



**BOARD FINANCE COMMITTEE MEETING
MONDAY AUGUST 19, 2024, at 9:30 AM**

AGENDA

Public comments may be submitted via email to
General Manager, Kat Wuelfing, at kwuelfing@midpeninsulawater.org

Please indicate in your email the agenda item to which your comment applies.

Comments submitted before the meeting will be provided to the Board before or during the meeting. Comments submitted after the meeting is called to order will be included in the correspondence that will be provided to the full Board.

Board members, staff, consultants, and the public may participate remotely.

The zoom meeting link is available here: <https://www.midpeninsulawater.org/zoom>

Should Zoom not be operational, please check online at: www.midpeninsulawater.org for any updates or further instruction.

1. Call to Order

A. Roll Call

2. Public Comment

If you wish to address the Committee, please follow the directions at the top of the agenda. If you have anything that you wish distributed to the Committee and included for the official record, please include it in your email. Comments that require a response may be deferred for staff reply.

3. Review Proposed Minimum Purchase Quantity Amendment to the Water Supply Agreement

4. Review Proposed Tier 2 Plan Update

5. Adjournment

This agenda was posted at the Mid-Peninsula Water District's office, 1075 Old County Road, Suite A, in Belmont, California, and on its website at www.midpeninsulawater.org.

ACCESSIBLE PUBLIC MEETINGS

Upon request, the Mid-Peninsula Water District will provide written agenda materials in appropriate alternative formats, or disability-related modification or accommodation (including auxiliary aids or services), to enable individuals with disabilities to participate in public meetings and provide comments at/related to public meetings. Please submit a request, including your name, phone number and/or email address, and a description of the modification, accommodation, auxiliary aid, service or alternative format requested. Requests should be sent to the General Manager at (650) 591-8941 or kwuelfing@midpennsulawater.org. Requests must be received at least two days before the meeting. Requests will be granted whenever possible and resolved in favor of accessibility.

Minimum Purchase Amendment to the Water Supply Agreement

MPWD Finance Committee Presentation

August 19, 2024

Minimum Purchase Requirement Included in Water Supply Agreement (WSA)

2021
AMENDED AND RESTATED
WATER SUPPLY AGREEMENT
between

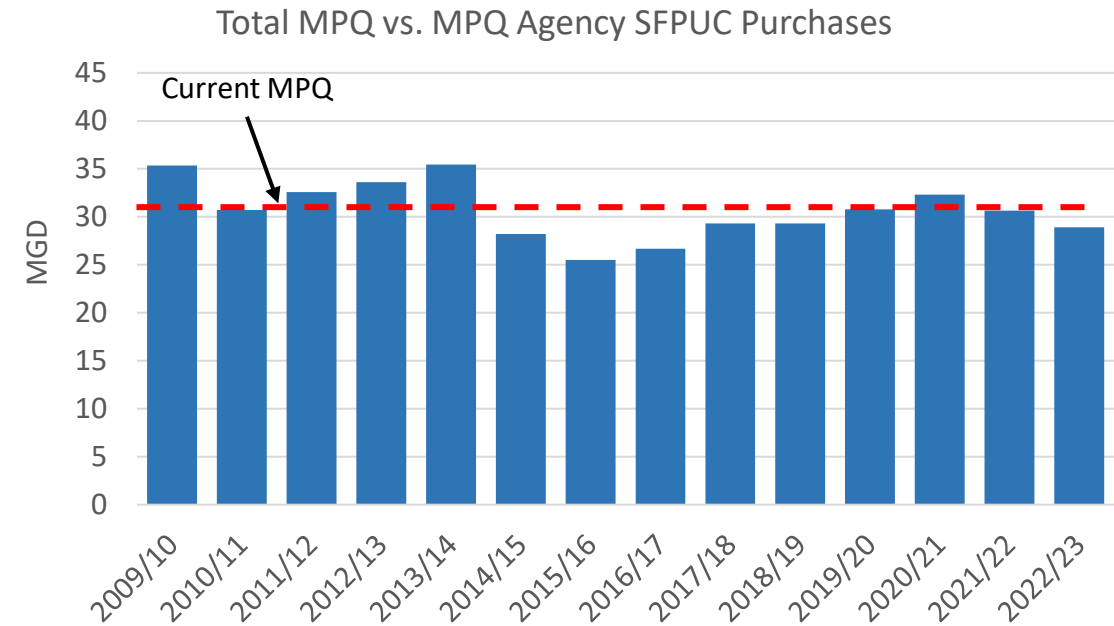
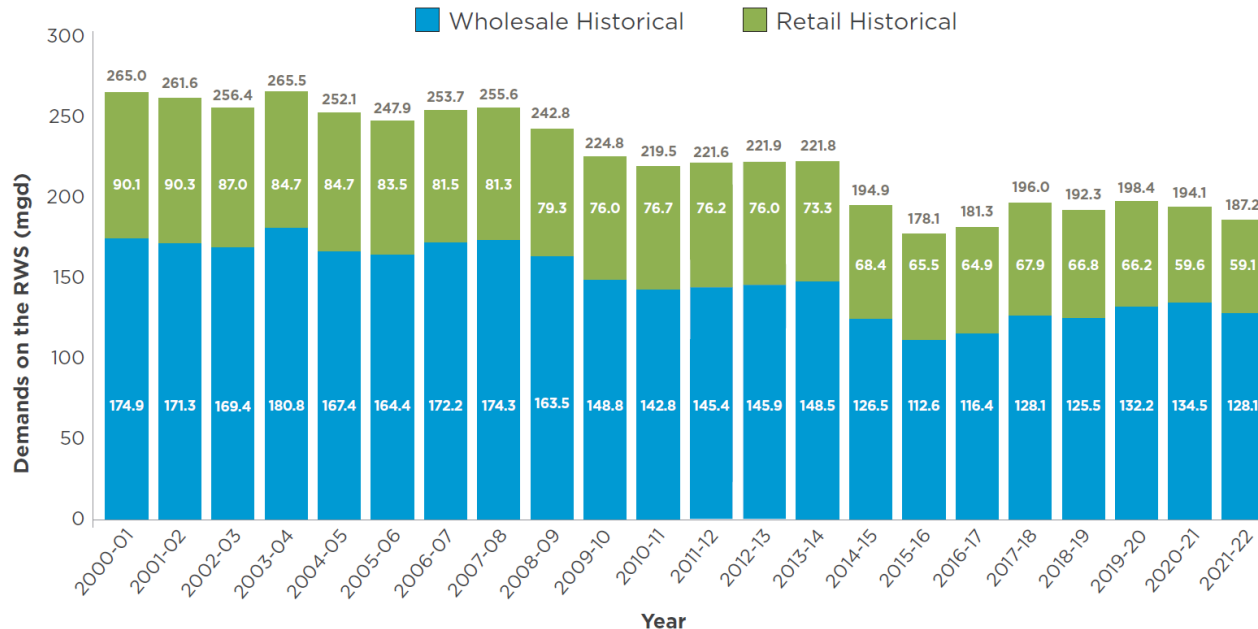
THE CITY AND COUNTY OF SAN FRANCISCO
and
WHOLESALE CUSTOMERS
in
ALAMEDA COUNTY, SAN MATEO COUNTY AND
SANTA CLARA COUNTY

17162043.1

- WSA contains Minimum Purchase Quantities (MPQs) for four agencies
 - Mountain View, Milpitas, Sunnyvale and ACWD
- MPQs created to prevent source shifting away from the Regional Water System (RWS) to cheaper imported supplies
- Original MPQs assigned in 1984 Settlement Agreement based on 80% of actual water use at the time
- MPQs last adjusted as part of the 2009 WSA
- Current conditions warrant another adjustment to MPQs, to support investments in local water supplies and reduce future regional costs

SFPUC Proposed a MPQ Amendment in June 2023 in Recognition of Current Conditions

- RWS water use has decreased by 23% since the MPQs were last updated and the region has experienced back-to-back droughts
- Current MPQs cause agencies to pay for water they cannot use thereby:
 - Decreasing the use of local water supplies, recycled water, and conservation
 - Increasing future regional costs for SFPUC's Alternative Water Supply (AWS) Program



SFPUC Proposed a MPQ Amendment in June 2023 in Recognition of Current Conditions

- SFPUC is planning to make investments in new alternative water supplies to ensure it can meet legal and contractual water supply obligations to Wholesale Customers
 - Need to offset impact of regulations (Bay Delta Plan), climate change, and projected growth
- Updating the MPQs is an investment in water supply reliability by:
 - Allowing the MPQ Agencies to utilize local supplies, recycled water, and conservation
 - Which will decrease regional costs for developing alternative water supplies
- MPQ Amendment to be included in a suite of “Water Reliability Contract Actions” for Member Agency and SFPUC action
 - Would also include Tier 2 Drought Allocation Plan and Tier 1 WSA Amendment

Minimum Purchase Proposal has Three Simple Elements

1

MPQ Reset

- Resets MPQs at 80% of actual use during previous four non-drought years
- Includes a 10-year review for possible downward adjustment, if warranted

2

Drought Rebound

- Creates a one-year drought rebound MPQ, which is set at midpoint between actual drought water use and the reset MPQ

3

MPQ Family Plan

- Mirrors the Tier 2 Family Plan by adding a waiver for collective compliance
- If MPQ Agencies collectively achieve the total required MPQ, no agency pays a penalty for not meeting its individual requirement

Financial Impact of Reliability Investments Shared by All

- Estimated cost of MPQ Amendment
 - **\$0.007 to \$0.040 per CCF** (for all Wholesale Customers and SFPUC)
- Estimated avoided costs associated with new regional supplies
 - SFPUC has identified new projects to fill a future water supply reliability gap
 - SFPUC estimates capital costs of \$3 billion to \$6 billion (plus unknown O&M costs)
 - This translates to **\$2.90 to \$10.42 per CCF** (for all Wholesale Customers and SFPUC)
- Net Effect of the MPQ Amendment
 - Increases local supplies, recycled water, conservation (funded by the MPQ Agencies)
 - Reduces future costs for new regional water supplies (funded by everyone)
 - Costs and benefits will be shared by SFPUC and the Wholesale Customers

Summary

- MPQs are not functioning as designed:
 - Disincentivize conservation and local supplies, to the detriment of the region
 - Increased future regional costs associated with supply reliability (AWS Program)
- Proposed MPQ Amendment aims to:
 - Preserve the original goal of preventing source-shifting to cheaper imported supplies
 - Delay or reduce costs for new regional supplies, by removing a key barrier to developing local supplies
 - Eliminate penalties for conservation and recycled water use
 - Resolve a Tier 2 critical issue
- Estimated cost is \$0.007 to \$0.040 per CCF
- Estimated avoided cost is \$2.90 to \$10.42 per CCF

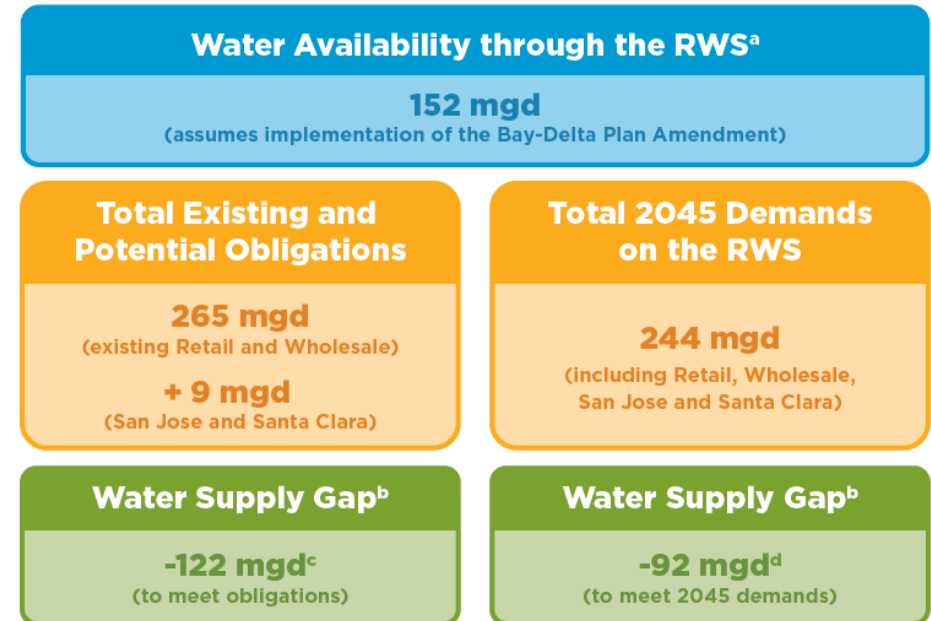
Additional Slides

Conversations About Minimum Purchase Challenges Discussed with WMR as Early as 2015

- Challenges with MPQs have long been discussed with WMR
 - Raised during negotiation of 2018 Amended and Restated WSA
 - Discussed during at least 13 WMR meetings since 2015
 - Raised as early as May 2022 during Tier 2 negotiations as a critical component
- Problem is getting worse, and anticipated to worsen over time
 - Mtn View expecting a \$4M bill from SF for unused water – compared to \$16M-\$20M cost of water delivered to its customers
 - Mtn View pays 20-25% more per unit of delivered SFPUC water than all other Wholesale Customers (when MPQs are in effect)
 - All agencies will pay for new Regional Water System alternative supplies
 - Supporting development of local supplies reduces regional costs

SFPUC Alternative Water Supply (AWS) Plan to Close Dry-Year Supply Gap at High Cost

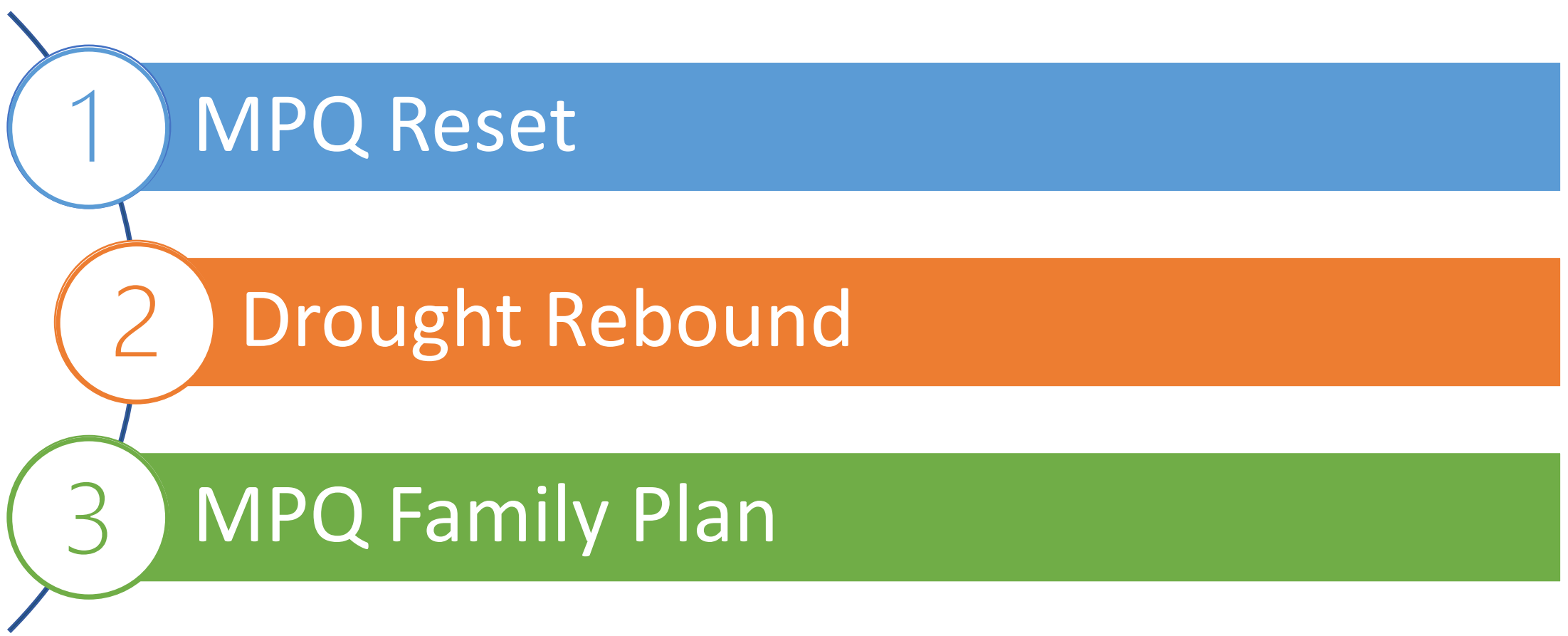
- SFPUC AWS Plan identifies new projects to reduce the projected long-term dry year water supply reliability gap of 92-122 MGD
- Wholesale Customers will pay two thirds the cost to develop new regional water supplies (based on proportional use)
- Estimated capital costs of SFPUC's Alternative Water Supply projects:
 - \$3 - 6 billion total
 - \$1,300 - \$4,500 per acre foot
 - \$1.4 - \$5.1 million per MGD
 - \$3 - \$10 per CCF



Current MPQs Constrain MPQ Agencies from Investing in Local Supplies and Conservation

- Water Supply Agreement supports development of local groundwater, surface water, recycled water, and conservation
- Maximizing the use of local supplies, recycled water, and conservation benefits the Regional Water System and defers need to develop expensive new regional water supplies
- The MPQ agencies have some of the greatest opportunity for investment in local supplies given local conditions
- Current MPQs disincentivizes investments in available local supplies due to overall financial impacts

Minimum Purchase Proposal has Three Simple Elements



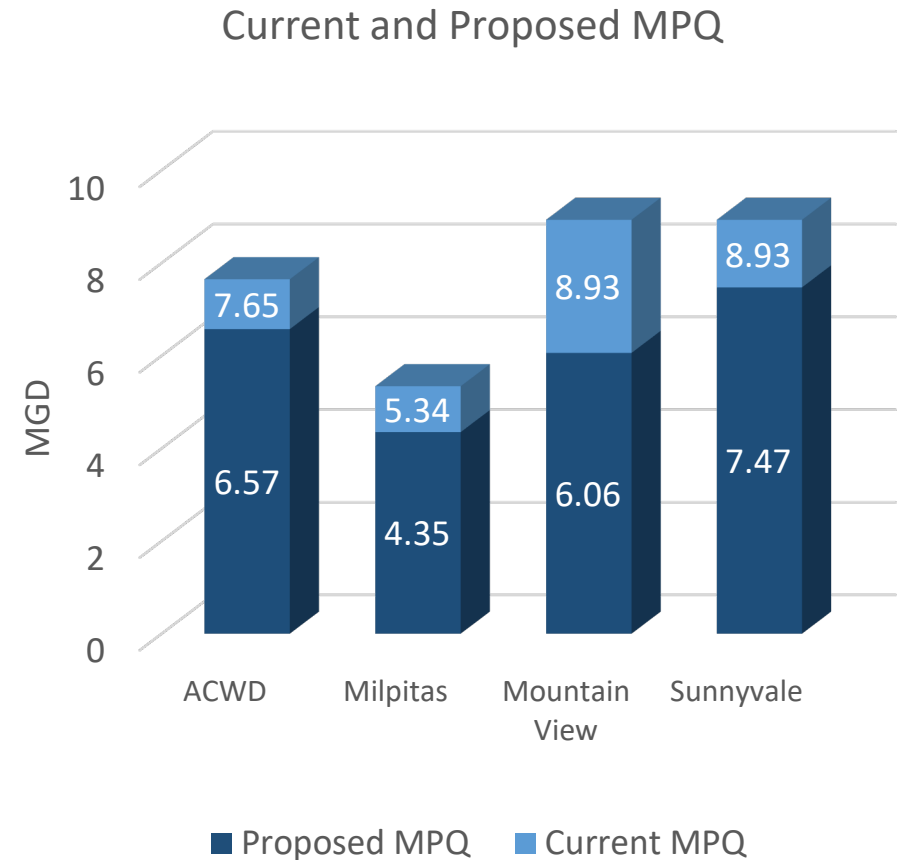
1 MPQ Reset

2 Drought Rebound

3 MPQ Family Plan

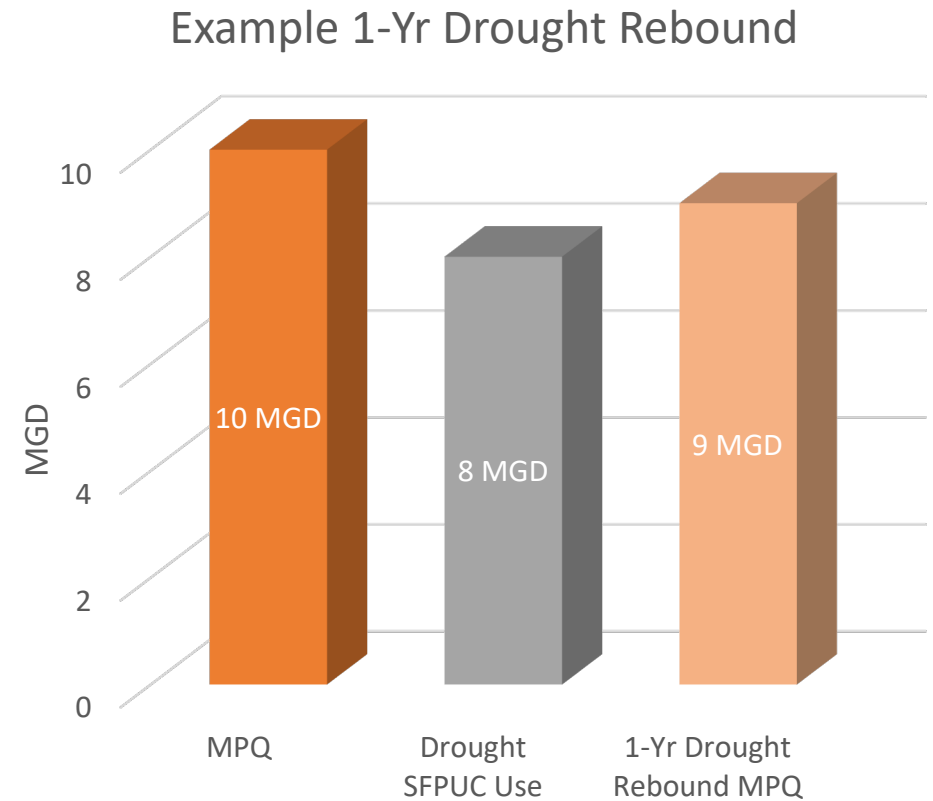
1 MPQ Reset

- MPQs reset at 80% of SFPUC use from previous four non-drought years
- 10-year review for future possible downward adjustment
- SFPUC responsible for calculations and notifying MPQ agencies, Wholesale Customers, and BAWSCA about new MPQs



2 Drought Rebound

- Reminder: MPQs are waived during drought (no change)
- One-year drought rebound MPQ set at midpoint between drought SFPUC use and MPQ



3 MPQ Family Plan

- Mirrors the Tier 2 Family Plan
 - If the Wholesale Customers collectively achieve the total required drought reduction, no agency pays a penalty for not meeting their individual required drought reduction
- MPQ Family Plan
 - If the MPQ agencies collectively achieve the total required MPQ, no agency pays a penalty for not meeting their individual required MPQ
- If not collectively achieved, agencies pay proportional to their share of over-usage (Tier 2 Family Plan) / under-usage (MPQ Family Plan)



“A multicounty agency authorized to plan for and acquire supplemental water supplies, encourage water conservation and use of recycled water on a regional basis.”

[BAWSCA Act, AB2058 (Papan-2002)]

Tier 2 Plan Update

MPWD Finance Committee Meeting
August 19, 2024

Two Items to be Considered for Adoption

1

WSA Amendment

Tier 1 Plan

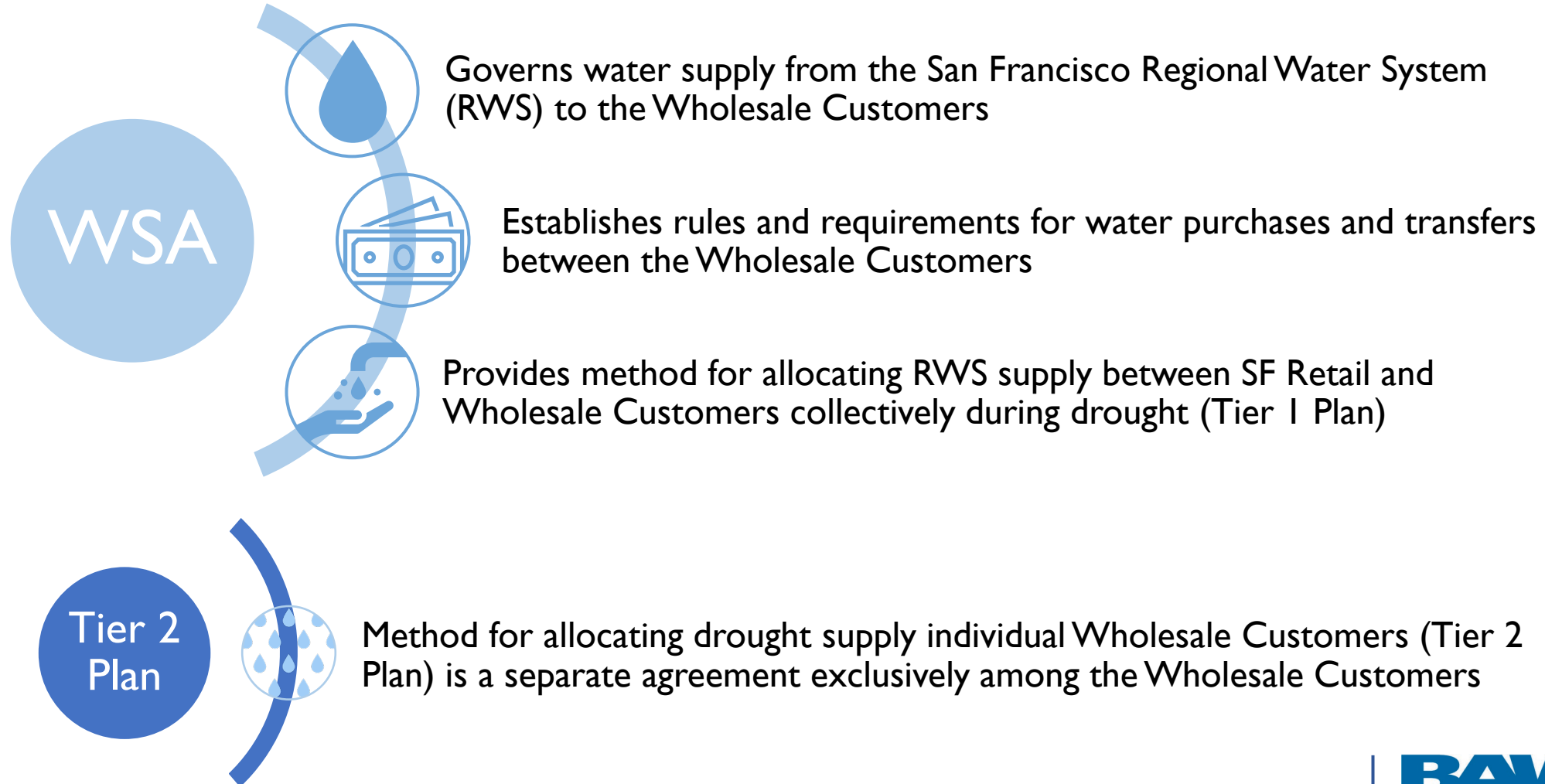
Minimum Purchase Requirement

Other housekeeping

2

Updated Tier 2 Plan

Refresher on the Water Supply Agreement (WSA) Between San Francisco and the Wholesale Customers

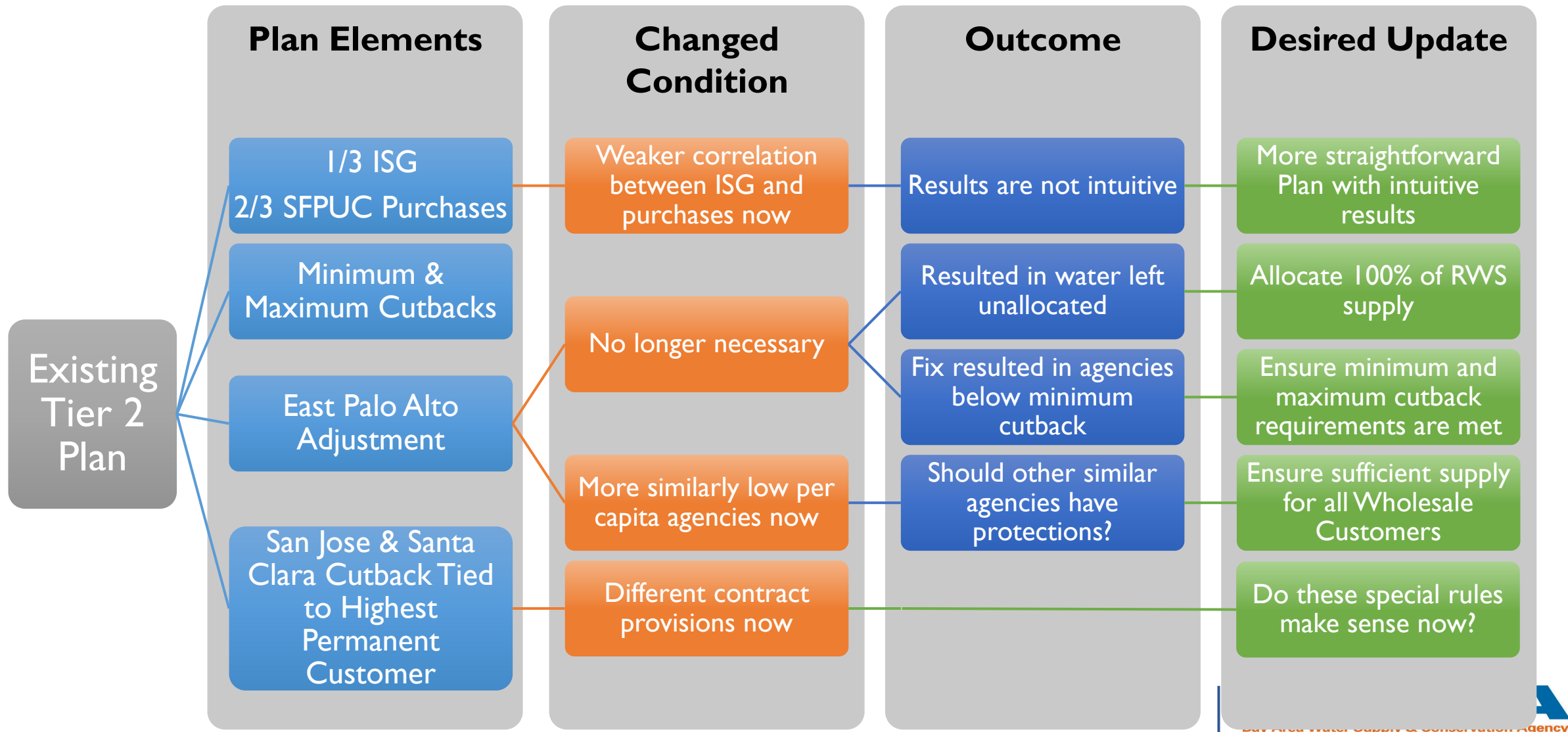


WSA Amendments Currently Being Finalized

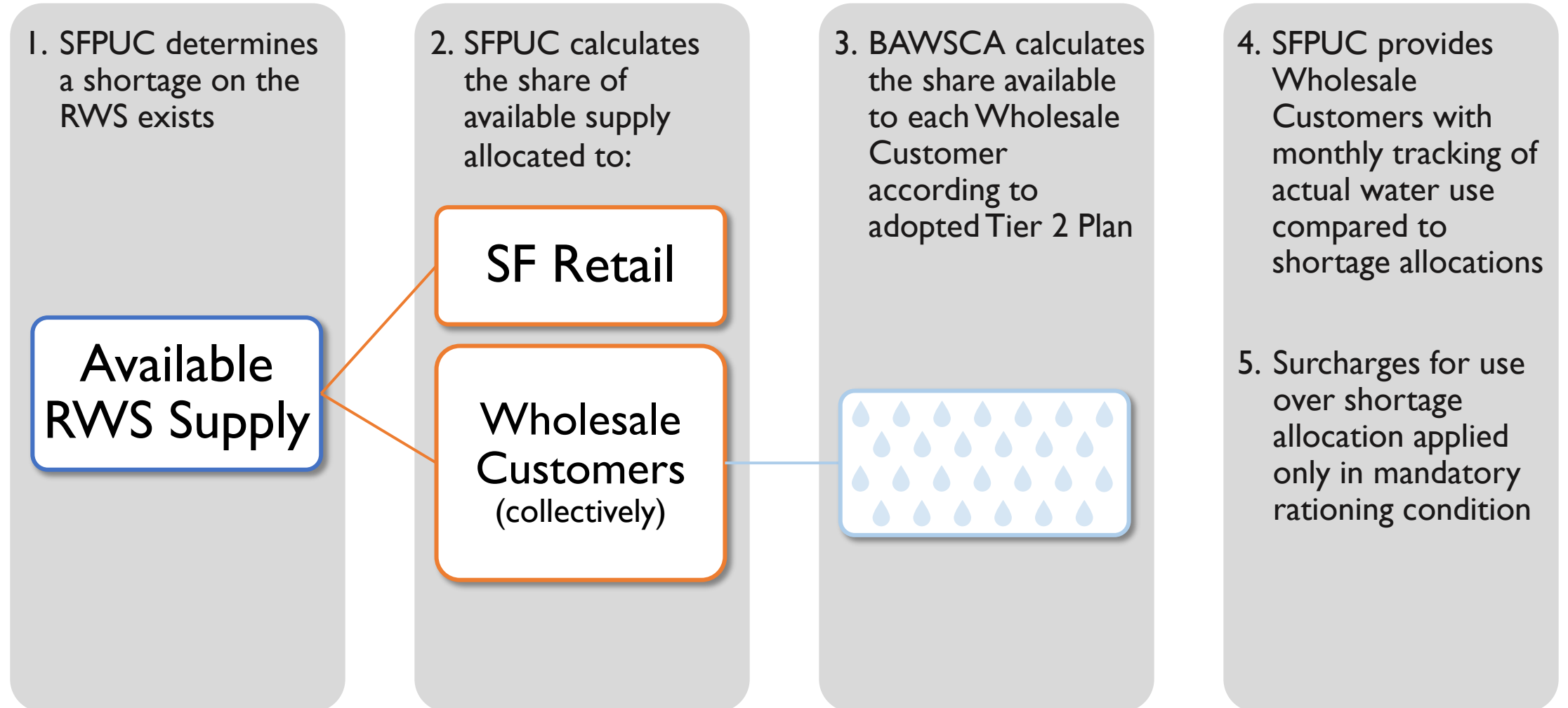
- **Tier I Plan** – BAWSCA is working with SFPUC to finalize
- **Minimum Purchase Amendment** – MPQ agencies continue one-on-one meetings with agencies that have outstanding questions
- **General housekeeping** (e.g., section references) – Hanson Bridgett will provide redlines with adoption package



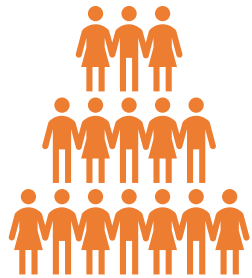
Existing Plan Elements and Why an Updated is Needed



Tier 2 Plan Implementation Process



Tier 2 Plan Update Process Centered Around Policy Principles



All 26 Wholesale Customers engaged in the process

- How do other agencies allocate water in drought?

Research Shortage Allocation Plans

Develop Policy Principles

- What should the Plan aim to achieve as a regional plan?

- What methods of allocating water will achieve the policy principles?

Develop Updated Plan

Iterative Process

Refine Steps

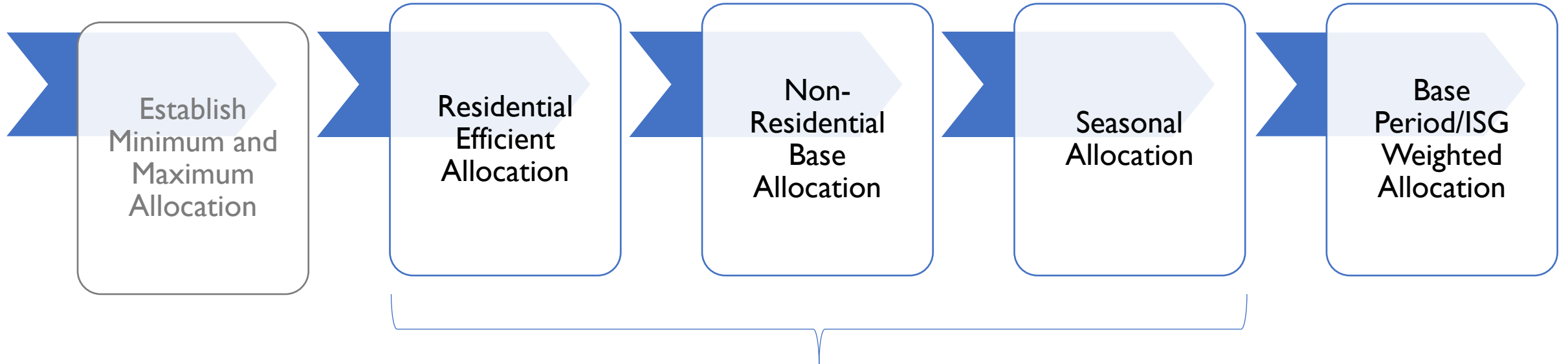
Analyze Results

Tier 2 Plan Policy Principles

1. Provide sufficient water for the basic health and safety needs of customers.
2. Minimize economic and other adverse impacts of water shortages on customers and the BAWSCA region.
3. Provide predictability of drought allocations through consistent and predetermined rules for calculation, while allowing for flexibility to respond to unforeseen circumstances.
4. Recognize benefits of, and avoid disincentives for, water use efficiency and development of alternative water supply projects.

Tier 2 Plan Allocation Methodology

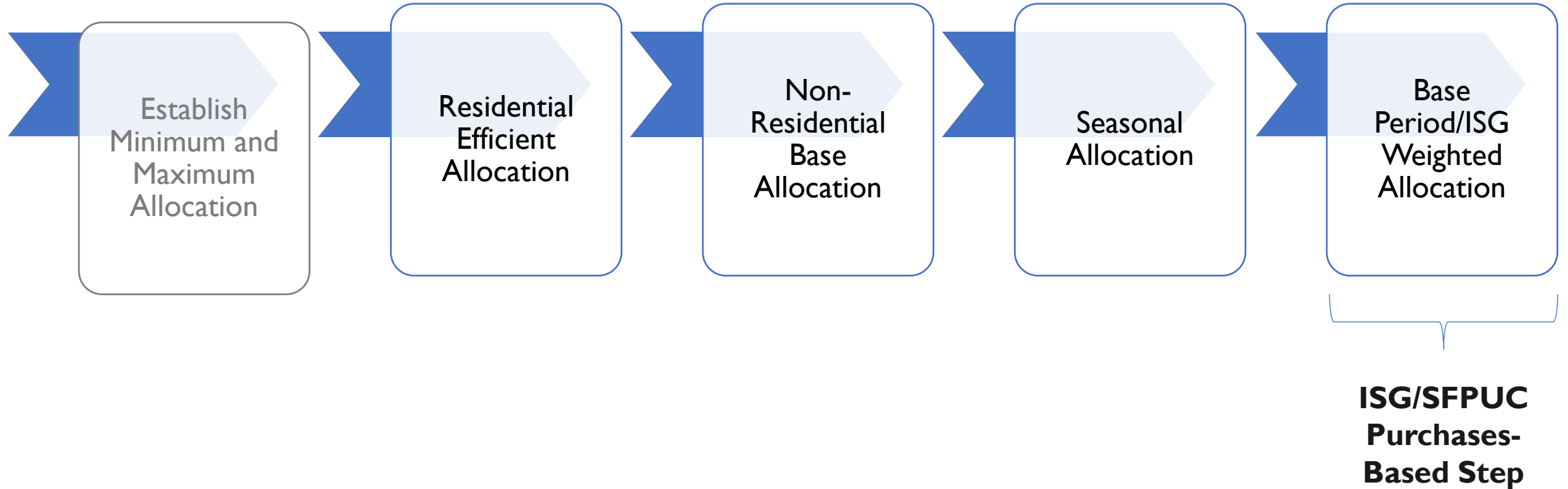
* No water allocated in these steps



“Needs-Based” Steps

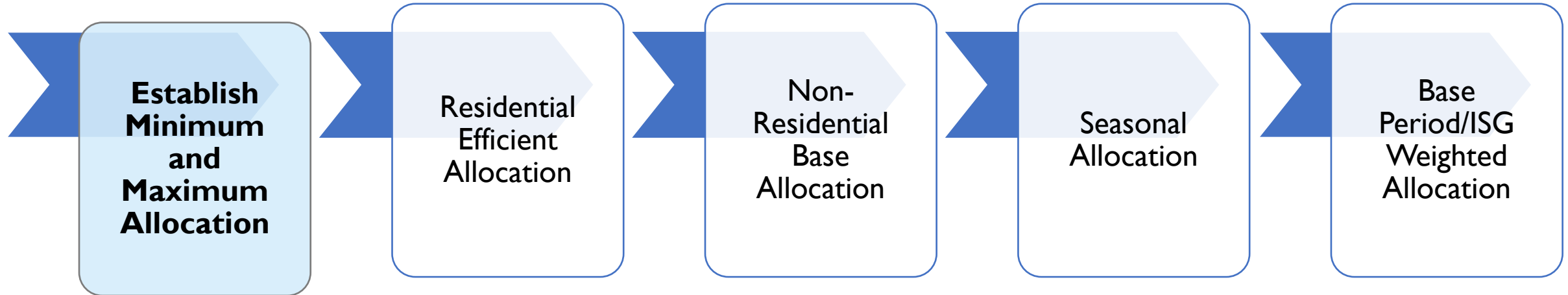
Tier 2 Plan Allocation Methodology

* No water allocated in these steps



Tier 2 Plan Allocation Methodology

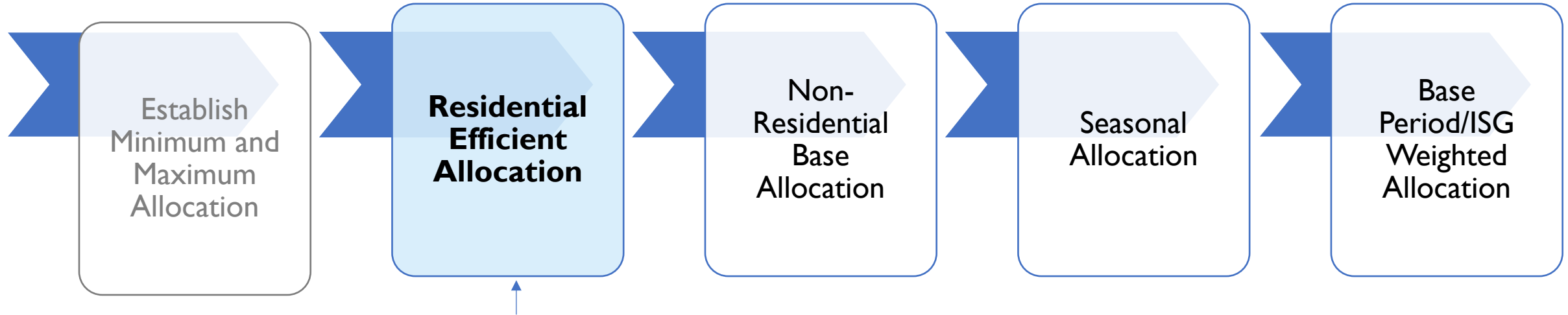
* No water allocated in these steps



- Establishes the upper and lower bounds within which an agency's final allocation must be.

Tier 2 Plan Allocation Methodology

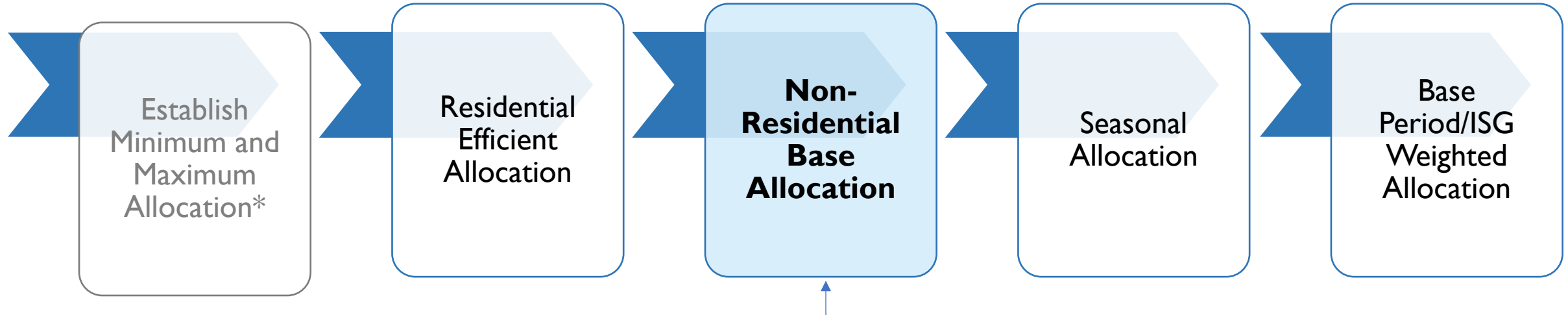
* No water allocated in these steps



- Allocates water on a residential per capita basis, based on the State indoor water use efficiency standard and the portion of each agency's water demand met by the RWS.
- Contributes to an agency's health and sanitation needs.

Tier 2 Plan Allocation Methodology

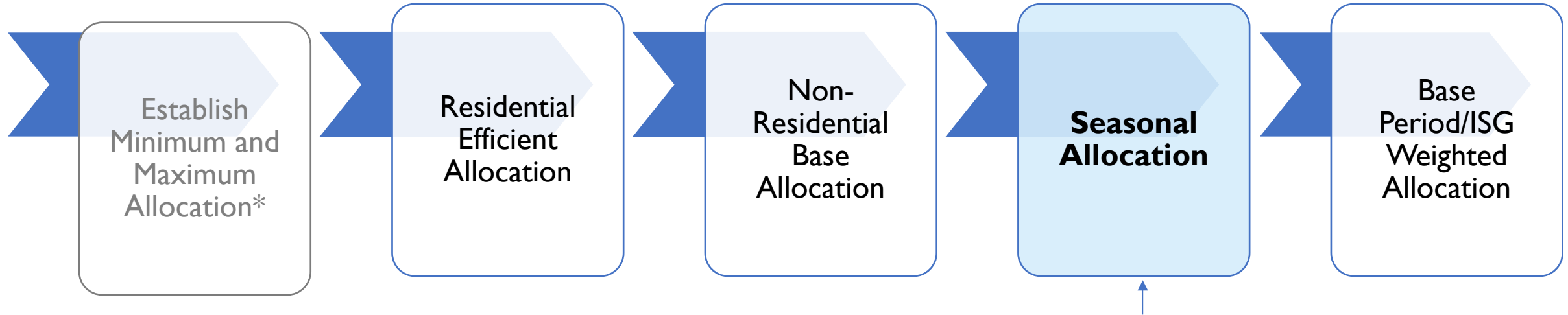
* No water allocated in this step



- Allocates water based on each agency's estimated non-residential indoor (base) use.
- Contributes to an agency's health and sanitation needs.

Tier 2 Plan Allocation Methodology

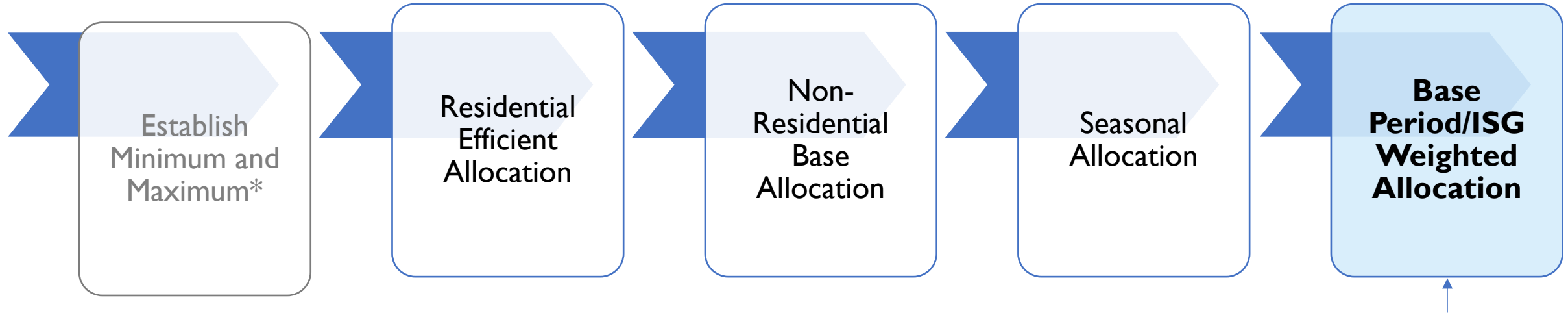
* No water allocated in this step



- Allocates water based on estimated seasonal purchases from the RWS.

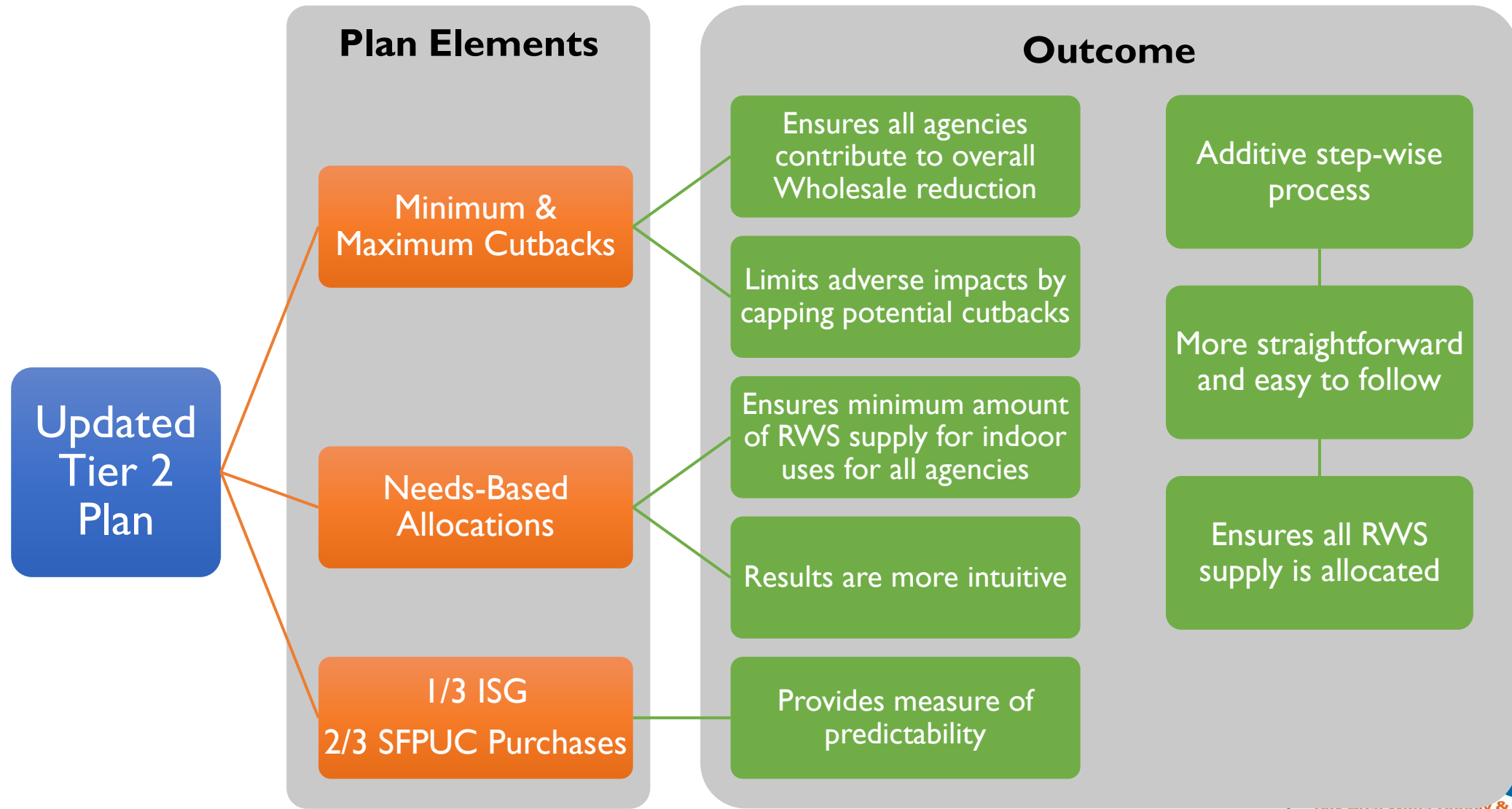
Tier 2 Plan Allocation Methodology

* No water allocated in this step

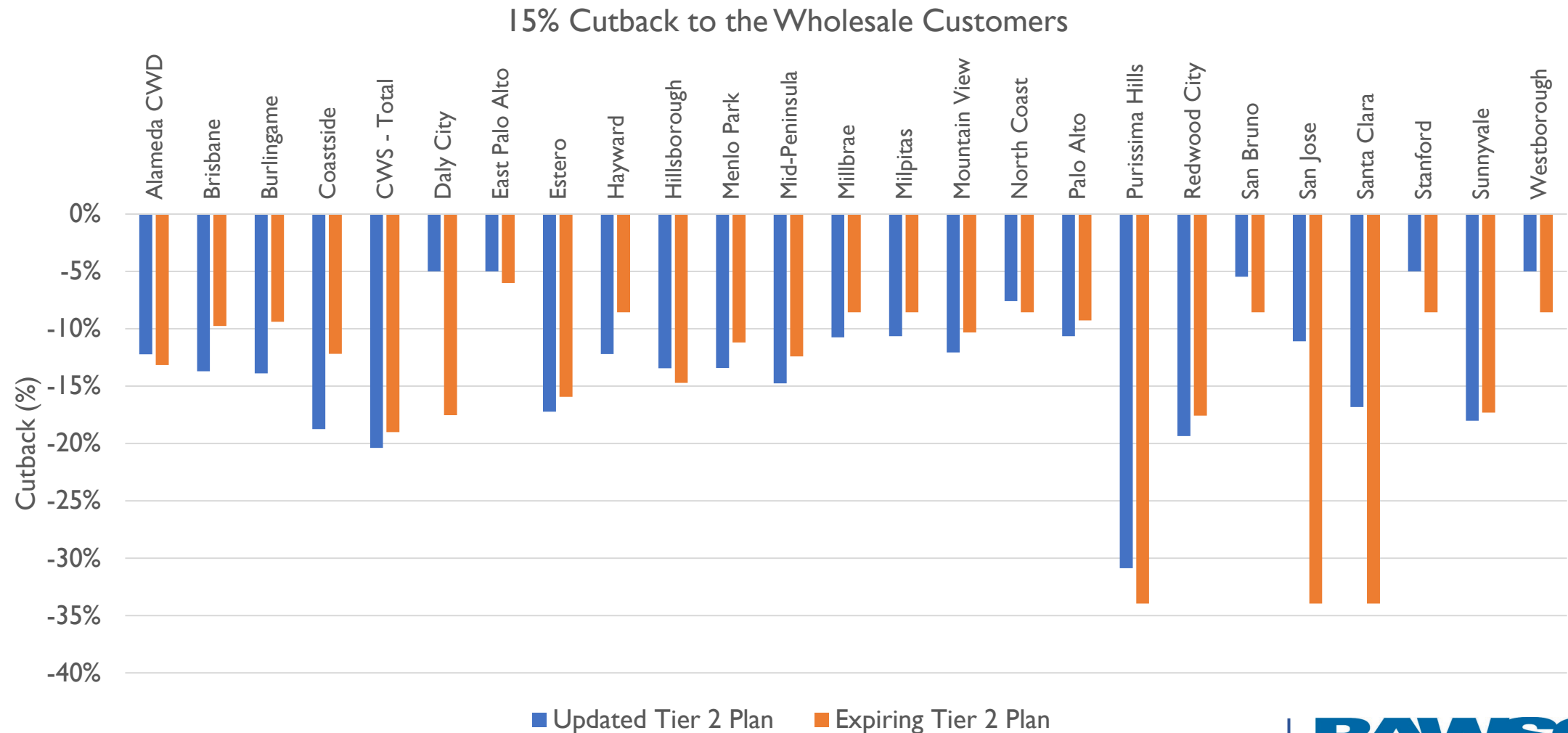


- Allocates the remaining water to get each agency's final allocation as close to the 'Target Allocation' as possible.
- The Target Allocation is based on a weighted share of two-thirds Base Period purchases from the RWS and one-third ISG.
- Ensures each agency's final allocation is between the Minimum and Maximum Cutback bounds.

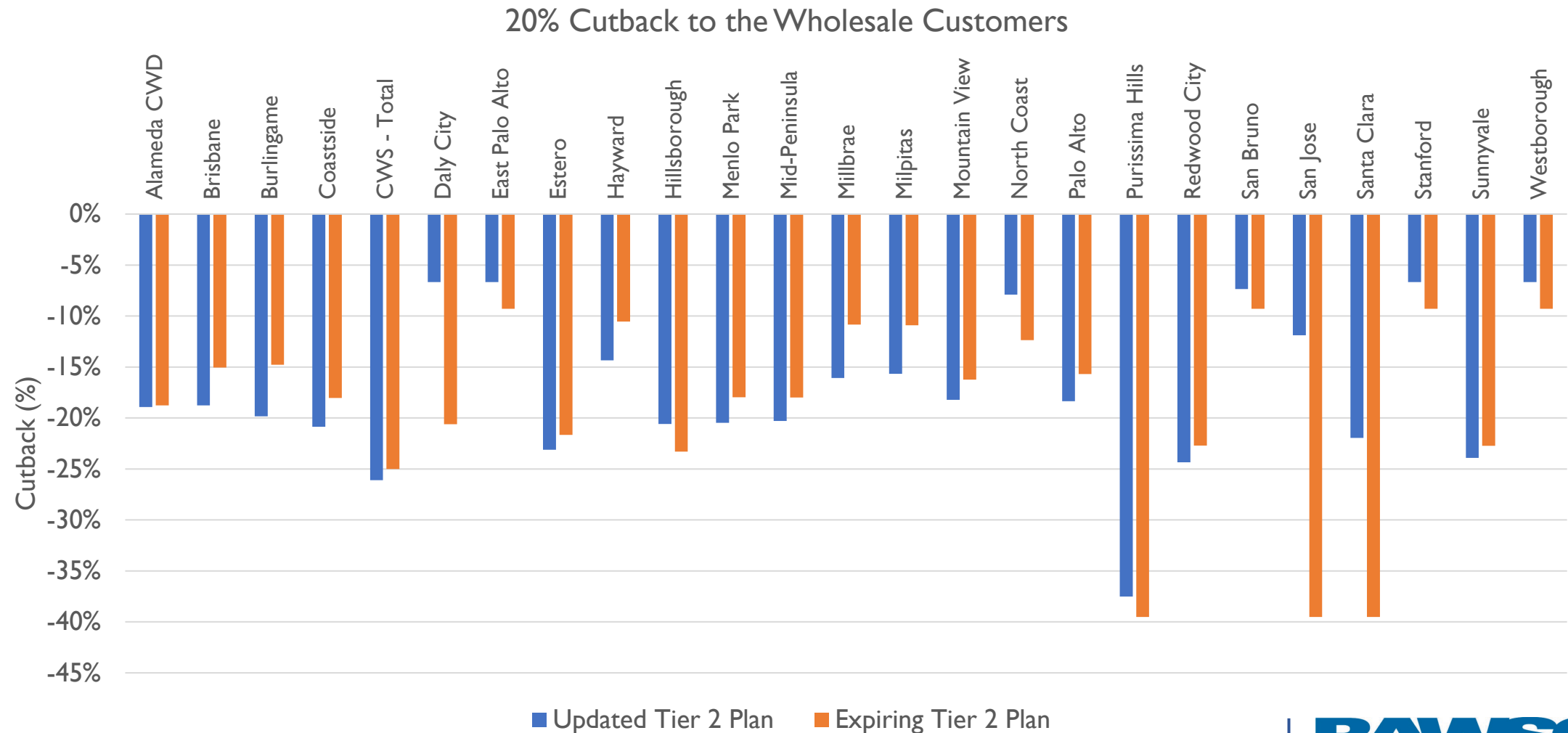
Updated Tier 2 Plan Achieves the Policy Principles and Intended Objectives



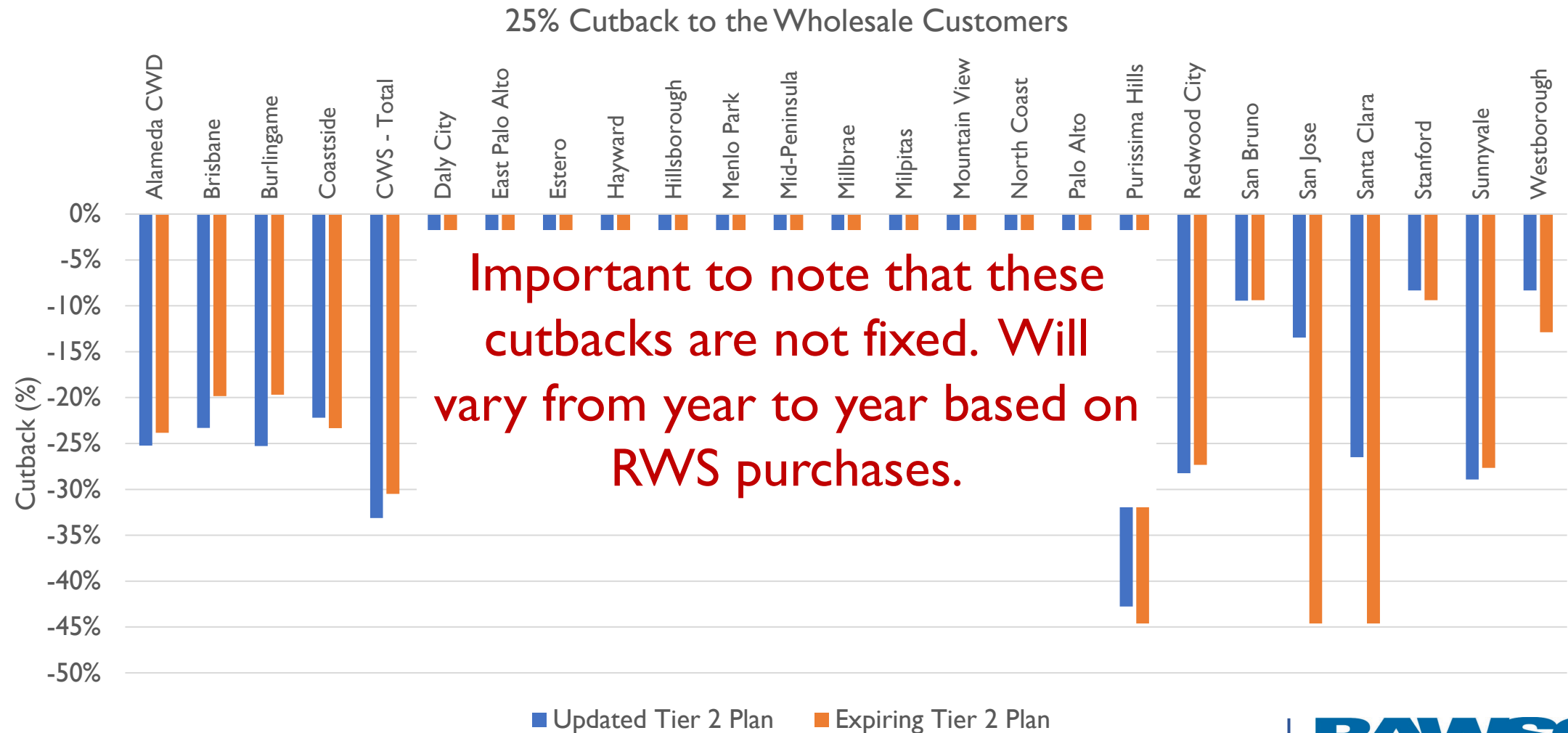
Example Scenario: Updated Tier 2 Plan Cutbacks Compared to Expiring Plan at a 15% Cutback to the Wholesale Customers



Example Scenario: Updated Tier 2 Plan Cutbacks Compared to Expiring Plan at a 20% Cutback to the Wholesale Customers



Example Scenario: Updated Tier 2 Plan Cutbacks Compared to Expiring Plan at a 25% Cutback to the Wholesale Customers



Tier I Family Plan

- New element agreed to by SFPUC
- In mandatory cutback conditions, excess use charges will not be applied if the Wholesale Customers collectively are below the Tier I allocation
- If not collectively below Tier I allocation, excess use charges will be applied proportional to each agency's share of over-usage