applies to non-residential water service supplying dedicated irrigation meters in the City of Palo Alto and its distribution area.

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides water services.

C. RATES:

<table>
<thead>
<tr>
<th>Monthly Customer Charge</th>
<th>Per Meter</th>
<th>Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>For 5/8-inch meter</td>
<td>...........</td>
<td>10.00</td>
</tr>
<tr>
<td>For 3/4-inch meter</td>
<td>...........</td>
<td>10.00</td>
</tr>
<tr>
<td>For 1-inch meter</td>
<td>...........</td>
<td>13.00</td>
</tr>
<tr>
<td>For 1 1/2 inch meter</td>
<td>...........</td>
<td>27.00</td>
</tr>
<tr>
<td>For 2-inch meter</td>
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<td>43.00</td>
</tr>
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<td>For 3-inch meter</td>
<td>...........</td>
<td>114.00</td>
</tr>
<tr>
<td>For 4-inch meter</td>
<td>...........</td>
<td>195.00</td>
</tr>
<tr>
<td>For 6-inch meter</td>
<td>...........</td>
<td>406.00</td>
</tr>
<tr>
<td>For 8-inch meter</td>
<td>...........</td>
<td>644.00</td>
</tr>
<tr>
<td>For 10-inch meter</td>
<td>...........</td>
<td>644.00</td>
</tr>
</tbody>
</table>

Commodity Rates: (to be added to Customer Charge)

<table>
<thead>
<tr>
<th>Per Hundred Cubic Feet (ccf)</th>
<th>All Pressure Zones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Ccf</td>
<td>6.325</td>
</tr>
</tbody>
</table>

D. SPECIAL NOTES:

\begin{itemize}
  \item Supersedes Sheet No W-7-1 dated 7-1-2009
  \item Effective 7-1-2011
\end{itemize}
IRRIGATION WATER SERVICE

UTILITY RATE SCHEDULE W-7

1. Calculation of Cost Components

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or taxes. On a customer’s bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

{End}
Council Priority: {ResProject:ClearLine}

Title: Water Utility Rate Changes

Subject: Proposed Water Utility Rate Adjustments and Long Term Financial Projections

From: City Manager

Lead Department: Utilities

Recommendation
Staff requests that the Finance Committee recommend that the City Council adopt a resolution to:

1. Increase overall retail water rates and annual revenues for the Water Fund by 12.5 percent or $3.4 million in Fiscal Year (FY) 2012; and
2. Amend Utility Water Rate Schedules W-1, W-3, W-4, and W-7, as attached.

The recommended rate increase will trigger the notice and protest hearing procedures under Proposition 218.

Executive Summary
This report discusses the projected costs and revenue requirements for the Water Fund for FY 2012 through FY 2016, as well as recommended rate revisions for FY 2012.

Staff assessed major cost drivers and expected costs, the short-term risks, reviewed reserve guidelines, and determined the revenue requirements for the Water Fund for the next five years. Staff projects a revenue shortfall of $6.2 million in FY 2012 and requests a revenue requirement increase of $3.4 million or an average rate increase of 12.5%, for FY 2012 followed by additional rate increases of 17%, 16% and 8% for FY 2013 through FY 2015. Due to sufficient reserve levels in the Water Rate Stabilization Reserves (WRSR), the remaining shortfall of $2.8 million in FY 2012 will be drawn out of the reserves. Staff requests the Finance Committee recommend adoption of rate changes for FY 2012 only at this time. The average rate adjustments projected for FY 2013 through FY 2016 are provided for information purposes and are subject to change. The proposed rate adjustments achieve a gradual increase of the revenue stream required to fund the expected operating expenses facing the Water Fund over the next five years. The projected adjustments achieve the goals of ensuring that the balance of the Water Rate Stabilization Reserve (W-RSR) is adequate and within the Council-approved reserve...
guideline levels for FY 2012 and for the long-term forecast horizon. In the interim years of FY 2013 and FY 2014, W-RSR is projected to go below the minimum guidelines but recover starting in FY 2015 and end within the guidelines at the end of the forecast horizon.

In October 2010 and November 2010, staff brought to the Utilities Advisory Commission (UAC) and the Finance Committee respectively, an assessment of existing rate structures with respect to the relative cost to serve distinct customer classes within the City of Palo Alto (City), utilizing cost of service analysis. Staff also discussed with the UAC and the Finance Committee certain rate making objectives. Staff recommends, in concurrence with these discussions and direction provided by the UAC and the Finance Committee, a re-allocation of revenue collection by rate class. The revenue-neutral rate adjustments result in an average rate increase of 4.2% for the residential class, an average rate decrease of 9.9% for the commercial rate class, an average increase of 14.2% for the irrigation rate class, and an average increase of 93% for the private fire hydrant rate class. At its February 2, 2011 meeting, the UAC indicated acceptance of staff recommendation on the cost of service adjustments between various customer classes. The UAC voted 5-2 on staff’s proposal with amendments to the “within” class rate designs, particularly regarding the allocation of costs between fixed and volumetric rate recovery mechanisms and the manner in which the additional $3.4 million in cost increases are proposed to be recovered.

If approved by Council, the proposed $3.4 million increase for FY 2012 results in a total revenue increase of $2.5 million (17%) from the residential customers and $0.9 million (8%) from the business customers. The impact of the proposed FY 2012 water rate adjustments is an additional $10.07 on an average residential customer’s current monthly water utility bill of $72.01. The impact on an individual customer will vary depending on customer class and individual customer water usage levels.

**Background**

The City’s Water Utility (Utility) serves about 20,000 customers over an area of approximately 26 square miles. The City’s average daily consumption of water in FY 2010 was 10.2 million gallons per day (mgd) or 5.0 million ccf (hundred cubic feet) of water for the year. The Utility is responsible for the operations and maintenance of the system and purchases all of its water from the San Francisco Public Utilities Commission (SFPUC) through a contract that runs through June 2034.

In order to maintain the financial viability of the Utility, staff conducts an annual review of major cost drivers and expected costs facing the utility; evaluates risks and adequacy of reserves; and determines the revenue requirements of the Water Fund for the next five years. The revenue requirements and resulting rate adjustment targets depend on a number of factors. They include sales projections, water supply costs, distribution system operating and Capital Improvement Program (CIP) expenses, prudent funding of the Water Rate Stabilization Reserve (W-RSR), the Emergency Plant Replacement (EPR) Reserve, and debt service payments. Any change in these factors can trigger an adjustment to the revenue requirement. During the budget process, staff forecasts customer load, revenues and utility expenses to quantify the
annual revenue requirement. Changes to forecasted revenues or expenses are reflected in adjustments to the budget during the mid-year budget adjustment process.

In FY 2010, staff hired Utility Financial Solutions, LLC (UFS), an external consulting firm to conduct a cost of service analysis (COSA). COSAs are conducted to review utility rate structures and the alignment of revenues by customer class with the cost of providing service to each customer class. COSAs also fulfill Proposition 218 requirements for determining the proper allocation of costs to customers. Based on the results of the COSA, and a review of existing Water Utility rate structures, staff analyzed various alternative rate structures to ensure equitable rates for all customer classes. Staff discussed with the UAC at its October 2010 meeting and the Finance Committee at its November 2010 meeting various alternatives to water rate structures in order to meet certain rate making objectives, and general recommendations from those meetings are incorporated in this report.

Discussion

Financial Projections

Table 1 below shows financial projections for the Water Fund for FY 2010 to FY 2016. For FY 2010, both budgeted and realized actuals based on City's Audited Financial Report (CAFR) are shown. For FY 2011, both budgeted and projected financial expectations are shown. The projected column for FY 2011 reflects revised Retail Sales Revenue and Wholesale Water Purchase Costs based on the actual water consumption levels realized in the first half of the year, and revised projections for the second half.

Cost Drivers

Total expenses\(^1\) were $31.2 million in FY 2010. This is $2.9 million higher than budgeted due mainly to debt financing expenses associated with the Water Bond issued that year. This overage was mitigated somewhat by lower than expected purchase costs and operations expense. In FY 2011, total expenses are expected to be slightly lower than budgeted, reaching $32.0 million as a result of lower than expected water use in Palo Alto. Starting in FY 2012, however, total expenses are projected to increase sharply, reaching $42.4 million in FY 2016, driven in large part by increases in water supply purchase costs and CIP-related expenses.

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\(^1\) Refers to Row 20 in Table 1: Total expenses excluding Bond Financed Capital Improvement Program (CIP).
### Table 1

**Five-Year Financial Plan – Projected Costs (in $thousands)**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>% CHANGE IN RETAIL RATE</strong></td>
<td>5.0%</td>
<td>5.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>12.5%</td>
<td>17.0%</td>
<td>16.0%</td>
<td>8.0%</td>
<td>0.0%</td>
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<td><strong>PROJECTED SYSTEM AVERAGE RATE ($/CCF)</strong></td>
<td>5.21</td>
<td>5.23</td>
<td>5.21</td>
<td>5.21</td>
<td>5.86</td>
<td>6.85</td>
<td>7.95</td>
<td>8.59</td>
<td>8.59</td>
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<tr>
<td><strong>PROJECTED COMMODITY COST ($/CCF)</strong></td>
<td>1.70</td>
<td>1.66</td>
<td>2.00</td>
<td>1.92</td>
<td>2.57</td>
<td>2.96</td>
<td>3.17</td>
<td>3.37</td>
<td>3.84</td>
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<td><strong>SALES UNITS (THOUSAND CCFs)</strong></td>
<td>5,543</td>
<td>4,955</td>
<td>5,504</td>
<td>5,143</td>
<td>5,256</td>
<td>5,195</td>
<td>5,170</td>
<td>5,143</td>
<td>5,120</td>
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<td><strong>PROJECTED CHANGE IN RETAIL SALES REVENUE</strong></td>
<td>1,375</td>
<td>1,234</td>
<td>0</td>
<td>0</td>
<td>3,422</td>
<td>5,174</td>
<td>5,670</td>
<td>3,272</td>
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<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Utilities Retail Sales</td>
<td>28,948</td>
<td>25,851</td>
<td>28,808</td>
<td>26,926</td>
<td>30,795</td>
<td>35,339</td>
<td>41,013</td>
<td>44,174</td>
<td>44,113</td>
</tr>
<tr>
<td>Service Connection &amp; Capacity Fees</td>
<td>682</td>
<td>694</td>
<td>692</td>
<td>692</td>
<td>767</td>
<td>776</td>
<td>785</td>
<td>795</td>
<td>750</td>
</tr>
<tr>
<td>Other Revenues plus Transfers In</td>
<td>131</td>
<td>648</td>
<td>766</td>
<td>766</td>
<td>158</td>
<td>161</td>
<td>162</td>
<td>162</td>
<td>162</td>
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<tr>
<td>Interest &amp; Gain or Loss on Investment</td>
<td>1,265</td>
<td>1,375</td>
<td>1,050</td>
<td>1,050</td>
<td>595</td>
<td>665</td>
<td>627</td>
<td>976</td>
<td>1,449</td>
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<tr>
<td><strong>Sub Total</strong></td>
<td>31,026</td>
<td>28,568</td>
<td>31,316</td>
<td>29,434</td>
<td>32,314</td>
<td>37,140</td>
<td>42,586</td>
<td>46,107</td>
<td>46,475</td>
</tr>
<tr>
<td><strong>CIP Bond Proceeds / Reserve</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Sources of Funds</strong></td>
<td>66,026</td>
<td>63,568</td>
<td>34,816</td>
<td>32,934</td>
<td>32,314</td>
<td>37,140</td>
<td>42,586</td>
<td>54,107</td>
<td>62,475</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Water Supply Purchases</td>
<td>10,354</td>
<td>9,061</td>
<td>12,043</td>
<td>10,834</td>
<td>14,790</td>
<td>16,840</td>
<td>17,949</td>
<td>18,986</td>
<td>21,541</td>
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<tr>
<td>Operations</td>
<td>10,094</td>
<td>8,428</td>
<td>10,721</td>
<td>10,721</td>
<td>10,603</td>
<td>10,709</td>
<td>10,816</td>
<td>10,924</td>
<td>11,034</td>
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<td>Debt Service &amp; Other Related</td>
<td>775</td>
<td>5,379</td>
<td>2,981</td>
<td>2,981</td>
<td>2,734</td>
<td>2,741</td>
<td>2,753</td>
<td>2,762</td>
<td>2,778</td>
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<tr>
<td>Rent</td>
<td>2,107</td>
<td>2,107</td>
<td>2,107</td>
<td>2,107</td>
<td>2,128</td>
<td>2,150</td>
<td>2,171</td>
<td>2,193</td>
<td>2,215</td>
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<tr>
<td>CIP (Non-Bonded)</td>
<td>4,914</td>
<td>6,189</td>
<td>5,348</td>
<td>5,348</td>
<td>4,869</td>
<td>9,244</td>
<td>9,413</td>
<td>5,051</td>
<td>4,871</td>
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<tr>
<td><strong>Sub Total</strong></td>
<td>28,244</td>
<td>31,165</td>
<td>33,201</td>
<td>31,992</td>
<td>35,124</td>
<td>42,364</td>
<td>43,102</td>
<td>47,916</td>
<td>42,439</td>
</tr>
<tr>
<td><strong>CIP (Bonded)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td><strong>Total Uses of Funds</strong></td>
<td>50,744</td>
<td>53,665</td>
<td>36,701</td>
<td>35,492</td>
<td>35,124</td>
<td>42,364</td>
<td>43,102</td>
<td>47,916</td>
<td>58,439</td>
</tr>
<tr>
<td><strong>Into/ (Out of) Reserves</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ending Rate Stabilization Reserve</td>
<td>15,282</td>
<td>9,903</td>
<td>(1,885)</td>
<td>(2,558)</td>
<td>(2,811)</td>
<td>(5,224)</td>
<td>(516)</td>
<td>6,191</td>
<td>4,036</td>
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<tr>
<td>Portion held for Bond CIP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Ending Plant Replacement Reserve</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>Short Term Assessment of Risks</strong></td>
<td>3,765</td>
<td>3,765</td>
<td>3,766</td>
<td>4,168</td>
<td>4,169</td>
<td>5,190</td>
<td></td>
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<td></td>
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<tr>
<td><strong>Rate Stabilization Guidelines</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum</td>
<td>4,330</td>
<td>3,887</td>
<td>4,300</td>
<td>4,017</td>
<td>4,619</td>
<td>5,342</td>
<td>6,166</td>
<td>6,625</td>
<td>6,596</td>
</tr>
<tr>
<td>Maximum</td>
<td>8,660</td>
<td>7,774</td>
<td>8,600</td>
<td>8,035</td>
<td>9,238</td>
<td>10,684</td>
<td>12,332</td>
<td>13,250</td>
<td>13,191</td>
</tr>
</tbody>
</table>

Water supply costs are projected to more than double from their current levels of $10.8 million in FY 2011 to $21.5 million in FY 2016. This is due to planned infrastructure upgrade projects that are being undertaken by the City’s primary water supplier, the SFPUC. The City Council supports this infrastructure upgrade effort as it will repair and upgrade the regional water supply system (CMR: 311:00). All of the SFPUC’s water customers share the cost of this project. Chart 1 presents the SFPUC’s wholesale water prices for both the historical period from 1971 to 2011 and projections through 2021, as of January 2011. The latest wholesale price projections are significantly higher than last year’s projections. This is primarily due to lower water use by all SFPUC’s water customers and the fact that SFPUC’s water system costs are all fixed and not dependent on water use levels. SFPUC is currently reviewing its wholesale water rate structures and may propose a new rate setting approach for FY 2012. Depending on the outcome of the rate setting mechanism adopted by SFPUC, Palo Alto’s water supply costs are projected to increase from $10.8 million in FY 2011 to between $14.4 and $15.6 million in FY 2012. Staff
assumed $14.8 million for the financial projections presented in this report based on an earlier analysis.

Chart 1

**SFPUC's Wholesale Water Prices**

Another sizeable expenditure is for the new CIP projects planned for FY 2013 and FY 2014. Recent investigations of Palo Alto’s water storage tanks have shown the need for additional retrofits required for seismic protection as well as improvements needed for tank coatings. These projects are projected to take three years, with costs anticipated to be $2.7 million in FY 2012, $4.0 million in FY 2013, and $4.4 million in FY 2014. Due to the new project costs anticipated for FY 2012, an existing water main replacement project\(^2\) of $3.2 million will be deferred from FY 2012 to FY 2013.

Bond-funded CIP projects in FY 2010 include the Water Reservoir and Well Rehabilitation project, which is proceeding as planned. Staff is also considering another large capital project to extend the recycled water distribution system that may impact the Water Fund within the five-year forecast horizon. The capital expenditure for this project could total over $32 million and significant expenditures could start in FY 2015. The sources of funds for the project have not been identified at this time, but are likely to include a combination of state and federal grants and a state low interest loan. Additional funds for the recycled water project could come from

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\(^2\) Water Main Replacement Project # 25.
project partners that have not yet been identified and bond proceeds for the balance of the project costs.

For the other cost items, the Debt Service payments reflect ongoing payments on the two outstanding water bonds of $775 thousand (2002 Utility Revenue Bonds, Series A) and $2.0 million (2009 Water Revenue Bonds, Series A). Debt Service charges for FY 2010 also include $3.8 million for the water reservoir and well rehabilitation bond issuance.

Staff projects a long-term net cost increase of 1% per year in other operating expenditures such as operations, maintenance and administration costs, allocated cost plan and Utilities administration charges, rents, and other transfers. This conservative assumption reflects the current expectations for the economic activity for the region. Depending on the final outcome of labor negotiations and other budgetary decisions, final Operating Budget proposals will be determined and presented to the Finance Committee at its May 2011 meeting.

Revenue Projections
Retail Sales constitute the largest source of revenue for the Water Fund. In FY 2010, total Retail Sales amounted to $25.8 million. This was $3.1 million (10.7%) lower than budgeted. Water demand projections are discussed in detail in the following section. Other revenues in FY 2010 include Service Connection and Capacity Fees of $694,000 and Transfers In of $648,000. Interest and Gains on Investments totaled $1.4 million in FY 2010. Additionally, the City issued Water Bonds of $35.0 million to finance the Emergency Reservoir and Well Rehabilitation Project during FY 2010. Going forward, the Utility plans to acquire external funding for the recycled water project related expenses shown for FY 2015 and FY 2016. Interest and Gains on Investments in future years are calculated assuming a 3% return on investment.

Water Demand
Water demand has a significant impact on the financial position of the Water Fund. A 1% drop in water demand results in a 0.95% loss in sales revenue or 0.87% loss in total revenue, and since most costs facing the water utility are fixed, this results in a corresponding need to increase water revenues and, therefore, rates.

Water demand in the City has been declining since its peak in the early 1970’s. During the last forty years, the City and the region experienced two periods of drought, the first one during 1976-77, and the second one lasting a longer time span from 1987 through 1992. The City aggressively pursued water conservation and community outreach programs during these years. Coupled with drought rates, these measures resulted in an average of 38% reduction in water consumption in the City during each occurrence. As can be seen in Chart 2, while some of the consumption resumed after the drought was over, the City’s water use levels nevertheless have declined since 2000 despite the growth in population and employment. While some of the decrease was due to the availability of recycled water, significant long term reduction in water

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3 Table 1 Row 12 and Row 21 – CIP Bond Proceeds and Expenses of $8.0 million in FY 2015 and $16.0 million in FY 2016
demand was achieved as a result of continuous improvements in building plumbing codes, various City ordinances, and resulting investments in water efficient equipment.

Recently, the region as well as the City has been experiencing another significant decline in the demand for water. Water consumption levels observed in FY 2010 were the lowest since the drought of 1992. The recent decline in water use is attributable to a combination of factors including the regional weather conditions, the state of the economy and the effect of the City’s continuing water conservation effort. The City’s water consumption in FY 2010 was 9% lower than consumption in FY 2009 and 14% lower than consumption in FY 2008.

For financial forecasting purposes the question is how the City’s and the region’s water consumption will continue into the future. In order to evaluate the impact of water demand on the financial forecast for the Water Fund, three scenarios were developed.

Under the base case scenario, water demand increases by 3.6% in FY 2011, but due to slow economic recovery and expected rate increases during the earlier part of the forecast horizon, it is projected to decrease at an average rate of 0.7% per year for the following three years. With the expected recovery taking effect during the latter part of the forecast horizon, demand is expected to gradually increase at an average rate of 0.8% per year for the rest of the forecast horizon. The base case also reflects the expected impact of planned water conservation program implementation to meet goals in the 2005 Urban Water Management Plan. Under the low scenario, water demand decreases an additional 5.4% in FY 2011, followed by a 1.0% per year decline throughout the forecast horizon. In contrast, under the high scenario, water demand increases by 8.9% in FY 2011, followed by a 1.5% per year increase for the rest of the forecast horizon.

Chart 2 presents the historical water consumption levels in the City from FY 1960 through FY 2010 and the results of the demand scenarios analyzed. The financial projections presented in this report are based on the base case scenario for water demand. The sensitivity of the projections to the low and high demand scenarios is presented in the reserves and risk assessment section.
Revenue Requirement
The revenue requirement of the Water Fund is the total amount of revenue that the Utility must collect in order to meet its operations and maintenance (O&M) expenses, water supply purchases, debt service payments and rate-financed CIP expenditures. Without a rate adjustment, under the base scenario demand forecast, the Water Fund is projected to have a revenue shortfall of $6.2 million and $13.1 million in FY 2012 and FY 2013 respectively. Due to its healthy reserves in FY 2011, staff recommends smoothed rate increases of 12.5% for FY 2012 and 17% for FY 2013 rather than a smaller increase in FY 2012 and a very large (greater than 20%) increase in FY 2013.

As discussed earlier, the revenue requirement in the Water Fund is very sensitive to demand projections. For example, even with the recommended rate adjustments, under the low demand scenario, the Water Fund would need an additional $3.7 million in FY 2012, and $4.3 million in FY 2013, in order to maintain reserves at the same levels as in the base scenario. Conversely under the high demand scenario, the revenue shortfall would be much lower, estimated to be $1.4 million and $3.8 million in FY 2012 and FY 2013 respectively.

Reserves and Risk Assessment
The Water Fund’s Rate Stabilization Reserve (W-RSR) Guidelines are established by the City Council. The Council reviews reserve adequacy periodically and adjusts the guidelines as needed. The W-RSR Guidelines were lowered in June 2009 (CMR:281:09) from 50% and 20% to 30% and 15% of sales revenues for maximum and minimum reserve levels, respectively.
Additionally, as required by the guidelines, staff performs an annual assessment of short-term risks for the fund. This analysis involves estimating the revenue shortfall due to the maximum observed budget-to-actual variance in one year during the past ten years, plus a variance of 10% of planned CIP expenditures for the budget year.

Table 2 summarizes the short-term risk assessment values for FY 2012 and FY 2013 and the minimum and maximum guideline levels for the W-RSR. With the proposed 12.5% and 17% rate increases for FY 2012 and FY 2013, respectively, the estimated end-of-year balance for the W-RSR is $7.9 million in FY 2012 and $2.9 million in FY 2013. This is above both the short-term risk assessment values as well as the minimum guidelines for FY 2012 but falls short of both the risk assessment and minimum guideline levels for FY 2013. Staff is proposing approval of rate adjustments for FY 2012 only at this time, and FY 2013 projections are provided for information only. Staff will come back next year during the budget process for FY 2013 with the updated financial projections and propose revised rate adjustments if necessary.

Due to the high volatility in water demand and the significant impact it can have on water utility financials, staff performed an additional level of analysis this year using the low and high water demand scenarios discussed earlier in this report. As shown in Table 2, the estimated end of year balances under these scenarios would be significantly different. Staff will monitor and report water sales levels throughout the fiscal year and may propose additional rate adjustments during the mid-year budget adjustment process, if necessary.

### Table 2: Water Rate Stabilization Reserve Guideline Levels and Short Term Risk Assessment ($M)

<table>
<thead>
<tr>
<th>WATER RATE STABILIZATION RESERVE</th>
<th>FY 2011</th>
<th>FY 2012</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESTIMATED END OF YEAR BALANCE - BASE</td>
<td>11.0</td>
<td>7.9</td>
<td>2.9</td>
</tr>
<tr>
<td>ESTIMATED END OF YEAR BALANCE - LOW</td>
<td>8.7</td>
<td>2.1</td>
<td>(7.4)</td>
</tr>
<tr>
<td>ESTIMATED END OF YEAR BALANCE - HIGH</td>
<td>12.3</td>
<td>11.0</td>
<td>8.5</td>
</tr>
<tr>
<td>RISK ASSESSMENT</td>
<td>4.2</td>
<td>4.2</td>
<td>5.2</td>
</tr>
<tr>
<td>MINIMUM LEVEL GUIDELINES</td>
<td>4.6</td>
<td>4.6</td>
<td>5.3</td>
</tr>
<tr>
<td>MAXIMUM LEVEL GUIDELINES</td>
<td>9.3</td>
<td>9.2</td>
<td>10.7</td>
</tr>
</tbody>
</table>

**Cost of Service Analysis (COSA)**

As mentioned earlier, staff hired UFS in October 2009 to conduct a COSA study for the Water Utility. UFS has experience in completing over 300 COSA studies for municipal utilities around the nation. The analysis involved an in-depth review of utility financial data, customer class load profiles, and the specific costs associated with providing utility services. It was conducted based on industry-recognized procedures involving functional classification of utility assets and expenses, and allocation of costs to customer classes based on the cost to provide the service. Specific customer class attributes included quantity of service and/or resource consumed; variability of use during the year; and, peak demands created on the system by each class.
The result of the study is a recommended adjustment to rate schedules to accurately align future revenues collected from each customer class with the costs attributable to serving that class. The original study used financial data prepared for FY 2011 Long Range Financial Projections presented to the UAC in February 2010. The study also relied on billing data for all of FY 2008 and part of FY 2009. The original study results were updated with FY 2010 customer usage data as it became available in September 2010. Table 3 presents the summary of updated COSA results for the Water Utility. Attachment G and H provide the Technical Memorandum for the updated results and the original Cost of Service Study, respectively.

**Table 3 – Summary of COSA Results**

<table>
<thead>
<tr>
<th>RATE SCHEDULE</th>
<th>CUSTOMER CLASS</th>
<th>PROJECTED REVENUE</th>
<th>COST OF SERVICE</th>
<th>COSA ADJUSTMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>W-1</td>
<td>RESIDENTIAL</td>
<td>$14,304,899</td>
<td>$14,910,404</td>
<td>4%</td>
</tr>
<tr>
<td>W-4</td>
<td>COMMERCIAL</td>
<td>11,357,704</td>
<td>10,230,499</td>
<td>-10%</td>
</tr>
<tr>
<td>W-7</td>
<td>IRRIGATION</td>
<td>2,977,646</td>
<td>3,397,634</td>
<td>14%</td>
</tr>
<tr>
<td>W-3</td>
<td>PRIVATE FIRE HYDRANTS</td>
<td>25,388</td>
<td>49,039</td>
<td>93%(*)</td>
</tr>
<tr>
<td>W-3</td>
<td>PUBLIC FIRE HYDRANTS</td>
<td>-</td>
<td>78,253</td>
<td>N/A(**)</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>$28,665,638</td>
<td>$28,665,830</td>
<td>0%</td>
</tr>
</tbody>
</table>

(*) The W3 Private Fire Hydrant COSA adjustment represents an adjustment to meter charge based on meter size. For example, for a 4 inch meter, the current monthly service charge of $4.20 must be increased to $7.20 to properly recover utility costs.

(**) The suggested adjustment for W3 Public Fire Hydrant service is an annual charge of $78,253 for the Municipal Class. Currently the City is not charged for public fire hydrant service.

**Water Utility Customer Profile and Revenue Collection**

As of June 2010, the City’s Water Utility had approximately 20,000 water service accounts. Table 4 provides the distribution of accounts by customer segment and meter size. While approximately 81% of customer accounts fall into the residential classification, this represents 49% of revenues. The remaining 51% of revenues are collected from commercial customers through a combination of the W4, W7 and W3 rate schedules. Table 5 provides the distribution of revenue by rate schedule and rate component. Currently, approximately 7% of revenues are collected through the fixed monthly service charges and 93% through volumetric charges.
Table 4 – Number of Accounts (FY 2010)

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>RESIDENTIAL W1</th>
<th>COMMERCIAL W4</th>
<th>IRRIGATION W7</th>
<th>PRIVATE FIRE PROTECTION W3</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8&quot;</td>
<td>13,692</td>
<td>1,058</td>
<td>53</td>
<td>-</td>
</tr>
<tr>
<td>3/4&quot;</td>
<td>526</td>
<td>80</td>
<td>7</td>
<td>-</td>
</tr>
<tr>
<td>1&quot;</td>
<td>1,862</td>
<td>592</td>
<td>75</td>
<td>-</td>
</tr>
<tr>
<td>1 1/2&quot;</td>
<td>171</td>
<td>370</td>
<td>62</td>
<td>-</td>
</tr>
<tr>
<td>2&quot;</td>
<td>66</td>
<td>622</td>
<td>112</td>
<td>-</td>
</tr>
<tr>
<td>3&quot;</td>
<td>-</td>
<td>79</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td>4&quot;</td>
<td>-</td>
<td>51</td>
<td>5</td>
<td>236</td>
</tr>
<tr>
<td>6&quot;</td>
<td>-</td>
<td>24</td>
<td>1</td>
<td>217</td>
</tr>
<tr>
<td>8&quot;</td>
<td>-</td>
<td>10</td>
<td>1</td>
<td>133</td>
</tr>
<tr>
<td>10&quot;</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>16,317</td>
<td>2,886</td>
<td>329</td>
<td>594</td>
</tr>
</tbody>
</table>

Table 5 – Sales Revenue (FY 2010)

<table>
<thead>
<tr>
<th>REVENUE SOURCE</th>
<th>RESIDENTIAL W1</th>
<th>COMMERCIAL W4</th>
<th>IRRIGATION W7</th>
<th>PRIVATE FIRE PROTECTION W3</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Charge</td>
<td>$ 1,049,849</td>
<td>$ 596,544</td>
<td>$ 73,887</td>
<td>$ 47,296</td>
<td>$ 1,797,900</td>
</tr>
<tr>
<td>Volumetric Charge</td>
<td>$ 11,544,391</td>
<td>$ 10,338,903</td>
<td>$ 2,160,287</td>
<td>$ 11,340</td>
<td>$ 24,073,244</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$ 12,594,239</td>
<td>$ 10,935,448</td>
<td>$ 2,234,173</td>
<td>$ 58,636</td>
<td>$ 25,871,144</td>
</tr>
</tbody>
</table>

Chart 3 shows the monthly water use profile for each customer class. The residential sector’s water use varies significantly throughout the year and peaks the highest, whereas the commercial sector exhibits a flatter water use profile. Irrigation customers’ peak-to-average ratio is the highest among all customer classes. Peak-to-average ratio is defined as the peak month usage divided by the average usage during the year, and is used in determining how some of the system costs are allocated among customer classes. The ratio is used to allocate costs associated with meeting usage requirements in excess of base usage. Such costs include operating and capital costs for plant and system capacity installed beyond that required to meet average use consumption. A review of historical peak-to-average ratio over time as presented in Chart 4 shows that residential customers’ ratio has increased while the ratio for commercial customers has been in decline. As residential customers’ contribution to the peak-to-average ratio increases relative to commercial customers so does their share of the cost of service.

---

4 Customer use profile is based on two year averages of billing data covering FY 2009 and FY 2010.
5 Peak-to-average ratio is based on two year averages of billing data covering FY 2002 – 2010.
Current Rate Schedules and Recommended COSA Alignments

Current water rates consist of two components: a monthly customer charge (service charge) and a commodity rate (volumetric rate). The monthly service charge per customer varies based on meter size and the volumetric rate varies for residential customers based on usage tier. The residential volumetric rates are also referred to as "inverted block rates" where the lower usage tiers are charged at a rate that is lower than higher usage tiers. For non-residential accounts a single volumetric rate is used. The Tier 1 usage block for residential accounts is
defined as 0.233 ccf per day or, for a 30 day billing period, 7 ccf per month. Any usage over 7 ccf per month falls into Tier 2. Table 6A shows current water rates and COSA results by meter size and customer segment for the W1, W4 and W7 rate schedules, and Table 6B shows the same for the W3 rate schedule.

### Table 6A - Current Water Rates and COSA Results
(W1, W4 and W7 Rate Schedules)

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>$/Month</th>
<th>Customer Segment</th>
<th>Monthly CCF</th>
<th>$/CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/4&quot;</td>
<td>$5.00</td>
<td>Residential (W-1)</td>
<td>0-7</td>
<td>$3.949</td>
</tr>
<tr>
<td>5/8&quot;</td>
<td>$5.00</td>
<td>Commercial (W-4)</td>
<td>&gt; 7</td>
<td>$5.624</td>
</tr>
<tr>
<td>1&quot;</td>
<td>$6.50</td>
<td>Irrigation (W-7)</td>
<td>All</td>
<td>$4.946</td>
</tr>
<tr>
<td>1 1/2&quot;</td>
<td>$12.27</td>
<td>All</td>
<td></td>
<td>$4.946</td>
</tr>
<tr>
<td>2&quot;</td>
<td>$19.37</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3&quot;</td>
<td>$77.65</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4&quot;</td>
<td>$130.60</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6&quot;</td>
<td>$260.43</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8&quot;</td>
<td>$383.67</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>$/Month</th>
<th>Customer Segment</th>
<th>Monthly CCF</th>
<th>$/CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/4&quot;</td>
<td>$14.75</td>
<td>Residential (W-1)</td>
<td>All</td>
<td>$4.340</td>
</tr>
<tr>
<td>5/8&quot;</td>
<td>$14.75</td>
<td>Commercial (W-4)</td>
<td>All</td>
<td>$4.120</td>
</tr>
<tr>
<td>1&quot;</td>
<td>$19.97</td>
<td>Irrigation (W-7)</td>
<td>All</td>
<td>$5.570</td>
</tr>
<tr>
<td>1 1/2&quot;</td>
<td>$42.49</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2&quot;</td>
<td>$67.49</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3&quot;</td>
<td>$150.05</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4&quot;</td>
<td>$259.52</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6&quot;</td>
<td>$551.53</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8&quot;</td>
<td>$903.63</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note that the COSA results are based on FY 2011 financial projections, and do not include an overall system-wide rate adjustment of 12.5% for FY 2012.

### Rate Design
Staff presented three rate design objectives to the UAC at its meeting in September 2010 and to the Finance Committee at its meeting in October 2010. The objectives presented were to adjust rate schedules to:

- reflect updated COSA,
- provide effective price signals to promote water conservation,
- avoid rate/bill shock and financial hardship.
Based on the feedback received from both the UAC and the Finance Committee, staff proposed a set of changes to the current rate structure for both the Residential (W-1) and the Commercial (W-4) Rate Schedules and presented these changes to the UAC at its February 2011 meeting. With the proposed changes residential rates will increase from two to three tiers, and tiered rates (two tiers) will be introduced for commercial rates. Tiered rates meet the objective of providing effective price signals to promote water conservation and are in line with the California Constitution Article X, Section 2 that requires that water resources of California “be put to beneficial use to the fullest extent of which they are capable, and that the waste and unreasonable use or unreasonable method of use of water be prevented”. California's Water Code, Section 375 also explicitly allows water conservation measures to be adopted, including water “rate structure designs.”

Although Palo Alto has sufficient water supplies from the SFPUC in normal water years, new water supplies for the state are very expensive to develop. Many agencies, including the SFPUC, are considering new projects to increase water supplies such as desalination, recycled water, and new water storage reservoirs. These new water supply resources can cost from $5 per ccf to over $20 per ccf. Tiered rates that encourage water conservation create an incentive to use water efficiently, comply with both AB 2882 and the California constitutional directive to avoid unreasonable use and waste of water, and help avoid the need for these high cost supplies.

Additionally, staff proposed to increase the monthly fixed service charge in line with the cost of service for each rate schedule. Service charges represent the costs associated with serving customers regardless of usage level or usage characteristics. Service costs include cost of meter reading, meter installations, billing and collection, service connections, and a portion of the operation and maintenance expenses of the distribution system and allocated administration costs. When aligned with cost of service levels, revenue collection through fixed charges would increase from 5% in FY 2011\(^6\) to 15% in FY 2012. This is well within the California Urban Water Conservation Council (CUWCC) guideline level of less than 30% for conservation based rates. With increased fixed service charges, additional tiers for both residential and commercial rate structures, and the alignment of average rates with the cost of service by rate class, the proposed changes meet the objectives set forth during the UAC and Finance Committee meetings.

For the W3 and W7 rate schedules, no structural change to the rates is proposed; and proposed FY 2012 rates consist of adjustments for COSA together with the 12.5% revenue requirement increase applicable to the W7 rate schedule.

The UAC recommended by a vote of five to two to recommend the Council to adopt proposed rates at the February 2011 meeting with some modifications. The requested modifications were that:

\(^6\) Based on customer sales data used for cost of service study.
- Residential tier 1 and tier 2 prices would be increased slightly from current prices, and the additional revenue would be used to lower the fixed service charges;
- There would be no bill reduction for commercial customers as a result of proposed rate revisions.

After incorporating these modifications, the increase in fixed service charge component of the bill is reduced from the original 200% proposed to the UAC in February 2011 to 50%. The difference is reflected in the increase in the volumetric charges for residential tier 1 and tier 2. Staff anticipates that with the projected 17% increase planned in FY 2013, full implementation of fixed charges at cost of service levels will be achieved over a two year period. With these changes, revenue collection through fixed charges is estimated to be 8%.

Table 7 shows the current and proposed water rates incorporating UAC modifications for FY 2012 for the W1, W4 and W7 rate schedules.

### Table 7 - Proposed Rate for FY 2012

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/4&quot;</td>
<td>$5.00</td>
<td>$7.50</td>
</tr>
<tr>
<td>5/8&quot;</td>
<td>$5.00</td>
<td>$7.50</td>
</tr>
<tr>
<td>1&quot;</td>
<td>$6.50</td>
<td>$9.75</td>
</tr>
<tr>
<td>1 1/2&quot;</td>
<td>$12.27</td>
<td>$18.41</td>
</tr>
<tr>
<td>2&quot;</td>
<td>$19.37</td>
<td>$29.06</td>
</tr>
<tr>
<td>3&quot;</td>
<td>$77.65</td>
<td>$116.48</td>
</tr>
<tr>
<td>4&quot;</td>
<td>$130.60</td>
<td>$195.90</td>
</tr>
<tr>
<td>6&quot;</td>
<td>$260.43</td>
<td>$390.65</td>
</tr>
<tr>
<td>8&quot;</td>
<td>$383.67</td>
<td>$575.51</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rate Schedule</th>
<th>Usage Tiers</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>Tier 1</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Tier 2</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Tier 3</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td>Commercial</td>
<td>Tier 1</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Tier 2</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td>Irrigation</td>
<td>Tier 1</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Tier 2</td>
<td>All</td>
<td>All</td>
</tr>
</tbody>
</table>

**Customer Bill Impact of Proposed Rate Changes**

Table 8 below shows the impact of the proposed rate increase on customer bills based on different consumption levels for the residential and commercial classes.

### Table 8: Impact of Proposed Rate Increase on Customer Bills

<table>
<thead>
<tr>
<th>Customer</th>
<th>Usage (ccf)</th>
<th>Proposed Monthly Bill ($)</th>
<th>Amount of Proposed Increase ($)</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Residential (5/8&quot; Meter)</td>
<td>6</td>
<td>$32.10</td>
<td>$3.41</td>
<td>11.9%</td>
</tr>
<tr>
<td>Medium Residential (5/8&quot; Meter)</td>
<td>14</td>
<td>82.08</td>
<td>10.07</td>
<td>14.0%</td>
</tr>
<tr>
<td>Large Residential (5/8&quot; Meter)</td>
<td>35</td>
<td>221.66</td>
<td>31.54</td>
<td>16.6%</td>
</tr>
<tr>
<td>Medium Commercial (3&quot; Meter)</td>
<td>300</td>
<td>1,597.80</td>
<td>36.35</td>
<td>2.3%</td>
</tr>
<tr>
<td>Large Commercial or Industrial (6&quot; Meter)</td>
<td>1200</td>
<td>6,323.37</td>
<td>127.74</td>
<td>2.1%</td>
</tr>
<tr>
<td>Large Commercial or Industrial (6&quot; Meter) (irrigation only) (W-7)</td>
<td>3000</td>
<td>19,068.65</td>
<td>3,970.22</td>
<td>26.3%</td>
</tr>
</tbody>
</table>

Comparison of Palo Alto Water Rates and Surrounding Cities

For several years, Palo Alto’s retail water rates have generally been higher than those in surrounding areas. Staff initiated a Benchmark Study for the Water Utility in May 2010 and presented its findings to the UAC in October 2010 and to the Finance Committee in November 2010. The objective of the study was to develop benchmarks and to provide insight as to the main reasons for the higher water rates in Palo Alto. The findings of this study highlighted some key areas such as more spending by Palo Alto for replacement of aging infrastructure; lack of access to lower cost water supply; more expensive service terrain to serve; higher quality of service; and higher rent payment for its use of real estate in the service territory. Rent charges for the Water Utility’s use of real estate in the service territory are adjusted annually to market value based on a survey conducted by the City.

Table 9 below, which compares monthly water bills using municipal water rates as of January 1, 2011 for Mountain View, Redwood City, Santa Clara and Menlo Park, indicates that the average residential customer in surrounding cities pays approximately 24% less than the average Palo Alto residential customer. The residential bill comparison with the average benchmark city is seven percentage points lower this year compared to the same period a year ago as other cities facing similar cost increases have begun raising their water rates as well. There are indications that nearby cities that purchase water supplies from the SFPUC will continue to raise rates in FY 2012. At this time, the certainty or magnitude of their rate increases is not known.

---

7 Based on the FY 2009 BAWSCA survey, the share of SFPUC as source of water supply was 89% for Menlo Park, 100% for Redwood City, 86% for Mountain View, and 12% for Santa Clara.
Table 9 – Monthly Residential Water Bill Comparison (rates in effect as of Jan. 1, 2011)

<table>
<thead>
<tr>
<th>Water Customer</th>
<th>Usage (ccf)</th>
<th>Palo Alto</th>
<th>Menlo Park¹</th>
<th>Redwood City</th>
<th>Mountain View</th>
<th>Santa Clara</th>
<th>Average Benchmark</th>
<th>(%) Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>6</td>
<td>$28.69</td>
<td>$38.95</td>
<td>$33.07</td>
<td>$20.78</td>
<td>$16.44</td>
<td>$27.31</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Average</td>
<td>14</td>
<td>$72.01</td>
<td>$73.14</td>
<td>$60.37</td>
<td>$48.04</td>
<td>$38.36</td>
<td>$54.97</td>
<td>-23.7%</td>
</tr>
<tr>
<td>Large</td>
<td>35</td>
<td>$190.12</td>
<td>$165.38</td>
<td>$185.45</td>
<td>$153.21</td>
<td>$95.90</td>
<td>$149.98</td>
<td>-21.1%</td>
</tr>
<tr>
<td>Difference from CPAU</td>
<td></td>
<td></td>
<td>1.6%</td>
<td>-16.2%</td>
<td>-33.3%</td>
<td>-46.7%</td>
<td>-23.7%</td>
<td></td>
</tr>
</tbody>
</table>

¹  Menlo Park rates based on California Water Service- Bear Gulch district –proposed for 1/1/11

Proposition 218 Water Rate Increase Procedure
Proposition 218 amended the California Constitution and set forth procedural requirements that public agencies must follow in order to enact or increase a property-related fee. Since Proposition 218 applies to the water rate increases described here, the City must provide written notice by mail to water customers subject to the proposed fees, followed by a public hearing held not less than 45 days after notice is mailed. The notice must include the amount of the fee, the basis upon which the fee was calculated, the reason for the fee, and the date, time and location of the public hearing. If a majority of customers submit written protests against the proposed fees, the City may not impose the fee.

Possibility of Water Use Restrictions due to Water Shortage
In the event of a water shortage, the SFPUC will declare a water shortage emergency and impose mandatory water use reductions. If this action is taken, then staff will return to the UAC with an updated proposal for a rate adjustment and water rate schedules. Staff does not expect a water shortage for FY 2012 at this time.

Alternatives
Staff evaluated alternative revenue-neutral rate changes based on COSA recommendations, and the rate making objectives identified. One alternative is to implement more tiers for both residential and commercial rate schedules. This alternative was rejected due to the increased complexity with this alternative and the fact that it would achieve effectively the same results as the proposed rate structures. Another alternative is to introduce different tier usage blocks based on meter size. This alternative has the advantage of addressing the size differences between customers especially for commercial customers. This alternative was rejected due to its complexity as well as the additional implementation costs required for billing system configurations.

Board/Commission Review and Recommendations
The UAC considered staff’s recommendation at its February 2, 2011 meeting. The Commissioners discussed in detail the rate design changes proposed by staff, including the cost of service adjustments between customer classes, the impact of increasing the fixed service charge component in one year, and the level and effectiveness of the volumetric rates. The
Commissioners also discussed the proposed 12.5% revenue requirement increase for 2012 and that, under the current five-year projections, the Water Rate Stabilization Reserve would be below the minimum guidelines of FY 2013 and FY 2014.

The Commission voted by five to two in favor of recommending that the City Council approve staff’s recommended Water Utility Rate Adjustments with the following amendments:

a) The rate adjustment proposal by staff be modified so that no commercial customer’s bill would be decreased;
b) The volumetric rates for residential customers for usage in tiers 1 and 2 be increased and the fixed charges be reduced; and
c) The Council is made aware that the UAC is aware that the five-year financial projections show that the balance of the Water Rate Stabilization Reserve falls below the minimum guideline level for two years.

Draft minutes from the UAC’s February 2, 2011 meeting are provided as Attachment I.

Resource Impact
Approval of this rate proposal will increase the Water Fund retail sales revenues by approximately $3.4 million for FY 2012.

Policy Implications
This recommendation does not represent a change to current City policies.

Environmental Review
The restructuring of water rates to meet operating expenses and financial reserve needs is not subject to the California Environmental Quality Act (CEQA), pursuant to California Public Resources Code Sec. 21080(b)(8) and Title 14 of the California Code of Regulations Sec. 15273(a)(1) and (3).

ATTACHMENTS:
- A Water Fund Financial Projections (FY2012-FY2016) (PDF)
- Attachment A: Water Fund Financial Projections (FY2012-FY2016) (PDF)
- Attachment B: Utility Rate Schedule W-1 effective 7-1-2011 (DOC)
- B W-1 effective 7-1-2011 (DOC)
- Attachment C: Utility Rate Schedule W-3 effective 7-1-2011 (DOC)
- C W-3 effective 7-1-2011 (DOC)
- Attachment D: Utility Rate Schedule W-4 effective 7-1-2011 (DOC)
- D W-4 effective 7-1-2011 (DOC)
- Attachment E: Utility Rate Schedule W-7 effective 7-1-2011 (DOC)
- E W-7 effective 7-1-2011 (DOC)
- Attachment F: Draft Resolution for Water July 1 2011 (PDF)
• F Draft Resolution for Water July 1 2011 (PDF)
• Attachment G: Water Technical Memorandum (DOC)
• G Water Technical Memorandum (PDF)
• Attachment H: Water Cost of Service Report (PDF)
• H Water Cost of Service Report (PDF)
• Attachment I: Draft UAC Minutes of February 2, 2011 (DOCX)
• I Draft Excerpted Minutes of February 2, 2011 UAC Meeting (PDF)

Prepared By: Ipek Connolly, Sr. Resource Planner

Department Head: Valerie Fong, Director

City Manager Approval: James Keene, City Manager
# Water Utility Revenue

<table>
<thead>
<tr>
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<td>5.0%</td>
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<td>26,783</td>
<td>30,652</td>
<td>35,397</td>
<td>40,871</td>
<td>44,031</td>
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<td>TOTAL ADJUSTED SALES</td>
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<td>43,102</td>
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<tr>
<td>PLANT REPLACEMENT</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<td>RATE STABILIZATION</td>
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<td>TOTAL RESERVE ADDITIONS:</td>
<td>15,282</td>
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<td>6,191</td>
<td>4,036</td>
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## Reserve Balances

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<td>1,000</td>
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<td>RATE STABILIZATION</td>
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<td>7,290</td>
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## Water Revenue

### 2010

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<td>WATER</td>
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### 2010

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</tr>
</thead>
<tbody>
<tr>
<td>WATER</td>
<td></td>
<td></td>
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<td></td>
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</table>
GENERAL RESIDENTIAL WATER SERVICE

UTILITY RATE SCHEDULE W-1

A. APPLICABILITY:

This schedule applies to all separately metered single family residential water services.

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides water services.

C. RATES:

<table>
<thead>
<tr>
<th>Monthly Customer Charge:</th>
<th>Per Meter</th>
<th>Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>For 5/8-inch meter</td>
<td>..........................</td>
<td>$5.00</td>
</tr>
<tr>
<td>For 3/4 inch meter</td>
<td>..........................</td>
<td>7.50</td>
</tr>
<tr>
<td>For 1 inch meter</td>
<td>..........................</td>
<td>5.00</td>
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<tr>
<td>For 1 1/2 inch meter</td>
<td>..........................</td>
<td>6.50</td>
</tr>
<tr>
<td>For 2-inch meter</td>
<td>..........................</td>
<td>18.41</td>
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<tr>
<td>For 3-inch meter</td>
<td>..........................</td>
<td>29.06</td>
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<td>For 4-inch meter</td>
<td>..........................</td>
<td>77.65</td>
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<td>260.43</td>
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<tr>
<td>For 10-inch meter</td>
<td>..........................</td>
<td>383.67</td>
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</table>

Commodity Rate: (To be added Customer Charge and applicable to all pressure zones.)

<table>
<thead>
<tr>
<th>Per Hundred Cubic Feet (ccf)</th>
<th>All Pressure Zones</th>
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</thead>
<tbody>
<tr>
<td>Tier 1 usage</td>
<td>$3,949.4100</td>
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</tbody>
</table>

CITY OF PALO ALTO UTILITIES
Issued by the City Council

Supersedes Sheet No W-1-1 dated 11-1-20087-1-20

Effective 7-1-20092011
Sheet No W-1-1
GENERAL RESIDENTIAL WATER SERVICE

UTILITY RATE SCHEDULE W-1

Tier 2 usage (All usage over 100% of Tier 1) ............................................................... 5.624

6.248

Tier 3 usage (All usage over Tier 2) ............................................................................... 7.642

Temporary unmetered service to residential subdivision developers, per connection ......................................................... $6.00

D. SPECIAL NOTES:

1. Calculation of Cost Components

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or taxes. On a customer’s bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

2. Calculation of Usage Tiers

Tier 1 water usage shall be calculated and billed based upon a level of 0.233 ccf per day rounded to the nearest whole ccf, based on meter reading days of service. Tier 2 water usage shall be calculated and billed based on usage greater than Tier 1 and up to a level of 0.967 ccf per day, rounded to the nearest whole ccf, based on meter reading days of service. Tier 3 encompasses all usage over Tier 2 levels. As an example, for a 30 day bill, the Tier 1 level would be 0 through 67 ccf, and Tier 2 would be between 7 and 29 ccf. For further discussion of bill calculation and proration, refer to Rule and Regulation 11.
A. APPLICABILITY:

This schedule applies to all public fire hydrants and private fire service connections.

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides water services.

C. RATES:

1. Monthly Service Charges

   Public Fire Hydrant ........................................................................................................ $5.00

   Private Fire Service:

   4-inch connection ........................................................................................................ $4.207.27

   6-inch connection ........................................................................................................ $7.0016.13

   8-inch connection ........................................................................................................ $10.7528.53

   10-inch connection ...................................................................................................... $15.7544.48

2. Commodity (To be added to Service Charge unless water is used for fire extinguishing or testing purposes.)

   Per Hundred Cubic Feet

   All water usage .......................................................................................................... $10.00

D. SPECIAL NOTES:

1. Service under this schedule may be discontinued if water is used for any purpose other than fire extinguishing or water used in testing and repairing the fire extinguishing facilities. Such water used for other purposes is illegal and will be subject to the commodity charge as noted above and fines.

2. No commodity charge will apply for water used for fire extinguishing purposes.

3. For a combination water and fire service, the general water service schedule shall apply.
4. Utilities Rule and Regulation No. 21 provides additional information on Automatic Fire Services.

5. Repairs and testing of fire extinguishing facilities are not considered unauthorized use of water if records and documentation are supplied by the customer.

6. Unauthorized use of water which is unrelated to fire protection is subject to criminal prosecution pursuant to the Palo Alto Municipal Code.

{End}
GENERAL NON-RESIDENTIAL WATER SERVICE

UTILITY RATE SCHEDULE W-4

A. APPLICABILITY:

This schedule applies to non-residential water service in the City of Palo Alto and its distribution area. This schedule is also applicable to multi-family residential customers served through a master meter.

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides water services.

C. RATES:

<table>
<thead>
<tr>
<th>Monthly Customer Charge</th>
<th>Per Meter</th>
<th>Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>For 5/8-inch meter</td>
<td>..........................</td>
<td>$5.00750</td>
</tr>
<tr>
<td>For 3/4-inch meter</td>
<td>..........................</td>
<td>$5.00750</td>
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<tr>
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<td>..........................</td>
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<td>For 2-inch meter</td>
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<td>For 3-inch meter</td>
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<tr>
<td>For 10-inch meter</td>
<td>$383.67575.51</td>
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Commodity Rates: (to be added to Customer Charge)

<table>
<thead>
<tr>
<th>Per Hundred Cubic Feet (ccf)</th>
<th>All Pressure Zones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Month</td>
<td></td>
</tr>
</tbody>
</table>
D. SPECIAL NOTES:

1. Calculation of Cost Components

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or taxes. On a customer’s bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

2. Calculation of Usage Tiers

Tier 1 water usage shall be calculated and billed based upon a level of 0.467 ccf per day rounded to the nearest whole ccf, based on meter reading days of service. Tier 2 encompasses all usage over Tier 1 levels. As an example, for a 30 day bill, the Tier 1 level would be 0 through 14 ccf. For further discussion of bill calculation and proration, refer to Rule and Regulation 11.
IRRIGATION WATER SERVICE

UTILITY RATE SCHEDULE W-7

A. APPLICABILITY:

This schedule applies to non-residential water service supplying dedicated irrigation meters in the City of Palo Alto and its distribution area.

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides water services.

C. RATES:

<table>
<thead>
<tr>
<th>Monthly Customer Charge</th>
<th>Per Meter</th>
<th>Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>For 5/8-inch meter</td>
<td>$5.00</td>
<td>$60.75</td>
</tr>
<tr>
<td>For 3/4-inch meter</td>
<td>$5.00</td>
<td>$60.75</td>
</tr>
<tr>
<td>For 1-inch meter</td>
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<td>$932.46</td>
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<td>$1567.20</td>
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<tr>
<td>For 5-inch meter</td>
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<td>For 6-inch meter</td>
<td>$260.43</td>
<td>$3125.19</td>
</tr>
<tr>
<td>For 8-inch meter</td>
<td>$383.67</td>
<td>$4604.04</td>
</tr>
<tr>
<td>For 10-inch meter</td>
<td>$383.67</td>
<td>$4604.04</td>
</tr>
</tbody>
</table>

Commodity Rates: (to be added to Customer Charge)

<table>
<thead>
<tr>
<th>Per Hundred Cubic Feet (ccf)</th>
<th>All Pressure Zones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Month</td>
<td></td>
</tr>
</tbody>
</table>

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No W-7-1 dated 11-1-20087-1-20

Effective 7-1-20092011

Sheet No W-7-1
D. SPECIAL NOTES:

1. Calculation of Cost Components

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or taxes. On a customer’s bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

{End}
Resolution No. __________

Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedules W-1, -3, W-4 and W-7

WHEREAS, pursuant to Chapter 12.20.010 of the Palo Alto Municipal Code, the Council of the City of Palo Alto may by resolution adopt rules and regulations governing utility services and the fees and charges therefore; and

WHEREAS, pursuant to Article XIIIID Sec. 6 of the California Constitution, on June __, 2011, the City of Palo Alto held a public hearing to consider all protests against the proposed water rate increases; and

WHEREAS, the total number of written protests presented by the close of the public hearing was less than fifty percent (50%) of the total number of customers and property owners subject to the proposed water rate increases;

NOW, THEREFORE, the Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-1 (General Residential Water Service) is hereby amended to read in accordance with sheets W-1-1 and W-1-2, attached hereto and incorporated herein. The foregoing Utility Rate Schedule, as amended, shall become effective July 1, 2011.

SECTION 2. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-3 (Fire Service Connections) is hereby amended to read in accordance with sheets W-3-1 and W-3-2, attached hereto and incorporated herein. The foregoing Utility Rate Schedule, as amended, shall become effective July 1, 2011.

SECTION 3. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-4 (General Non-Residential Water Service) is hereby amended to read in accordance with sheets W-4-1 and W-4-2, attached hereto and incorporated herein. The foregoing Utility Rate Schedule, as amended, shall become effective July 1, 2011.

SECTION 4. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-7 (Irrigation Water Service) is hereby amended to read in accordance with sheets W-7-1 and W-7-2, attached hereto and incorporated herein. The foregoing Utility Rate Schedule, as amended, shall become effective July 1, 2011.

SECTION 5. The Council finds that the revenue derived from the authorized adoption enumerated herein shall be used only for the purpose set forth in Article VII, Section 2, of the Charter of the City of Palo Alto.
*Not Yet Approved*

SECTION 6. The Council finds that a restructuring of water rates to meet operating expenses and financial reserve needs is not subject to the California Environmental Quality Act (CEQA), pursuant to California Public Resources Code Sec. 21080(b)(8) and Title 14 of the California Code of Regulations Sec. 15273(a)(1) and (3).

INTRODUCED AND PASSED:

AYES:  
NOES:  
ABSENT:  
ABSTENTIONS:  
ATTEST:

___________________________  ___________________________
City Clerk     Mayor

___________________________  APPROVED:
Senior Deputy City Attorney  City Manager

___________________________
Director of Utilities

___________________________
Director of Administrative Services
Purpose

The purpose of this technical memorandum (TM) is to compare the results of the cost of service study with updated billing statistics for 2010. The original study was based on fiscal years 2008 and 2009 usage patterns for each customer class. This update used the original costs with updated usage patterns using 2009 and 2010. This memorandum compares the summary results of original study with the updated usage patterns.

Water Cost of Service Results:

Table One – Comparison of Original Study Results with Updated Study

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>W-1 Residential</td>
<td>$15,219,495</td>
<td>$14,910,404</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>W-4 Commercial</td>
<td>10,210,142</td>
<td>10,230,499</td>
<td>-10%</td>
<td>-10%</td>
</tr>
<tr>
<td>W-7 Irrigation</td>
<td>3,108,767</td>
<td>3,397,634</td>
<td>4%</td>
<td>14%</td>
</tr>
<tr>
<td>W-3 Private Fire Protection</td>
<td>49,174</td>
<td>49,039</td>
<td>94%</td>
<td>93%</td>
</tr>
<tr>
<td>Public Fire Protection - Hydrants</td>
<td>78,253</td>
<td>78,253</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$28,665,830</strong></td>
<td><strong>$28,665,830</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The update of the usage patterns had the most significant impact on the W-7 Irrigation class of service. This class uses a majority of its usage during months when customers sprinkle lawns. The cost of service study averages the usage over a two year period in order to smooth out annual variation in billing statistics; despite this however, there can be significant changes in cost of service results during extremely dry years that require substantial lawn sprinkling or years with substantial rainfall that limits the amount of lawn sprinkling. The change resulted in a 10% change in cost of service results for the irrigation class, and a 2% change in the results for the residential class. The change for commercial class and fire protection were insignificant.
The table below is the updated cost of service results for the monthly customer and usage charges:

Table Two – Comparison of cost based charges

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>W-1 Residential</td>
<td>3/4</td>
<td>$14.75</td>
<td>$13.94</td>
<td>$4.34</td>
<td>$4.52</td>
</tr>
<tr>
<td>W-1</td>
<td>1</td>
<td>19.97</td>
<td>18.54</td>
<td>4.34</td>
<td>4.52</td>
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<tr>
<td>W-1</td>
<td>1.5</td>
<td>42.49</td>
<td>39.27</td>
<td>4.34</td>
<td>4.52</td>
</tr>
<tr>
<td>W-1</td>
<td>2</td>
<td>67.49</td>
<td>61.77</td>
<td>4.34</td>
<td>4.52</td>
</tr>
<tr>
<td>W-4 Commercial</td>
<td>3/4</td>
<td>14.75</td>
<td>13.94</td>
<td>4.12</td>
<td>4.16</td>
</tr>
<tr>
<td>W-4</td>
<td>1</td>
<td>19.97</td>
<td>18.54</td>
<td>4.12</td>
<td>4.16</td>
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<td>W-4</td>
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<td>39.27</td>
<td>4.12</td>
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<tr>
<td>W-4</td>
<td>2</td>
<td>67.49</td>
<td>61.77</td>
<td>4.12</td>
<td>4.16</td>
</tr>
<tr>
<td>W-4</td>
<td>3</td>
<td>150.05</td>
<td>137.16</td>
<td>4.12</td>
<td>4.16</td>
</tr>
<tr>
<td>W-4</td>
<td>4</td>
<td>259.52</td>
<td>236.62</td>
<td>4.12</td>
<td>4.16</td>
</tr>
<tr>
<td>W-4</td>
<td>6</td>
<td>551.53</td>
<td>500.00</td>
<td>4.12</td>
<td>4.16</td>
</tr>
<tr>
<td>W-4</td>
<td>8</td>
<td>903.63</td>
<td>812.02</td>
<td>4.12</td>
<td>4.16</td>
</tr>
<tr>
<td>W-7 Irrigation</td>
<td>3/4</td>
<td>14.75</td>
<td>13.94</td>
<td>5.57</td>
<td>5.10</td>
</tr>
<tr>
<td>W-7</td>
<td>1</td>
<td>19.97</td>
<td>18.54</td>
<td>5.57</td>
<td>5.10</td>
</tr>
<tr>
<td>W-7</td>
<td>1.5</td>
<td>42.49</td>
<td>39.27</td>
<td>5.57</td>
<td>5.10</td>
</tr>
<tr>
<td>W-7</td>
<td>2</td>
<td>67.49</td>
<td>61.77</td>
<td>5.57</td>
<td>5.10</td>
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<tr>
<td>W-7</td>
<td>3</td>
<td>150.05</td>
<td>137.16</td>
<td>5.57</td>
<td>5.10</td>
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<tr>
<td>W-7</td>
<td>4</td>
<td>259.52</td>
<td>236.62</td>
<td>5.57</td>
<td>5.10</td>
</tr>
<tr>
<td>W-7</td>
<td>6</td>
<td>551.53</td>
<td>500.00</td>
<td>5.57</td>
<td>5.10</td>
</tr>
<tr>
<td>W-7</td>
<td>8</td>
<td>903.63</td>
<td>812.02</td>
<td>5.57</td>
<td>5.10</td>
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</tbody>
</table>
## Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Utility Revenue Requirements</td>
<td>3</td>
</tr>
<tr>
<td>Cost of Service Summary</td>
<td>5</td>
</tr>
<tr>
<td>Cost of Service Components</td>
<td>12</td>
</tr>
<tr>
<td>Significant Assumptions</td>
<td>13</td>
</tr>
<tr>
<td>Accountants Compilation Report</td>
<td>14</td>
</tr>
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</table>
This report was prepared to provide the City of Palo Alto Utilities Department (CPAU) with a water cost of service study and a comprehensive examination of its existing rate structures by an outside party. Utility Financial Solutions was contracted to review revenue requirements and the cost of providing service to CPAU’s water customers. This purpose of the study includes:

1) Determine Water Utility’s revenue requirements for Fiscal Year (FY) 2011 based on budget and financial projections provided by Palo Alto staff
2) Allocate utility’s revenues requirements to customer classes
3) Identify the cost to provide service to customer classes
5) Review the current Water Utility rate structure and propose alternative rate structures.
6) If possible, propose rate structures to encourage conservation and efficient use of resources

The report is structured in the following manner:

- Introduction
- Utility Revenue Requirements for Fiscal Year 2011
- Cost of Service Summary
- Recommended Rate Adjustment
- Cost of Service Components
- Significant Assumptions Used in Analysis
- Recommendations
- Compilation Report
CITY OF PALO ALTO WATER UTILITY
REVENUE REQUIREMENT, COST OF SERVICE AND RATE DESIGN

UTILITY REVENUE REQUIREMENTS

CPAU’s financial projections were used to evaluate the current and projected financial statements. The table below is the accrual basis revenues and expenses for CPAU’s Water Utility. (Cash basis is listed on page three of this report). CPAU’s projected rate adjustments are incorporated into the financial projection with rate adjustments of 0.0% for FY 2011; 8% for FY 2012 and 9% for FY 2013 – FY 2015. The projected operating income for FY 2011 is $3.53 million and is projected to increase to $5.4 million in 2015.

Table One – Projected Financial Statements FY 2011 – FY 2015 (thousands)

<table>
<thead>
<tr>
<th>Rate Adjustment</th>
<th>FY 2011</th>
<th>FY 2012</th>
<th>FY 2013</th>
<th>FY 2014</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Adjustment</td>
<td>0.0%</td>
<td>8.0%</td>
<td>9.0%</td>
<td>9.0%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Revenues</td>
<td>$28,666</td>
<td>$31,336</td>
<td>$34,179</td>
<td>$37,291</td>
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<tr>
<td>Discounts / Unmetered</td>
<td>138</td>
<td>138</td>
<td>138</td>
<td>138</td>
<td>138</td>
</tr>
<tr>
<td>Other / Op Trans In</td>
<td>337</td>
<td>341</td>
<td>344</td>
<td>348</td>
<td>351</td>
</tr>
<tr>
<td>Connection Fees / Capacity Fees</td>
<td>767</td>
<td>776</td>
<td>785</td>
<td>795</td>
<td>804</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$29,907</td>
<td>$32,590</td>
<td>$35,445</td>
<td>$38,571</td>
<td>$41,980</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply</td>
<td>$12,808</td>
<td>$15,018</td>
<td>$17,984</td>
<td>$20,342</td>
<td>$22,028</td>
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<tr>
<td>Distribution</td>
<td>5,201</td>
<td>5,254</td>
<td>5,306</td>
<td>5,359</td>
<td>5,413</td>
</tr>
<tr>
<td>Customer Support Services</td>
<td>1,612</td>
<td>1,628</td>
<td>1,645</td>
<td>1,661</td>
<td>1,678</td>
</tr>
<tr>
<td>Allocated Charges</td>
<td>2,484</td>
<td>2,509</td>
<td>2,534</td>
<td>2,560</td>
<td>2,585</td>
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<tr>
<td>Rent and Transfers Out</td>
<td>2,331</td>
<td>2,354</td>
<td>2,377</td>
<td>2,401</td>
<td>2,425</td>
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<tr>
<td>Depreciation Expense</td>
<td>1,943</td>
<td>2,077</td>
<td>2,214</td>
<td>2,354</td>
<td>2,479</td>
</tr>
<tr>
<td>Total O&amp;M Expenses</td>
<td>$26,380</td>
<td>$28,839</td>
<td>$32,060</td>
<td>$34,676</td>
<td>$36,608</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$3,528</td>
<td>$3,750</td>
<td>$3,386</td>
<td>$3,895</td>
<td>$5,372</td>
</tr>
<tr>
<td>Non Operating Income and Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Income</td>
<td>$1,265</td>
<td>$804</td>
<td>$731</td>
<td>$1,160</td>
<td>$1,714</td>
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<tr>
<td>Interest Expense</td>
<td>(1,201)</td>
<td>(1,227)</td>
<td>(1,262)</td>
<td>(1,308)</td>
<td>(1,356)</td>
</tr>
<tr>
<td>Total Other Opr. Income and Expenses</td>
<td>$64</td>
<td>$(423)</td>
<td>$(532)</td>
<td>$(148)</td>
<td>$358</td>
</tr>
<tr>
<td>Net Income</td>
<td>$3,592</td>
<td>$3,327</td>
<td>$2,854</td>
<td>$3,747</td>
<td>$5,730</td>
</tr>
</tbody>
</table>
CITY OF PALO ALTO WATER UTILITY
REVENUE REQUIREMENT, COST OF SERVICE AND RATE DESIGN

UTILITY REVENUE REQUIREMENTS

The table below is projected cash flows and cash reserves from FY 2011 through FY 2015. The projected cash available for FY 2011 is $10.3 million (excluding cash committed to previous CIP programs). Cash is projected to decline each year and approximate $8.0 million in FY 2015.

Table Two – Projected Cash Balance (thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Add Net Income</td>
<td>$3,592</td>
<td>$3,327</td>
<td>$2,854</td>
<td>$3,747</td>
<td>$5,730</td>
</tr>
<tr>
<td>Add Back Depreciation Expense</td>
<td>1,943</td>
<td>2,077</td>
<td>2,214</td>
<td>2,354</td>
<td>2,479</td>
</tr>
<tr>
<td>Debt Service Principal</td>
<td>1,172</td>
<td>1,507</td>
<td>1,479</td>
<td>1,445</td>
<td>1,406</td>
</tr>
<tr>
<td>Cash Available from Operations</td>
<td>$4,363</td>
<td>$3,897</td>
<td>$3,589</td>
<td>$4,657</td>
<td>$6,804</td>
</tr>
<tr>
<td>Estimated Annual Capital Additions</td>
<td>5,348</td>
<td>5,479</td>
<td>5,612</td>
<td>5,003</td>
<td>5,106</td>
</tr>
<tr>
<td>Net Cash From Operations</td>
<td>$(985)</td>
<td>$(1,582)</td>
<td>$(2,023)</td>
<td>$(346)</td>
<td>$1,697</td>
</tr>
<tr>
<td>Beginning Cash Balance</td>
<td>$14,437</td>
<td>$13,452</td>
<td>$11,870</td>
<td>$9,847</td>
<td>$9,501</td>
</tr>
<tr>
<td>Ending Cash Balance</td>
<td>13,452</td>
<td>11,870</td>
<td>9,847</td>
<td>9,501</td>
<td>11,198</td>
</tr>
<tr>
<td>Bond Reserve Fund</td>
<td>3,155</td>
<td>3,155</td>
<td>3,155</td>
<td>3,155</td>
<td>3,155</td>
</tr>
<tr>
<td>Available Cash Reserves</td>
<td>$10,297</td>
<td>$8,715</td>
<td>$6,692</td>
<td>$6,346</td>
<td>$8,043</td>
</tr>
</tbody>
</table>
CITY OF PALO ALTO WATER UTILITY
REVENUE REQUIREMENT, COST OF SERVICE AND RATE DESIGN

COST OF SERVICE

The purpose of a cost of service study is to allocate costs to customer classes based on quantity of water consumed, variability of flow during the year, peak demands created on the system for each class and costs associated with metering, billing and accounting. The cost of service study is based on recognized procedures for allocating several categories of costs to customer classifications. Costs were allocated in proportion to each classification's use of the facilities and services.

The table below summarizes revenues projected from customers for FY 2011 and compares the projected revenues with the cost of providing service to each class of customers.

Cost of Service = Cost of providing water service to customers
Projected Revenues = Projected revenues recovered from current rate design
Percent Difference = Variation between cost of service and current rate design
Positive = Percent increase to meet cost of service
Negative = Percent decrease to meet cost of service

Table Three – Cost of Service Summary

<table>
<thead>
<tr>
<th>Class</th>
<th>Cost of Service</th>
<th>Projected Revenues</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>W-1 Residential</td>
<td>$15,219,495</td>
<td>$14,304,899</td>
<td>6%</td>
</tr>
<tr>
<td>W-4 Commercial</td>
<td>10,210,142</td>
<td>11,357,704</td>
<td>-10%</td>
</tr>
<tr>
<td>W-7 Irrigation</td>
<td>3,108,767</td>
<td>2,977,646</td>
<td>4%</td>
</tr>
<tr>
<td>W-3 Private Fire Protection</td>
<td>49,174</td>
<td>25,388</td>
<td>94%</td>
</tr>
<tr>
<td>Public Fire Protection - Hydrants</td>
<td>78,253</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$28,665,830</strong></td>
<td><strong>$28,665,638</strong></td>
<td><strong>0%</strong></td>
</tr>
</tbody>
</table>

The cost of service study identified variations between the current rate design and cost of service results a discussion of each class is listed below:

Residential Class - W-1 Rate Schedule

The cost of service results identified the need for a 6 percent overall rate adjustment for the residential class. The variation between current charges and cost of service results are due to reduced monthly meter charges, CPAU currently charges a $5.00/month meter charge, when compared with cost of service charge of $13.94/month. (Please see table 9) CPAU may consider placing greater increases in the monthly meter charge component and less of an increase in the commodity component.

Irrigation Meters - W-7 Rate Schedule

Customers on the W-7 irrigation rate use a majority of water during the summer season and little water the remainder of the year. The W-7 irrigation rate class contributes substantially to CPAU’s peak system loadings and the cost of service results can vary significantly depending on the weather patterns. The cost of service study identified a 4% increase in rates is needed to meet cost of service requirements.
CITY OF PALO ALTO WATER UTILITY
REVENUE REQUIREMENT, COST OF SERVICE AND RATE DESIGN

COST OF SERVICE

Commercial Class - W-4 Rate Schedule

The current rate charged to commercial customers is on average 10 percent greater than the cost of providing the service. It is recommended the W-4 rate be adjusted to move the rate closer to cost of service in future years.

Fire Hydrants – W-3 Rate Schedule

To meet cost of service requirements a 94% increase is needed for the W-3 rate (private fire protection). Public fire protection (City Hydrants) is currently a service not allocated to the City of Palo Alto. The total annual cost to operate and maintain public fire protection is $156,505. In discussion with CPAU staff it was assumed 50% of the cost should be shared by all customer classes to reflect the benefit that fire hydrants provide the entire water system. Flushing of the hydrants helps to clean the water system and is a benefit to all users of the system. As a result, only $78,253 (the remaining 50% of $156,505) was allocated directly to the public fire protection – City Hydrants.

Table Four – Fire Hydrants Revenue Requirements

<table>
<thead>
<tr>
<th>Fire Hydrants and Private Fire Protection</th>
<th>Cost of Service</th>
<th>Projected Revenues</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>W-3 Private Fire Protection</td>
<td>$49,174</td>
<td>$25,388</td>
<td>94%</td>
</tr>
<tr>
<td>Public Fire Protection - City Hydrants</td>
<td>78,253</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

*Public Fire Protection - City hydrants, $78,253 represents the full cost to be recovered.
**CPAU should consider increases to the monthly customer charges for private fire protection.

Table Five – W-3 - Comparison of Current Meter Charges and Cost of Service

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>Current Monthly Meter</th>
<th>Cost of Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>W3 - Private Fire Service- 4 Inch</td>
<td>$4.20</td>
<td>$7.27</td>
</tr>
<tr>
<td>W3 - Private Fire Service- 6 Inch</td>
<td>7.00</td>
<td>16.13</td>
</tr>
<tr>
<td>W3 - Private Fire Service- 8 Inch</td>
<td>10.75</td>
<td>28.53</td>
</tr>
<tr>
<td>W3 - Private Fire Service- 10 Inch</td>
<td>15.75</td>
<td>44.48</td>
</tr>
</tbody>
</table>
CITY OF PALO ALTO WATER UTILITY
REVENUE REQUIREMENT, COST OF SERVICE AND RATE DESIGN

COST OF SERVICE

The allocation study was modeled after the “Base & Extra Capacity Method” for allocating costs to customer classifications. The method is described in the 2007 and prior editions of the Water Rates Manual, published by the American Water Works Association. The four basic categories of cost responsibility are base, extra capacity, customer and fire protection costs. The following discussions present a brief description of these costs and the manner in which they were allocated.

**Base Costs** are costs that tend to vary with the quantity of water used, and include costs associated with supplying, treating, pumping and distributing water to customers under average load conditions, without the elements necessary to meet peak demands. Base costs are allocated to customer classifications by their average daily usage.

**Extra Capacity Costs** are costs associated with meeting usage requirements in excess of the base. They include operating and capital costs for plant and system capacity installed beyond that required to meet average use consumption. The extra capacity costs are subdivided into two categories; costs necessary to meet “maximum day extra demand” and costs to meet “maximum hour extra demand”. The extra capacity costs are allocated to customer classifications based on each class’s contribution to the systems maximum-day and-maximum hour usage.

**Table Six - Classification Percentages between Base and Extra Capacity Costs:**

<table>
<thead>
<tr>
<th>CCF’s</th>
<th>Average Day</th>
<th>Max Day</th>
<th>Max Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15,803</td>
<td>23,963</td>
<td>26,948</td>
</tr>
<tr>
<td>Average Day to Max Day Percent</td>
<td>66%</td>
<td>34%</td>
<td></td>
</tr>
<tr>
<td>Average Day to Max Hour Percent</td>
<td>59%</td>
<td>30%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Costs related to investment in assets and a portion of the distribution costs are allocated 59 percent on usage (base costs); 30 percent on maximum day and 11 percent on maximum hour (extra-capacity) The values were calculated using the peak to average ratios discussed below.
CITY OF PALO ALTO WATER UTILITY
REVENUE REQUIREMENT, COST OF SERVICE AND RATE DESIGN

COST OF SERVICE

The table below identifies the ratios used to determine the extra capacity costs and is based on the calculated peaking factor. Classes with higher ratios typically increase usage during peak system times and results in greater use of system capacity. Listed below are peak ratios for each customer type for 2008 and 2009, the average of the two years was used in the analysis to allocate costs for 2011. (A factor of 1.0 was used for fire protection)

Table Seven – Peak to Average Usage Ratio

<table>
<thead>
<tr>
<th>Customer Class</th>
<th>2008 Peak Factor</th>
<th>2009 Peak Factor</th>
<th>Two Year Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CCF Usage</td>
<td>CCF Usage</td>
<td>CCF Usage</td>
</tr>
<tr>
<td></td>
<td>during peak month</td>
<td>during peak month</td>
<td>during peak month</td>
</tr>
<tr>
<td></td>
<td>per year - CCF</td>
<td>per year - CCF</td>
<td>per year - CCF</td>
</tr>
<tr>
<td></td>
<td>Average Monthly</td>
<td>Average Monthly</td>
<td>Average Monthly</td>
</tr>
<tr>
<td></td>
<td>Usage per month</td>
<td>Usage per month</td>
<td>Usage per month</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>Ratio</td>
<td>Ratio</td>
</tr>
<tr>
<td>W1 - Residential</td>
<td>351,418</td>
<td>343,051</td>
<td>694,469</td>
</tr>
<tr>
<td>W2 - Construction Water</td>
<td>228,518</td>
<td>215,906</td>
<td>442,424</td>
</tr>
<tr>
<td>W3 - Private Fire Service</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>W4 - Commercial</td>
<td>199,202</td>
<td>253,996</td>
<td>453,198</td>
</tr>
<tr>
<td>W7 - Irrigation</td>
<td>90,309</td>
<td>101,013</td>
<td>191,522</td>
</tr>
<tr>
<td>Total System</td>
<td>641,129</td>
<td>696,060</td>
<td>1,339,189</td>
</tr>
</tbody>
</table>

The peaking factor is based on the ratio between the usage during the peak month and average usage during the year for each class. The residential peak ratio of 1.57 means the usage in the peak month is 1.57 times greater than annual usage. The commercial class usage is relatively constant during the year with a two year average peak to average ratio of 1.32. The least efficient class is irrigation (W-7) with a two year average peak to average ratio of 1.99. The peaking factors in Table Seven above were applied in the table below to calculate values for base, maximum day and maximum hour.

<table>
<thead>
<tr>
<th>Customer Class</th>
<th>Annual Use</th>
<th>Average Rate</th>
<th>Capacity Factor</th>
<th>Total Capacity</th>
<th>Extra Capacity</th>
<th>Capacity Factor</th>
<th>Total Capacity</th>
<th>Extra Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>W1 - Residential</td>
<td>2,308,194</td>
<td>6,322.8</td>
<td>1.57</td>
<td>9,926</td>
<td>3,603</td>
<td>1.78</td>
<td>11,225</td>
<td>4,901</td>
</tr>
<tr>
<td>W2 - Construction Water</td>
<td>447,514</td>
<td>1,226.1</td>
<td>1.57</td>
<td>3,325</td>
<td>698</td>
<td>1.78</td>
<td>2,176</td>
<td>950</td>
</tr>
<tr>
<td>W3 - Private Fire Service</td>
<td>73,178</td>
<td>200.5</td>
<td>1.57</td>
<td>315</td>
<td>114</td>
<td>1.78</td>
<td>356</td>
<td>155</td>
</tr>
<tr>
<td>W4 - Commercial</td>
<td>41,011</td>
<td>112.4</td>
<td>1.57</td>
<td>176</td>
<td>64</td>
<td>1.78</td>
<td>199</td>
<td>87</td>
</tr>
<tr>
<td>W7 - Irrigation</td>
<td>33</td>
<td>0.1</td>
<td>1.57</td>
<td>0</td>
<td>0</td>
<td>1.78</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>W3 - Private Fire Service-4</td>
<td>185</td>
<td>0.5</td>
<td>1.00</td>
<td>1</td>
<td>1.00</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>W3 - Private Fire Service-6</td>
<td>463</td>
<td>1.3</td>
<td>1.00</td>
<td>1</td>
<td>1.00</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>W3 - Private Fire Service-8</td>
<td>350</td>
<td>1.0</td>
<td>1.00</td>
<td>1</td>
<td>1.00</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>W3 - Private Fire Service-10</td>
<td>72</td>
<td>0.2</td>
<td>1.00</td>
<td>0</td>
<td>1.00</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Fire Hydrants</td>
<td>-</td>
<td>-</td>
<td>1.00</td>
<td>1</td>
<td>1.00</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>W4 - Commercial-0.75</td>
<td>247,341</td>
<td>677.6</td>
<td>1.32</td>
<td>895</td>
<td>218</td>
<td>1.50</td>
<td>1,014</td>
<td>336</td>
</tr>
<tr>
<td>W4 - Commercial1</td>
<td>205,951</td>
<td>564.3</td>
<td>1.32</td>
<td>745</td>
<td>181</td>
<td>1.50</td>
<td>644</td>
<td>280</td>
</tr>
<tr>
<td>W4 - Commercial1.5</td>
<td>265,294</td>
<td>726.8</td>
<td>1.32</td>
<td>960</td>
<td>233</td>
<td>1.50</td>
<td>1,087</td>
<td>360</td>
</tr>
<tr>
<td>W4 - Commercial2</td>
<td>740,393</td>
<td>2,028.5</td>
<td>1.32</td>
<td>2,690</td>
<td>651</td>
<td>1.50</td>
<td>3,034</td>
<td>1,006</td>
</tr>
<tr>
<td>W4 - Commercial3</td>
<td>261,040</td>
<td>715.2</td>
<td>1.32</td>
<td>945</td>
<td>230</td>
<td>1.50</td>
<td>1,070</td>
<td>355</td>
</tr>
<tr>
<td>W4 - Commercial4</td>
<td>169,826</td>
<td>465.3</td>
<td>1.32</td>
<td>615</td>
<td>149</td>
<td>1.50</td>
<td>696</td>
<td>231</td>
</tr>
<tr>
<td>W4 - Commercial6</td>
<td>141,177</td>
<td>386.8</td>
<td>1.32</td>
<td>511</td>
<td>124</td>
<td>1.50</td>
<td>579</td>
<td>192</td>
</tr>
<tr>
<td>W4 - Commercial8</td>
<td>252,711</td>
<td>692.4</td>
<td>1.32</td>
<td>915</td>
<td>222</td>
<td>1.50</td>
<td>1,036</td>
<td>343</td>
</tr>
<tr>
<td>W7 - Irrigation0.75</td>
<td>10,683</td>
<td>29.3</td>
<td>1.99</td>
<td>58</td>
<td>29</td>
<td>2.16</td>
<td>63</td>
<td>34</td>
</tr>
<tr>
<td>W7 - Irrigation1</td>
<td>25,342</td>
<td>69.4</td>
<td>1.99</td>
<td>138</td>
<td>69</td>
<td>2.16</td>
<td>150</td>
<td>81</td>
</tr>
<tr>
<td>W7 - Irrigation1.5</td>
<td>72,049</td>
<td>197.4</td>
<td>1.99</td>
<td>394</td>
<td>196</td>
<td>2.16</td>
<td>426</td>
<td>229</td>
</tr>
<tr>
<td>W7 - Irrigation2</td>
<td>163,129</td>
<td>446.9</td>
<td>1.99</td>
<td>891</td>
<td>444</td>
<td>2.16</td>
<td>965</td>
<td>518</td>
</tr>
<tr>
<td>W7 - Irrigation3</td>
<td>100,716</td>
<td>275.9</td>
<td>1.99</td>
<td>550</td>
<td>274</td>
<td>2.16</td>
<td>596</td>
<td>320</td>
</tr>
<tr>
<td>W7 - Irrigation4</td>
<td>59,577</td>
<td>163.2</td>
<td>1.99</td>
<td>326</td>
<td>162</td>
<td>2.16</td>
<td>353</td>
<td>189</td>
</tr>
<tr>
<td>W7 - Irrigation6</td>
<td>111,558</td>
<td>305.6</td>
<td>1.99</td>
<td>610</td>
<td>304</td>
<td>2.16</td>
<td>660</td>
<td>355</td>
</tr>
<tr>
<td>W7 - Irrigation8</td>
<td>70,322</td>
<td>192.7</td>
<td>1.99</td>
<td>384</td>
<td>192</td>
<td>2.16</td>
<td>416</td>
<td>223</td>
</tr>
</tbody>
</table>

Total | 5,768,111 | 15,803 | 23,963 | 8,160 | 26,948 | 11,145 |
CITY OF PALO ALTO WATER UTILITY  
REVENUE REQUIREMENT, COST OF SERVICE AND RATE DESIGN  

COST OF SERVICE  

Customer Costs (Meter Costs) are costs associated with serving customers regardless of usage level or usage characteristics. Customer costs include the operation and maintenance expenses related to meter installation, meter readings, billing and collecting. The customer costs are allocated to each class based on the cost of installing meters and services and the cost of providing customer service to different classes of customers. Customer costs considered fixed and allocated to the customer charge component include the following items:

1. Cost of meter reading  
2. Cost of meter installations  
3. Cost of service connections  
4. Forty percent of the operation and maintenance expenses of the distribution system (Based on the ratio of Max Day to Average Day usage)  
5. Billing & collection costs  
6. Allocated amount of administration costs based on total expenses as a ratio of customer cost expenses  
7. Reduced by other revenue items based on total expenses as a ratio of customer cost expenses  

The tables below are meter cost ratios and the meter demand ratios used to determine customer costs for each meter size.  

**Meter Cost Ratio (Initial Cost for CPAU to install a meter)**

<table>
<thead>
<tr>
<th>Meter Size - Inches</th>
<th>Costs to Install a Meter in $</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.75</td>
<td>$147</td>
</tr>
<tr>
<td>1</td>
<td>147</td>
</tr>
<tr>
<td>1.5</td>
<td>326</td>
</tr>
<tr>
<td>2</td>
<td>423</td>
</tr>
<tr>
<td>3</td>
<td>962</td>
</tr>
<tr>
<td>4</td>
<td>1,573</td>
</tr>
<tr>
<td>6</td>
<td>2,829</td>
</tr>
<tr>
<td>8</td>
<td>3,252</td>
</tr>
</tbody>
</table>
CITY OF PALO ALTO WATER UTILITY
REVENUE REQUIREMENT, COST OF SERVICE AND RATE DESIGN

COST OF SERVICE

Meter Demand Ratio (Potential demand for water based on size of meter)

<table>
<thead>
<tr>
<th>Meter Size in Inches</th>
<th>Area of Meter - Square Inches</th>
<th>Meter Ratio using a base of 0.75 inch</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.75</td>
<td>0.44</td>
<td>1.00</td>
</tr>
<tr>
<td>1.00</td>
<td>0.79</td>
<td>1.78</td>
</tr>
<tr>
<td>1.50</td>
<td>1.77</td>
<td>4.00</td>
</tr>
<tr>
<td>2.00</td>
<td>3.14</td>
<td>7.11</td>
</tr>
<tr>
<td>3.00</td>
<td>7.07</td>
<td>16.00</td>
</tr>
<tr>
<td>3.00</td>
<td>7.07</td>
<td>16.00</td>
</tr>
<tr>
<td>4.00</td>
<td>12.56</td>
<td>28.44</td>
</tr>
<tr>
<td>6.00</td>
<td>28.26</td>
<td>64.00</td>
</tr>
<tr>
<td>8.00</td>
<td>50.24</td>
<td>113.78</td>
</tr>
<tr>
<td>10.00</td>
<td>78.50</td>
<td>177.78</td>
</tr>
</tbody>
</table>

The meter ratio is a calculated value based on the potential volume that can pass through the meter. This value determines the maximum potential demand a customer can create on the water system. The formula is calculated as follows:

\[(\text{Radius of meter squared}) \times \text{value of Pi}\]

where: \(\text{Meter Size}/2 = \text{Radius of meter}\) and \(\text{Pi} = 3.14\)
CITY OF PALO ALTO WATER UTILITY
REVENUE REQUIREMENT, COST OF SERVICE AND RATE DESIGN

COST OF SERVICE

Fire Protection Costs are costs associated with installing facilities to meet expected peak demands of fire protection services. Operating and capital costs for hydrants were allocated directly to fire protection classifications. Certain parts of the water system are required to be oversized to help ensure adequate capacity exists to fight fires. Water towers are specifically oversized to meet the fire flow requirements of the community. The portion of towers allocated directly to fire protection is 20.6% of water tower costs and is based on the calculation listed below.

Table Eight – Fire Hydrants Water Requirements

<table>
<thead>
<tr>
<th></th>
<th>GPM</th>
<th>Hour Requirement</th>
<th>Total Requirement in MGD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire Flow Requirement</td>
<td>6,000</td>
<td>6.00</td>
<td>2.16</td>
</tr>
<tr>
<td>Reservoir Capacity</td>
<td>10.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent of Total</td>
<td></td>
<td></td>
<td>20.6%</td>
</tr>
</tbody>
</table>

GPM – Gallons per minute requirement
CITY OF PALO ALTO WATER UTILITY
REVENUE REQUIREMENT, COST OF SERVICE AND RATE DESIGN

COST OF SERVICE

COST OF SERVICE COMPONENTS

The table below identifies cost of service rates and identifies the monthly charge and consumption charge for each meter size and each customer class.

Table Nine – Comparison of Current Charges with Cost of Service Charges

<table>
<thead>
<tr>
<th>Customer Class</th>
<th>Meter Size</th>
<th>Cost of Service Charges</th>
<th>Current Charges</th>
<th>Average</th>
<th>Current Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Monthly Meter Charges</td>
<td>CCU Charges</td>
<td>Average</td>
<td>Current Rate</td>
</tr>
<tr>
<td>W-1 Residential</td>
<td>3/4</td>
<td>$13.94</td>
<td>$4.52</td>
<td>5.61</td>
<td>$5.00</td>
</tr>
<tr>
<td>W-1</td>
<td>1</td>
<td>18.54</td>
<td>4.52</td>
<td>5.50</td>
<td>6.50</td>
</tr>
<tr>
<td>W-1</td>
<td>1.5</td>
<td>39.27</td>
<td>4.52</td>
<td>5.68</td>
<td>12.27</td>
</tr>
<tr>
<td>W-1</td>
<td>2</td>
<td>61.77</td>
<td>4.52</td>
<td>5.77</td>
<td>19.37</td>
</tr>
<tr>
<td>W-1 Commercial</td>
<td>3/4</td>
<td>13.94</td>
<td>4.16</td>
<td>4.99</td>
<td>5.00</td>
</tr>
<tr>
<td>W-4</td>
<td>1</td>
<td>18.54</td>
<td>4.16</td>
<td>4.80</td>
<td>6.50</td>
</tr>
<tr>
<td>W-4</td>
<td>1.5</td>
<td>39.27</td>
<td>4.16</td>
<td>4.80</td>
<td>12.27</td>
</tr>
<tr>
<td>W-4</td>
<td>2</td>
<td>61.77</td>
<td>4.16</td>
<td>4.71</td>
<td>19.37</td>
</tr>
<tr>
<td>W-4</td>
<td>3</td>
<td>137.16</td>
<td>4.16</td>
<td>4.52</td>
<td>77.65</td>
</tr>
<tr>
<td>W-4</td>
<td>4</td>
<td>236.62</td>
<td>4.16</td>
<td>4.78</td>
<td>130.60</td>
</tr>
<tr>
<td>W-4</td>
<td>6</td>
<td>500.00</td>
<td>4.16</td>
<td>4.95</td>
<td>260.43</td>
</tr>
<tr>
<td>W-4</td>
<td>8</td>
<td>812.02</td>
<td>4.16</td>
<td>4.61</td>
<td>383.67</td>
</tr>
<tr>
<td>W-7 Irrigation</td>
<td>3/4</td>
<td>13.94</td>
<td>5.10</td>
<td>5.51</td>
<td>5.00</td>
</tr>
<tr>
<td>W-7</td>
<td>1</td>
<td>18.54</td>
<td>5.10</td>
<td>5.27</td>
<td>6.50</td>
</tr>
<tr>
<td>W-7</td>
<td>1.5</td>
<td>39.27</td>
<td>5.10</td>
<td>5.10</td>
<td>12.27</td>
</tr>
<tr>
<td>W-7</td>
<td>2</td>
<td>61.77</td>
<td>5.10</td>
<td>5.19</td>
<td>19.37</td>
</tr>
<tr>
<td>W-7</td>
<td>3</td>
<td>137.16</td>
<td>5.10</td>
<td>4.95</td>
<td>77.65</td>
</tr>
<tr>
<td>W-7</td>
<td>4</td>
<td>236.62</td>
<td>5.10</td>
<td>5.08</td>
<td>130.60</td>
</tr>
<tr>
<td>W-7</td>
<td>6</td>
<td>500.00</td>
<td>5.10</td>
<td>4.89</td>
<td>260.43</td>
</tr>
<tr>
<td>W-7</td>
<td>8</td>
<td>812.02</td>
<td>5.10</td>
<td>4.98</td>
<td>383.67</td>
</tr>
</tbody>
</table>
SIGNIFICANT ASSUMPTIONS

This section outlines the procedures used to develop the cost of service for CPAU’s Water Utility and related significant assumptions.

REVENUE FORECAST

Sales revenues and rate adjustments were provided by CPAU. The table below projects revenues from FY 2011 – FY 2015.

Table Ten – Projected Revenues (thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RATE ADJUSTMENT</td>
<td>0.0%</td>
<td>8.0%</td>
<td>9.0%</td>
<td>9.0%</td>
</tr>
<tr>
<td>SALES REVENUES</td>
<td>$28,666</td>
<td>$31,336</td>
<td>$34,179</td>
<td>$37,291</td>
</tr>
</tbody>
</table>

FORECASTED OPERATING EXPENSES FOR FY 2011

Forecasted expenses were provided by CPAU and are listed in the table below:

Table Eleven – Palo Alto Projected FY 2011 Expenses (thousands)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>$12,808</td>
</tr>
<tr>
<td>Distribution</td>
<td>10,549</td>
</tr>
<tr>
<td>Support Services and Admin</td>
<td>1,612</td>
</tr>
<tr>
<td>Debt Service</td>
<td>2,373</td>
</tr>
<tr>
<td>Rent and Transfers Out</td>
<td>2,331</td>
</tr>
<tr>
<td>Rate Stabilization</td>
<td>(985)</td>
</tr>
<tr>
<td>Other Revenues and Expense</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$28,666</strong></td>
</tr>
</tbody>
</table>

CUSTOMER USAGE INFORMATION

Usage patterns for customer classes were based on monthly number of customers and monthly volumetric usages listed on table seven.
ACCOUNTANTS’ COMPILATION REPORT

City of Palo Alto Utilities Department

The accompanying forecasted statements of revenues and expenses of the City of Palo Alto Water Department were provided by CPAU and compiled for the year ending June 30, 2011 through June 30, 2015. CPAU’s projection was restated in accordance with guidelines established by the American Institute of Certified Public Accountants and reflected in this report.

The purpose of this report is to assist management in determining the cost to service each customer class. This report should not be used for any other purpose.

A compilation is limited to presenting, in the form of a forecast; information represented by management and does not include evaluation of support for any assumptions used in projecting revenue requirements. We have not audited the forecast and, accordingly, do not express an opinion or any other form of assurance on the statements or assumptions accompanying this report.

Differences between forecasted and actual results will occur since some assumptions may not materialize and events and circumstances may occur that were not anticipated, some of these variations may be material. Utility Financial Solutions has no responsibility to update this report after the date of this report.

This report is intended for information and use by the City of Palo Alto, Utilities Department for the purposes stated above. This report is not intended to be used by anyone except the specified parties.

UTILITY FINANCIAL SOLUTIONS

Mark Beauchamp, CPA, CMA, MBA
Holland, MI
January 11, 2011
ITEM 1: ACTION: Proposed Water Utility Rate Adjustments and Long-Term Financial Projections
Senior Resource Planner Ipek Connolly provided a presentation on the water utility’s five-year financial projections and proposed rate adjustments for FY 2012. Connolly noted that over the five-year planning period, the cost of water purchases is expected to increase from $10.8 million in FY 2011 to $21.5 million in FY 2016. Regarding the rate adjustments, staff proposed to make the cost-of-service analysis (COSA) adjustments between customer classes and between fixed and volumetric charges in one year, along with a 12.5% ($3.5 Million) increase in overall sales revenue. This translates to a 17.4% increase in residential sales revenue and an 8% increase in business sales revenue since the COSA realignment between customer classes is a 4% increase in residential rates and a 10% reduction in commercial rates, and a 14% increase in commercial irrigation rates. The adjustment to the fixed charge component would increase the revenue collected from fixed charges from 5% to 15% of total sales revenue. The staff proposal would also add a tier to residential and commercial rates. The financial projections illustrated the impact of the revised (higher) SFPUC supply rate increases, lower water demand projections, and additional capital improvement projects. Connolly also presented a couple of alternative scenarios suggested by UAC members. One alternative was to raise rates sooner to avoid more increase later and avoid going below the minimum reserve guideline. Another alternative was to try and achieve stable rate increases (i.e., the same percentage over the 5-year planning horizon).

Commissioner Eglash asked for an explanation of how revenue from commercial customers was increasing when they were getting a 10% decrease. Director Fong and Connolly explained that the 10% decrease was for the cost of service realignment between customer classes. With the proposed FY 2012 increase of 12.5% in overall revenue requirements and the COSA increase of 14% for irrigation accounts the net increase to the commercial customers overall was 8%.

Commissioner Melton stated that he thought it was a well thought out proposal but expressed his concern about dropping below minimum reserve guidelines for two years. He acknowledged that it would take a large increase in FY 2012 to stay above the minimum guidelines in future years, but requested that it be made clear to the Council of that possible outcome.

Chair Waldfogel and Commissioner Berry discussed alternatives to reduce the impact of the CIP increase. Chair Waldfogel suggested stretching the CIP over three years, and Commissioner Berry asked if the two new projects could be financed instead of paid for out of current ratepayer revenues. Director Fong replied that she would not recommend delaying the projects as they were safety related, and bond financing was not the typical way of financing such projects, but that it is something that could be considered.

Commissioner Keller asked if the demand reduction was mainly from the business sector and economy driven. She also observed that the reserve calculations were very sensitive to demand projections, so the Commission should not get too focused on the reserve projections for future years. Connolly replied that the demand reductions were partly driven by the economy, but also by the weather and conservation actions.
Commissioner Cook asked how the tiers were determined, and if the tiers were effective in encouraging conservation. Connolly explained that tier points had been selected based on the percentage of customers that would fall into them for winter and summer usage. For example, tier one was set based on winter usage and was designed so that 50% of customers would not exceed tier one based on their winter usage. Connolly also explained that price response is low but there is some, and the response is higher for low income customers and irrigation use.

Chair Waldfogel indicated that the UAC received a letter from Canopy and read the questions in the letter:

1. Do we know what impact these rate changes might have on the landscape and health of trees in particular?
2. Was Planning Arborist Dave Dockter consulted on this matter?
3. Is demand for water usually elastic to price? Does this elasticity vary tier to tier?
4. If the rate change is accompanied by additional encouragements to conserve water in the landscape (such as the removal of irrigated lawns), could instructions be given regarding the need to provide alternate irrigation for trees that are currently irrigated indirectly through the watering of lawns?

Commissioner Keller recognized that the COSA resulted in a 4% residential increase, but she asked if the cost could be split differently so that low usage customers could still have the ability to lower their bills. She was concerned that the drop in volumetric rates for residential tiers one and two did not give a conservation signal and was a confusing message to customers. Director Fong stated that staff's proposal was to increase the fixed charge to the COSA recommendation especially since there is strong sentiment among the Council to avoid ramifications to the Water Fund when usage drops based on the experience of the Refuse Fund. However when fixed rates increase, volumetric rates must decrease to maintain the same revenue.

Commissioner Eglash summarized the "big picture"; water rates are rising dramatically, water is a finite resource, and the City needs a rate structure to encourage conservation and has an obligation to send correct price signals. There are significant avoided costs from conserving water. He indicated that we have a responsibility to bring in the third usage tier to incent efficient use. He recognized there was some concern about trees but he did not think most trees relied solely on irrigation because of the relatively high water table in Palo Alto. Although he didn’t think trees would be impacted, he indicated that if they were we would need to find a solution to that problem. He expressed a preference for keeping commercial rates flat rather than having some commercial customers having bill reductions and suggested applying Commissioner Keller’s suggestion to commercial rates in not having their volumetric charges reduced.

Commissioner Foster expressed his appreciation for staff’s report and asked for clarification on COSA legal requirements. He asked if the City was under a legal obligation to follow COSA, if there was any arbitrariness to COSA studies, and if there was any obligation to move to the COSA fixed charge recommendation. Staff replied that yes, regulations (Proposition 218) required that rates be based on cost of service and the COSA study used industry standard cost causation models for assigning cost of service. The fixed cost was a rate design issue, but that the current low fixed costs were not collecting the full cost of service from low usage customers.
Commissioner Foster recognized that the proposed rate increases are painful and he would rather the COSA be phased in more gradually so as to avoid the rate increase differential between low usage residential customers and commercial customers. He would like to see all customers share some of the required increase. He also would like a more gradual move to the fixed cost increase (he would prefer no fixed costs). He also advised that staff communicate clearly the projected rate increase over the next few years.

Commissioner Melton asked why staff proposed to move to full COSA alignment by customer classes in one year although both the UAC and the Finance Committee previously indicated a preference to move to the class alignment over more than one year. Staff indicated that since the Water Fund’s reserves are currently healthy and, therefore, it was possible to somewhat reduce the requested revenue increase for FY 2012 and include the COSA alignment in one year. Additionally, staff indicated its preliminary assessment that it would recommend no increase to gas or electric rates, so the total bill impact from the one-year COSA alignment for water rates was doable.

Chair Waldfogel noted that the commission has several choices, including: 1) approve staff’s proposal now; 2) approve the proposal with tweaks now; 3) appoint a subcommittee to work with staff to develop new proposals; or 4) ask staff to return with a new proposal based on the commission’s input. Commissioner Eglash opposed delaying action and noted that the Commission needs to grapple with the issues now.

**ACTION:**
Commissioner Melton moved to recommend staff’s proposal with the change that staff make the adjustments necessary so that no customer would get a bill decrease. Commissioner Foster seconded the motion.

Commissioner Eglash offered a friendly amendment regarding lower usage customers: that the volumetric rates for tiers 1 and 2 not be reduced from current levels and the fixed charge be lowered to account for the higher volumetric charges, the tier 3 residential rate would stay at the level proposed by staff. Commissioner Melton accepted the amendment offered by Commissioner Eglash, but stated he would not accept elimination of the residential 3rd tier.

Chair Waldfogel offered an amendment to have a 14% increase in the revenue requirement for FY 2012 to have stable rate increases planned over the 5 year projection. Commissioner Berry seconded the motion, but then withdrew his second when he understood the net impact on residential customers of the revenue requirement increase and the COSA adjustment. Chair Waldfogel offered an amendment to remove the residential tier 3, but there was no second.

Commissioners Eglash and Keller proposed modifying the first amendment so that residential tiers 1 and 2 rates would increase slightly instead of remaining at current levels. Commissioner Melton accepted the revised amendment and reiterated his earlier request that the Council be well apprised of the fact that the five-year financial projections show the reserves going below the minimum guidelines for two years.

The final restated amended motion was: to recommend Council approve amendments to the water rates such that: a) overall retail water rates and annual revenues for the Water Fund increase by
12.5%, or $3.5 million, in Fiscal Year 2012; b) the rate adjustment proposal by staff be modified so that no customer’s bill would be decreased. These modifications will require that the volumetric rates for residential customers for usage in tiers 1 and 2 and for commercial customers be increased and the fixed charges be reduced; and c) the Council be made aware that the UAC is aware that the five-year financial projections show that the balance of the Water Rate Stabilization Reserve falls below the minimum guideline level for two years.

The motion passed (5-2) with Chair Waldfogel and Commissioner Berry opposed. Chair Waldfogel indicated that his opposition was due to the fact that the customers most affected by the proposal are those with large landscaped areas. Commissioner Berry indicated that he couldn’t support the motion since he couldn’t see that actual proposed rates that would result from the proposed modifications.

Senior Resource Planner, Ipek Connolly reviewed her presentation. Staff requested that the Finance Committee recommend adoption of the changes to four Water Utility Rate Schedules for residential, commercial, fire hydrant, and irrigation water services. If these changes were approved by the Council, the rate changes would increase overall revenues for the Water Fund by 12.5 percent. There would be a 17 percent increase in residential revenues as a result of the proposal. Different customer groups were identified because cost drivers were different. The Cost of Service Study recommendations had been incorporated. She reviewed a table summarizing how the proposal would affect the customer’s monthly utility bill. For example, a residential customer that used 14 CCF would see a $10 increase in their monthly bill. For wastewater, to be discussed later, there would be a $3 increase. No adjustments were expected for the electric and gas funds. With all rate changes, the total impact would be $14 for an average customer. She discussed the background to the changes. The proposal was brought before both the Finance Committee and the Utilities Advisory Commission (UAC). There was general agreement on the objectives presented. One member from each group questioned the tiered structure. The UAC approved the proposal 5-2 with some recommended changes. She spoke regarding the drivers for the proposed changes. The water supply cost was a main factor. There were on-going system improvements that factored into the proposal. She stated the water demand levels, across the region, were dropping. She reviewed charts demonstrating water costs and demands. The sudden drop in demand was a problem as most of the costs were fixed. She offered a high level view of the next five years projections. With existing rate levels, and proposed rate increases, they would not cover their costs each year. The reserves were healthy, and therefore they were proposing only a moderate increase in an effort to maintain the objective of stable prices. There will be a need in the future for increased revenues. The City Council approved minimum and maximum levels for the stabilization fund, and they are within those parameters. Staff had proposed full implementation of the Cost of Service Study levels for both customer class levels and fixed service charge levels. The UAC agreed with the proposal, but recommended Staff redesign the volumetric versus fixed rate component so there would be an increase in Residential Tier 1 and Tier 2. The UAC wanted to provide a price structure that rewarded customers that conserved water. Another recommendation was that there should not be a bill reduction for any customers. The California Urban Water Conservation Guidelines would be met. The volumetric charges had a number of proposed changes, including an additional third tier. The pricing of the tiers would be higher for higher users. The proposal included two tiers for commercial users. Irrigation rates would increase to $6.27. Fire hydrant rates would change to $7.27, consistent with the Cost of Service Study requirement. A residential small customer’s monthly bill would increase by approximately $3.41. For a medium customer, the bill
would increase by approximately $10 per month. Large customers would see a 22 percent increase. Commercial customers’ biggest impact would be seen in irrigation. If the Finance Committee recommended a rate proposal to be approved by the Council, letters would be sent to customers and a budget review would be held in May. There would be a public hearing in June. If more than 50 percent of the customers sent written protests the Council may not adopt the proposed rates.

Council Member Shepherd asked about the consistent operational costs.

Ms. Connolly said Staff made a conservative assumption of one percent annual growth, which may be adjusted based on labor negotiations. The amount represented in the presentation included salaries, benefits, and all operational expenses. The Consumer Price Index for the current year was one and a half percent. It was her belief this would likely rise after the recession. Staff attempted to maintain a low-level of cost.

Utilities Director, Valerie Fong said what was not spent was placed into reserves.

City Manager, James Keene said Staff would try to correlate operational costs with factors contained within the City’s Long Range Financial Forecast.

Council Member Shepherd inquired on the non-bond revenue. She felt the 17 percent in 2013 would not be needed until 2015.

Ms. Connolly said 17 percent was needed because of the prior four years.

Council Member Shepherd stated in W-RSR Guidelines lowered in June 2009 from 50 percent and 20 percent to 30 percent and 15 percent of sales revenues for maximum and minimum reserve levels, respectively.

Ms. Connolly presented a graph displaying the short-term risk assessment. Staff performed a short-term risk assessment annually. Staff made an adjustment recommendation to Council to lower minimums.

Ms. Fong said Staff’s recommendation aligned the long term minimum with the short term risk assessment.

Council Member Shepherd asked whether the redlined minimum indicated how Staff expected the risk reserves to operate in managing rate increases.

Ms. Fong stated yes.

Council Member Shepherd stated the City would dip down to $2 million and spike up with aggressive increases. She stated 2012 through 2014 could be
problematic.

Ms. Fong said Staff was providing a forecast using current information. She stated the biggest unknown was the water utility demand.

Council Member Shepherd stated a low projection was used on water utility use and consumption. She stated Staff expected a large drawdown on reserves.

Ms. Fong agreed.

Ms. Connolly said Staff felt comfortable moving forward with the information available. If conditions worsen, Staff would return with this information next year.

Council Member Shepherd stated the Finance Committee would be recommending 12.5 percent.

Ms. Connolly confirmed the recommendation of 12.5 percent.

Council Member Yeh inquired on the reserve levels dipping below the range. He inquired whether the City was at risk of having its credit rating downgraded.

Ms. Fong said the City initially pledged all of its reserves to support the water bond.

Administrative Services Director, Lalo Perez said the graph indicated the City would return above the range. The funds were monitored on a regular basis.

Ms. Connolly said that rating agencies looked at how frequently the City adjusted rates. Staff reviewed rates annually and adjustments were made accordingly.

Ms. Fong said rating agencies favored Council approved Staff adjustment recommendations.

Mr. Keene said rating agencies agreed with this type of multi-year forecasting and adjustment. Rating agencies favored transparency.

Mr. Perez said Staff was finalizing interviews for the hiring of financial advisors.

Council Member Yeh asked if Staff would be returning to the Finance Committee by June 2011 with additional rate adjustment recommendations.

Ms. Connolly said yes.

Council Member Yeh said water demand went down 14 percent between 2008 and 2010. He inquired whether usage would remain flat, or if there would be a
further decrease due to water efficiency initiatives.

Ms. Fong said Staff would continue with water efficiency initiatives. She said it would depend on business growth in Palo Alto.

Senior Resource Planner, Debra Lloyd-Zannetti stated water usage was expected to trend down.

Council Member Yeh inquired whether fixed charges would trend upward.

Ms. Connolly said it was desirable to have a higher percentage of revenues through fixed charges, as it provided revenue stability. On the other hand, the more this was done the fewer customers would conserve. Staff’s plan was to keep service charges at the levels indicated in the Cost of Service Study.

Council Member Schmid spoke on the importance of understanding the basis of the reallocation process for residents. He inquired whether the peak-to-average ratio, contained in the Cost of Service Study, was a driving force.

Ms. Connolly said yes. She stated that information was incorporated in the Staff Report.

Council Member Schmid said the model assumed that if the rate varied over time the system would be required to create an extra capacity. Thus, the share of the basic cost would rise to manage the extra capacity.

Ms. Connolly said that was correct. Costs were allocated by the peak to average ratio. In order to meet short-period demands, Staff was required to have an adequate sizing mechanism and charge accordingly.

Council Member Schmid disagreed with the customer classes and peak to average ratio. He felt it sounded perverse that if a customer, who saved water in the summer, would end up paying more.

Ms. Connolly said one factor was how much irrigation load a customer imposed on the system in the summer. There was a base load used in the household throughout the year.

Council Member Schmid said the vast majority of residential users had a ¾ inch pipe.

Ms. Connolly said it was infrastructure costs that were looked at, and not the size of the pipe traveling to the customer.

Council Member Schmid said Staff was penalizing customers that conserved
during certain seasons.

Ms. Connolly said there were separate meters that were dedicated to outdoor and indoor irrigation.

Council Member Schmid said commercial customers who used large amounts of water for irrigation had the highest peak to average ratio and should pay more.

Ms. Connolly said Attachment G showed that proposed irrigation rates were based on updated results from the 2010 billing statistics. The method proposed was used by the industry.

Council Member Schmid felt residents would pay a larger portion with the proposed rate system.

Ms. Lloyd-Zannetti said residents who filled their water pipes constantly would pay higher utility bill.

Council Member Schmid said this customer class would bear a larger share of the total cost.

Ms. Connolly said the peak to average ratio appeared to be rising because the Finance Committee was looking at it in terms of lower winter usage.

Council Member Schmid inquired whether the $5 million annually was due to the water tanks on the Foothills.

Ms. Connolly said water supply costs were rising.

Council Member Schmid said the five-year fiscal plan projected a water supply increase of $2 million, and a CIP non-bonded increase of $5 million. This figure would potentially stay flat for two additional years creating $10 million in CIP spending.

Ms. Connolly said that was correct. Staff considered this a one-time increase and did not propose to increase revenues.

Council Member Schmid inquired whether the Cost of Service Study should reflect the utility users that would benefit.

Ms. Fong said Council Member Schmid was speaking in regards to residents in the Foothills. The benefit was mainly on fire suppression in the Foothills and the Open Space area.

Council Member Schmid felt there were heavy water users west of the Foothills as Council had approved an increase in square footage in this area.
Ms. Fong said these residences would be in the higher tier.

Council Member Schmid said this would be part of the CIP discussion in 2013.

Council Member Schmid inquired why the fixed cost was not higher in the Cost of Service Study.

Ms. Fong said Staff was operating under a recommendation from the Utilities Advisory Commission (UAC) to balance costs between commercial uses and low residential utility users.

Ms. Lloyd-Zannetti said the UAC wanted to ensure consistency in the City’s message on water conservation.

Council Member Schmid said Staff felt a known fixed charge was good for the system. He inquired why the fixed charge was not higher, with a zero volume charge for the first five cubic feet of water.

UAC Vice Chair, Jon Foster spoke on his support for Staff’s proposal. He said volumetric charges were important to send a rate signal to utility users.

Chair Scharff inquired whether the rate would rise 12.5 percent, plus four percent.

Ms. Fong said that was correct for residential customers. She said it would rise eight percent for businesses customers.

Chair Scharff said residential users would see a 16.5 percent increase. Due to water conservation, Staff under-budgeted by ten percent or $3.1 million.

Ms. Connolly said under-budgeting, due to conservation, was only one driver to the loss. She said weather conditions and the economic slowdown were also drivers.

Chair Scharff said there was a ten percent reduction in water use. The reduction in water usage directly related to the proposed 12.5 percent rate increase. The process was similar to the Refuse Fund in that zero waste equaled zero dollars. He inquired whether a sensitivity analysis had been performed.

Ms. Connolly said the demand scenarios were the sensitivity analysis. The finding was a one percent reduction annually.

Chair Scharff inquired whether the system would crash if there was a ten percent reduction, as seen as in past years.
Ms. Connolly said yes.

Chair Scharff said using less water translated into less revenue for the City, as seen in the Refuse Fund.

Ms. Fong said this situation was why Staff recommended a fixed charge, and reported to the Finance Committee annually.

Chair Scharff said returning to the Finance Committee may result in further rate increases.

Ms. Fong said this was a possibility.

Chair Scharff said the conundrum was that higher rate increases would drive customers to use less water. He felt Staff was subsidizing customers with fixed rates. He inquired on cost-cutting measures.

Ms. Connolly said most costs were fixed in the Water Fund, and a demand reduction translated into a similar percent rate increase. The City used ten percent less water, so the bill dropped by ten percent. With a fixed cost, Staff was achieving the same bill with a lower use of water.

Chair Scharff said residents were getting charged more for water and the rates were increasing.

Ms. Fong said if less water was used the customer would not pay for those units of water.

Chair Scharff said that was a volumetric charge. The Staff Report stated most charges were fixed costs.

Ms. Fong said the City only paid for what it used annually.

Chair Scharff inquired on the percentage of fixed costs. He said 70/30 percent was his guess.

Ms. Fong said it was approximately 50 percent water and 50 percent distribution.

Ms. Connolly said next year whatever was not recovered would be incorporated into the following year’s rates. She disagreed with the statement that the City was paying more for water utilities. It was the Council’s direction to use less resources.

Chair Scharff agreed with the use of fewer resources. He spoke on his concern for dropping below zero and not looking into cost-cutting.
Ms. Fong said Staff was conscious about ensuring there were no additional costs. It was her belief there were no programs that could be cut in utility services.

Chair Scharff inquired whether there were ways to bring fixed costs down to ensure that each resident received a benefit using less water over time. He said goals and the rate structures were not aligned.

Ms. Fong said goals and the rate structure were a balancing act.

Mr. Keene said the City had other monopoly services, such as police and fire services. There were requirements and impacts to cutting services. Staff was conducting an organizational review in the Utilities Department.

Chair Scharff inquired on any research performed on the third tier.

Ms. Connolly said there was a general assumption of a one percent reduction for every ten percent rate increase built into the projection.

Chair Scharff inquired whether that had held true historically.

Ms. Connolly said there had not been studies done specifically in Palo Alto.

Ms. Fong said there were aggressive conservation programs which created a decline in water demand.

Ms. Connolly said historically water demand had gone down and rates had gone up. The largest driver in demand had been in the change of building and plumbing codes.

Mr. Keene said Chair Scharff’s concern was with the conservation of water leading to higher utility rates.

Chair Scharff stated the Cost of Service Study suggested a 200 percent increase. He inquired whether a law would be violated if this increase was not enacted.

Ms. Fong said that Proposition 218 compliance was an issue Staff had consulted with City Attorney’s office about. There would not be a violation of Proposition 218.

Chair Scharff inquired whether the Finance Committee should move forward with a larger fixed charge.

Ms. Fong said the original recommendation would have created a larger bill impact. Staff was comfortable with what the UAC recommended and felt it was
a rational approach to develop rates for customers.

**MOTION:** Council Member Yeh moved, seconded by Council Member Shepherd, that the Finance Committee recommend to the City Council the adoption of changes to the four water utility rate schedules for residential, commercial, fire hydrant, and irrigation water service, W-1, W-3, W-4, and W-7, per Staff recommendations.

Council Member Yeh said the addition of the third tier and volumetric charges sent an effective price signal to customers in terms of water conservation. He spoke on Staff’s recommendation to phase in fixed charges.

Council Member Schmid spoke on his skepticism for the extra capacity model and its effectiveness. He suggested a higher fixed cost model, with zero volume for the first 600 cubic feet, and a five category ladder system with moderate categories to provide a series of incentives.

**AMENDMENT TO MOTION:** Council Member Schmid moved, seconded by Council Member XXX, to establish a higher fixed-cost model with zero volume for the first 600 cubic feet and a five category ladder system.

Council Member Yeh said that would be a separate analysis required by Staff. The UAC had discussed adding an additional fourth tier.

Council Member Schmid said his recommendation could not return after the Motion.

**AMENDMENT FAILED DUE TO LACK OF A SECOND**

Council Member Shepherd said Council Member Yeh’s comments were to direct Staff for next year. Next year would bring larger structural changes.

Council Member Yeh felt specifying five tiers would be too specific.

Chair Scharff inquired on the volumetric fixed charge amount that would be established in the next two years.

Ms. Fong said the charge would be a 200 percent increase.

Ms. Connolly said the increase would go from $5 to $7.50 to $15.00.

**AMENDMENT TO MOTION:** Chair Scharff moved, seconded by Council Member XXX to direct Staff to increase the service charge to $15 within two years.
Ms. Fong felt the Finance Committee may want to postpone this recommendation until the bill impacts were confirmed. There may be other rate increases on City services.

**AMENDMENT FAILED DUE TO LACK OF A SECOND**

Chair Scharff said Staff wanted to implement this service charge within the next two or three years.

Ms. Fong said that was correct. Staff had not analyzed this impact with other increases in City services.

Chair Scharff recommended that the City move toward a $15 service charge.

Council Member Shepherd spoke on the City’s labor contract and its effect on operational costs.

Council Member Yeh inquired on the timing of Staff’s return on the fixed cost analysis.

Ms. Fong said conducting a fixed cost analysis, on a two-year timeframe, would be challenging because Staff did not know what was occurring with other utility rates. After May 2011, Staff would have more information to work with.

Mr. Keene recommended an additional Motion for Staff to return with an analysis regarding an accelerated fixed charge rate increase.

Mr. Perez recommended that the rate impact be up to $15 in the Motion.

Mr. Keene said rushing a rate increase to Council precluded them from holding a discussion. If the rate was set at the higher level the Council would have the authority to reduce it.

Ms. Connolly inquired whether Mr. Keene was discussing next year’s rate increase.

Mr. Keene stated the rate increase would take effect on July 1, 2011.

Ms. Fong clarified that the Finance Committee wanted to treat all customer classes the same.

Ms. Connolly said Ms. Fong’s clarification went back to the proposal prior to UAC’s recommendation. Some customers would be receiving a reduction in services, and some customers would see an increase in water utility services. She requested clarification on the change that the Finance Committee would like to see.
Council Member Yeh inquired when Staff would return with an analysis on the impact on customers’ bills.

Ms. Fong said an analysis would likely return in January 2012.

Mr. Keene said the Finance Committee sought an assessment of the proposed changes. He felt a post budget adaption analysis could be done on the relative impact that kept the existing factors the same without redoing the CIP.

Ms. Connolly stated Staff could provide this information.

Mr. Keene said the Finance Committee could chose to hold another session. Staff could use the forecast to show the bill impact on distributing fixed costs versus volumetric costs.

Ms. Fong said Staff could return with this information.

Council Member Schmid inquired whether this action was tied into the Motion.

Mr. Keene said this analysis would be brought to Finance Committee after the rates were set for Fiscal Year 2012.

Council Member Schmid said he was convinced that a rate increase was needed in 2012. It was important to move forward but there were outstanding issues, including researching alternatives to the extra capacity model.

Ms. Fong said Staff could rerun the Cost of Service Study upon request.

Council Member Schmid said an outstanding question was how this rate change would effect consumption. He said this would effect the total revenue brought into the City.

Ms. Fong said Staff did not know which City programs, or if the economy, would effect water consumption.

Ms. Connolly said financial projections were performed with low-demand and high-demand scenarios. Staff could present this information upon request.

Council Member Shepherd said there would be many more Cost of Service studies moving forward, and the Council would be revising these next year.

**MOTION FAILED:** 2-2, Schmid, Scharff no

Council Member Schmid said next steps were needed to deal with the Public Utilities Commission (PUC). He said scheduling a new meeting or formulating an alternative was needed to find a resolution.
Chair Scharff inquired on the timeline for this item returning to the Council.

Ms. Connolly said the public notice needed to be completed by April 15, 2011.

Chair Scharff inquired on the subject matter for future Finance Committee meetings.

Mr. Perez said items scheduled on March 15, 2011 included the Mid-Year Budget Report and the Stanford Development Agreement.

Ms. Fong said the Amendment to the Motion would be based on the full Cost of Service Study for the 200 percent fixed charge.

Council Member Shepherd inquired whether the former Motion contained a third tier.

Ms. Fong said the former Motion contained a third tier.

**MOTION:** Chair Scharff moved, seconded by Council Member Schmid to request Staff return to the Finance Committee with a proposal that did not include a tier three.

**MOTION FAILED:** 2-2, Yeh, Shepherd no

Mr. Keene inquired whether it was best to return to the Finance Committee for discussion, or return to the Council with alternatives.

Chair Scharff stated the Motion’s intent was for the Staff Report to return to the Finance Committee.

Council Member Shepherd said she supported the Staff Report returning directly to the Council.

Mr. Perez said Staff may need to run the documents without any indication of a rate to stay with the current timeline.

Council Member Shepherd said if the Staff Report returned straight to the Council, the Finance Committee would not need to discuss this item on March 15, 2011.

Council Member Schmid said the Staff Report could return on the March 14, 2011 Council agenda.

Mr. Keene inquired whether the Finance Committee would be able to select a recommendation for the Council to consider if alternatives were brought back to the Finance Committee on March 15, 2010.
Chair Scharff said he believed they could.

Mr. Keene said, as an alternative, recommendations could be taken straight to Council.

Chair Scharff believed there would be no timing issue if the recommendation returned to the Finance Committee prior to Council.

Ms. Fong said if there was a split vote made by the Finance Committee, Staff would face two production issues.

Council Member Shepherd said the Motion, as it stood, moved for the recommendation to return straight to Council.

Mr. Keene said the March 14 Council meeting was full.

Ms. Fong said Staff had PowerPoint slides on water rates available from the UAC meeting for the Finance Committee to view.

Chair Scharff said the issue on the table was volumetric versus non-volumetric percentage charge. He said Council Member Yeh recommended moving the volumetric charge up, and removing the fixed concept.

Council Member Shepherd said the matrix would shift and analysis would need to be processed.

Ms. Connolly presented PowerPoint slides depicting the current and proposed fixed charges, and current volumetric rates, shown on two tiers. She spoke on UAC and Staff recommendations as proposed. She spoke on the proposal, recommended by the UAC for an increase to Tier 1, Tier 2, and to have a fixed charge to Tier 3. The percentage increase would be a 200 percent increase on the fixed cost. The pre-UAC recommendation contained fixed charges, moving to wholesale levels, where small customers would see a 28 percent increase, medium customers 11 percent, and large customers 16 percent increase in monthly bills. It showed a decrease on commercial customers. Meter charges affected all customer classes and resulted in revenue collection on the commercial sector. Staff was bound by the Cost of Service Study, and was required to lower the volumetric charges in this instance. This scenario resulted in a bill increase for commercial customers. The UAC recommended not using this scenario.

Council Member Schmid inquired why Staff used the same fixed cost charge.

Ms. Connolly said it was based on Cost to Service Study revenue requirements.
Ms. Fong said Staff recommended that phasing be done similarly across the board.

Ms. Connolly said customer service, at these charges, were the same for all customer classes.

Council Member Schmid felt commercial and small customer meters were not the same.

Ms. Connolly said commercial customers had larger meters and had a larger customer charge. Customer charges were based on meter size.

Council Member Schmid disagreed with pushing additional costs onto residential customers. He inquired why Staff could not collect 100 percent of fixed charges for residential customers and 20 percent fixed charges for commercial customers, and collect the balance for the volumetric from the commercial customers.

Ms. Connolly stated there would be a violation of the Cost of Service Study.

Council Member Schmid said Staff remarked that they must divide commercial and residential customers. They were therefore not treated identically.

Ms. Connolly said there were different cost types. Revenues collected through the service charges did not vary by customer class, but varied by size of customer.

Ms. Fong said the same principles were applied at the same levels. The principles were consistently applied.

Council Member Shepherd said this was a large spike for residential customers and reduction for commercial customers, except that irrigation would be brought forward for commercial customers with large landscapes.

Mr. Keene said small and large customers had larger spike increases under Staff’s scenario, than under the UAC scenario.

Chair Scharff confirmed that the Finance Committee had a Motion to return both scenarios to the Council.

Ms. Fong said that was correct.

**MOTION:** Chair Scharff moved, seconded by Council Member Yeh to have a 100 percent increase in fixed charges for residential customers with the rate system designed around this increase, and for the Finance Committee to accept the rest of the increases, per Staff’s recommendations.
Mr. Fong inquired whether that would include the three tiers.

Chair Scharff said yes.

Council Member Yeh stated the Motion would result in a reduction for commercial customers. He inquired whether that could be penciled out. He was open to the decision for this to go directly to the full Council.

Ms. Connolly said that was correct.

Council Member Shepherd inquired whether the scenario would recover the revenue in order to support the service.

Ms. Fong said Staff would construct the proposal so that it covered the service’s expenses.

Ms. Lloyd-Zannetti said the fixed charge would increase, and there would be a reduction in the volumetric from what was proposed this evening. But it would be less of a reduction than the alternative presented in the PowerPoint. The Motion would not achieve the UAC’s objectives.

Ms. Connolly said the volumetric rates would need to be decreased to create a signal for water conservation.

Ms. Fong inquired whether the Finance Committee requested to treat residential and commercial customers differently.

Chair Scharff said the customers could be treated equally.

Ms. Fong said every customer would get 100 percent of the fixed charge increase, and Staff would figure out the volumetric charge to obtain the correct revenue for the individual customer classes. She indicated the Motion would include three tiers.

Ms. Lloyd-Zannetti said the Motion would approve 50 percent of the fixed charge increases that were suggested, which would result in a 100 percent increase in current fixed charges.

Chair Scharff felt this Motion would achieve the two-year timeline that Staff proposed and allow flexibility. He felt it was a good compromise between the UAC and the Staff proposals.

**AMENDMENT TO MOTION:** Council Member Schmid, seconded by Council Member XXX moved that the first tier be relatively low so the net impact on low-water users was minimal.
Council Member Yeh inquired whether the Amendment would create inequality between the steps in the residential tiers.

Council Member Schmid said the steps would not be as high because more would be covered in fixed costs.

Ms. Connolly said that would take away incentives to conserve on the small customers by turning their bill into a primarily fixed charge bill.

Council Member Shepherd said she would not be supporting the Amendment. She appreciated the incentives in place to conserve water resources. She inquired whether a Cost of Service Study would be performed next year.

Ms. Fong said the current Cost of Service Study would be updated next year. Council Member Yeh said the Motion would incentivize conservation efforts, but not to the extent of the UAC proposal. He did not recommend returning to the Council with no recommendation.

**AMENDMENT FAILED DUE TO LACK OF SECOND**

Mr. Perez said the recommendation to Council would return as part of the Budget process in June 2011.

Council Member Yeh said, if the recommendation passed this evening, the Proposition 218 notice would proceed with 50 percent of the increase of the fixed charge.

Council Member Schmid felt strongly that a rate increase was needed.

**MOTION PASSED** 3-1, Shepherd no
CITY COUNCIL MEETING
JUNE 13, 2011

AGENDA ITEM NO. 9: Public Hearing - Proposition 218 Hearing for Water and Wastewater Rate Changes for Fiscal Year 2012

PROTEST LETTERS FOR WATER
May 2, 2011

City Clerk
City of Palo Alto
250 Hamilton Ave
Palo Alto, CA 94301

RE: Objection to Proposed Utility Rate Increases

Gentlemen,

I am writing this letter to object to the increase in the utility rates. This increase would adversely affect most, those with the lowest earnings and the retired and elderly.

Very truly yours,

Robert K. Stitt
Pau Acct. #: 132153-42677
On June 13, 2011, the Palo Alto City Council will consider proposed changes to the City’s water, and wastewater collection services rates for the fiscal year that begins in July 2011. If approved, the revised rates will be effective starting July 1, 2011.

WASTEWATER
Wastewater Utility rates are imposed in order that the City may recover its costs of transporting and treating wastewater. All revenue derived from the proposed rates and charges will be used exclusively for the recovery of costs associated with providing wastewater service and to fund the capital improvement program required in order to maintain and periodically replace aging wastewater infrastructure. The Wastewater Utility’s wastewater rates and charges are developed based on generally accepted cost of service principles. They are evaluated on an annual basis to determine if adequate revenues will be collected to pay for operations and maintenance costs and to provide funds for the capital improvement program. More information regarding the proposed wastewater rate changes can be found on the City’s website at www.cityofpaloalto.org/rateincrease

Proposed Wastewater Rate Increases:
The proposed wastewater rate structure for residential customers continues to have a monthly charge and no volumetric component. Rates for commercial customers continue to have a “volumetric” charge for each ccf of water consumed during the billing period, and a minimum monthly charge should the calculation for volumetric charges fall below that level. The qualifications for Large Dischargers have been modified placing customers formerly under that schedule on general applicable Commercial rates.

The following chart shows the current and proposed wastewater rate schedule components:

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WATER
Water Utility rates are imposed in order that the City may recover its costs of buying and distributing water. All revenue derived from the proposed rates and charges will be used exclusively for the recovery of costs associated with providing water service and to fund the capital improvement program required in order to maintain and periodically replace aging water infrastructure. The Water Utility’s water rates and charges are developed based on generally accepted cost of service principles. They are evaluated on an annual basis to determine if adequate revenues will be collected to pay for operations and maintenance costs and to provide funds for the capital improvement program. More information regarding the proposed water rate changes can be found on the City’s website at: www.cityofpaloalto.org/rateincrease
May 5, 2011

City of Palo Alto
City Clerk
250 Hamilton Avenue
Palo Alto, CA 94301

967 Oregon Expressway, Palo Alto, CA

To Whom It May Concern:

We protest the potable water increases as proposed as excessive and adding charges in excess of inflation.

a. Your own letter states that a component of the increases is for the increased wholesale third party rates.
b. The City needs to demand that the wholesale water districts and the State of California start efforts to increase water supplies.
c. The City needs to demand of the State and Federal governments that ill-advised court rulings to stop pumping and delivering water to users to protect the non-native delta smelt, need to be overturned by whatever means necessary.

We protest the Storms Sewer increases as proposed as excessive and adding charges in excess of inflation:

a. Your own letter states that a component of the increases are for regulatory compliance
b. The City needs to resist and demand that the regulatory agencies justify their regulations on a cost benefit basis.
c. Developers have told you time and time again that the cost of the storm water regulations is exorbitant and ineffective yet the City takes no action.
d. Developers have told you time and time again that the storm water regulation compliance costs should be, instead of being required on site, be instead, collected and used to fund regional facilities, steam bed restoration and clean up, regional detention.
e. The public and private cost of designing, approving and administering the storm water regulation compliance costs on thousands of individual projects is largely wasted versus using the same expenditures on one or several regional projects.

If you have any questions, please contact me.

Sincerely,

Myron Crawford
Email: mcrawford@missionwest.com
Ph. 408-725-7633

10050 Bandley Drive, Cupertino, CA 95014 – Tel: 408-725-0700 – Fax: 408-725-1626
City of P.A.

Re: Proposed Water and Wastewater

Please be informed that I protest any increase in water and wastewater rates.

Kathy Tullos
2450 W. Bayshore #1
Palo Alto, CA 94303
Account # 3000 8162

Kathy Tullos
To City of Palo Alto Utilities

Re: Protest rate changes for Water and Wastewater

From: Huangpin Hsieh

3290 Berryessa St., Palo Alto, CA 94303

I protest the wastewater rate change because the rate or the proposed changes does not have an element to encourage conservation such as the incremental rates for water. It appears the residential wastewater rate is increased to subsidize the decrease for commercial or restaurant uses. I propose the wastewater rates to be adjusted to reflect the water usage—after all, water after use becomes wastewater to be treated.

I also protest the water rate adjustment because it reduces the discrimination against heavy usage that could discourage conservation. Although the volumetric per ccf is reduced for first 6 ccf, the service charge increase significantly out pace it. I would suggest not change the service fee but raise the volumetric fee on high volume usage even more to encourage conservation, unless the goal of the change does not include encouraging conservation?

Best Regards,

Huangpin Hsieh

5/10/2011
May 19, 2011

City Clerk
250 Hamilton Avenue
Palo Alto, CA 94301

Account # 30000299

We strongly oppose the proposed increases of the volumetric rates and the monthly water service rates. We are retirees with strictly limited income and already have difficulties meeting our obligations each month.

Sincerely,

Erik Lindblad

Erik Lindblad
RE: Protest to Projected Rise in City Water Rates & Wastewater Collection Services to be considered on June 13, 2011

ATTENTION: Palo Alto City Council

As a resident of Palo Alto, I strongly object to a rise in present rates to be considered on June 13, 2011.

I recall that in 2010 the garbage disposal rates were increased.

I recall also the breach of contract with Enron Corp. which the City of Palo made with Enron. The result of a suit by Enron amounted to millions of dollars in damages the City had to pay for its breach of contract.

The City Council should realize that in Palo Alto while there are many well-to-do residents, many in our city are struggling to survive in a time of great economic depression.

Unfortunately, many property owners in Palo Alto are afflicted with an oppressive bureaucracy with too many rules, regulations, which serve to control its citizens rather than to serve them.

This letter is meant to OBJECT to any further rise in utility rates.

The undersigned resident is a property owner at the address given above and with a utility contract number of 300221721.

This objection is timely given prior to the hearing on this matter set for June 13, 2011.

Respectfully submitted,

Raymond V. Dunn
Palo Alto Resident and property owner
Himanshu Dwivedi
2410 Bryant Street
Palo Alto, CA 94301

To whom it may concern:

I am writing this letter to protest the proposed Wastewater and water rate increases. I live at 2410 Bryant Street; Palo Alto, CA.

Thanks,

Himanshu Dwivedi
City of Palo Alto
Palo Alto, CA 94301
Attn: City Clerk

Subject: Objection to Utility Rate Increase/2011

To Whom It May Concern:

This is to notify you of my objection/protest to a rate increase for:

1) Water Commodities
2) Waste Water sewer

My address is:
3687 Bryant St.
Palo Alto, CA 94306

Account #: 300 16 397

Wayne A. Nelson
05.05.11
Dear City Council, Mayor, Clerk & Utility Department,

I am writing to express my protest of rate increases to residential property both in water and wastewater. I do not think this increase is warranted. The size of the wastewater increase at over 13% is just unbelievable. In terms of general water usage, most homeowners would see between 8-35% increases. These are just too much for Palo Alto households to endure. I think money charged for utilities should be used for that and not passed over to other city budget lines that are coming up short.

These rate increases are not necessary and I do protest.

[Signature]
City of PA: 4/30/11

I am writing to protest the Utility rate adjustment for water and/or wastewater.

Enough is enough, my hours have been cut back severely at work... and all prices seem to continue to go up, when my pay check keeps going down.

Stacey Slikken-Hinde
738 E. Charleston Rd
Palo Alto, Ca 94303
Dear City Council:

This is a protest against the proposed utility rate changes as apply to the parcel of address 763 E. Charleston Rd., Palo Alto, CA 94303-4706.

I protest the proposed increase in the monthly wastewater rate.

I protest the proposed increase in the monthly water service charge.

Sincerely,

Michael C. Fischer
May 9, 2011

City Clerk
City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

Re: Protest of proposed utility rates for 2011
Acct Number: 300 12674
Parcel Number 137-08-054-00

Attn City Clerk and City Council;
Address See letterhead above

This letter is written to protest the proposed increases in water rates and waste water rates. The city currently extracts millions of dollars from the sizable profits made by the utility department, including, if I understand this correctly, profits from the water utility. The city management and the Council have demonstrated over the years, that the utility department profits are used to balance the city's General Fund. While a certain amount of this transfer of profits may be justified, the ever increasing amounts are not in my opinion, especially when the Council continues to spend funds for special interest groups like the children's theater and zoo, while we are faced with years of annual deficits. Giving the Council more money only prolongs the inevitable when the Council and the managers must bring spending to the level the city can afford and stops spending money on unneeded consultants and such.

In addition, it is my understanding, AND I WOULD LIKE TO HAVE CORRECT INFORMATION ON THIS SUBJECT IF I AM WRONG, that it is against state law to use water utility profits for any purpose other than for the water utility needs. If the city is transferring water profits along with gas and electric profits, then the law is being violated and this practice must stop. All the more reason why the water rates should not be increased.

That the city owns the utility department is supposed to be reason for our rates to be lower than PG&E. They are not. The city should be making efforts to accomplish this once promised benefit.

Sincerely,

Richard C. Placone
City Clerk
City of Palo Alto
250 Hamilton Ave
Palo Alto Ca 94301

City Clerk, Please note that I am protesting the proposed Water and Wastewater rate adjustments that were outlined in the Notice of Utility Rate Change dated April 25, 2011 and mailed to my home.

Regards,

Gary Holl
200 Colorado Ave
Palo Alto, Ca 94301
May 23, 2011

City Clerk of Palo Alto
250 Hamilton Ave.
Palo Alto, CA 94301

Re: Written Protests to Proposed Wastewater Rate Increases and Proposed Water Rate Increases

Dear City Clerk:

I proposed wastewater and water rate increases are highly discriminatory in favor of Commercial and Restaurant customers and against Residential customers as shown.

Wastewater
On S1-Residential and S2-Commercial & Restaurant you are hiking the rates by 13.2%, while on S2-Commercial and S2- Restaurant you propose to lower those rates by 6.3% and 10.5% respectively. Why should Residential rates be raised significantly while at the same time the Commercial and Restaurant rates are being lowered? The swing is almost 20% in favor of S2-Commercial and almost 24% in favor of S2-Restaurant. If rates are going to be raised, shouldn't all entities, whether Commercial, Restaurant and Residential all bear the increases? Instead the home owners are being severely punished in favor of the Commercial and Restaurant interests.

Water Volumetric Charges
Here you propose to lower the rates for W4-Commercial by almost 10%. You throw a bone to those using 6ccf or less residentially, which seems hard to do if you have any landscaping at all but increase W1-Residential by over 8% between 7-29 ccf and a whopping 35.8% increase to $7.64 per ccf for those using over 29 ccf. Anyone owning a residence with a lot of more than 8,000 sq. ft. is paying outrageous amounts to water their landscaping, while W4-Commercial can use any amount of water they wish at the fixed rate of $4.946 per ccf. The break points seem totally arbitrary and unfavorable to Residential customers.

Water Service Charges
Residences and Commercial with meters between 5/8 inch and 2 inch have their service raised anywhere from 100% to 120%, while Commercial with meters between 3 inches and 10 inches have their rates raised on average only about 60%.

Commercial and Restaurant customers should bear their fair share of any rate increases, as opposed to receiving decreases at the expense of Residential customers. As with federal and state representatives, our local officials are elected to serve the most citizens, not to cater to the special interests.

Sincerely,

Irving S. and Lesley Rappaport
PROTESTING RATE INCREASES

I do not agree the proposed rate increase for water and waste water that will be effective June 2, 2011.

Property owner name: ManKie Ng

Property address: 4250 El Camino Real #A303. Palo Alto, Ca 94306

Parcel # 167-55-080-00

ManKie Ng

5/3/2011
Date: June 7, 2011

To: City of Palo Alto
    City Clerk
    250 Hamilton Ave.
    Palo Alto, CA 94301

From: Lily Ng
    1015 Embarcadero Rd.
    Palo Alto, CA 94303

Re: I'm writing to protest against the water and wastewater utility rate adjustment.

[Signature]

Lily Ng
May 3, 2011

City Clerk
250 Hamilton Avenue
Palo Alto, CA 94301

Dear City Clerk:

Your notice of water/wastewater rate increases arrived last week. We have some significant concerns, based on the information provided.

Wastewater: It appears from the chart that S1-Residential and S2-Commericial & Restaurant pay the same rates for wastewater services, and that a 13.2% rate increase is proposed. I do not think that it is fair that commercial and restaurants pay the same as residential for two reasons:

1) A large portion of residential water does not go back into the wastewater treatment system, but in fact is absorbed into the ground. Most homes use a lot of water on landscaping, where is it most unusual that restaurants and businesses have extensive landscaping.
2) Commercial & restaurants use more water that goes directly into the wastewater treatment system than residences.

For these reasons, I think that residential rates should be less for wastewater treatment.

Water: I think that increasing the base charge per month hurts individuals who are conserving water. Water rates should be based on the amount used, not for the fact that one has water in a home or business. I see no justification for raising the base service charge. If Palo Alto really wants people to conserve water, then raise the rate for the amount used.

If you need further thoughts or clarification, please contact us at the address below.

Sincerely,

Steve and Nancy Suddjian
703 Ensign Way
Palo Alto, CA 94303
June 1, 2011

Palo Alto City Council
City Clerk
250 Hamilton Ave.
Palo Alto, CA 94301

Gentlemen

In regard to a raise in the water rates, we strongly protest. Our very high utility bills are more than adequate to cover wastewater service and infrastructure costs. All that is needed is to give back to the general fund!

Please consider this as three (3) separate protests.

Christopher & Josephine Arnold

Parcel # 180-20-024 (1248 Waverley)
Parcel # 003-01-050 (357 Fulton Ave.)
Parcel # 003-01-012 (700 Everett Ave.)
Protest against Palo Alto Utility Rate Change

Current street address: 476 Fernando Ave. Palo Alto CA 94306

Protesting: Water and Wastewater rate change.

Reason: Palo Alto already has the highest water rate and waste water rate in bay area. I used to live in San Jose, the water rate there for the total monthly usage from 0 to 13 CCF is $2.5157.

<table>
<thead>
<tr>
<th>Water rate for residential</th>
<th>San Jose</th>
<th>Palo Alto</th>
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<tr>
<td></td>
<td>$2.5157</td>
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Please see the attached rate comparison chart. The problem with Palo Alto is that we have a distributor: Palo Alto Utility Company. If city buys water directly from the water company, you can avoid the unnecessary expense for hiring a utility management company. They contracted out garbage service already, why do we need to keep these staffing? San Jose does not have a centralized utility company, I used to get separate bills from water company, PG&E and Waste Recycle company.

We might end up with three bills from different utility vendors, but if this will dramatically reduce the transition cost, I do not mind paying three bills instead of one.

Sibing Wei
June 1, 2011

Palo Alto City Council
To City Clerk
250 Hamilton Ave.
Palo Alto, CA 94301

Gentlemen,

In regard to a raise in the water rates, we strongly protest. Our very very high utility bills are more than adequate to cover wastewater service and infrastructure costs. All that is needed is to give less to the general fund.

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April 27, 2011

City Clerk
City of Palo Alto
250 Hamilton Ave.
Palo Alto, CA 94301

Dear City Clerk:

In accordance with the Utility Rate Change dated April 25, 2011, we wish to protest the massive rate increase for water service. This is not an incremental increase, but a very significant increase. Those of us on fixed incomes are limited in the amount we can pay.

Sincerely,

Karen and Steve Ross
1770 Fulton St.
Palo Alto, CA 94303

Account No. 30025629
Dear Ms. Grider,

I write to protest the increase in rates of the water service and the wastewater service.

I protest the proposed increase in water rate IT IS UNJUSTIFIED.

I protest the proposed increase in wastewater rate IT IS UNJUSTIFIED.

I most strongly object to inappropriately increasing utility costs to rate payers in order to make a profit center operation of the utility department.

Sincerely,

RICHARD A. RUNKEL
741 GARLAND DRIVE
PALO ALTO, CA 94303
650 327 7589
To City Council,

I strongly object to any increase in water rates. I urge you to turn down any such proposal.

Harry Anisgard
2823 Great Rd
94303 650/856/9184
hanisgard@skcglobal.net
Proud Member Since: February 1999
Written Protest

Hi, City of Palo Alto,

I'm writing to protest both Water and wastewater rates increases. My address is

2360 Harvard Street
Palo Alto, CA 94306
APN# 137-05-084

Please do NOT increase the rates!

Sincerely,

Walter Zen
(Walter Lee)
To Whom It May Concern—

I am 73 years old and single. I have lived in Palo Alto forty years and brought my three children up in Palo Alto.

I am writing regarding the fees in water rates. The utilities in this town are off the wall and to raise the water fees again in not fair to people like me with very limited income. I feel very worried as to how long I can afford to live in Palo Alto because of all the utilities and now the water.

Susan Chyn
Herb St. Ave.
P.A.

MAY 16 2011
May 12, 2011

Palo Alto Water Department
c/o Public Utilities Department
P.O. Box 10250
Palo Alto, CA 94303

Gentlepersons:

Please do not raise our water rates. We are both retired and are living on a fixed income. We are conserving our water usage, so why punish us by raising our rates?

Yes, we know that other costs are rising; we see that in our everyday food and gasoline prices. But has anyone been looking at where there can be savings in the operating costs of the department? Please reconsider the rate increases.

Thank You.

Yours truly,

Ruth H. Foley

Neil Foley
169 Hemlock Court
Palo Alto 94306-4623
May 23, 2011, 2011

Account No: 30037474

3721 Heron Way

Palo Alto, CA 94303

Re: Utility rate change

I received a notice from the City of Palo Alto with regard to the Utility rate change.

This is my formal written to protest against all the proposed rate change in both Wastewater and Water.

Thank you.

Trinhthi Tran

3721 Heron Way

Palo Alto, CA 94303
May 9, 2011

Palo Alto City Council
250 Hamilton Avenue
Palo Alto, California 94301

Dear Council Members:

First, thank you for your service to our city.

Second, I wish to protest the proposed water and wastewater rate increases. Our utilities are operating at a profit, and last year's annual payment to the city was excessive. Public Utilities should not be operated with the same principles as for profit corporations.

Please, give us a break for once.

Sincerely,

Alma Silverthorn

Alma Silverthorn
SUBJECT: WATER RATE INCREASE PROTESTATION.

Location: 4194 King Arthur Ct. Palo Alto CA 94306
Parcel Number 137-27-017-09
Utility Account Number 30021657

The proposed water rate increase is yet another indication of the total lack of competent financial management in Palo Alto government.

We are requested to save water and then we are told that since we did a good job in conserving water that we now must pay more.

Anyone can postpone truly solving fiscal problems by raising taxes and fees and spending money we don’t have. It takes a real manager to solve problems with the means at hand. How about showing real leadership and demonstrating how we can live within our means. Unfortunately many of us who are retired do not have the luxury of just telling government to give us more money because we saved water.

Very truly yours

John A. Martin
On June 13, 2011, the Palo Alto City Council will consider proposed changes to the City’s water, and wastewater collection services rates for the fiscal year that begins in July 2011. If approved, the revised rates will be effective starting July 1, 2011.

**WASTEWATER**

Wastewater Utility rates are imposed in order that the City may recover its costs of transporting and treating wastewater. All revenue derived from the proposed rates and charges will be used exclusively for the recovery of costs associated with providing wastewater service and to fund the capital improvement program required in order to maintain and periodically replace aging wastewater infrastructure. The Wastewater Utility’s wastewater rates and charges are developed based on generally accepted cost of service principles. They are evaluated on an annual basis to determine if adequate revenues will be collected to pay for operations and maintenance costs and to provide funds for the capital improvement program. More information regarding the proposed wastewater rate changes can be found on the City’s website at www.cityofpaloalto.org/rateincrease

**Proposed Wastewater Rate Increases:**

The proposed wastewater rate structure for residential customers continues to have a monthly charge and no volumetric component. Rates for commercial customers continue to have a “volumetric” charge for each ccf of water consumed during the billing period, and a minimum monthly charge should the calculation for volumetric charges fall below that level. The qualifications for Large Dischargers have been modified placing customers formerly under that schedule on general applicable Commercial rates.

The following chart shows the current and proposed wastewater rate schedule components:

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To whom it may concern.

I am submitting this written protest against charges that will affect people like me with limited income. I am almost 63 years old woman who is living with a 92 years old mother.

I hate to protest this change, but facing an unknown future with an income hardly enough to pay for any thing, and base on my situation every Penny counts. Sorry, and thank you.

Yours,
AZNIF POTTER

Parcel number: 127-70-014-00
3759 Klamate Lane, PA, 94023
Utilities account 30006345

CITY OF PALO ALTO, CA
CITY CLERKS OFFICE
11 JUN - 1 AM11:03
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City Clerk
256 Hamilton Ave.
Palo Alto, Ca. 94301

Dear Sir:

I wish to protest the raise in utility rates for water and wastewater. My parcel no. is 137-15-01-00. My address is 3691 Laguna Ave. and my account is 30012534.

Thank you.

Sabra Driscoll
May 10, 2011

City Clerk
250 Hamilton Avenue
Palo Alto, CA 94301

We hereby protest the proposed water and wastewater rate increases as announced in your notice of April 25, 2011.

Jo Ann Fahnestock
736 Layne Court
Palo Alto, CA 94306
6-1-2011
City of Palo Alto
City Council - City Clerk

Regarding residential
monthly increases of waste
water and water service
charges proposed.

I protest these unnecessary
charges. Please do not
make these increases.

Times are hard enough in
Cost of living increases
everywhere - Food - etc.
Med. Dental, Hearing aids
Trash. Cuts in portions of
all basic items yet cost increases
continue. No increase in
Cal. S.S. so how can
anyone pay extras charges.
Mary Murphy
681 Soma Verdi
Palo Alto, CA 94306

Bd. 9/30/1917
April 27, 2011

City Clerk
250 Hamilton Avenue
Palo Alto, CA 94301

I am protesting both the residential water and wastewater increases.

Both increases are too much.

Sincerely,

[Signature]

Janell Sumida, Account #30031855
2704 Louis Rd.
Palo Alto, CA 94303-3650
RE: PROTEST AGAINST UTILITY RATE CHANGE

April 30, 2011

City Clerk
250 Hamilton Avenue
Palo Alto, CA 94301

Dear Madam/Sir:

This letter is to protest against the proposed increase in wastewater and water meter service charges for the 2011 fiscal year. We urge the City of Palo Alto Utility Department to investigate and implement cost-saving measures of operation instead of increasing customer utility charges.

Sincerely,

Tetyana Obukhanych
May 2, 2011

City Clerk
City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

Dear Sir,

I am writing this letter to protest the proposal the city council considered about raising the 5/8 inch meter water, and $1 wastewater collection services rates for the fiscal year that begins in July 2011.

We have always conserve water the best we can and been doing our best in our daily life to protect the environment. When we first moved in to the city, we have chosen to pay a much higher (property) price to live in a solar powered community in the Vantage of Palo Alto. 13.2% increase in wastewater charge and 100% increase in monthly water service charge are not acceptable, even though it means less than $10 a month for our household of six.

Please reconsider your proposal. Thank you.

Sincerely:

Kok Hoong Chan & Pei Yee Lee
Account No.: 30021250
Service Address: 935 Mallard Lane, Palo Alto, CA 94303
After reviewing the data supporting your proposed water increase, I am extremely disappointed for the following two reasons:

The data as presented are insufficient to make any judgment on the proposal. The premise is that the increase is primarily due to the cost of purchased water. Yet, nowhere do you show the actual increase for the purchased water or any data comparing 2011 and 2012. The only data shown is a pie chart by expense element for 2011. I don’t understand why you didn’t show detailed cost data by expense element for 2011 and proposed for 2012. Had you shown this, we could see how much each element is projected to change/grow and what amount and percent of the growth is for purchased water versus all other cost elements. Additionally, you state that the purchased water costs are expected to double in 5 years – you should provide a 5 year projection if you have these costs.

Interestingly, for 2011 the non purchased water/capital improvements account for 52% of spending. You do not address what actions you have taken to reduce the other 48% of the spending. For example, since debt service is 9%, have you attempted to refinance at lower rates to reduce expenses? Also, do you have the same labor cost/pension problems in almost every other area of the public sector? If so, what is your action plan to reduce these expenses?

Overall, this analysis is woefully inadequate and gets a no vote from me until these questions are satisfactorily answered.

While I have no problem in concept with expanding the number of volume levels from 2 to 3 to charge residential users more if they use a lot more, I find this proposal grossly unfair if you don’t provide relief for property owners like myself who have large lots (mine is almost an acre with mature planting). While 29 ccf seems to be very reasonable for run rate usage with non or minimal irrigation usage, it is very inadequate during the peak watering billing season from July to October. Without any upward seasonal adjustment to cover the higher water needs for irrigation during this peak period the proposed rate change is extremely discriminatory to owners of larger lots like myself. I would not vote for this proposal unless there is a “peak usage” adjustment. Since your data show that irrigation accounts for 40% of total water usage, there is no way I could be below 29ccf during peak irrigation periods and maintain any reasonable level of planting.

Overall, I vote no unless more cost data is presented to justify your proposed increases and a fair treatment for owners of larger lots is made.

Laurence Hootnick
4240 Randall Avenue
Palo Alto, California 94306
30022624
June 6, 2011
City Clerk
City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

Subject: Utility Rate Change to be considered by the City Council on June 13, 2011.

Dear City Clerk,

I strongly protest against the proposed Water Rate increases that the City Council will consider on June 13, 2011.

This increase is discriminatory and unfair to property owners that have developed landscape and pools, especially where properties, by zoning, have lots that are at least 0.5 acres; hence larger than the properties in the majority of zones in the City of Palo Alto. The proposed water rate change results in an outrageous average 25% increase during the months of May through October, which is primarily due to landscape and pool needs. This can be clearly seen in the table below where the proposed changes to the period of May 2010 to May 2011 were applied to my property APN 175-02-041, City of Palo Alto Utilities account No. 30006818.

<table>
<thead>
<tr>
<th>Month</th>
<th>Service days</th>
<th>ccf</th>
<th>Total $/month</th>
<th>Total $/Month</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>May-10</td>
<td>32</td>
<td>52</td>
<td>281</td>
<td>338.70</td>
<td>20.66</td>
</tr>
<tr>
<td>Jun-10</td>
<td>29</td>
<td>83</td>
<td>455</td>
<td>575.53</td>
<td>26.48</td>
</tr>
<tr>
<td>Jul-10</td>
<td>34</td>
<td>105</td>
<td>579</td>
<td>743.61</td>
<td>28.48</td>
</tr>
<tr>
<td>Aug-10</td>
<td>29</td>
<td>88</td>
<td>483</td>
<td>613.73</td>
<td>27.02</td>
</tr>
<tr>
<td>Sep-10</td>
<td>30</td>
<td>96</td>
<td>528</td>
<td>674.85</td>
<td>27.77</td>
</tr>
<tr>
<td>Oct-10</td>
<td>32</td>
<td>58</td>
<td>314</td>
<td>384.54</td>
<td>22.29</td>
</tr>
<tr>
<td>Nov-10</td>
<td>29</td>
<td>46</td>
<td>247</td>
<td>294.79</td>
<td>22.29</td>
</tr>
<tr>
<td>Dec-10</td>
<td>29</td>
<td>15</td>
<td>73</td>
<td>93.32</td>
<td>24.07</td>
</tr>
<tr>
<td>Jan-11</td>
<td>34</td>
<td>12</td>
<td>56</td>
<td>68.08</td>
<td>12.35</td>
</tr>
<tr>
<td>Feb-11</td>
<td>29</td>
<td>31</td>
<td>136</td>
<td>173.59</td>
<td>6.75</td>
</tr>
<tr>
<td>Mar-11</td>
<td>27</td>
<td>21</td>
<td>106</td>
<td>112.80</td>
<td>6.04</td>
</tr>
<tr>
<td>Apr-11</td>
<td>33</td>
<td>26</td>
<td>134</td>
<td>143.19</td>
<td>8.47</td>
</tr>
<tr>
<td>May-11</td>
<td>29</td>
<td>53</td>
<td>286</td>
<td>346.36</td>
<td>20.96</td>
</tr>
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Water preservation is important. But there are many other ways to preserve it than to increase consumption rates. Incentives should be given for installation of smart landscape watering systems such as the ones manufactured by HydroPoint Data Systems, or at least ones that can be programmed to take into account rainy days, allow water absorption by the ground instead of street run off by intermittent irrigation, etc. In house water consumption should also be incentivized for installation of devices that reduce the water flow, such as toilets with dual volume actuators, etc. In new residential construction, it should be required to use recirculation and insulated hot water supply. This will eliminate wasted water while waiting for hot water to come out of a faucet. Etc.

Respectfully,

John Nulman
4256 Manuela Ct
Palo Alto, CA 94306
To Whom It May Concern:

All proposals for water rate increases should be placed on hold until the overall state of the economy improves. Many of us are retired or soon to retire and do not need any increases in anything. Many of us senior have been living in the City of Palo Alto for thirty to forty years and recall clearly when the cost of living was reasonable.

Sincerely,

[Signature]

Robert W. Wilson Jr.
for each ccf (hundred cubic each customer. The monthly changes to both the monthly

<table>
<thead>
<tr>
<th>Change</th>
<th>Percent Change</th>
</tr>
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<tbody>
<tr>
<td>$-0.349</td>
<td>-8.8%</td>
</tr>
<tr>
<td>$0.456</td>
<td>8.1%</td>
</tr>
<tr>
<td>$2.016</td>
<td>35.8%</td>
</tr>
<tr>
<td>$-0.460</td>
<td>-9.3%</td>
</tr>
<tr>
<td>$0.000</td>
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<tr>
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Protests are limited to one per parcel. Mail or deliver written protests to: City Clerk, 250 Hamilton Avenue, Palo Alto, California 94301.

The City must receive your protests should indicate which information identifying your minimum, your street address. Make(s) you have with the City that are subject to the proposed rate adjustment(s). Protests are limited to one per parcel. Mail or deliver written protests to: City Clerk, 250 Hamilton Avenue, Palo Alto, California 94301.

If written protests are filed by a majority of the affected customers, the applicable proposed rate increases will not be imposed. For assistance in determining the cost of the proposed rate adjustments to you, please call the City of Palo Alto Customer Contact Center at 650-329-2161.
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May 17, 2011

Michael C. Gagliasso
Catherine E. Murphy
2064 Middlefield Road
Palo Alto, CA 94301

City Clerk
250 Hamilton Avenue
Palo Alto, CA 94301

Re: Protest of Proposed Rate Increase – Water and Wastewater

Dear Council Members:

This letter IS to lodge a formal protest of the proposed increase in water and wastewater rates beginning July 2011.

It is ludicrous to raise these, and other utility rates, at the same time that the city is using utility revenue transfers to pay for general fund expenditures. Figure out a way to reduce costs for the city and allow the residents of Palo Alto to benefit from a city-owned utility. If the utilities are simply being used as a funding source to pay city employees, the residents may as well simply get their utilities from PG&E and do away with the liabilities created by the extensive city work force.

We sincerely hope that the Council will deny the proposed rate hike at its June 13, 2010 meeting and instruct staff to present a plan to lower costs which will result in the utility revenue transfers being lowered and ultimately eliminated.

Respectfully,

Michael C. Gagliasso
Catherine E. Murphy
April 28, 2011

City Clerk
250 Hamilton Avenue
Palo Alto, CA 94301

Re: Moreno Middlefield, LLC, 2605 Middlefield Rd., Palo Alto, CA 94306
City of Palo Alto Utilities Account No: 30002093

Dear City Clerk:

As managing agents for the ownership of Moreno Middlefield, LLC, whose address is referenced above, please accept this as our formal protest of the proposed water and sewer rate increases effective July 2011.

During this dramatic economic climate, our property has seen its businesses struggling because they could not produce enough income to meet their expenses. In this instance, the property’s water and sewer fees are reimbursed by each business owner and any increase in expenses will create undue financial hardship.

Your consideration of this request is greatly appreciated.

Sincerely,

Cassidy Turley PMSF, Inc.
as Agent for Moreno Middlefield, LLC

[Signature]

Susan E. Causey, CPM, CSM
Vice President
Agent for Owner
DRE License #00784073
City Clerk: 6/3/2011

We protest against the proposed water and wastewater rate change since our current rates are higher than other cities in the Santa Clara County.

We are the owner of house located in 1095 Moreno Ave., Palo Alto, CA 94303 (APN: 127-02-042)

Utilities Acc#: 30049914

Hong L. Lee
Getang Liu
10 May, 201

To:
City of Palo Alto

As long-time residents of Palo Alto, and general citizens hoping to stay in
our house during our final years, we are protesting yet another rate
increase of our utility service! We are finding our utility bills are rising at every
deadline we are reviewing. No water rate increase of 10% per cent.
We are stunned by our gas bill of Jan 20th at $9.42 per day, and for
Feb 10th at $7.39 a day. We are only 2 people + find these bills very high. Could it be
meter error?
April 27, 2011

City Clerk
250 Hamilton Avenue
Palo Alto, CA 94303

I am protesting both the residential water and wastewater increases.

Both increases are too much.

Sincerely,

Masao Sumida
1040 Newell Rd.
Palo Alto, CA 94303-2930
Objection to Water Rate Increase:

We wish to formally protest the proposed increase in water rates for residential users. There is no justification for increasing the monthly meter charge from $5 to $10. The basic meter charge itself is unwarranted, and the increase in the charge is even more inappropriate.

The increase in water rates of 8.1% for use over 6 ccf also is excessive and should not be approved. The volume at which rates change should be retained at 7 ccf, or increased to 8 ccf, not reduced. The amount of increase of $0.456/ccf also is excessive. We wish to protest both the reduction of the threshold for higher rates, and the amount of increase at the higher rates.

Our address is 4010 Grove St. Our account is 065-0559803.

Robert Moss

Harriet Moss
3073 Price Court
Palo Alto, CA 94303

City Clerk
250 Hamilton Avenue
Palo Alto, CA 94301

Reference: Assessor's Parcel Number 127-52-010-00

Gentlemen,

The purpose of this letter is to protest the proposed Fiscal Year 2012 utility rate adjustment for both water and wastewater rates.

Very truly yours,

[Signature]
Arthur Koolpe
City Council,

I protest the water & wastewater increase. Every year in June for the past several years, the rates of utilities are raised. I am disabled & am on a fixed budget; it is a hardship for me to keep my bills low. My rates be raised each year. My parcel # is 12.31.032-00. My address is 340 Ross Road, Palo Alto, Calif. 94303.

My Palo Alto Utilities account # is 30037037.

Laura A. Feriante
Council Members  

Tuesday, April 26, 2011

Subject: Proposed Water Rate Increase, Fiscal 1971-72

We are fortunate to have an adequate water supply this year, therefore water rates should be lower than when we have a shortage of water.

It has always been the City policy and my policy to save water and thus lower consumption. However, we recognize who use 7-29 CCF are being charged 8.080 per CCF and the Commercial who use as much or more are charged per CCF at 4.486 per CCF. This does not seem fair and why the inequality?

You have many elderly, retired people living in Palo Alto, who are on fixed income and can do nothing to increase it. Are you trying to drive us out of our homes in Palo Alto by raising the City rates and cost of living each and every year.

I am strongly against frequent utility rate increase.

Philip Ettos, 257 South Rd, Palo Alto
May 1, 2011

Subject: Protest of water and wastewater rate adjustment

Address: 3021 Ross Road, Palo Alto, CA 94303

Dear City Clerk,

I am writing to officially protest the utility rate adjustments for wastewater and water.

Regards,

Seavan Sternheim

Homeowner: 3021 Ross Road, Palo Alto, CA 94303
To Whom it may concern

I received your “Notice of Utility Rate Change” dated April 25, 2011 wherein it specified I may submit a written protest. The following is my protest.

I have always and will always believe that a person should take care of themselves and pay their own way through life. I have no complaint with paying my fair share if the City needs more funds to pay for the services I receive. That’s only fair. What I strongly object to however is the same solution the Federal Government is using, asking middle class workers to bear the majority of the burden while giving special breaks to over-privileged people and big business.

A wastewater hookup in and of itself does not put any burden at all on a wastewater treatment plant. A burden is created only by actual waste that is sent to that plant. The more waste that is sent the larger the burden on the treatment plant. My modest single bathroom home sends down an extremely small amount of waste. A vast majority of that comes from the shower and kitchen sink, both of which need little or no treatment at all. That leaves a single toilet as my very modest burden on the wastewater treatment plant.

Basic rates for Residential, Restaurants and Commercial customers have all been increased the same amount and that’s fair. The burden placed on the wastewater treatment plant by Restaurants and Commercial customers however can be, and usually is, enormously larger than what my home could possibly create so there is a tiered rate schedule for those customers. Those rates are going down and that is the opposite of fair. The waste from Restaurants and Commercial customers is the source of the vast majority of the burden on a treatment plant and they get a reduced rate? How do you justify that? (That’s a rhetorical question, of course you cannot justify it.)

I have the same issue with the water rates. I do not even water the lawns now to conserve water and I see my rates will decrease 8.8% for the first 6 Hundred Cubic Feet but then for the next two rate tiers they go up 8.1 and 35.8%!!!! respectively whereas Commercial rates go down 9.3% for 14 Hundred Cubic Feet and do not increase at all above that. Again that is the opposite of fair. Again the vast majority of the burden on the water system/supply is coming from the Commercial sector and yet they get a bigger break. If I for example were to use 50ccf of water it would cost $321.88 but a Commercial customer would only pay $178.42 for the same amount of water. In fact they could use 66.27ccf of water and still pay less than I would. Another way to describe their savings is they could get 1,627 Cubic Feet = 12,170.8 gallons of water for free. Well, free to them, not free for me, I and other middle class homeowners will be paying for their savings.

As I previously stated I am more than willing to cover my fair share but I urge you to require the same sacrifices from everyone, not put most of the burden on those who can afford it the least.

Thank you,

John Naber
June 6, 2011

To Mayor Espinosa and City Council Members:

Please vote NO on water and wastewater rate increases.

In your discussion re the proposed water and wastewater rate increases, I hope that you will consider the numerous senior residents of Palo Alto living on fixed incomes for whom these rate increases would constitute a significant hardship. I am an 87-year-old widow on a fixed and limited income, rearing an unemployed son (24 years) in addition to myself. As you know, there have been no cost of living increases in Social Security payments for the past 2 years and no prospect for increases in the foreseeable future. I am trying to remain in my home for the rest of my life; that will not be possible if my living expenses exceed my income.

In conclusion, I sincerely hope that you will give serious consideration to the effect these proposed rate increases will have on the lives of the elderly and other low-income residents of Palo Alto.

Sincerely,

Evelyn B. Carlson
3827 Ross Road
Palo Alto 94303
2 May 2011

City Clerk
City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

Utilities Account No.: 30006771

Please accept this letter as my protest against any proposed increase in water rates for my parcel at the above address.

Thank you.

Theodore L. Glasser
June 6, 2011

City Clerk
City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

Dear City Clerk:
We are taking this opportunity to write this letter of protest against the proposed increase in the Water Utility water rates change. The proposed change is a very significant one and is much higher than necessary in our opinion.

We are long term owners and occupants of our property in Palo Alto, since 1976. Please take into consideration the older people who may be on a fixed income or very close to it.

Thank you for taking this into consideration.

Sincerely,

Richard Raiter
Joan Raiter

Richard and Joan Raiter
211 Seale Avenue
Palo Alto, CA 94301
650-326-0232
Parcel Number 124-18-029-00
Palo Alto Utilities Account # 30025635
May 3, 2011

Dear Sir/Madam:

Re: Notice of Proposed increases to water charges: public hearing June 13, 2011

Palo Alto Utilities account number: 30031160 – for Sanjay Patel

In response to your notice of utility rate changes letter dated 4/25, I duly submit this written protest to confirm my opposition to the proposed increases to the following specific charges:

1. Wastewater rates increases for S1 – Residential customers
2. Monthly water service charges for customers with 5/8” meter size [I wish my salary would increase by 100% in one fell swoop]

Can there be any justification for ripping off the proletariat? The city had its chance to put away plenty of money for the rainy-day piggy-bank during the heyday of dotcom and housing bubble – instead there appears to have been wanton profligacy without due consideration to potential future hardships.

Shame on the city for mismanagement of available funds during the “good times”.

A disgruntled, and fed-up with being nickel-and-dimed taxpayer,

Sanjay Patel
Honorable City Council
250 Hamilton Avenue
Palo Alto CA 94301

June 7, 2011

Dear Mayor Espinosa & Colleagues,

The resident owners of Waverley Park Condominiums respectfully protest proposed new wastewater and water rate schedules. It is high time the council resolved the unfair and inconsistent rates imposed on our type of multi-unit residential dwelling.

Our building contains ten (10) households with Assessor's Parcel Numbers 120-13-001 through 120-13-010. Our separate street addresses run from 258 to 296 Waverley Street. Our CPAU Account Number is 30015914.

Please note this key fact: over 12 months we average 4.2ccf of water usage (even less wastewater due to evaporation from pool) per household per month. Our wastewater is classified as S1 Residential. We pay ten times (10X) the monthly rate of $24.65, or $246.50/month. We face a 13.2% increase to $279.10. Please note S2 Commercial customers are about to enjoy a decrease of 6.3% to only $4.75/ccf. If we were classified Commercial, - AS WE ARE FOR OUR WATER USAGE - our monthly cost would be $159.50 (42x4.75). That would save us $120/month. Our water is classified as W4 Commercial. We pay $4.946/ccf. W1 Residential customers using 0-6 ccf will pay $3.60/ccf. We ARE residential customers each one of whom uses 0-6 ccf/month. If we were classified Residential, our monthly cost would average $151 (42x3.60). That would save us $57/month vs. present average $208.

Under the status quo, we have the worst of both possible worlds. CPAU is, and has always, extracted the maximum income from small multi-unit residences such as ours.

Please decide once and for all if we are commercial or residential. If we MUST be some of each, then for mercy's sake let us be commercial for wastewater and residential for water!

Respectfully yours,

[Signature]
President, Waverley Park Condominiums
May 1, 2011

Members of the Palo Alto City Council  

c/o City Clerk  

250 Hamilton Avenue  

Palo Alto, CA 94301

Re Proposed Water Rate Increases

Honorable Members of the Council,

I am writing to protest against the proposed water rate increase as outlined in the Notice of Utility Rate Change of April 25, 2011.

I and my husband, John Seely Brown, are the owners of the property located at 1110 Waverley Street. The parcel number is 120-18-045-00. My utility account number is 30028387. We have a large lot. It is 150 by 115 feet for a total of 17,250 square feet. In addition it is a corner lot with 4 trees on one block face and 6 on the other for a total of 10 large, mature, street trees.

The existing water rates already unfairly penalize all large lot owners in Palo Alto. The proposed rates make this unfairness even more extreme. Large lots can easily require double or triple the water their neighbors do - with exactly the same kind of landscaping. Large lots on a corner get a double whammy. Property owners are required to water street trees, especially during the dry summer months. Corner lots, on average, have more than double the trees of midblock lots. Large corner lots have even more. In our case, we have approximately five times the trees of a midblock lot.

Street trees and landscaped gardens are two of the features that make Palo Alto the uniquely lovely community it is. Those of us with large lots or unusual numbers of street trees should not be penalized for contributing to our community by caring for our property. I know you are trying to use the rate schedule to encourage all of us to be efficient in our use of water and I applaud this effort. But giving 7,500 square foot lots the same water budget as 17,250 square foot lots is not really going to accomplish what you want as the vast majority of parcels will not need to do much water rationing at all.

I strongly urge the City to consider a water rate scheme that takes parcel size and location into account. In particular, the volumetric triggers that put a customer into a higher rate category could be adjusted based on parcel size and on whether a lot is on a corner or is midblock.

In addition I am quite dismayed at the growing disparity in residential water rates and commercial rates. Again, it's an issue both of fairness and effectiveness. Basically, you have just given commercial users a nice big discount. And counted on residential users to pay for it.

Sincerely,

[Signature]

Susan E Haviland
June 1, 2011

Palo Alto City Council
c/o City Clerk
250 Hamilton Ave.
Palo Alto, CA 94301

Gentlemen,

In regard to a raise in the water rates we strongly protest. Our very very high utility bills are more than adequate to cover wastewater service and infrastructure costs. All that is needed is to give some to the general fund.

Please consider this as three separate protests:

Christopher & Josephine Arnold

Parcel # 180 - 20 - 024 (1248 Waverley)
Parcel # 003 - 01 - 050 (357 Fulton Ave)
Parcel # 003 - 01 - 012 (170 Everett Ave)
Ladies & Gentlemen

RE: 3130 Waverley Street
Account #30025569

City Council of Palo Alto
250 Hamilton Avenue,
Palo Alto, CA 94301

Your letter 25 April 2011 requests correspondence from residents if they wish to protest the proposed raises in water rates. Consider this a vehement protest. My wife and I are retired with a work related disability income (from PERS) for the enormous amount of $2,345.82 a month after the usual deductions for what we consider reasonable future protection of long term care and recently a $37.59 PERS Choice Bay supplement was added to the original $168.66 premium. Needless to say that $37.59 aided us considerably. Because I was forced into retirement in 1978, long before the Police pay scale reached the astronomical figures they pull.

We scrimp and save every way we know how. By: replacing our lawns some 7-8-years ago. Having only a few measly flowers (in pots) to give our modest home a touch of color. I must mention some years ago when the city’s requirement that Public Safety Personnel live within the City limits A requirement that was ruled illegal and Unconstitutional by the Courts, virtually everyone in those two categories fled the City for surrounding locations where they could get more house for less money, we stayed put because a. we loved living here. b. my wife was born, raised and educated here, c. we felt we needed to be readily available to the citizens of Palo Alto in the event of an emergency. Those who moved to Fremont, San Jose, Sunnyvale or Santa Clara at their first opportunity had the attitude: The “Hit with Palo Alto, I have a family of my own to concern myself with in an emergency. I would venture a guess that less than 5% of Public Safety people live in Palo Alto now. I know that from my era only a total of 4 Policemen have retired and remain here, including myself. The financial pressures placed on us by these constant price raises for utilities is tremendous.

I know this objection will dismissed as a whiner letter because none of you have ever been cast into the position we are in. However at 80 years of age and failing health our options are extremely limited

So we object to the price increase and I believe that if you were in our circumstances you would feel the same.

Sincerely Ed & Nancy Oblander.
614 Wellsbury Way  
Palo Alto, CA  94306  
May 22, 2011

City Clerk  
250 Hamilton Ave  
Palo Alto, CA  94301

Dear Sir,

We're responding to the "Notice of Utility Rate Change". We object to the utility rate adjustment increases to both the water and waste water rates. We are against all of the proposed charges.

Our assessor's parcel number is, 132-56-019-00 and our utility account number is 300 22364.

Your truly,

[Signature]

[Signature]

Marjorie and David Masters
TO: City of Palo Alto

FROM: Frank Kwong & Caly Chiu

RE: Written Protest AGAINST all of the proposed charges on water, wastewater and refuse)

DATE: 5/2/2011

WRITTEN PROTEST AGAINST ALL OF THE PROPOSED CHARGES (WATER AND REFUSE).

Assessor’s Parcel Number: 086-18-003-00

Property address: 837 Wintergreen Way Palo Alto, CA 94303

City of Palo Alto Account Number: 119973-30315

We protest the rate increase on both water and refuse.

Thank you.

Signed: