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43885 SOUTH GRIMMER BOULEVARD • P.O. BOX 5110, FREMONT, CALIFORNIA 94537-5110  
(510) 668-4200 • FAX (510) 770-1793 • www.acwd.org

**MANAGEMENT**  
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Finance Manager/Treasurer  
STEVE PETERSON  
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ROBERT SHAVER  
Engineering Manager

November 5, 2010

Mr. Steve Ritchie  
Assistant General Manager, Water Enterprise  
San Francisco Public Utilities Commission  
1155 Market Street, 11<sup>th</sup> Floor  
San Francisco, CA 94103

Dear Mr. *Steve* Ritchie:

Thank you for the opportunity to provide comments on the second draft of the SFPUC's Interim Supply Allocation (ISA) proposal.

The SFPUC water system is an invaluable resource to ACWD and the Individual Supply Guarantee (ISG) has been a critical element of our decision making processes in our Integrated Resources Plan, Urban Water Management Plan, and Capital Improvement Program. The SFPUC water system provides ACWD with more than just a water supply; it provides water quality enhancement to our local groundwater through blending, it provides production reliability, and is our highest reliability dry-year resource.

It is also, by far, our costliest water supply - including our brackish groundwater desalination facility.

For decades, ACWD has planned for the continued use of our SFPUC contract up to, but not exceeding, our ISG. ACWD has invested millions of dollars into water conservation, desalination, off-site groundwater banking, our groundwater blending facility, and the continued funding of numerous SFPUC take-offs, all on the assumption that our purchases stay within our ISG, and that our ISG is perpetual and will be honored.

ACWD does not concede the legality of San Francisco's stated desire to impose limitations or penalties (e.g. "environmental surcharge") on water supply while an agency remains within its ISG. We understand that a few agencies do not have an ISG and that this introduces complexities. Nevertheless, we believe that an ISA should be based solely on the ISG of an agency if one is available. We are encouraged that the SFPUC's second draft of an ISA methodology has shifted focus and acknowledged the significance of the ISG. The final version should not diminish the importance of the ISG.

Please call me at (510) 668-4201 if you have any questions or need any additional information.

Sincerely,

*for Robert Shaver*  
Walter L. Wadlow  
General Manager

November 9, 2010

Mr. Steven R. Ritchie  
Assistant General Manager, Water Enterprise  
San Francisco Public Utilities Commission  
1155 Market Street, 11<sup>th</sup> Floor  
San Francisco, CA 94103  
[SRitchie@sflower.org](mailto:SRitchie@sflower.org)

Subject: Draft Interim Supply Allocations for Wholesale Customers

Dear Mr. Ritchie:

Thank you for sending us a copy of your draft Interim Supply Allocations (ISA). We appreciate that you and your staff are working with the wholesale customers, despite the apparent ability for the San Francisco Public Utilities Commission (SFPUC) to unilaterally set and adopt these interim allocations.

We are concerned that the allocation methodology may reduce the supplies for some of the SFPUC customers in Santa Clara County. Additionally, transfers of ISA may result in a net decrease of SFPUC supply in Santa Clara County. As the water supply manager for Santa Clara County, the Santa Clara Valley Water District (District) strives to provide a reliable, clean water supply for current and future generations to all of our customers. Our ability to do so relies, in part, on the ongoing commitment of SFPUC to provide reliable supplies to your wholesale customers in Santa Clara County.

The District has been a leader in working with your Santa Clara County wholesale customers in implementing conservation programs and investing in alternative supply development, such as recycled water. We welcome the opportunity to work with the SFPUC, Bay Area Water Supply and Conservation Agency, and the SFPUC wholesale customers in Santa Clara County to identify and implement additional water supply and demand management measures to jointly satisfy the water supply needs of our common constituencies in a cost-effective and environmentally sensitive manner.

Sincerely,



James M. Fiedler  
Chief Operating Officer  
Water Utility Enterprise

Mr. Steven R. Ritchie  
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cc via e-mail:

Art Jensen, BAWSCA  
Alan Kurotori, City of Santa Clara  
Mansour Nasser, City of San Jose  
Kathleen Phalen, City of Milpitas  
Nicolas Procos, City of Palo Alto  
Greg Hosfeldt, City of Mountain View  
Jim Craig, City of Sunnyvale  
Patrick Walter, Purissima Hills Water  
Marty Laporte, Stanford University

ajensen@bawsca.org  
akurotori@santaclaraca.gov  
mansour.nasser@ci.sj.ca.us  
kphalen@ci.milpitas.ca.gov  
Nicolas.Procos@CityofPaloAlto.org  
gregg.hosfeldt@mountainview.gov  
jcraig@ci.sunnyvale.ca.us  
District pwalter@purissimawater.org  
martyl@bonair.stanford.edu

Good afternoon Commissioners

My name is Valerie Fong and I am the Utilities Director for the City of Palo Alto. I am here today to provide comments on the Interim Supply Allocation process. Let me start by commending your staff's work on this effort. Led by Mr. Steven Ritchie, the process has been cordial and open and we appreciate your staff's diligent effort to work collaboratively with the BAWSCA agencies.

First, please know that Palo Alto did not agree with San Francisco's unilateral imposition of the Interim Supply Allocation and we continue to reserve our right to seek legal remedies, if necessary.

Palo Alto provided two comment letters to the SFPUC in response to the two Draft ISA proposals. In summary, Palo Alto believes the Water Supply Agreement and the Individual Supply Guarantee provide critical certainty for the SFPUC and the BAWSCA agencies. This contractual certainty has created an environment where BAWSCA members can plan appropriately to balance their perpetual delivery guarantees with conservation, recycled water and new supply development. To change this underlying principle now would impair a contractual cornerstone that's been in place for over 25 years, creating confusion and weakening the mutual (and long-run) relationship between our agencies.

You have a stewardship responsibility to many constituents, most of whom do not have any formal representation in San Francisco. While the SFPUC is the operating entity of the regional system, Palo Alto considers the BAWSCA agencies and the SFPUC to be partners. Palo Alto is troubled by any SFPUC action that essentially puts the SFPUC in the position of dictating subjective policies outside the City of San Francisco's borders.

In particular, the memo before you today states "...the Individual Supply Guarantees don't account for a variety of factors such as degree of efficient water use, land use planning and zoning decisions by individual Wholesale customers". Palo Alto respectfully disagrees with this statement – the ISG has influenced every land use, zoning and water use decision for the City of Palo Alto since the ISG's were created in 1984. The SFPUC has no unilateral authority to make adjustments that conflict with the Water Supply Agreement and the perpetual ISG rights of each of the BAWSCA agencies, especially based on subjective issues such as SFPUC's interpretation of what constitutes "good" water use.

However, we recognize that the ISA is interim in nature and will cease to exist after 2018. Palo Alto empathizes with the Commission's position and recognizes that the Commission must consider several complex issues that cannot be ignored. As you know, Palo Alto's ISA allocation as specified in SFPUC's 2<sup>nd</sup> draft ISA proposal is well below Palo Alto's ISG. Palo Alto's "surplus" (the difference between our ISG and the ISA allocation) has been re-allocated to several BAWSCA agencies. Palo Alto is supportive of a reassessment of how the SFPUC allocates this "surplus" to ensure agencies with perpetual contract rights receive additional consideration in recognition of those rights.

Thank you