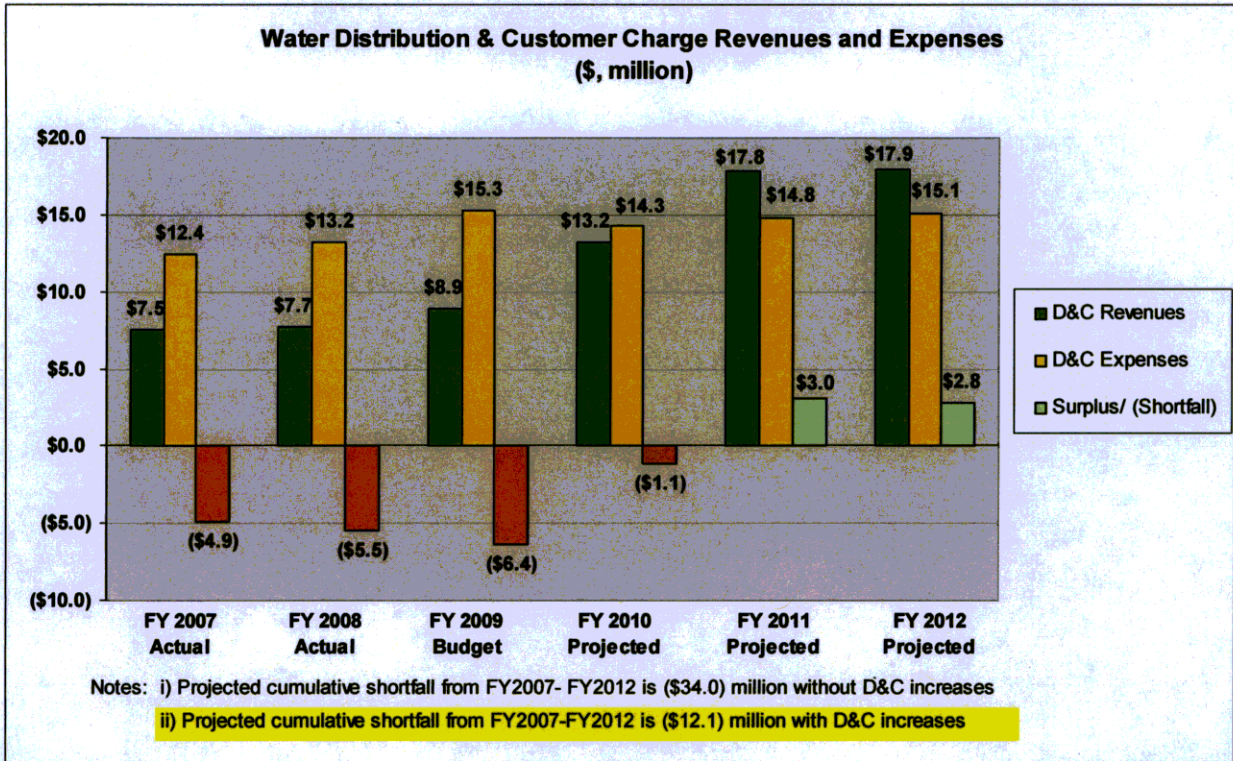


Chart 1



- Proposed Implementation of Water-Conservation Based Rate Structure.**
 PWP is also proposing to implement a phased water conservation based rate structure to improve water use efficiency, encourage conservation and take the first significant steps toward developing water-budget based rates. This proposal is consistent with the proposed water conservation plan and sustainable water supply goals. The first phase will involve implementation of a modified water conservation rate structure by July 2009, and the second phase will involve the development of a comprehensive water-budget based rate structure consistent with City Council's direction by July 2010.

Effective July 2009, PWP proposes to implement the first phase - modified water conservation rate structure - as follows:

- Redefine customer groups by residential, commercial, institutional and industrial customers as described herein instead of by meter sizes only, and resize commodity block widths in accordance with the water conservation plan
 - Addition of two higher priced commodity block rates to the existing three commodity block rates for excessive water use to encourage conservation, provide necessary price signals and achieve desired conservation objectives of reducing water demands by up to 10%

- Adopt the water shortage pricing described in Attachment 1 for implementation during periods of emergency water shortage to minimize the impact of an emergency water shortage on PWP's customers, and to recover higher costs of water purchases in excess of the PWP's allocations from its wholesale water suppliers and recover associated conservation program costs. Attachment 1– Water Rate Proposal, which is included and considered an integral part of this report provides additional information on the proposed water rate increases and implementation of a phased water-conservation based rate structure.

A public hearing to receive public protests to the recommended water rate changes is required by Proposition 218. In the absence of a majority protest by property owners and tenants, the proposed water rate increases and implementation of water-conservation based rate structure will take effect upon approval of the City Council and an adoption of the appropriate ordinance amendment.

CUSTOMER BILL IMPACT:

The details of the combined average monthly customer bill impact of the proposed July 2009 rate changes to the water rate structure on inside-city customers for selected meter sizes and usage levels are shown in Table 1.

Table 1
Average Monthly Customer Bill Impact
(Inside City Annualized, Excluding Taxes)

Meter Size	Usage (BU)	Current Monthly Bill	Proposed D&C and FPS Increase	Impact due to Block Restructure	Estimated Proposed Monthly Bill	\$ Change	% Change
Residential							
5/8" & 3/4"	12	\$26.96	\$4.15	\$5.54	\$36.65	\$9.69	36%
1"	20	\$56.62	\$7.89	\$1.53	\$66.04	\$9.42	17%
Commercial							
1 1/2"	100	\$261.85	\$16.69	\$49.73	\$328.27	\$66.42	25%
2"	125	\$361.09	\$37.46	\$21.35	\$361.09	\$58.81	16%
3"	300	\$833.05	\$91.37	\$86.70	\$1,011.12	\$178.07	21%
4"	600	\$1,766.80	\$139.39	\$0.77	\$1,906.96	\$140.16	8%
6"	1,400	\$3,841.91	\$217.62	\$102.25	\$4,161.78	\$319.87	8%
8"	2,400	\$6,899.35	\$351.83	\$386.22	\$7,637.40	\$738.05	11%
10"	3,000	\$8,782.25	\$457.81	\$556.61	\$9,796.67	\$1,014.42	12%

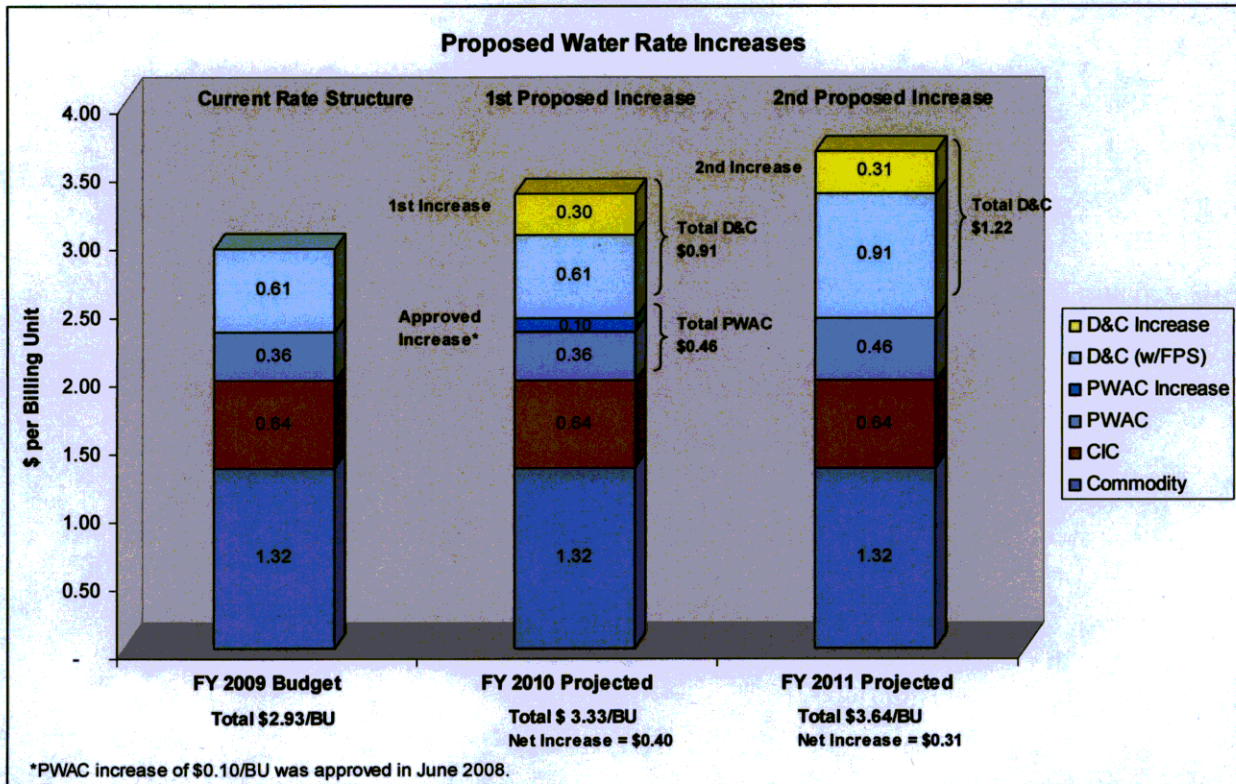
Note: The proposed bill for 5/8 and 3/4-inch meter using 12 BU includes an increase of \$5.54 due to the change in block 1 width from 12 to 8 Billing Units (BU). BU = 100 cf or 748 gallons

The impact of the proposed rate changes and cost of service block restructuring is generally more significant for smaller, mostly residential meter sizes as a percent of the total bill. This is to be expected since the customers in these smaller connection sizes

represent approximately 89% of the total number of customers. The customers in these groups also collectively consume about 55% of the total water supply. As a result, the re-alignment of cost of service and allocation of water in the restructured block widths will naturally impact the customers in these groups more significantly. This re-allocation provides true cost-of-service alignment of water supply and usage.

The proposed water rate composition is also shown in Chart 2.

Chart 2



As shown in Chart 2, the proposed July 2009 water rate changes will increase the average water rate from \$2.93 per billing unit (BU) to \$3.33 per BU, and the proposed 2010 D&C increase will further increase the average water rate to \$3.64 per BU.

PROPOSITION 218 REQUIREMENTS:

Proposition 218, as implemented by Government Code section 53755, allows one written protest per parcel, filed by an owner or tenant of the parcel, to be counted in calculating the majority protest to a proposed new or increased water charge. If a majority of property owners and/or tenants file written protests, the rate increases shall not be approved. PWP will notify by mail all property owners, tenants and ratepayers of the proposed D&C and PWAC increases as required by Proposition 218. Information related to the public hearing regarding adoption of the water rate increases proposed by PWP will also be included in the notice. Following the establishment of June 8, 2009 as the public hearing date to consider written and/or oral comment on the proposed rate increases, a separate notice will be mailed to each property owner, tenant and ratepayer, as required by Proposition 218.