Title: Drought Implementation Plan

Subject: Approval of a Utilities Advisory Commission Recommendation to Adopt a Resolution Approving a New Tier II Water Shortage Allocation Plan Pursuant to Section 3.11(C) of the 2009 Water Supply Agreement with San Francisco

From: City Manager

Lead Department: Utilities

Recommendation
Staff and the Utilities Advisory Commission Recommend that the Council Adopt a Resolution approving a new Tier II Water Shortage Allocation Plan pursuant to Section 3.11(C) of the 2009 Water Supply Agreement with San Francisco.

Executive Summary
Since July 2009 when the new 25-year Water Supply Agreement with San Francisco went into effect, there has been no plan to divide available water among the agencies who buy water from San Francisco during a water shortage such as a drought. Starting in October 2009, the agencies met regularly to begin discussions on a new methodology. In August 2010, agreement was reached on a new formula. This report presents the new Water Shortage Allocation Plan and recommends the City Council approve the new plan by Resolution.

Background
The 1984 Settlement Agreement and Master Water Sales Contract (1984 Agreement) between the City and County of San Francisco and the Wholesale Customers provided the framework for the San Francisco Public Utilities Commission (SFPUC) and the Wholesale Customers of the SFPUC system to allocate water during a water shortage. The 1984 Agreement also specified that the Bay Area Water Supply and Conservation Agency (BAWSCA) member agencies and the SFPUC will “begin good faith negotiations to develop a water conservation plan” that will supersede the default allocation in Section 7.03 (b) of the contract. The default method essentially allocates water during a drought on a pro-rata basis using the proportional water use from the year immediately preceding a drought.

Following the drought that began in the late 1980’s, the BAWSCA agencies and the SFPUC began working on a shortage plan that would eliminate the disincentive to conserve and provide a better basis for member agencies’ future planning decisions.
The discussions resulted in the Interim Water Shortage Allocation Plan (IWSAP), which was approved by the BAWSCA agencies including the City of Palo Alto in January 2001 (CMR 113:01). The IWSAP provided a formula to allocate water during system wide water shortages with a reduction in supplies of up to 20 percent. The plan had the following elements: a term, a provision addressing the allocation of available water between San Francisco and BAWSCA agencies (Tier 1) and a method of allocating available water determined in Tier 1 amongst the individual BAWSCA agencies (Tier 2).

During the term of the IWSAP, no water supply shortages were declared so the allocation methodology in the IWSAP was never used.

On May 19, 2009, City Council approved the new Water Supply Agreement (2009 Agreement) between San Francisco and the BAWSCA agencies (CMR 252:09). Section 3.11(C) of the 2009 Agreement includes a Water Shortage Allocation Plan to allocate water from the regional system between San Francisco and BAWSCA members during droughts called by the SFPUC. The Tier 1 Shortage Plan (“Tier 1 Plan”) will apply to system-wide shortages of 20% or less, and replaced the Tier 1 portion of the IWSAP. The provisions of the Tier 1 Plan allow wholesale customers to “bank” drought allocations and to voluntarily transfer them to each other and to San Francisco. The Tier 1 Plan also presents an updated schedule for actions preceding and during a drought.

To replace the Tier 2 part of the IWSAP, the 2009 Agreement authorized the BAWSCA members to adopt a methodology for allocating the water between members which is collectively available to them as a whole. The 2009 Agreement also commits the SFPUC to honor allocations of water unanimously agreed to by all the BAWSCA agencies or, if unanimous agreement cannot be achieved, water allocations that have been adopted by the BAWSCA Board of Directors. The 2009 Agreement provides that the SFPUC can allocate water supplies as necessary during a water shortage emergency if no agreed upon plan for water allocation has been adopted by the 26 BAWSCA agencies or the BAWSCA Board of Directors.

Commencing in October 2009, representatives of each BAWSCA member agency have been meeting to develop a successor water shortage allocation plan. The members began by agreeing to a set of principles to serve as guidelines for an equitable allocation methodology, as well as formulas and procedures, to implement those principles. The guiding principles were that the plan should:

- Provide certainty of drought allocations with consistent and pre-determined rules for calculation;
- Provide sufficient amounts of water for basic needs of customers;
- Create an incentive for water conservation at all times and the development and management of alternative water supplies;
- Avoid preventable, adverse economic impacts;
- Avoid reallocation of water supply assets and investments among agencies without mutual consent and compensation; and
• Recognize inherent differences in land use and climate.

The discussions and supporting technical analyses were conducted over many months and with the assistance of BAWSCA staff. On August 25, 2010, the representatives unanimously agreed to recommend adoption of the Tier 2 Plan to each of their respective governing bodies.

Discussion
The new Tier 2 Plan establishes an allocation formula that determines how the available water from the regional system will be allocated between the individual BAWSCA member agencies in system-wide shortages up to 20%. The key features of the allocation formula are as follows:

1. **Allocation Formula**: the formula contains two components that are weighted differently. The first component, which is one/third weighted, is an agency’s Individual Supply Guarantee (ISG) (with slight variations for Hayward, San Jose, and Santa Clara). The purpose of this component is to recognize the importance of contractual rights to the SFPUC system. The second component, which is two/thirds weighted, is applied to a seasonal calculation using 3-year average monthly total water supply. The purpose of this component is to recognize that some agencies have discretionary, non-essential, water uses that can be reduced to minimize regional economic and human health impacts.

2. **Applicability**: the minimum reduction for an agency is set to 10% and the maximum reduction is equal to no more than the average reduction plus 20%. This provision is included to ensure that no agency bears an unfair and disproportionate share of any reduction.

3. **Health and Safety Guarantee**: the plan includes a provision to guarantee a sufficient supply of water to East Palo Alto to meet health and safety needs for its residents. This provision was added because the City of East Palo Alto is projected to grow beyond its ISG. East Palo Alto’s per capita water use is extremely low and, absent any adjustment, it could receive a drought allocation that does not provide enough water for minimum health and safety needs. The BAWSCA members agreed to provide adequate supplies to meet minimum health and safety needs for East Palo Alto.

4. **Term**: The proposed Tier 2 Plan expires on December 31, 2018. The Tier 2 Plan allocates the collective Wholesale Customer drought allocation among each of the 26 wholesale customers through 2018 to coincide with the Interim Supply Limitation, San Francisco’s deferral of decisions about additional supply until at least 2018. The Tier 1 and Tier 2 Drought Allocation Plans apply only during times of water shortages caused by drought. San Francisco’s Interim Supply Limitation applies in all years through 2018, regardless of water supply availability.
City of Palo Alto’s Allocation

In general, the new drought allocation formula will result in a decreased water shortage allocation for the City of Palo Alto compared to the formula in the expired IWSAP. Figure 1 illustrates the effect of the new formula vs. the IWSAP formula for two demand scenarios when there is a system-wide reduction of 20%.

Figure 1 – City of Palo Alto Drought Allocation Scenario

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Scenario #1 - Drought allocation using FY 08-09 Consumption</th>
<th>Scenario #2 - Drought allocation using FY 17-18 Consumption (projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Old Formula</td>
<td>New formula</td>
</tr>
<tr>
<td>(a) Baseline Demand (mgd)</td>
<td>11.63</td>
<td>11.63</td>
</tr>
<tr>
<td>(b) Drought Allocation (mgd)</td>
<td>9.78</td>
<td>8.94</td>
</tr>
<tr>
<td>(c) Reduction from Baseline Demand (b-a)</td>
<td>-1.85</td>
<td>-2.69</td>
</tr>
<tr>
<td>(d) Percentage reduction from Baseline Demand (c/a)</td>
<td>-16.91%</td>
<td>-23.12%</td>
</tr>
</tbody>
</table>

The lower allocation under the new formula is largely a result of the seasonal component of the formula. In theory, the more potable water that is used for irrigation purposes, the more an agency is penalized in the new formula with a lower drought-time allocation. However, the ISG component of the formula can serve to offset the impact of the seasonal component. This is particularly true in Palo Alto’s case since the City’s current water use (about 11.0 million gallons of water per day (mgd) in FY 2010) is well below its ISG (17.075 mgd).

Though not explicitly by design, a noteworthy feature of the new formula is that it provides an incentive to conserve water in a different manner than the formula in the expired IWSAP. The previous formula had a conservation incentive element, but it did not differentiate between indoor and outdoor water use efficiency. The new formula provides a double benefit for outdoor efficiency by reducing irrigation demand in the seasonal component of the formula and also reducing overall demand below the ISG. Indoor conservation, on the other hand, will not influence the seasonal component of the formula, but will reduce demand below an agency’s ISG. This structure provides the foundation to promote outdoor water use efficiency, including, for example, providing support for water rate structures that encourage investments in irrigation efficiency and drought tolerant landscapes. Increased attention to outdoor water use efficiency and drought tolerant landscapes will also prepare the City for future drought conditions that could result in substantial landscape replacement costs.

The City of Palo Alto’s 2005 Urban Water Management Plan (UWMP) specifies how the City will respond to different stages of water supply reductions. The new water shortage allocation
formula increases the likelihood that the City will need to implement more stringent dry year demand- and supply-side options, including the option of relying on supplemental groundwater supplies from Palo Alto’s groundwater extraction wells.

Staff is in the process of preparing the 2010 UWMP update. The 2010 UWMP will include a discussion of potential dry year impacts of the new water shortage allocation formula and the options available to the City to mitigate those impacts. Staff anticipates submitting the Draft UWMP to the UAC in April 2011 and to the City Council in May 2011. The deadline for submission of the 2010 UWMP to the State is June 2011.

**No Recommendation Alternative**

All the BAWSCA agencies will seek formal approval of the Drought Allocation Plan from their respective governing bodies. Like all the members, Palo Alto has the discretion to not approve the proposed drought allocation method. If this course of action were chosen by any one agency, Section 3.11(C)(3) of the 2009 Agreement provides that the BAWSCA Board of Directors will be given the opportunity to approve a new formula. Absent action by the BAWSCA Board of Directors, the SFPUC will make a decision on the matter.

The proposed formula was the subject of over a year of discussion and is the result of agreement among 26 agencies with many different views on appropriate allocation methodologies. Staff’s recommendation to approve the proposed Drought Allocation Plan inherently recognizes that the outcome of a decision by the BAWSCA Board of Directors is unlikely to result in an improvement over the current proposal.

**Utilities Advisory Commission Discussion**

Staff presented the matter to the Utilities Advisory Commission (UAC) at its January 12, 2010 meeting. Staff presented the proposed recommendation and background as described in this report.

The commission discussed the proposed plan and determined that the options to approval were not advisable. Draft minutes from the UAC’s meeting are attached. Key discussion items included a question of what would be done in the case that the required water reductions exceed 20% since the plan is only applicable in shortages up to 20%. Staff responded that the SFPUC would determine the reduction formula in that event. A commissioner also inquired about the default process if any of the BAWSCA members did not approve the new plan. Staff explained that the contract is clear that the BAWSCA Board of Directors would be given an opportunity to approve a new formula and the SFPUC would only act in the unlikely event that the BAWSCA Board did not. Absent BAWSCA Board action, staff cannot say what decision the SFPUC may take.

After the discussion, the UAC unanimously recommended that the City Council approve the new Water Shortage Allocation Plan.

**Resource Impact**
Approval of the new Drought Allocation Plan will not result in additional resource impacts for the City

**Environmental Review**
Adoption of this resolution is categorically exempt from the California Environmental Quality Act as an action by a regulatory agency for the protection of natural resources (CEQA Guidelines Section 15307), and an as action taken by a regulatory agency for protection of the environment (CEQA Guidelines Section 15308).

**ATTACHMENTS:**
- Attachment A: City Council Resolution Approving Tier 2 Plan (DOC)
- Attachment B: Utilities Advisory Commission Excerpted Minutes (DOC)

Prepared By: Nicolas Procos, Resource Planner
Department Head: Valerie Fong, Director
City Manager Approval: James Keene, City Manager
Resolution of the Council of the City of Palo Alto Approving a New Tier II Water Shortage Allocation Plan Pursuant to Section 3.11(C) of the 2009 Water Supply Agreement with San Francisco

WHEREAS, the City of Palo Alto is one of 26 agencies in San Mateo, Santa Clara and Alameda Counties which purchase water from the City and County of San Francisco (San Francisco) pursuant to a Water Supply Agreement entered into in 2009 (Agreement). Collectively these 26 agencies are referred to in the Agreement as Wholesale Customers.

WHEREAS, Section 3.11 of the Agreement addresses times when insufficient water is available in the San Francisco Regional Water System to meet the full demands of all users. Section 3.11(C) provides that during periods of water shortage caused by drought, the San Francisco Public Utilities Commission (SFPUC) will allocate available water between its retail customers and the Wholesale Customers collectively, in accordance with a schedule contained in the Water Shortage Allocation Plan set forth in Attachment H to the Agreement (Tier I Plan).

WHEREAS, Section 3.11(C) authorizes the Wholesale Customers to adopt an additional Water Shortage Allocation Plan, including a methodology for allocating the water which is collectively available to the 26 Wholesale Customers among each individual Wholesale Customer (Tier II Plan). It also commits the SFPUC to honor allocations of water unanimously agreed to by all Wholesale Customers or, if unanimous agreement cannot be achieved, water allocations that have been adopted by the Board of Directors of the Bay Area Water Supply and Conservation Agency (BAWSCA). The Agreement also provides that the SFPUC can allocate water supplies as necessary during a water shortage emergency if no agreed upon plan for water allocation has been adopted by the 26 Wholesale Customers or the BAWSCA Board of Directors.

WHEREAS, commencing in October 2009, representatives appointed by the managers of each of the Wholesale Customers have been meeting to develop a set of principles to serve as guidelines for an equitable allocation methodology, as well as formulas and procedures, to implement those principles. These discussions, and supporting technical analyses, have been conducted with the assistance of BAWSCA staff.

WHEREAS, the Tier II Plan, attached to this resolution as Exhibit A, has been endorsed by all of the Wholesale Customer representatives who participated in the formulation process and they have committed to recommend that it be formally adopted by the governing body of their respective agencies.

WHEREAS, the Tier II Plan allocates the collective Wholesale Customer share among each of the 26 wholesale customers through December 31, 2018 to coincide with San Francisco’s deferral of decisions about additional water supply until at least 2018.

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

SECTION 1. The Tier II Drought Implementation Plan, a copy of which is attached hereto as Exhibit A, is approved.
SECTION 2. This approval is conditioned upon all of the other 25 Wholesale Customers approving the Plan, such approvals being evidenced through adoption of similar resolutions or, in the case of private-sector organizations, by other equivalently binding written commitments signed by an executive officer acting within the scope of delegated authority, and all such approvals occurring on or before June 30, 2011.

SECTION 3. If such resolutions or binding commitments are not adopted by that date, this resolution will automatically expire and be of no further effect after June 30, 2011, unless it has been extended prior thereto by further action of this Council.

SECTION 4. The Council finds that adoption of this resolution is categorically exempt from the California Environmental Quality Act as an action taken by a regulatory agency for the protection of natural resources (CEQA Guidelines Section 15307), and an as action taken by a regulatory agency for protection of the environment (CEQA Guidelines Section 15308).

INTRODUCED AND PASSED:

AYES:
NOES:
ABSENT:
ABSTENTIONS:
ATTEST:

___________________________
City Clerk

___________________________
Mayor

___________________________
Senior Deputy City Attorney

___________________________
City Manager

___________________________
Director of Utilities

___________________________
Director of Administrative Services
This Tier II Drought Implementation (Plan) describes the method for allocating the water made available by the San Francisco Public Utilities Commission (SFPUC) among the Wholesale Customers during shortages caused by drought. This Plan is adopted pursuant to Section 3.11.C of the July 2009 Water Supply Agreement between the City and County of San Francisco and the Wholesale Customers (Agreement).

SECTION 1. APPLICABILITY AND INTEGRATION

Section 1.1 Applicability. This Plan applies when, and only when, the SFPUC determines that a system-wide water shortage of 20 percent or less exists, as set forth in a declaration of water shortage emergency adopted by the SFPUC pursuant to California Water Code Sections 350 et seq. This Plan applies only to water acquired and distributed by the SFPUC to the Wholesale Customers and has no effect on water obtained by a Wholesale Customer from any source other than the SFPUC.

Section 1.2 Integration with Tier I Water Shortage Allocation Plan. The Agreement contains, in Attachment H, a Water Shortage Allocation Plan which, among other things, (a) provides for the allocation by the SFPUC of water between Direct City Water Users (e.g., retail water customers within the City and County of San Francisco) and the Wholesale Customers collectively during system-wide water shortages of 20 percent or less, (b) contemplates the adoption by the Wholesale Customers of this Plan for allocation of the water made available to Wholesale Customers collectively among the 26 individual Wholesale Customers, (c) commits the SFPUC to implement this Plan, and (d) provides for the transfer of both banked water and shortage allocations between and among the Wholesale Customers and commits the SFPUC to implement such transfers. That plan is referred to as the Tier I Plan.

The Tier I Plan also provides the methodology for determining the Overall Average Wholesale Customer Reduction, expressed as a percentage cutback from prior year’s normal SFPUC purchases, and Overall Wholesale Customer Allocation, in million gallons per day, both of which are used in determining the Final Allocation Factor for each Wholesale Customer. The Overall Average Wholesale Customer Reduction is determined by dividing the volume of water available to the Wholesale Customers (the Overall Wholesale Customer Allocation), shown as a share of available water in Section 2 of the Tier I Plan, by the prior year’s normal total Wholesale Customers SFPUC purchases and subtracting that value from one.

This Plan is referred to in the Agreement as the Tier II Plan. It is intended to be integrated with the Tier I Plan described in the preceding paragraph. Terms used in this Plan are intended to have the same meaning as such terms have in the Tier I Plan.
SECTION 2. ALLOCATION OF WATER AMONG WHOLESALE CUSTOMERS

Section 2.1 Annual Allocations Among the Wholesale Customers. The annual water supply allocated by the SFPUC to the Wholesale Customers collectively during system-wide shortages of 20 percent or less shall be apportioned among them based on the methodology described in this Section.

Section 2.2 Methodology for Allocating Water Among Wholesale Customers. The water made available to the Wholesale Customers collectively will be allocated among them in proportion to each Wholesale Customer’s Allocation Factor, adjusted as described in the following subsections below. The Wholesale Customer Allocation Factors will only be calculated at the onset of a drought and will remain the same until such time as the SFPUC declares the shortage condition over. The Wholesale Customer Allocation Factors will be recalculated during subsequent shortage periods for use during those specific periods.

Section 2.2.1 Step One: Determination of Base/Seasonal Purchase Cutback For Each Wholesale Customer. The first step requires calculating the Wholesale Customer’s Base/Seasonal Purchase Cutback. This calculation has seven parts. An example of Steps 1b-1f is presented in Table 2. Step 1g is shown in columns 3-6 in Table 3. For steps 1b-1g, the calculation uses average monthly production values for the three years preceding the drought for all potable supply sources, expressed as a monthly value in hundred cubic feet:

- Step 1a: Each agency’s total annual purchases from the SFPUC will be compared to its Individual Supply Guarantee (ISG), with any annual purchases above its ISG subtracted from that agency’s total annual SFPUC purchases by subtracting the amount on a monthly basis in proportion to the agency’s monthly SFPUC purchase pattern,

- Step 1b: Calculate Average Monthly and Total Production for the three fiscal years immediately preceding the drought, excluding years during which shortage allocations were in effect, based on monthly production data from the SFPUC and Wholesale Customers,

- Step 1c: Calculate Base Component which is equal to the Average Monthly Production during the base months of December, January, February and March, multiplied by 12,

- Step 1d: Calculate Seasonal Component as the difference between Total Production and Base Component,

- Step 1e: Calculate an agency’s Base/Seasonal Allocation, expressed in hundred cubic feet, by multiplying the Base Component by one minus the Base Reduction Percentage, or 90%, and the Seasonal Component by the percentage needed (Seasonal Reduction Percentage) to achieve the required Overall Average Wholesale Customer Reduction, which is expressed as a percentage,
The result of this adjustment is that the University President's approval is required before the reduction can be implemented. Additionally, adjustments to the Base Component for Stanford University will be made to remove that two week time period that the University is completely closed during the winter break per policy set by the University President as long as that policy remains in place. This adjustment will be removed at such time as the seasonal closure policy is terminated by Stanford University.

Section 2.2.2 Step Two: First Adjustment for San Jose and Santa Clara. The resulting Base/Seasonal Purchase Cutback Percentage in Section 2.2.1 for San Jose and Santa Clara will be compared to the highest Base/Seasonal Purchase Cutback percentage of the other Wholesale Customers. If both San Jose’s and Santa Clara’s percentage reductions are larger than the highest percentage reduction among any other Wholesale Customers, the Base/Seasonal Purchase Cutback percentage established under Section 2.2.1 will remain unchanged. If either San Jose’s percentage cutback or Santa Clara’s percentage cutback, or both, is smaller than the highest Base/Seasonal Purchase Cutback percentage of other Wholesale Customers, the Base/Seasonal Allocation (in mgd) of San Jose or Santa Clara, or both, will be reduced so that the percentage cutback of each is no smaller than that of the Wholesale Customers’ otherwise highest percentage cutback. The amount of shortage allocation (in mgd) removed from San Jose and/or Santa Clara will be reallocated among the remaining Wholesale Customers in proportion to the Base/Seasonal Allocation of each.

Section 2.2.3 Step Three: Determination of Weighted Purchase Cutback For Each Wholesale Customer. Each agency’s weighted allocation is calculated by multiplying its Adjusted Base/Seasonal Allocation in Section 2.2.2 by 66.66% and its Fixed Component by 33.33%. The Fixed Component is (i) the Wholesale Customer’s ISG provided for in the Agreement, or (ii) in the case of Hayward, 25.11 mgd, or (iii) in the case of San Jose and Santa Clara, consistent with the limit on purchases from SFPUC set forth in Section 4.05 of the Agreement, e.g., 4.5 mgd each. The amount of the Fixed Component for each Wholesale Customer is shown on Table 1.

Section 2.2.4 Step Four: Second Adjustment for San Jose and Santa Clara. The resulting Weighted Allocations for San Jose and Santa Clara will be compared to the highest Weighted Purchase Cutback, shown as a percentage, of the other Wholesale Customers. If both San Jose’s and Santa Clara’s percentage cutback is larger than the highest percentage cutback among other Wholesale Customers, the Weighted Purchase Cutbacks established under Section 2.2.3 will remain unchanged. If either San Jose’s...
percentage cutback or Santa Clara’s percentage cutback, or both, is smaller than the highest percentage cutback of any other Wholesale Customers, the Weighted Shortage Allocation (in mgd) of San Jose or Santa Clara, or both, will be reduced so that the percentage reduction of each is no smaller than that of the Wholesale Customers’ otherwise highest Weighted Percentage Cutback. The amount of allocation (in mgd) removed from San Jose and/or Santa Clara will be reallocated among the remaining Wholesale Customers in proportion to the Weighted Shortage Allocation of each.

Section 2.2.5 Step Five: Adjustment for Minimum and Maximum Cutbacks. Using the Adjusted Weighted Purchase Cutbacks, either a 10% minimum cutback or maximum cutback, as defined below, is applied to any agency whose Adjusted Weighted Purchase Cutback falls outside this range:

- A minimum 10% cutback is applied to the individual agency Adjusted Weighted Allocation, with the reapportioned water being placed in the hardship bank for allocation to East Palo Alto.

- A maximum cutback of the average cutback plus 20% (e.g. 15% average cutback results in a maximum cutback of 15% + 20% = 35%) is applied to the individual agency Adjusted Weighted Allocation, with the water necessary to meet that level being subtracted in proportion to each Wholesale Customer’s Adjusted Weighted Allocation from all remaining agencies, except those at agencies subject to the minimum cutback above.

The result is the Adjusted Minimum/Maximum Purchase Cutback, expressed as a percentage.

Section 2.2.6 Step Six: Adjustment to Provide Sufficient Supply for East Palo Alto. In order to provide for sufficient water supply for water customers served by the City of East Palo Alto (EPA), the maximum Final Purchase Cutback applied at any given time to EPA will be equal to 50% of the Overall Average Wholesale Customer Reduction. The water needed to accommodate the guaranteed maximum cutback to EPA will be provided in two ways:

- First, water from the hardship bank provided by the 10% minimum cutback will be first added to the EPA Adjusted Weighted Purchase Allocation, and

- Second, the balance of water needed for EPA will be deducted on a prorated basis from those agencies with a pre-drought residential per capita water use greater than 55 gallons per capita per day (as documented in the most recent BAWSCA Annual Survey) in proportion to each agency’s Min./Max. Adjusted Allocation and who are not subject to the minimum and maximum reductions already applied per Section 2.2.5

The result is the Allocation with EPA Adjustment, expressed as an mgd.
Section 2.2.7 Step Seven: Determination of Final Allocation Factor. Each Wholesale Customer’s Final Allocation Factor is the fraction expressed as a percentage, the numerator of which is the particular Wholesale Customer’s “Final Allocation with EPA Adjustment” (in mgd) as calculated in Steps One through Six and the denominator of which is the Overall Wholesale Customer Allocation (in mgd), a number provided by the SFPUC during the drought period as determined by the SFPUC in the Tier 1 Plan.

Section 2.2.8 Example Calculation. Table 2 presents a sample of the calculations involved in Steps 1b-1f. Table 3 presents a sample of the calculations involved in Step 1g and Steps Two through Seven, using the values from Tables 1 and 2 and recent water use data for the other values. Tables 2 and 3 are presented for illustrative purposes only and do not supersede the foregoing provisions of this Section 2.2. In the event of any inconsistency between this Section 2.2 and Tables 2 and 3, the text of this section will govern.

Section 2.3 Calculation of Individual Wholesale Customer Allocation Factors; Directions to SFPUC. The Tier 1 Plan contemplates that in any year in which the methodology described above must be applied, the Bay Area Water Supply and Conversation Agency (BAWSCA) will calculate each Wholesale Customer’s individual percentage share of the amount of water made available to the Wholesale Customers collectively, following the methodology described above and defined above as Wholesale Customer Allocation Factors. The Tier 1 Plan requires SFPUC to allocate water to each Wholesale Customer in accordance with calculations delivered to it by BAWSCA.

Each Wholesale Customer authorizes BAWSCA to perform the calculations required, using water sales data furnished to it by the SFPUC, and to deliver to SFPUC a list of individual Wholesale Customer Allocation Factors so calculated as contemplated by the Tier 1 Plan. Neither BAWSCA nor any officer or employee of BAWSCA shall be liable to any Wholesale Customer for any such calculations made in good faith, even if incorrect.

SECTION 3. GENERAL PROVISIONS

Section 3.1 No Third-Party Beneficiaries. This Plan is for the sole benefit of the Wholesale Customers and shall not be construed as granting rights to any person other than another Wholesale Customer.

Section 3.2 Governing Law. This Plan is made under and shall be governed by the laws of the State of California.

Section 3.3 Effect on Water Supply Agreement. This Plan describes the method for allocating water from the SFPUC among the Wholesale Customers during system-wide water shortages of 20 percent or less declared by the SFPUC. The provisions of this Plan, and the Tier 1 Plan contained in Attachment H to the Agreement with which it is integrated, are intended to implement Section 3.11 of the Agreement. The Plans do not
affect, change or modify any other section, term or condition of the Agreement or of the individual Water Sales Contracts between each Wholesale Customer and San Francisco.

Section 3.4 Amendment. This Plan may be amended only by the written agreement of all Wholesale Customers.

Section 3.5 Termination. This Plan shall expire on December 31, 2018. It may be terminated prior to that date only by the written agreement of all Wholesale Customers.
ITEM 2: ACTION: Water Shortage Implementation Plan
Senior Resource Planner Nico Procos provided a presentation, including the background, on the development of the proposed plan to split up the water available in a water shortage condition (drought) among the member agencies of the Bay Area Water Supply and Conservation Agency (BAWSCA). Under the plan, water is divided by a formula which is weighted one-third on the Individual Supply Guarantee (the long-term contractual entitlement) and two thirds on a seasonal usage calculation that penalizes water use in the summer months. The formula is also bounded so that no agency is reduced less than 10% and no agency is reduced more than 20% more than the average reduction for all agencies. The formula also includes an adjustment for East Palo Alto to ensure that agency has enough water to meet basic health and safety requirements. The formula expires in 2018 and is only in effect for water shortages that require water use reductions of up to 20%. Procos stated that, for Palo Alto, the formula is not as beneficial as the expired formula, but results in a lower reduction than the average reduction for the BAWSCA agencies.

Procos stated that the representatives of all the BAWSCA agencies that were involved in the development and negotiation of the formula unanimously agreed to recommend the proposed formula to their governing boards. If any agency does not approve the proposed formula, then the BAWSCA Board would consider approval of a formula. If the BAWSCA Board were unable to approve a formula, then the San Francisco Public Utilities Commission (SFPUC) would decide on the formula.

Commissioner Cook asked what happens if there is a reduction of greater than 20%. Assistant Director Jane Ratchye replied that the SFPUC would determine the reduction formula in that event. However, Ratchye noted that the SFPUC has adopted level of service goals for its Water System Improvement Program such that the greatest water supply reduction is 20%. In addition, since the 1987 through 1992 drought, the SFPUC has adjusted its system operations to make water shortages less likely by preserving water in storage rather than producing electricity and by calling for water use reductions earlier in a multi-year drought event.

Chair Waldfogel asked if the formula would have been triggered in the past. Ratchye stated that she hadn't done the analysis, but said that she thinks it would have been triggered in the 1987 through 1992 drought.

Commissioner Berry inquired about the default process if any of the BAWSCA members did not approve the new formula. Specifically, did staff have a sense what the SFPUC might do if they had to make a decision on the process? Procos responded that the contract is clear that the BAWSCA Board of Director’s would be given an opportunity to approve a new formula and the SFPUC would only act if the board did not. Procos added that it is likely that the BAWSCA Board would exercise its authority to resolve the issue. However, assuming the SFPUC was given the opportunity, Procos does not know what approach it may take.

ACTION: Commissioner Berry made a motion to recommend Council approval of the proposed Water Shortage Implementation Plan. Commissioner Melton seconded the motion. The motion carried unanimously (6-0).