

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
November 17, 2011 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

1. Call to Order/Pledge of Allegiance/Roll Call – 7:00 pm

BAWSCA Chair, Barbara Pierce, called the meeting to order. Art Jensen, called the roll. Twenty (20) members of the Board were present, constituting a quorum. A list of directors present (20) and absent (6) is attached.

2. Comments by the Chair: Chair Pierce noted that critical issues regarding water matters will be of great interest to BAWSCA member agencies and their water customers in 2012. The Board will look to the CEO, Mr. Jensen, to keep the leadership and the member agencies informed about the water policy issues that are relevant to the health, safety and economic well-being of the water customers in the service area.

Improving the relationship with the SFPUC has been a high priority for BAWSCA in the past few years and a notable progress has been made. The improvement is evident in the respectful relationship between Mr. Jensen and Mr. Harrington, as well as between Ms. Sandkulla and the Senior SFPUC staff members. The continuous improvement is valuable in achieving positive results for the work both agencies do, and can be expected to continue with the appointment of Andy Moran as the President of the Commission. Chair Pierce noted that Mr. Moran and Mr. Jensen have a working relationship that goes back 27 years when they worked together at the SFPUC.

Mr. Jensen stated that Commissioner Moran has worked for the SFPUC as head of the Finance Bureau, as General Manager of Hetch Hetchy Water and Power, and as General Manager of the SFPUC. He brings with him a wealth of information and history about the system, the service area and how San Francisco's relationship with State water politics.

Mr. Jensen noted that Mr. Moran held the position of SFPUC General Manager longer than any other General Manager since before 1952. He is formidable in his intellect and his loyalty to San Francisco, which can be both admirable and challenging. Although he lives in San Francisco, Mr. Moran has a regional perspective which is important to BAWSCA and its member agencies.

3. Public Comments: Public comments were received from Wynn Grcich, resident of Hayward, Linda Corwin from the Citizens Concerned About Chloramine, Michael Francois, and Steven Knight from Save the Bay.

4. Board Policy Committee Report: Committee Chair, Larry Klein reported the actions and discussions of the Committee at its meeting held on October 12, 2011.

Amendments to the Procurement Policy were discussed and will be brought back to the Committee following further necessary refinements.

The Committee voted to recommend Board authorization of the CEO to negotiate and execute a contract with PG&E for the administration of the Washing Machine Rebate Program.

The Committee also received a presentation on the schedule for policy decisions on the Long-Term Reliable Water Supply Strategy. The report on the Strategy will come to the Board as a discussion item for the preparation of the FY 2012-13 Work Plan. Director Klein reported that the Committee had an interesting discussion of the implications of regional housing allocations to local water supply planning.

5. **Consent Calendar:** Director O'Mahony inquired about the role of the Bay Area Water Users Association (BAWUA), and why it continues to exist and require a financial audit.

Mr. Jensen stated that San Francisco's City Charter created the Revenue Bond Oversight Committee which includes a representative appointed by BAWUA. Mr. Jensen reported that the existence of BAWUA requires no operational spending, and the cost of the annual audit is minimal.

Director Vella made a motion, seconded by Director O'Connell, to approve the Consent Calendar which includes the Minutes of the September 15, 2011 meeting, and receipt and filing of the Budget Status Report and Quarterly Investment Report for period ending September 30, 2011, the Audit Reports for BAWSCA and BAWUA for FY 2010-11, Director's Reimbursement Report for period ending September 30, 2011, and the authorization for the CEO to negotiate and execute a contract with PG&E for the Washing Machine Rebate Program. The motion carried unanimously with four Directors abstaining from the approval of the minutes of the September 15th meeting which they were not in attendance.

6. **SFPUC Report:**

Michael Carlin addressed the BAWSCA Board on behalf of Mr. Harrington. He announced the retirement of Sharyn Saslafsky, who has served as the key person for communication between BAWSCA and the SFPUC. Michelle Sargent will be taking on Ms. Saslafsky's responsibilities.

Modesto Irrigation District Water Transfer: Mr. Carlin reported that the SFPUC has been working with the Modesto Irrigation District (MID) for several years on a 2 mgd water transfer. The amount of 2 mgd comes from the shortfall identified in the PEIR for the Water System Improvement Program (WSIP). The PEIR addresses necessary environmental issues and would allow the transfer to be implemented following finalization of agreements between the SFPUC and MID. A target date is July 1, 2012.

Mr. Carlin reported that an additional transfer of up to 21 mgd of additional water is the subject of a second proposed water transfer from MID, which could begin in two to three years, following completion of an Environmental Impact Report (EIR) and approval of the necessary agreement. MID would be the lead agency on the environmental work. A portion of the 21 mgd would help the SFPUC make up for the water it is now required to put down San Mateo and Alameda Creeks for environmental purposes.

The SFPUC and MID are working very closely. Public discussions will take place beginning in January 2012.

In response to Director McLeod's questions, Mr. Carlin explained that the Tuolumne River is the source of the water transfer. The transfer purchases MID's water supply, and does not transfer MID's water rights. In addition to other projects, MID has a 10-year program of water efficiencies that they will do within their irrigation system that will make up for the water transfers over time. Lastly, biological impacts and impacts to the river were covered in a full EIR performed to analyze up to 300 mgd being taken away from the Tuolumne River flows.

Congressman Nunes' Legislation: Mr. Carlin reported that Congressman Nunes has initiated legislation, HR1837, and has sent letters about the Hetch Hetchy system that contain several allegations.

The allegations include that the San Francisco Regional Water System is a major water diverter of water out of the Bay Delta, that San Francisco does not comply with the endangered species act, and that San Francisco does not pay the federal government enough for having facilities in a national park.

The SFPUC wrote a letter to Senator Diane Feinstein providing facts as a response to the allegations made by Congressman Nunes.

Mr. Carlin noted that the SFPUC's diversions represent only 0.7% of all Delta watershed diversions and provides water to a service area which serves 7% of the California population. While the Raker Act requires the San Francisco to pay a \$30,000 annual fee each year, San Francisco and its Wholesale Customers pay \$5 million to the national park service and another half a million dollars to the US Forest Service for watershed protection activities.

The SFPUC is working diligently as the Bay Delta debate continues. Information and further developments, including a copy of the letter to Senator Feinstein, will be shared with BAWSCA.

Wholesale Water Rates: Mr. Carlin reported that the SFPUC established a trigger to raise wholesale water rates at mid-year if water use drops to less than 135 mgd. Water usage is holding at 140 mgd, and the forecasted revenue shortfall is about \$9 million.

The wholesale water rate increase for FY12-13 will be at 15%-20% based on sales projections of 135 mgd. A letter from Todd Rydstrom, Chief Financial Officer, to Art Jensen will be finalized tomorrow and will provide the details of next year's wholesale water rate projections.

In response to questions asked by members of the Board, Mr. Carlin explained that the SFPUC hopes to provide a number for next year's wholesale water rate when the SFPUC meets with the Wholesale Customers and BAWSCA on February 24th. If water usage continues to drop, the SFPUC will consider a hiring freeze as well as look into de-funding cash funded capital, which can defer completion of work. Those are two typical alternatives agencies consider before raising rates. He said it is prudent for the SFPUC to look at all available options.

Mr. Carlin reported that a lot of WSIP construction projects are underway and going well. The New Irvington Tunnel and the Calaveras Dam projects are running into unexpected site conditions that require different techniques and more attention than anticipated. The

projects remain on schedule at this time, but the SFPUC is reviewing the schedule forecasts for both the projects to determine how time can be made up if they run behind schedule.

SFPUC Taste and Odor Event Notification: David Briggs, SFPUC Water Supply and Treatment Division Manager, reported on the recent field events that gave the SFPUC an opportunity to identify and fix two problems in its communication strategy.

In October, a minor algae bloom in the Calaveras Reservoir caused an increase in taste and odor in water delivered to customers, including those in San Francisco. Operations could normally work around algae blooms that often occur during this time of year. However, with the ongoing construction projects, the SFPUC could not take the Calaveras Reservoir offline.

Simultaneously, an event in the San Andreas Reservoir took place and water customers including San Francisco were affected by the water quality.

Water quality tests determined that the water met potable water quality standards, although the taste and odor indices were higher than normal. The SFPUC determined the event was not significant enough to require public notification.

The usual average of 20 phone calls per week peaked to approximately 60 to 70 phone calls that week due to the taste and odor changes in the water. The SFPUC was then contacted by the media.

Mr. Briggs stated the first mistake in the SFPUC's communication strategy was that no courtesy notification went out to the Wholesale Customers and BAWSCA about the changes in water quality. The second mistake was in setting the threshold for public notification of taste and odor too high.

Mr. Briggs reported that the SFPUC now has a policy to notify Wholesale Customers and BAWSCA of any activities that might receive any level of media coverage. The SFPUC has also lowered its threshold for taste and odor.

A recent water quality notification was sent to Wholesale Customers and BAWSCA about an increase in the use of local water supplies that generally affects conductivity and other water treatment parameters of interest to local water system operators. The notification also provided a heads-up on possibilities for increased taste and odor and the return of the bubbles in the water which may remain for one or maybe two years.

Lastly, Mr. Briggs reported that the Hetch Hetchy system will be shutdown from December 5th through January 7th to accommodate WSIP construction work. There will be a lot of work on treatment facilities in 2012.

7. Reports and Discussions:

- A. Long-Term Reliable Water Supply Strategy: Nicole Sandkulla reported on the progress of the Strategy to date, upcoming policy decisions that the Board will act upon, and the schedule on which those policy decisions can be expected.

To date, the Strategy has achieved two things; 1) identified when additional water supply will be needed in normal years and in dry years, and where additional water supply will be needed; and 2) what possible water supply solutions should be pursued further. BAWSCA is looking at candidate water supply projects for implementation to address normal year needs and dry year needs.

Ms. Sandkulla noted that the most recent demand projections available at the time of the Board's authorization of the Strategy in July 2010 were from the agencies' 2005 Urban Water Management Plans (UWMP).

Water use conditions have changed since the Board's authorization, and the current water demand projections are significantly different. Last Spring the Board agreed it was appropriate to reassess the study scope and schedule to reflect the member agencies' most recent demand projections reported in their 2011 UWMPs.

Using graphs that compare the 2005 and 2011 projections, Mrs. Sandkulla presented the decrease in the need for additional water supply to meet the BAWSCA service area's projected future supply need in normal years.

Based on the new 2011 demand projections, seven agencies will need additional supplies in normal years by 2015 and 2035: Daly City, East Palo Alto, Purissima Hills, Cal Water, Stanford, San Jose and Santa Clara. The need ranges from 2 mgd to 13 mgd. Ms. Sandkulla explained that the upper bound of 13 mgd would be needed if San Francisco decided to stop supplying water to San Jose and Santa Clara.

In conclusion, the projected near-term water demands during normal years are reduced, and there is no immediate need for regional investment in normal year supplies. Ms. Sandkulla noted that current water demand projections are affected by cooler weather conditions, conservation savings, and current population and economic growth projections. Ms. Sandkulla noted that there is a risk to deferring development of new water supply because there could be an economic rebound or other unexpected changes in conditions. For that reason, it is prudent to reassess the projections with increased rigor within the next five years.

Ms. Sandkulla reported that unlike the need for normal years, the agencies express a collective need for increased drought reliability. Using graphs with the 2005 and 2011 projections, Ms. Sandkulla presented the water supply needed during drought years. Because projected water demands have decreased, the projected shortfall during dry years has decreased from 77 mgd to 58 mgd.

Ms. Sandkulla noted that an additional dry year supply of 58 mgd would result in zero cutbacks during drought.

The critical questions that need to be examined prior to investing in dry year supplies include: expected future levels of drought shortage, the frequency of droughts, the potential economic impact of water supply shortages, and the level of investment in additional drought reliability that makes sense.

BAWSCA is working closely with the SFPUC to examine the future levels of drought and drought frequency. That information will be presented to the Board in Spring of 2012. Information on the economic impacts of drought shortages and possible levels of investment in drought reliability will be available in the Fall of 2012. Ms. Sandkulla noted that the timing to take advantage of some opportunities may be critical.

Over 65 possible water supply projects were identified and closely examined with individual agencies to date. A short list of potential projects was developed and categorized as expansion of existing recycled water projects, water transfers, desalination, and rainwater harvesting, stormwater capture, and graywater reuse.

Ms. Sandkulla presented a timeline of when policy questions will be addressed by the Board. The first consideration is the development by BAWSCA and member agencies of a consistent methodology for projecting future water needs. This will be presented to the Board as part of the work plan for FY 2012-13. That work would span over two to three years and be completed no later than 2014.

The Board will receive the results and analyses of the critical questions that need to be examined for increased drought reliability during FY 2012-13.

Also in the Fall of 2012, the Board will examine under what conditions BAWSCA might provide support to individual agencies that need increased normal year supplies, should they desire such support.

Director Laporte commented that the Board should not lose sight of the member agencies' existing efficiency in water-use so that when a drought comes, there is less to conserve because the region is already efficient. She added that there are substitute supplies during drought, that may not provide the high quality of water needed for particular uses, such as research.

Director McLeod commented that it might be important to have some policy discussion and consideration for the development of a formal policy regarding water transfers because there could be potential impacts on some of the individual agencies when there are internal or external transfers from the system. Equally important is the BAWSCA Board's regional approach to determining what support BAWSCA should provide to individual agencies who need additional supplies in normal years. Director McLeod stated that at her orientation briefing meeting with Mr. Jensen prior to becoming a member of the Board, it was clear that Directors have a regional responsibility as members of a regional board, opposed to a totally local focus. Being a representative of a city that could be heavily impacted, she hopes that the BAWSCA Board takes a regional approach as discussions and recommendations move forward.

In response to Director Weed's questions about Hetch Hetchy's capacity and the cost-effectiveness of desalination, Ms. Sandkulla stated that the capital facilities under the WSIP are designed to meet an average annual demand of 310 mgd. With regard to ocean desalination, various locations along the Bay front were examined and at this time the short list includes desalination along the Bay front in San Mateo County.

Chair Pierce noted that with the current reduction in water, the level of additional water supplies to meet needs by 2018 and 2035 have changed. While the relief from the pressure can be appreciated, Chair Pierce encouraged Board members to present their questions and concerns with the policy issues with recognition of the amount of time required to develop new infrastructure.

Director Quirk expressed his satisfaction with the plan to move ahead with the Strategy because the current low water-use can be the effect of the current economy, which could recover and cause demands to return to prior estimates.

Chair Pierce asked for Director Wykoff's comments, who stated his concern with finding an alternative reliable source of supply in case a catastrophic interruption occurs with the San Francisco Regional Water System.

Mr. Jensen noted that the concern remains valid, and stated that the WSIP is planned and designed to address catastrophic interruptions including major earthquakes, acts of terrorism, landslides and other events. It is San Francisco's objective to restore service within a 24-hour period, at winter time levels, following a catastrophic interruption.

Director Weed expressed his concern that the planning criteria was only for a 24-hour period instead of months following a major catastrophe. He encouraged the Policy Committee to reconsider the length of vulnerability.

- B. SFPUC Water System Improvement Program: Mr. Jensen reminded the Board that BAWSCA recommended the SFPUC identify the specific steps it would take to make up required fish releases so that the SFPUC's adopted water supply goals would be met.

In response to BAWSCA's recommendations, the Commission requested a staff report on how the level of service goals will be met. A staff report was prepared by Steve Ritchie and provided to the Commission at its meeting on December 9th. Additional reports are to be provided to the Commission at its meeting in late January.

Mr. Jensen noted that one of the projects that was intended to provide supply reliability is the Westside Groundwater Basin Conjunctive Use Project in the Northern Peninsula. That groundwater basin lies beneath Cal Water, San Bruno, Daly City and San Francisco. Those agencies have been negotiating an agreement for joint management of the basin, and are coming close to resolving outstanding issues.

Director Guzzetta concurred that the major hurdles are passed and details are being finalized for the project to move forward. He stated that conjunctive use provides water storage efficiently and cost effectively. Director Guzzetta has been involved with conjunctive use for over 25 years in Southern California and Cal Water supports the project in the northern Peninsula. Director Guzzetta expressed his appreciation for the efforts made by the agencies involved with the project.

Mr. Jensen noted that the project is a part of the WSIP and benefit the entire SFPUC service area.

The First Quarterly Progress WSIP Report for the period of July 2, 2011 through October 1, 2011 compared the SFPUC's performance against the schedule and budget adopted by the SFPUC in July 2011. Mr. Jensen reported that the overall regional program is on budget and on schedule. The current forecast for completion of the program is 0.04% over budget and with a one- to four- month extension of the schedule. BAWSCA will continue to monitor progress closely.

Mr. Jensen noted that two major projects, the New Irvington Tunnel and the Calaveras Dam Replacement Project, exhibit high usage of schedule contingency and completion can be expected to be delayed as much as one year.

The New Irvington Tunnel Project is experiencing significant unanticipated technical difficulties due to natural methane gas, excessive groundwater inflow, and variable geologic conditions.

The Calaveras Dam Replacement Project encountered unforeseen soil conditions in critical areas, and has already used 33% of its schedule contingency with construction only 3% complete. The cost for this project can be expected to increase.

Mr. Jensen noted that the SFPUC anticipated the issues for both projects and took responsible actions during planning and design. But what the SFPUC did not expect was that they would come across every technical and geological issue and at such high levels. The magnitude of the problems is so severe in some cases that they present health and safety concerns for the construction workers. The SFPUC has taken prudent actions to ensure worker safety.

Mr. Jensen emphasized that the SFPUC has made good decisions, and if there are any disappointment, it would be that the severity of the problem has not been highlighted as well as it might have been.

At this time, an appropriate question is whether the schedule impacts to these projects can be recovered, and to what extent the program budget might be affected by the delays.

Mr. Jensen reported that BAWSCA has been investigating use, and projected use, of schedule contingency and has been raising questions and confirming facts and conclusions with the SFPUC. The issues are also being highlighted for the Board and Commissioners. BAWSCA is submitting written recommendations and will review the SFPUC's written response.

Director Kasten asked whether the rapid use of schedule contingencies against the percentage of completion is typical with other projects of the WSIP. Mr. Jensen explained that each project is different, and with the Irvington Tunnel Project, the California Occupational Health and Safety Administration has stated these are the worst tunnel conditions they have seen.

Director Guzzetta asked whether the Irvington Tunnel and Calaveras Dam Replacement Projects are affected by the delays in cash-financed projects. Mr. Jensen stated that the projects are bond-funded projects.

In response to Director O'Mahony's question, Mr. Jensen explained that the inflow of water in the new Irvington Tunnel from the existing tunnel was expected and is a normal tunnel behavior. The extent of the inflow, however, is greater than anticipated.

Direct McLeod asked what BAWSCA's decision points are if there are greater delays or greater cost impacts. Mr. Jensen categorized his answer between costs to rate payers and the health and safety of the public. The California Seismic Safety Commission (CSSC) and the California Department of Public Health (CDPH) look at the public health and safety aspects of the program's progress, or lack thereof. BAWSCA also looks at the potential impacts of the program to rate payers,

Mr. Jensen explained that the SFPUC is required to provide the CSSC and CDPH an annual progress report and notification of any changes made to the WSIP. The two agencies review the SFPUC notifications and produce written reports with their assessment of whether project schedule or scope changes result in increased risks to public health and safety.

Mr. Jensen noted that BAWSCA is going to produce a mid-way assessment of the WSIP's ability to be completed on schedule and within budget. Mr. Jensen stated that the public attention given to the WSIP accounts for, in part, why San Francisco re-invented the way it does business internally and with its contractors.

- C. Federal Energy Regulatory Commission (FERC): Mr. Jensen explained that the Modesto and Turlock Irrigation Districts own the New Don Pedro Reservoir and that because it produces hydroelectric power, it is regulated by the Federal Energy Regulatory Commission (FERC). In 1995, FERC issued a new license for the operation of New Don Pedro, and the expiration of that license is in 2016. Because of agreements between San Francisco and the irrigation districts regarding the management of the water supply in the river, San Francisco may share a portion of the responsibility for any additional flows that FERC requires be released downstream. This can affect San Francisco's water supply to the Wholesale Customers, which is why BAWSCA continues to be engaged with the FERC process.

BAWSCA has worked closely with San Francisco in providing comments on scoping reports and in monitoring meetings to ensure that the interests of the regional system's Wholesale Customers are covered by San Francisco.

Mr. Jensen reported that along with the irrigation districts, San Francisco and BAWSCA, the process has the attention of many interests groups and of people that live in the immediate area. Scoping studies for the re-licensing process are still being developed and are yet to be started. Mr. Jensen stated that this item is a report to the Board and that no Board action is required. BAWSCA will closely monitor the

developments and report back to the Board when there are issues that require the Board's attention.

- D. Board Policy Calendar: Mr. Jensen noted that the Board Policy Calendar was revised to reflect the changes in the Strategy's timeline as a result of the assessment of current water use conditions.

The January Board meeting will include a presentation on the preliminary preparation of the Work Plan and Budget for FY 2012-13.

The Work Plan and budget is developed based on a 10-20 year outlook and identification of the results that need to be achieved in the coming fiscal year . The preliminary budget will be presented to and discussed by the BPC in February, and presented to the Board in March.

Based on discussions and input by the BPC and the Board, a proposed Work Plan and budget will be presented to the BPC in April, and to the Board for consideration and adoption in May.

- 8. Adjourn to Closed Session:** The Board adjourned to Closed Session at 9:05 pm
Public Employee Performance Evaluation:
Closed session pursuant to Government Code section 54957
Title: Chief Executive Officer
- 9. Reconvene to Open Session:** The Board reconvened to Open Session at 9:40 pm. There were no reports from the Closed Session.
- 10. Directors' Discussion:** Director Piccolotti asked about the Tree that was in the WSIP's right of way. Mr. Carlin reported that the tree was saved, and that the pipeline was tunneled under the tree.
- Director Pierce reported that Director Bologoff's wife was hospitalized and expressed her well wishes for her recovery on behalf of the Board.
- 11. Date, Time and Location of Next Meeting:** The next meeting is scheduled on January 19, 2012, in the Wind Room, Foster City Community Center.

12. Adjournment:

Respectfully submitted,

Arthur R. Jensen,
Chief Executive Officer

ARJ/le

Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
November 17, 2011

Attendance Roster

Present:

Robert Anderson	Purissima Hills Water District
Cyril Bologoff	City of Brisbane
Tom Chambers	Westborough Water District
Ken Coverdell	Coastside County Water District
Jim Griffith	City of Sunnyvale
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
Tom Kasten	Town of Hillsborough
Larry Klein	City of Palo Alto
Marty Laporte	Stanford
Jamie McLeod	City of Santa Clara
Irene O'Connell	City of San Bruno
Rosalie O'Mahony	City of Burlingame
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City
Dan Quigg	City of Millbrae
Bill Quirk	City of Hayward
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District
Rick Wykoff	City of Foster City

Absent:

Ruben Abrica	City of East Palo Alto
Randy Breault	Guadalupe Valley Water District
Kelly Fergusson	City of Menlo Park
Armando Gomez	City of Milpitas
Mike Kasperzak	City of Mountain View
Chuck Reed	City of San Jose