



Water Supply Assessment for Healthpeak Vantage Project

South San Francisco District
California Water Service

March 2023
EKI C20168.00

Water Supply Assessment

Healthpeak Vantage Project
South San Francisco District, California Water Service

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CALIFORNIA WATER SERVICE

Water Resource Sustainability Department 1720 North First Street
San Jose, CA 95112

March 22, 2023

Jeff Peterson
Principal
Wilsey Ham
3130 La Selva Street, Suite 100
San Mateo, CA 94403

Dear Mr. Peterson,

This letter serves as the California Water Service Company's (Cal Water) formal approval of the Water Supply Assessment (WSA) for the Healthpeak Vantage Project in South San Francisco, California. This approval is contingent on the developer's compliance with any conditions set forth in the WSA by Cal Water.

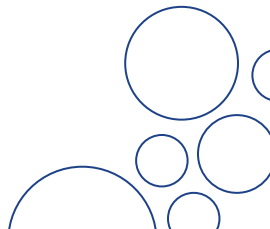
Authority for this approval is pursuant to Cal Water's "Resolution to Approve Water Supply Assessment and Related Documents for New Developments" dated October 27, 2021.

Should you have any questions, please contact Michael Bolzowski at mbolzowski@calwater.com or (408) 367-8338.

Sincerely,

A handwritten signature in black ink, appearing to be "KJ", written over a light blue circular background.

Ken Jenkins
Chief Water Resource Sustainability Officer



1 INTRODUCTION

Included herein is a Senate Bill 610-compliant water supply assessment (WSA) in support of the proposed Healthpeak Vantage Project (“Project”; **Figure 1**). The proposed Project site is comprised of approximately 19 acres located in the City of South San Francisco, California (Wilsey Ham, 2022a). The proposed Project includes the construction of a biotechnical research and development (R&D) campus. Proposed uses would include a mix of office, R&D, food services, fitness/gym uses, and irrigated landscape (Wilsey Ham, 2022a). A detailed site plan for the proposed Project is included in **Appendix A**. The proposed Project is located within the California Water Service (Cal Water) South San Francisco District (SSF District) service area and Cal Water will be the water service provider for the proposed Project.

The information provided in this WSA is consistent with California Water Code (CWC or Water Code) §10910-10912 requirements and the California Department of Water Resources’ (DWR’s) *Guidebook for Implementation of Senate Bill 610 and Senate Bill 221 of 2001: To Assist Water Suppliers, Cities, and Counties in Integrating Water and Land Use Planning*, dated 8 October 2003. The text of specific sub-sections of the Water Code is included in greyed boxes and italicized font at the beginning of specific sections of this WSA. The information presented in those respective sections, and the associated tables and figures, respond directly to applicable Water Code requirements.

The purpose of a WSA is to evaluate whether a water provider has sufficient water supply to meet the current and planned water demands within its service area, including the demands associated with the proposed Project, during normal and dry hydrologic years over a 20-year time horizon.¹ Given that the SSF District shares its contractual allocation for its primary supply source (i.e., the City and County of San Francisco’s Regional Water System [RWS]) with Cal Water’s Bear Gulch and Mid-Peninsula Districts (referred to as the “three Peninsula Districts”, **Figure 2**), the collective projected supplies and demands for all three Peninsula Districts are considered in this WSA. More specifically, this WSA includes:

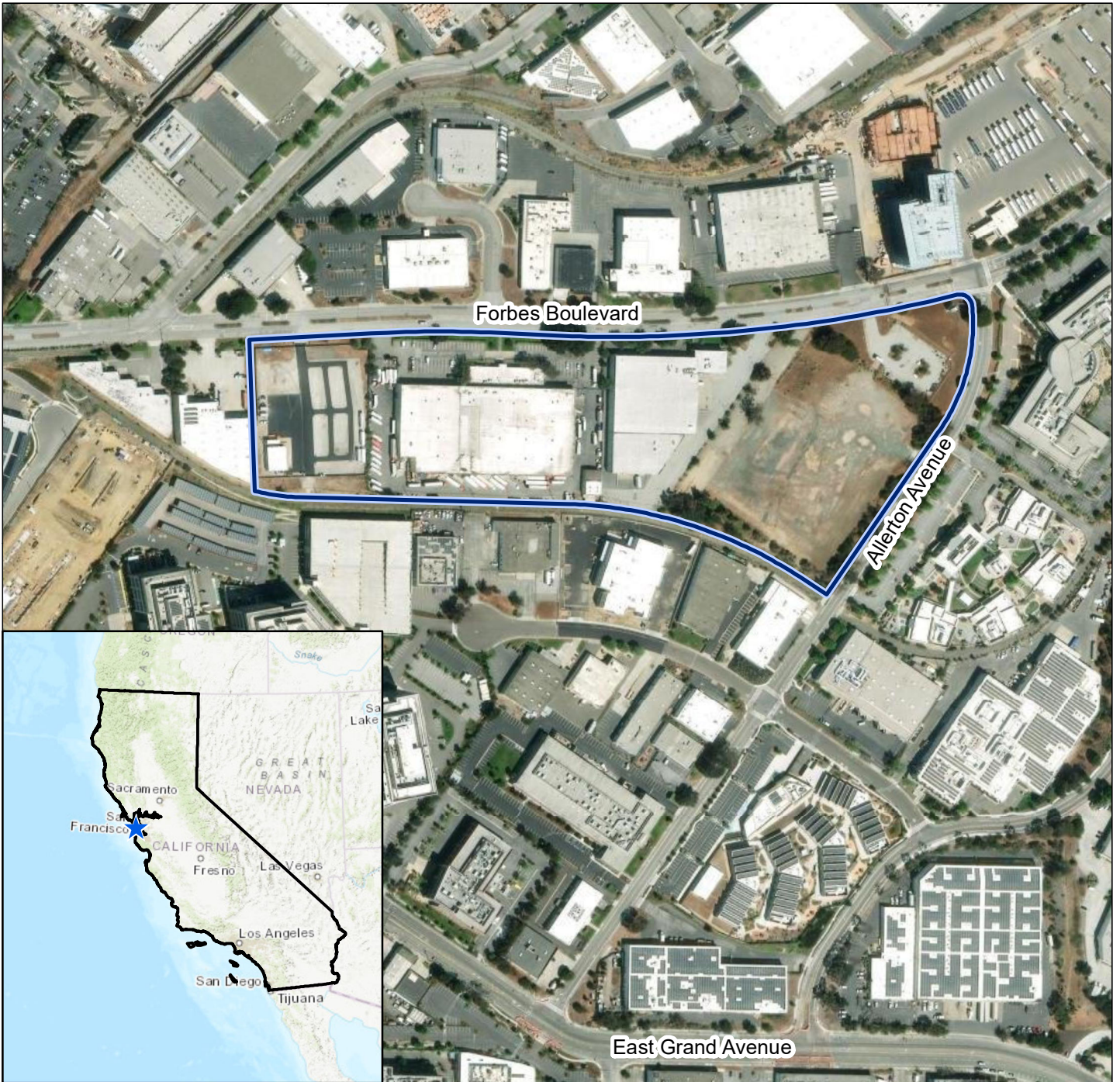
- A summary of the WSA requirements articulated in Water Code §10910-10912 and a description of how they apply to the proposed Project;
- A description and analysis of the current and projected future water demands of the proposed Project through the year 2045;
- A description and analysis of the historical and current water demands for the SSF District, and projected future water demands for the three Peninsula Districts’ service areas through the year 2045;
- A description and analysis of the current and projected future water supplies for the three Peninsula Districts’ service areas through the year 2045; and

¹ The Water Code specifies that a WSA must look at supplies and demand on a 20-year horizon (i.e., to 2040), but given the available data, this WSA looks beyond that to 2045.

- A comparison of the water supplies and demands for the three Peninsula Districts' service areas, including the projected water demands associated with the proposed Project.

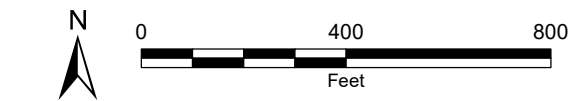
The information contained in this WSA is based primarily on Cal Water's SSF, Bear Gulch, and Mid-Peninsula Districts 2020 Urban Water Management Plans (UWMPs), except where updated with relevant water demand and supply reliability and other information provided by Cal Water, DWR, the San Francisco Public Utilities Commission (SFPUC), and the Bay Area Water Supply and Conservation Agency (BAWSCA). The findings of this WSA are contingent upon implementation of Cal Water's Development Offset Program. This program is discussed further in Section 4.1.

This WSA concludes that, through supply augmentation and implementation of demand management measures equal to the Project's estimated net new demands consistent with the Cal Water's Development Offset Program, the proposed Project will not affect water supply reliability within the SSF District. Based on currently available information and conservative estimates of projected demand, Cal Water expects to be able to meet all future demands within its existing SSF District service area (as well as the Mid-Peninsula and Bear Gulch Districts), inclusive of the proposed Project in normal hydrologic years. The shortfalls that are currently projected during dry years will be addressed through planned implementation of the SSF District Water Shortage Contingency Plan (WSCP). In addition, as described herein and in Cal Water's 2020 UWMP, BAWSCA, Cal Water, and SFPUC are pursuing the development of additional water supplies to improve the RWS and SSF District supply reliability.



Legend

 Project Boundary



Project Location

Healthpeak Vantage Project
 South San Francisco, CA
 March 2023
 EKI C20168.00



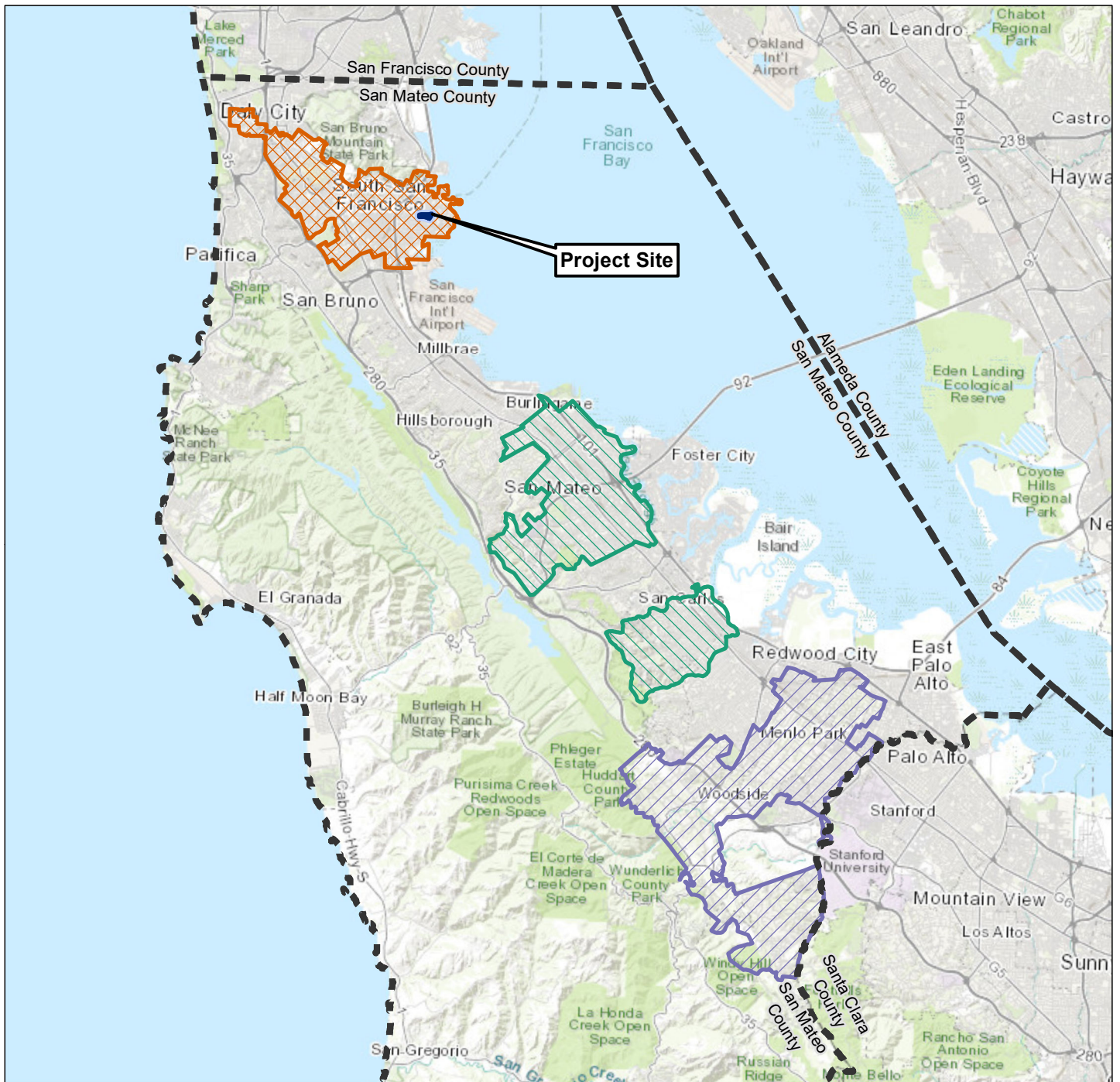
Figure 1

Notes






1. All locations are approximate.

Sources

1. Basemap is ESRI's ArcGIS Online world aerial map, obtained 16 March 2023.



Legend

-  Project Boundary
-  County Boundary
-  Bear Gulch District
-  Mid-Peninsula District
-  South San Francisco District

Abbreviations

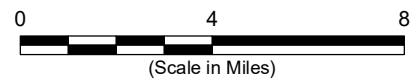
Cal Water = California Water Service

Notes

1. All locations are approximate.

Sources

1. Basemap is ESRI's ArcGIS Online world aerial map, obtained 16 March 2023.
2. Boundary data for Cal Water districts' service areas received from Cal Water on 16 October 2017.



Cal Water's Three Peninsula Districts

Healthpeak Vantage Project
 South San Francisco, CA

March 2023

EKI C20168.00

Figure 2



Path: X:\C20168\00\2023\03\Fig_3\Districts_20230316.mxd

2 GENERAL REQUIREMENTS FOR THE PREPARATION OF A WATER SUPPLY ASSESSMENT

The purpose of this section is to outline the types of projects that require the preparation of a WSA, who is responsible for preparation, and the necessary components of a WSA.

2.1 Applicability of Senate Bill 610 to the Project

CWC § 10910 (a)

Any city or county that determines that a project, as defined in Section 10912, is subject to the California Environmental Quality Act (Division 13 (commencing with Section 21000) of the Public Resources Code) under Section 21080 of the Public Resources Code shall comply with this part.

CWC § 10912

For the purposes of this part, the following terms have the following meanings:

(a) "Project" means any of the following:

- (1) A proposed residential development of more than 500 dwelling units.*
 - (2) A proposed shopping center or business establishment employing more than 1,000 persons or having more than 500,000 square feet of floor space.*
 - (3) A proposed commercial office building employing more than 1,000 persons or having more than 250,000 square feet of floor space.*
 - (4) A proposed hotel or motel, or both, having more than 500 rooms.*
 - (5) A proposed industrial, manufacturing, or processing plant, or industrial park planned to house more than 1,000 persons, occupying more than 40 acres of land, or having more than 650,000 square feet of floor area.*
 - (6) A mixed-use project that includes one or more of the projects specified in this subdivision.*
 - (7) A project that would demand an amount of water equivalent to, or greater than, the amount of water required by a 500 dwelling unit project.*
- (b) If a public water system has fewer than 5,000 service connections, then "project" means any proposed residential, business, commercial, hotel or motel, or industrial development that would account for an increase of 10 percent or more in the number of the public water system's existing service connections, or a mixed-use project that would demand an amount of water equivalent to, or greater than, the amount of water required by residential development that would represent an increase of 10 percent or more in the number of the public water system's existing service connections.*

The proposed Project would include more than 250,000 square feet (sq ft) of office/R&D space and therefore satisfies the definition of a "project" requiring a WSA pursuant to SB 610 (Water Code §10910(a) and 10912(a)(3)).

2.2 Responsibility for Preparation of the Water Supply Assessment

CWC § 10910 (b)

The city or county, at the time that it determines whether an environmental impact report, a negative declaration, or a mitigated negative declaration is required for any project subject to the California Environmental Quality Act pursuant to Section 21080.1 of the Public Resources Code, shall identify any water system that is, or may become as a result of supplying water to the project identified pursuant to this subdivision, a public water system, as defined in Section 10912, that may supply water for the project. If the city or county is not able to identify any public water system that may supply water for the project, the city or county shall prepare the water assessment required by this part after consulting with any entity serving domestic water supplies whose service area includes the project site, the local agency formation commission, and any public water system adjacent to the project site.

The proposed Project is located within the Cal Water SSF District service area and the water for the proposed Project will be supplied by Cal Water. Therefore, in accordance with Water Code §10910(b), Cal Water is the entity responsible for preparation and adoption of a WSA for the proposed Project.

2.3 Components of a Water Supply Assessment

CWC § 10910 (c) (4)

If the city or county is required to comply with this part pursuant to subdivision (b), the water supply assessment for the project shall include a discussion with regard to whether the total projected water supplies, determined to be available by the city or county for the project during normal, single dry, and multiple dry water years during a 20-year projection, will meet the projected water demand associated with the proposed project, in addition to existing and planned future uses, including agricultural and manufacturing uses.

CWC § 10911

(b) The city or county shall include the water supply assessment provided pursuant to Section 10910, and any information provided pursuant to subdivision (a), in any environmental document prepared for the project pursuant to Division 13 (commencing with Section 21000) of the Public Resources Code.

(c) The city or county may include in any environmental document an evaluation of any information included in that environmental document provided pursuant to subdivision (b). The city or county shall determine, based on the entire record, whether projected water supplies will be sufficient to satisfy the demands of the project, in addition to existing and planned future uses. If the city or county determines that water supplies will not be sufficient, the city or county shall include that determination in its findings for the project.

As listed above in Water Code §10910(c)(4), the primary purpose of a WSA is to evaluate whether sufficient water supply is available to meet all future demands within the water supplier's service area, including those associated with the proposed Project, during normal and dry hydrologic years for a 20-year planning horizon.² Given that the SSF District shares its contractual allocation for its primary supply source (i.e., the City and County of San Francisco's RWS) with Cal Water's

² The Water Code specifies that a WSA must look at supplies and demand on a 20-year horizon (i.e., to 2040), but given the available data, this WSA looks beyond that to 2045.

three Peninsula Districts (**Figure 2**), the collective projected supplies and demands for all three Peninsula Districts are considered in this WSA. More specifically, this WSA includes:

- A description and analysis of the current and projected future water demands of the proposed Project through the year 2045;
- A description and analysis of the historical and current water demands for the SSF District, and projected future water demands for the three Peninsula Districts' service areas through the year 2045;
- A description and analysis of the current and projected future water supplies for the three Peninsula Districts' service areas through the year 2045; and
- A comparison of the water supplies and demands for the three Peninsula Districts' service areas, including the projected water demands associated with the proposed Project.

3 PROJECT DESCRIPTION

The proposed Project site is comprised of approximately 19 acres located in the City of South San Francisco, California (Wilsey Ham, 2022a). The proposed Project site is bordered to the north by Forbes Boulevard and to the east by Allerton Avenue (**Figure 1**).

Two office/R&D buildings and the amenity building associated with the proposed Project are already under construction at the proposed Project site and are entitled; these buildings are part of Phase 1 of a multi-phase buildout, which is discussed in more detail in **Table 1** (Wilsey Ham, 2023a). Phase 2 and 3 consist of four additional office/R&D buildings (Wilsey Ham, 2023a). Although an Environmental Impact Report (EIR) was prepared for these two buildings in 2012, neither Cal Water or the project proponent have a record of a WSA being prepared for that development (Impact Sciences, 2012). As such, the proposed Project considered in this WSA includes the Phase 1 entitled buildings as well as the proposed Phase 2 and 3 buildings: (1) the two entitled office/R&D buildings currently under construction, four proposed office/R&D buildings, and one entitled amenity building totaling 1,655,202 sq ft; (2) three parking structures totaling 1,219,252 sq ft; and (3) a potential 10,100 sq ft fire station (Wilsey Ham, 2022a; 2022b; 2023a).

The proposed Project site has historically been a mix of commercial and warehouse uses. Historical water use at the site ranged between 2.7 and 4.6 acre-feet per year (AFY) between 2017 and 2021, and averaged 3.7 AFY (Cal Water, 2022a). The proposed Project is located within the Cal Water SSF District service area and potable water service will be provided by Cal Water (**Figure 2**).

Table 1
Project Buildout Phasing Schedule
 Healthpeak Vantage, South San Francisco, California

Building	Land Use	Area (sq ft) (a)	Buildout Phase	Completion Date (b)
Amentities	Food services, fitness center gym	40,600	Phase 1	April 2024
Building A	Office/R&D	146,675	Phase 1	October 2023
Building B	Office/R&D	179,345	Phase 2	October 2023
Building C	Office/R&D	440,000	Phase 2	September 2025 (c)
Building D	Office/R&D	249,000	Phase 2	July 2025 (c)
Building E	Office/R&D	283,000	Phase 3	Not Determined
Building F	Office/R&D	316,582	Phase 3	Not Determined

Abbreviations:

"R&D" = research and development

"sq ft" = square feet

Notes:

- (a) Land use square footages per Reference 1.
- (b) Buildout phasing and completion date per Reference 2.
- (c) Completion dates for Buildings C and D are tentative per Reference 2.

References:

- 1. Wilsey Ham, 2022. Request for Information Form, provided by Wilsey Ham on 21 November 2022.
- 2. Wisley Ham, 2023. Information provided by Wisley Ham via email on 2 March 2023.

4 PROJECT WATER DEMAND

The City of South San Francisco has adopted green building standards and water efficient landscaping ordinances consistent with previous versions of the CalGreen building standards and the California Model Water Efficient Landscape Ordinance (MWELO). As part of state requirements, all new developments must comply with these efficiency standards. As such, the proposed Project development is expected to include a number of water-efficient features, including, but not limited to:

- Use of low-flow lavatory faucets, kitchen faucets, toilets, and urinals in accordance with CalGreen Code; and
- Inclusion of low-water use landscaping and high-efficiency irrigation systems to minimize outdoor water use in accordance with MWELO.

As described below, annual water demand for the proposed Project was estimated using various literature sources. These estimates were evaluated relative to current water use by similar uses in the Cal Water SSF District. Similar uses within the Cal Water SSF District are based on the Cal Water WSA Water Factor Tool, which was developed based on 2016-2018 water use data for the SSF District (Cal Water, 2019). **Table 2** includes a summary of the water demand projections associated with the proposed land uses at Project completion. Full Project buildout is assumed to be achieved by 2025 (Wilsey Ham, 2023b).

4.1 Cal Water's Development Offset Program

In July 2021, Cal Water began development of a Development Offset Program (Program) for its three Peninsula Districts, which share the same SFPUC supply allocation. The purpose of the Program is to ensure that overall customer demand for water does not exceed available current or future supply under a range of hydrologic conditions, and to ensure the availability of water for residential, commercial, and other purposes for future water use in the three Peninsula Districts (Cal Water, 2022d).

As described in Advice Letter No. 2453 to the California Public Utilities Commission (CPUC), dated June 7, 2022, the Program will require any new residential, commercial, or industrial development within any of the three Peninsula Districts that is projected to increase net demand by more than 50 AFY to pay a special facilities fee, referred to as a developer offset fee, of \$15,400 per acre-feet of net demand increase. The developer offset fee will be used to fund accelerated water supply projects and expanded customer conservation programs. The net demand increase is defined as the expected total potable water use for the development once it is completed, minus the average annual existing potable water use on the property over the previous five years. The estimated offset amount for the Project is identified in Section 4.7. Cal Water will verify compliance with this Program (i.e., ensure that all payments for offsets are completed) prior to establishing a water service connection. As noted above, the findings of this WSA are contingent upon compliance with this Program.

4.2 Indoor Water Use

Table 2 provides a summary of the land uses, unit demand factors, and respective water demands associated with each land use. Below is a summary of the calculations and assumptions for each indoor land use category.

4.2.1 Office and R&D Use

The total building square footage for office and R&D use is approximately 1,614,602 sq ft. A 50/50 split between office and R&D use is assumed, and thus approximately 807,301 sq ft of office and 807,301 sq ft of R&D use is anticipated for the proposed Project (Wilsey Ham, 2022b). It is noted that water use by R&D varies significantly based on the specific operations of the facility. In absence of specific information regarding facility water uses, the water demands for the office and R&D uses are estimated based on demand factors of 0.055 gallons per day per square foot (GPD/sq ft) and 0.18 GPD/sq ft, respectively, based on information from the Draft Environmental Impact Report (EIR) for the Genentech Campus Master Plan Update (Genentech, 2019)³. Based on the demand factors identified above, the total estimated office space water use for the proposed Project by full buildout is estimated to be 50 AFY, and the total estimated R&D use is estimated to be 163 AFY.

4.2.2 Amenities Use

The proposed Project includes an entitled amenity building encompassing 40,600 sq ft (Wilsey Ham, 2022a). The amenities include a 17,970 sq ft restaurant with open dining, a 3,219 sq ft fitness center, and 19,411 sq ft of “other” uses such as office, flex space, mechanical facilities, lobby, and stairs. Water use factors for each amenity use type are as follows: 0.075 GPD/sq ft for the restaurant, 0.21 GPD/sq ft for the fitness center, and 0.055 GPD/sq ft for “other” uses. The water use factor for the restaurant uses are from the US Energy Information Administration Commercial Buildings Energy Consumption Survey (CBECS, 2012), the fitness center water use factor is from the 2020 City of Ventura Water Demand Factor Study (City of Ventura, 2020), and the “other” use factor is the office demand factor from the Genentech Draft EIR mentioned above in Section 4.2.1 (Genentech, 2019). The resultant water demand associated with the amenities portion of the proposed Project by full buildout is estimated to be 3.5 AFY.

4.2.3 Fire Station Use

Also included in the proposed Project is a possible 10,100 sq ft fire station located on the northwest side of the project site, which is expected to be buildout by 2026 (Wilsey Ham, 2022b). A water demand factor of 0.21 GPD/sq ft is used to estimate the water use associated with this fire station⁴, and the resultant water demand is estimated to be 2.4 AFY.

³ The R&D demand factor was calculated by dividing the total water use of the Genentech campus in 2016 by the total area of the campus to estimate demand per area.

⁴ The fitness center water demand factor is used to estimate water demands associated with fire station use.

4.2.4 Total Indoor Water Use

Based on the above calculations and assumptions, total indoor water use for the proposed Project was estimated to be 218 AFY at full buildout.

Indoor demands for the proposed project were compared to demand factors from Cal Water’s WSA Water Demand Factor Tool, which uses 2016-2018 water use data to develop demand factors for both residential and non-residential land uses. Based on Cal Water’s WSA Water Demand Factor Tool, non-residential uses within the SSF District are 0.063 GPD/sq ft. If this demand factor were applied to all indoor uses for the proposed Project, demands would be estimated as 118 AFY. It should be noted that this demand factor is based on all non-residential uses collectively for the SSF District and therefore does not include some of the higher-intensity uses anticipated from the proposed Project, such as R&D uses. Based on the review of these data, the indoor water demands estimated herein (218 AFY) are expected to be conservative and reflect a higher intensity of water use than typical office and commercial uses due to the high proportion of R&D use in the proposed Project.

4.3 Parking Structure Water Use

The proposed Project includes three parking structures totaling approximately 1,219,252 sq ft (Wilsey Ham, 2023a). Water use associated with this space is anticipated to be minimal, limited to cleaning of the facility. For purposes of this WSA, it is assumed that the garage will be cleaned 12 times per year and that 0.02 gallons per sq ft will be used per each cleaning event (City of Los Angeles Bureau of Engineering, 2012). Thus, it is estimated that by full buildout 0.90 AFY will be used for purposes of cleaning the parking garage.

4.4 Outdoor Water Use

The projected water demand for the landscaped area included as part of the proposed Project was estimated based on the Maximum Applied Water Allowance (MAWA; DWR, 2015). The MWELO requires that the annual estimated total water use for landscape irrigation not exceed the MAWA (DWR, 2015). As shown below, the MAWA is calculated based on the regional reference evapotranspiration rate, an evaporation adjustment factor, the total landscaped area, and the area of “special landscaped area.”⁵ Water use for the proposed Project landscaping irrigation has been conservatively assumed to be equal to the MAWA, which is the upper limit of annual applied water for established landscaped areas.

The MAWA is calculated using the following equation:

$$\text{MAWA} = \text{ET}_o \times [(\text{ETAF} \times \text{LA}) + (1 - \text{ETAF}) \times \text{SLA}]$$

where:

ET_o = The regional reference evapotranspiration rate

⁵ Special Landscaped Area includes landscaping dedicated solely to edible plants, recreational areas, areas irrigated with recycled water, or water features using recycled water.

ETAF	=	Evapotranspiration Adjustment Factor For parks (SLAs) = 1.0 For landscape corridors = 0.45
LA	=	Total landscape area (including SLA)
SLA	=	Special Landscape Area

Based on the above methodology and information provided by the Project proponent, the total annual water use for the community landscaping is estimated to be 7.6 AFY at full buildout as shown in **Table 3** (excluding the distribution system losses discussed in Section 4.5).

4.5 Distribution System Losses

Water distribution systems experience a degree of water loss over the course of transmission from the source to the customer. Although distribution system losses from the newly constructed portion of the system’s infrastructure associated with the proposed Project would initially be expected to be minimal, it is conservatively assumed that distribution system losses associated with delivering water for the proposed Project will ultimately be consistent with the proportion of non-revenue water loss per the 2021 validated water loss audit submitted to DWR for the SSF District (i.e., 2.4%; Cal Water, 2022c). It should be noted that while these real losses represent a demand on the system, water lost through the distribution system returns to the groundwater basin and thus is not a true demand on the groundwater supply. However, for purposes of this WSA, all water loss is conservatively considered a demand. **Table 2** shows the distribution system losses for the proposed Project, estimated at a total of 5.6 AFY at full buildout.

4.6 Existing Current Water Demand on the Proposed Project Site

The proposed Project site currently consists of two existing buildings that support a mix of warehouse/storage uses and two empty lots. Historical water use at the site ranged between 2.7 and 4.6 AFY between 2017 and 2021, and averaged 3.7 AFY (Cal Water, 2022a). Water demand by the new development is considered incremental to this existing demand, and thus, as shown in **Table 2**, the average of the last five years of existing site demand is subtracted from the estimated demands associated with the proposed Project.

4.7 Total Project Water Demand

Based on the above methodologies and assumptions, and adjusting for the existing water use at the site, the incremental increase in water demand associated with the proposed Project at full buildout and occupancy is estimated to be 229 AFY, as shown in **Table 2**. However, as discussed in Section 4.1, in accordance with the Cal Water’s Development Offset Program, the proposed Project is expected to pay a special facilities fee of \$15,400 per acre-feet of net demand increase, which will be used to fund accelerated water supply projects and expanded customer conservation programs that would result in no net increase in water demands to Cal Water’s SSF District. Thus, the proposed Project will be required to offset its net demand increase, calculated prior to establishing a new water service connection, and is therefore not expected to result in a net increase in water demands to Cal Water’s SSF District.

Table 2
Summary of Estimated Incremental Annual Project Water Demand
 Healthpeak Vantage, South San Francisco, California

Water Use	Area (sq ft) (a)	Demand Factor (b)	Demand Factor Units	Total Water Demand (AFY) (c)				
				2025	2030	2035	2040	2045
Office	807,301	0.055	gpd/sq ft	50	50	50	50	50
R&D	807,301	0.18	gpd/sq ft	163	163	163	163	163
Amenities								
Food Services	17,970	0.075	gpd/sq ft	1.5	1.5	1.5	1.5	1.5
Fitness Center/Gym	3,219	0.21	gpd/sq ft	0.77	0.77	0.77	0.77	0.77
Other (d)	19,411	0.055	gpd/sq ft	1.2	1.2	1.2	1.2	1.2
Fire Station	10,100	0.21	gpd/sq ft	0	2.4	2.4	2.4	2.4
Parking Garage (e)	1,219,252	0.02	gal/sq ft/cleaning	0.90	0.90	0.90	0.90	0.90
Irrigation (f)	207,616	--	--	7.6	7.6	7.6	7.6	7.6
Distribution System Losses (g)	--	2.4%	--	5.5	5.6	5.6	5.6	5.6
Existing Site Demand (h)	--	--	--	-3.7	-3.7	-3.7	-3.7	-3.7
Net Annual Water Demand (i)				226	229	229	229	229

Abbreviations:

- | | |
|--|---|
| "AFY" = acre-feet per year | "gpd/sq ft" = gallons per day per square foot |
| "Cal Water" = California Water Service | "R&D" = research and development |
| "DWR" = California Department of Water Resources | "sq ft" = square feet |
| "gal" = gallon | "WSA" = Water Supply Assessment |

Notes:

- (a) Land use square footages for food services, fitness center, irrigation, fire station, and "other" per Reference 1, office and R&D square footages per Reference 2, and fire station square footage per Reference 10.
- (b) Demand factors for office, R&D, and "other" use per Reference 7, food services per Reference 8, and the fitness center/gym and fire station per Reference 9.
- (c) Two of the eight proposed buildings do not have an anticipated build out date and are therefore assumed to reach full buildout in 2025 per Reference 10. Anticipated buildout of the fire station is assumed to be in 2026 per Reference 2.
- (d) "Other" uses include office, flex space, mechanical facilities, and lobby usage. Demands were conservatively calculated using an office demand factor for this entire space.
- (e) Water use associated with the parking structure is anticipated to be minimal, limited to cleaning of the facility. For purposes of this WSA, it is assumed that the garage will be cleaned twelve times per year and that 0.02 gal/sq ft will be used per each cleaning event, per Reference 4.
- (f) Irrigation demands are calculated using the Maximum Allowable Water Allowance, per Reference 5.
- (g) Estimated distribution system water loss is calculated using the 2021 DWR Water Audit Report non-revenue water loss as a percent of volume of water supplied (i.e., 2.4% of project demands), per Reference 3, inclusive of real and apparent losses.
- (h) Existing site demands per Reference 6. Existing demands are subtracted from total projected water demands to show the incremental increase in demands associated with the Project (i.e., the net increase in water demand). Existing demands are estimated as the average of the last five years of water use at the project site based on available metered data (2017-2021).
- (i) Totals may not sum due to rounding.

Table 2
Summary of Estimated Incremental Annual Project Water Demand
Healthpeak Vantage, South San Francisco, California

References:

1. Wilsey Ham, 2022a. Request for Information Form, provided by Wilsey Ham on 21 November 2022.
2. Wilsey Ham, 2022b. Information provided by Wilsey Ham via email on 9 December 2022.
3. Cal Water, 2022. California Water Service Company South San Francisco 2021 Water Audit Data Report, accessed via the WUEdata - Water Audit Report Data website on 9 December 2022, (https://wuedata.water.ca.gov/awwa_plans).
4. City of Los Angeles Bureau of Engineering, 2012. City of Los Angeles Bureau of Engineering, City of Los Angeles Bureau of Sanitation, Sewer Generation Rates Table, dated 6 April 2012.
5. California Code of Regulations, Title 23, Division 2, Chapter 2.7, Model Water Efficient Landscape Ordinance, 29 September 2020.
6. Cal Water, 2022. Data provided by Cal Water, received on 14 December 2022.
7. Genentech Campus Master Plan Update Draft Environmental Impact Report, Prepared by Lamphier-Gregory, dated October 2019.
8. US Energy Information Administration 2012 Commercial Buildings Energy Consumption Survey: Water Consumption in Large Buildings Summary.
9. City of Ventura, 2020. Final Water Demand Factor Study, City of Ventura, prepared by Wood Rodgers, dated 8 April 2020.
10. Wisley Ham, 2023. Information provided by Wisley Ham via email on 2 March 2023.

Table 3
Estimated Project Landscaping Water Demand
 Healthpeak Vantage, South San Francisco, California

Landscaping Land Use	[A] Area of Land Use (ac) (a)	[B] Annual Reference Evapotranspiration Rate (in) (b)	[C] Evapotranspiration Adjustment Factor (ETAF) (c)	[F] Maximum Applied Water Allowance (MAWA) (AFY) F = A x B x C (d)
Landscaped Area	4.8	43	0.45	7.6
Estimated Total Outdoor Water Use for Landscaping				7.6

Abbreviations:

- "ac" = acre
- "AFY" = acre-feet per year
- "ETAF" = Evapotranspiration Adjustment Factor
- "in" = inches
- "MAWA" = Maximum Applied Water Allowance

Notes:

- (a) Landscaping area per Reference 1.
- (b) Annual reference evapotranspiration rate for the City of Redwood City area per Reference 2.
- (c) An ETAF of 0.45 was used for non-residential landscaping area per Reference 3.
- (d) The MAWA calculations are described in Reference 3.

References:

1. Wilsey Ham, 2022. Vantage Planting Area Takeoff - Temp and Permanent Areas, provided by Wilsey Ham on 21 November 2022.
2. California Department of Water Resources, 2012. California Irrigation Management Information System Reference Evapotranspiration Zones, January 2012.
3. California Code of Regulations, Title 23, Division 2, Chapter 2.7, Model Water Efficient Landscape Ordinance, 29 November 2019.

5 CAL WATER SSF DISTRICT WATER DEMAND

CWC § 10910 (c)

(1) The city or county, at the time it makes the determination required under Section 21080.1 of the Public Resources Code, shall request each public water system identified pursuant to subdivision (b) to determine whether the projected water demand associated with a proposed project was included as part of the most recently adopted urban water management plan adopted pursuant to Part 2.6 (commencing with Section 10610).

(2) If the projected water demand associated with the proposed project was accounted for in the most recently adopted urban water management plan, the public water system may incorporate the requested information from the urban water management plan in preparing the elements of the assessment required to comply with subdivisions (d), (e), (f), and (g).

(3) If the projected water demand associated with the proposed project was not accounted for in the most recently adopted urban water management plan, or the public water system has no urban water management plan, the water supply assessment for the project shall include a discussion with regard to whether the public water system's total projected water supplies available during normal, single dry, and multiple dry water years during a 20-year projection will meet the projected water demand associated with the proposed project, in addition to the public water system's existing and planned future uses, including agricultural and manufacturing uses.

Consistent with the UWMP Act (Water Code §10610-10656), the 2020 UWMPs for the three Peninsula Districts present estimates of projected future water demand for each respective District service area in five-year increments, between the years 2025 and 2045 (Cal Water, 2021a, 2021b, 2021c).

The projections include all existing demands within the SSF District, as well as for other large projects for which Cal Water has prepared WSAs in the last five years (i.e., 201 Haskins Way, South SFPUC Site, South San Francisco Downtown Station, Oyster Point Development, the 2017 Genentech Master Plan Update, the Southline Specific Plan, 121 East Grand Avenue, and 800 Dubuque Avenue).

While the 2020 UWMP water demand projections account for growth within the current SSF District, the proposed Project is not explicitly included in these projections, and the projected demand associated with the proposed Project is higher than the projected demand growth anticipated by the 2020 UWMP. Therefore, for the purposes of this WSA, it is conservatively assumed that no portion of the water demand associated with the proposed Project is included in the projected SSF District water demands. Notwithstanding, through implementation of the Development Offset Program, the proposed Project will not result in an increase in demands for the SSF District relative to those projected in the 2020 UWMP.⁶ All other new developments that are expected to result in a net demand increase of 50 AFY the three Peninsula Districts will also

⁶ Demand estimates for the District's service area through 2045 were developed using Cal Water's demand forecast model, which estimates future demands based on current water use for the District, anticipated growth based on projections by the Association of Bay Area Governments (ABAG), projected water conservation efforts, and anticipated passive conservation savings.

be required to comply with the Development Offset Program and thus will result in no incremental increase in demand on the system.

5.1 Current and Historical Water Demand Within the Cal Water SSF District Service Area

Historical water demand within the Cal Water SSF District service area from 2000 through 2021 is summarized in **Table 4**. The largest proportion of water demand within the SSF District service area is from the commercial sector, which represented 45% of the demand in the 2016-2021 period. The remainder of the demand was split between single-family residential (SFR; 37% of overall demand), industrial (8.8% of overall demand), multi-family residential (MFR; 5.1% of the overall demand), and institutional/government (4% of the overall demand; Cal Water, 2022b).

Water use from 2000 to 2008 within the SSF District remained fairly consistent, at an average of 9,356 AFY. A slight decrease in water use occurred from 2008 to 2012, which generally corresponds with the 2007 to 2009 drought and the economic downturn. Then, a significant drop in water demand occurred in 2014 and 2015, corresponding with the recent historic drought and mandatory statewide water use restrictions and water conservation targets. Based on the data summarized in **Table 4**, total water demand for the District averaged 6,722 AFY from 2016 through 2021.

5.2 SSF District Water Demand Projections

Projected water demands for the SSF District are documented in the SSF District 2020 UWMP (2020 UWMP) and presented in **Table 5** in five-year increments. Taking into account historical water use, expected population increase and other growth, climatic variability, and other assumptions, water demand within the SSF District is projected to increase to 8,423 AFY by 2045, an increase of 25% over the 2016-2021 average.

5.3 Planned Development Projects within the South San Francisco District

The SSF District 2020 UWMP water demand projections account for growth within the SSF District service area through 2045. The 2020 UWMP projections are based on population, housing, and employment projections developed by the Association of Bay Area Governments (ABAG) and included planned developments for which WSAs were recently completed, including the 201 Haskins Way, South SFPUC Site, South San Francisco Downtown Station, Oyster Point Development, 2017 Genentech Master Plan Update, and Southline Specific Plan WSAs. Thus, the projected water demands for these development projects were included in the growth projections for the SSF District.

As discussed in Section 5.2 above, while the updated water demand projections account for growth within the current SSF District, the proposed Project is not explicitly included in these projections. In addition to the proposed Project, Cal Water recently completed WSAs for the 121 East Grand Ave project, an approximately 950,000 office/R&D development over a 2.9-acre site, and for the 800 Dubuque Avenue project, an approximately 900,000 office/R&D development

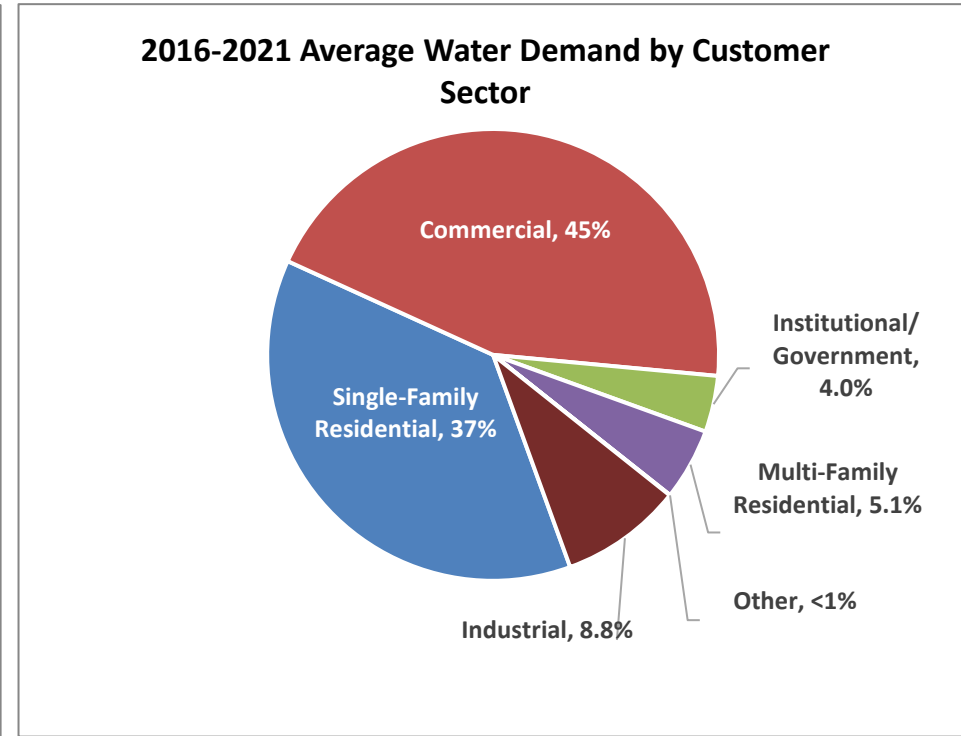
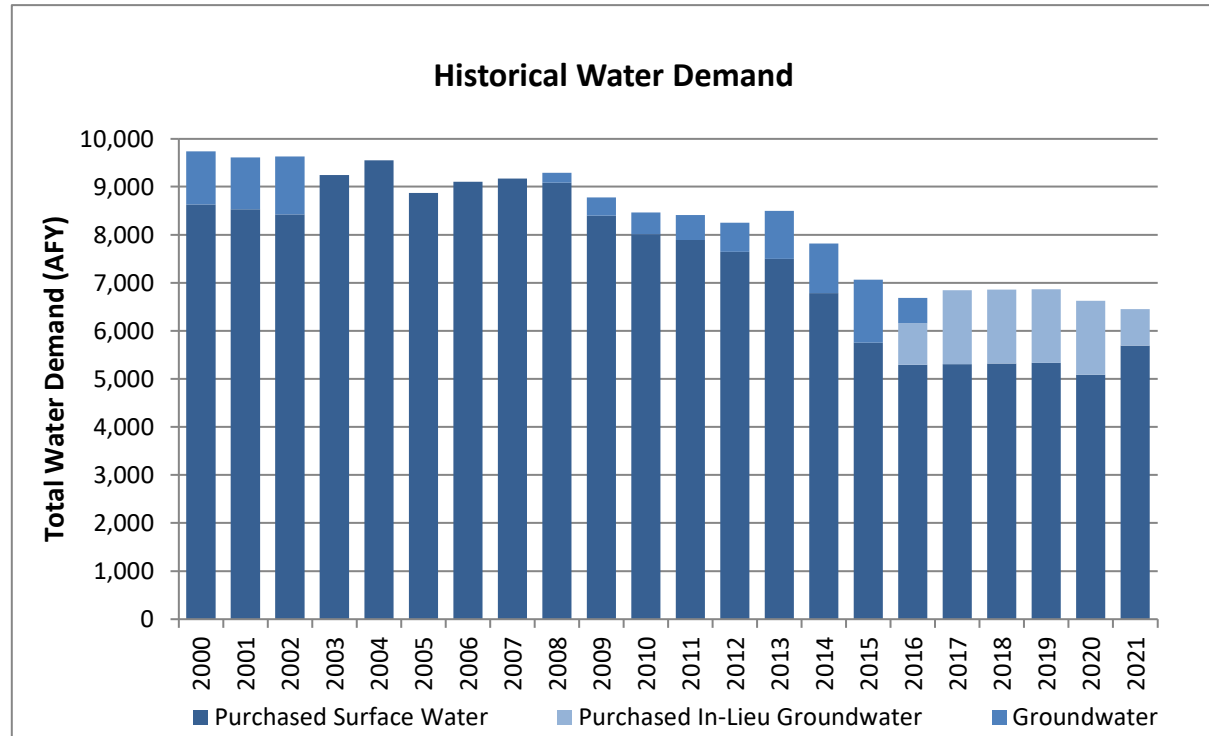
over a 5.9-acre site, both of which are also located within the SSF District. Through implementation of Cal Water's Development Offset Program (See Section 4.1), neither the proposed Project nor the 121 East Grand Ave project would result in a net increase in water demand for the SSF District relative to those projected in the 2020 UWMP.

5.4 Total Projected SSF District Water Demand (Inclusive of the Proposed Project)

Table 5 shows the projected water demands for the SSF District inclusive of the estimated proposed Project water demands. As shown, with the implementation of Cal Water's Development Offset Program, the proposed Project will not increase the SSF District's demand.

Table 4
Historical Water Demand for South San Francisco District
 Healthpeak Vantage, South San Francisco, California

Category	Cal Water Historical Annual Water Demand (AFY) (a)(b)																					
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Purchased Surface Water	8,632	8,531	8,426	9,245	9,549	8,869	9,101	9,169	9,086	8,397	8,013	7,892	7,644	7,500	6,787	5,751	5,296	5,308	5,322	5,332	5,089	5,694
Purchased In-Lieu Groundwater	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	863	1,535	1,535	1,535	1,539	761
Groundwater	1,106	1,076	1,207	0	0	0	0	0	206	380	452	515	606	995	1,028	1,312	527	0	0	0	0	0
Total Water Demand	9,738	9,606	9,633	9,245	9,549	8,869	9,101	9,169	9,292	8,777	8,465	8,408	8,250	8,495	7,816	7,064	6,687	6,842	6,856	6,866	6,627	6,455



Abbreviations:

"AFY" = acre feet per year

"Cal Water" = California Water Service

Notes:

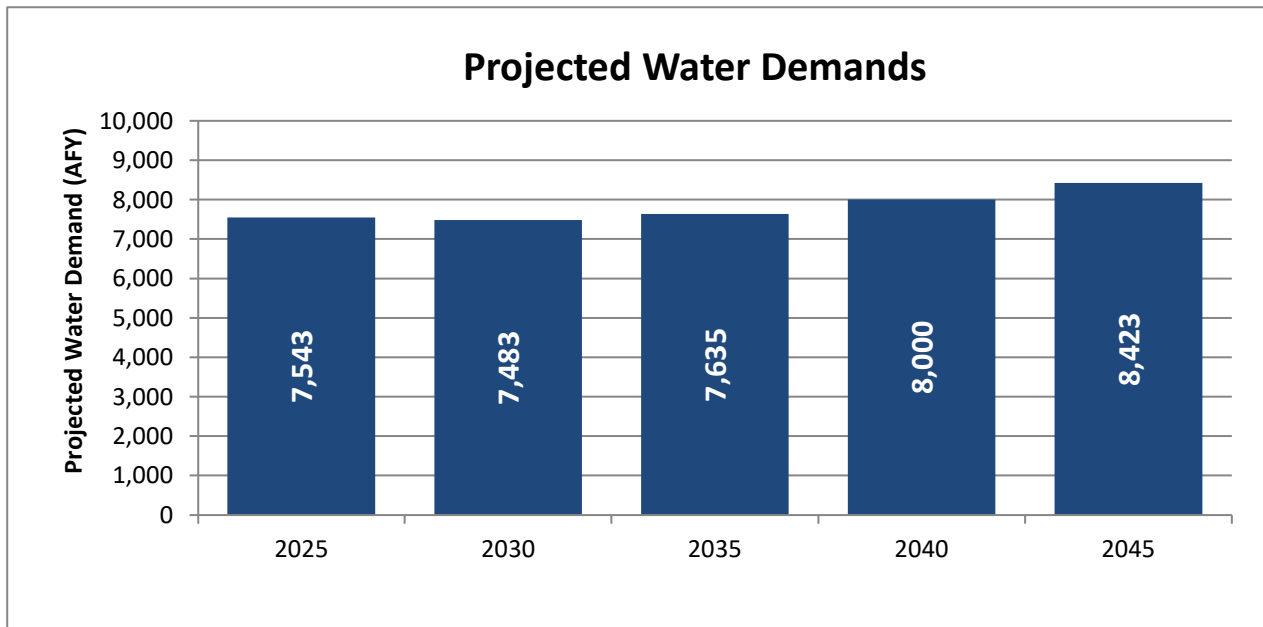
- (a) Historical water demands for per Reference 1. 2016-2021 water use by customer sector per Reference 1 and Reference 2.
- (b) Since 2016, the SSF District has derived 100 percent of its designated quantity of supply from the Westside Basin as in-lieu water provided through the Regional Groundwater Storage and Recovery (RGSR). As such, the volume of groundwater pumped in Table 4 does not represent actual extractions from the Basin, but rather the combined volume of in-lieu surface water deliveries and extractions from the Basin per Reference 3.

References:

- 1. Historical Demand and Production Data Provided by Cal Water, 2022.
- 2. 2021-2025 Conservation Master Plan, South San Francisco District, prepared by California Water Service, dated April 2021.
- 3. 2020 Urban Water Management Plan, South San Francisco District, prepared by California Water Service, dated June 2021.

Table 5
Projected Future Water Demand for the South San Francisco District
 Healthpeak Vantage, South San Francisco, California

Water Demand	Projected Annual Water Demand (AFY)				
	2025	2030	2035	2040	2045
SSF District 2020 UWMP (a)	7,543	7,483	7,635	8,000	8,423
Healthpeak Vantage Project (b)	--	--	--	--	--
Total Water Demand (c)	7,543	7,483	7,635	8,000	8,423



Abbreviations:

- "AFY" = acre feet per year
- "Cal Water" = California Water Service
- "SSF" = South San Francisco
- "UWMP" = Urban Water Management Plan

Notes:

- (a) Water demand projections for the SSF District were updated in 2021, and are presented per Reference 1.
- (b) In accordance with and through implementation of Cal Water's Development Offset Program, the proposed Project will not result in a net increase in demands for the SSF District.
- (c) The total water demand is the sum of total water use and distribution system losses.

References:

- 1. 2020 Urban Water Management Plan, South San Francisco District, prepared by California Water Service, dated June 2021.

6 CAL WATER SSF DISTRICT WATER SUPPLY

This section identifies Cal Water SSF District’s water supplies and discusses the vulnerability of the various supplies to drought and other factors affecting water supply reliability. The Cal Water SSF District utilizes both groundwater supply from the Westside Basin and imported surface water supply purchased from the SFPUC. Both sources are expected to constitute the water supply for the proposed Project.

6.1 Identification of Water Supply Rights

CWC § 10910 (d)(1)

The assessment required by this section shall include an identification of any existing water supply entitlements, water rights, or water service contracts relevant to the identified water supply for the proposed project, and a description of the quantities of water received in prior years by the public water system, or the city or county if either is required to comply with this part pursuant to subdivision (b), under the existing water supply entitlements, water rights, or water service contracts.

Pursuant to Water Code §10910(d)(1), a WSA is required to include identification of all water supply entitlements, water rights, and water service contracts relevant to the identified water supply for the proposed Project. In accordance with these requirements, this WSA includes a summary of Cal Water’s water supply sources in the SSF District service area and the agreements between Cal Water and its wholesale supplier, the SFPUC, and other parties.

As discussed further below, three Cal Water Districts share one contractual allocation of supply from the City and County of San Francisco’s RWS, and thus manage the supplies for all three Peninsula Districts collectively. Therefore, the consideration of supply availability below for the SSF District considers the collective supply available to all three Peninsula Districts (i.e., the SSF, Bear Gulch, and Mid-Peninsula Districts).

6.1.1 SFPUC Regional Water System

6.1.1.1 RWS Supply Sources and Allocation

The majority of the water supply to the Cal Water SSF District (i.e., approximately 89% from 2005-2021) is treated water purchased from the City and County of San Francisco’s RWS, which is operated by the SFPUC. Within the SSF District, Cal Water takes delivery from eleven active and two standby metered turnouts from RWS transmission lines.

The RWS supply originates predominantly from the Sierra Nevada but also includes treated water produced by the SFPUC from its local watersheds and facilities in Alameda and San Mateo Counties. Approximately 85% of the RWS supply is from the Tuolumne River via the Hetch-Hetchy Reservoir and aqueducts. The Cal Water RWS supply is sourced from the remaining 15%, which is derived from local watersheds and the San Antonio, Calaveras, Crystal Springs, Pilarcitos, and San Andreas Reservoirs.

The business relationship between the City and County of San Francisco and its Wholesale Customers (including Cal Water) is largely defined by the Water Supply Agreement between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo County, and Santa Clara County (Agreement) entered into in July 2009. The Agreement, which has a 25-year term, addresses water supply availability for the RWS as well as the methodology used by the SFPUC in setting wholesale water rates. This Agreement supersedes an earlier 25-year agreement signed in 1984 and was amended in 2019. The amendments included extending the deadline for SFPUC to decide whether to make San Jose and Santa Clara permanent customers, a revision to the drought allocation formula, and a deadline extension for completion of its Water Supply Improvement Plan, among other things. A copy of this Agreement (without signatures) is included in **Appendix B**.

The Agreement provides a 184 million gallons per day (MGD) Supply Assurance to the SFPUC's Wholesale Customers collectively (Cal Water, 2021a). This allocation was reached through negotiation in the early 1990s between the SFPUC and the Bay Area Water Users Association (BAWUA), the predecessor organization to BAWSCA. The Agreement was first signed by Cal Water, along with 29 other Bay Area water suppliers, as part of the 1984 Settlement Agreement and Master Water Sales Contract with San Francisco, supplemented by individual Water Supply Contracts (Cal Water, 2016). The Supply Assurance is subject to reduction during periods of water shortage due to drought, emergencies, or other scenarios resulting in a water shortage. Each Wholesale Customer's share of the 184 MGD is referred to as their Individual Supply Guarantee (ISG). Although the Agreement expires in 2034, the Supply Assurance and ISG continue in perpetuity as both are subject to separate binding water allocation agreements described above and would continue beyond the term of the Agreement. At expiration of the Agreement, it is likely that a new agreement will be entered into as was done at the termination of the prior 1984 agreement.

Cal Water's contractual allocation of SFPUC supply is shared among its Bear Gulch, Mid-Peninsula, and SSF Districts. Cal Water's ISG for the three Peninsula Districts was originally 35.39 MGD (39,642 AFY). However, the acquisition of the Los Trancos County Water District in July 2005 resulted in the transfer of 0.11 MGD of ISG to Cal Water, and in 2009 Cal Water acquired the Skyline County Water District, which also transferred its 0.181 MGD ISG to Cal Water. These acquisitions increased Cal Water's total ISG to 35.68 MGD (39,993 AFY) (Cal Water, 2016).

Information regarding the Agreement and subsequent amendments was provided by BAWSCA in coordination with SFPUC in support of 2020 UWMP development and is provided verbatim below.

In the 2009 Water Supply Agreement, the SFPUC committed to make three decisions before 2018 that affect water supply development:

- *Whether or not to make the cities of San Jose and Santa Clara permanent customers,*
- *Whether or not to supply the additional unmet supply needs of the Wholesale Customers beyond 2018, and*

- *Whether or not to increase the wholesale customer Supply Assurance above 184 mgd.*

Events since 2009 made it difficult for the SFPUC to conduct the necessary water supply planning and CEQA analysis required to make these three decisions before 2018. Therefore, in the 2018 Amended and Restated Water Supply Agreement, the decisions were deferred for 10 years to 2028.

Additionally, there have been recent changes to instream flow requirements and customer demand projections that have affected water supply planning beyond 2018. As a result, the SFPUC has established an Alternative Water Supply Planning program to evaluate several regional and local water supply options. Through this program, the SFPUC will conduct feasibility studies and develop an Alternative Water Supply Plan by July 2023 to support the continued development of water supplies to meet future needs.

Cal Water's collective current and projected purchase quantities are approximately equal to an average of 29.25 MGD in 2020 and 30.37 MGD in 2045,⁷ respectively (Cal Water, 2021a). Both current and projected quantities are less than Cal Water's ISG of 35.68 MGD.

6.1.1.2 RWS Supply Reliability

The RWS has historically met demand in its service area in all year types. Factors that will affect future reliability of the RWS are discussed below. Detailed information regarding factors that impact the SFPUC RWS supply reliability are provided in the 2020 UWMP.

The water available to SFPUC's Retail and Wholesale Customers from the RWS is constrained by hydrology, physical facilities, and the institutional parameters that allocate the water supply of the Tuolumne River (Cal Water, 2021a). In addition, statewide regulations and other factors can impact the system reliability. For example, the adoption of the Water Quality Control Plan for the San Francisco/Sacramento-San Joaquin Delta Estuary (Bay-Delta Plan Amendment) is anticipated to impact the reliability of the RWS supplies in the future.

Based on an analysis by BAWSCA, if the current Bay-Delta Plan Amendment (July 2018) is implemented, the proposed unimpaired flow volumes would significantly reduce water supply available through the RWS during future drought conditions, and BAWSCA member agencies (including the Cal Water SSF District) would be required to reduce their water use by as much as 50% during drought years (BAWSCA, 2018).

In support of 2020 UWMP development, SFPUC provided a detailed discussion of the factors contributing to the significant uncertainties surrounding the Bay-Delta Plan Amendment. This discussion is excerpted below:

⁷ Projected RWS purchase volumes are based on having full local supply (i.e., 840 AFY in the Bear Gulch Reservoir and 1,534 AFY from the South San Francisco wells).

In December 2018, the State Water Resources Control Board (SWRCB) adopted amendments to the Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary (Bay-Delta Plan Amendment) to establish water quality objectives to maintain the health of the Bay-Delta ecosystem. The SWRCB is required by law to regularly review this plan. The adopted Bay-Delta Plan Amendment was developed with the stated goal of increasing salmonid populations in three San Joaquin River tributaries (the Stanislaus, Merced, and Tuolumne Rivers) and the Bay-Delta. The Bay-Delta Plan Amendment requires the release of 30-50% of the “unimpaired flow”⁸ on the three tributaries from February through June in every year type. In SFPUC modeling of the new flow standard, it is assumed that the required release is 40% of unimpaired flow.

If the Bay-Delta Plan Amendment is implemented, the SFPUC will be able to meet the projected water demands presented in this Urban Water Management Plan (UWMP) in normal years but would experience supply shortages in single dry years or multiple dry years. Implementation of the Bay-Delta Plan Amendment will require rationing in all single dry years and multiple dry years. The SFPUC has initiated an Alternative Water Supply Planning Program (AWSP) to ensure that San Francisco can meet its Retail and Wholesale Customer water needs, address projected dry years shortages, and limit rationing to a maximum 20 percent system-wide in accordance with adopted SFPUC policies. This program is in early planning stages and is intended to meet future water supply challenges and vulnerabilities such as environmental flow needs and other regulatory changes; earthquakes, disasters, and emergencies; increases in population and employment; and climate change. As the region faces future challenges – both known and unknown – the SFPUC is considering this suite of diverse non-traditional supplies and leveraging regional partnerships to meet Retail and Wholesale Customer needs through 2045.

The SWRCB has stated that it intends to implement the Bay-Delta Plan Amendment on the Tuolumne River by the year 2022, assuming all required approvals are obtained by that time. But implementation of the Plan Amendment is uncertain for multiple reasons.

First, since adoption of the Bay-Delta Plan Amendment, over a dozen lawsuits have been filed in both state and federal courts, challenging the SWRCB’s adoption of the Bay-Delta Plan Amendment, including a legal challenge filed by the federal government, at the request of the U.S. Department of Interior, Bureau of Reclamation. This litigation is in the early stages and there have been no dispositive court rulings as of this date.

Second, the Bay-Delta Plan Amendment is not self-implementing and does not automatically allocate responsibility for meeting its new flow requirements to the SFPUC or any other water rights holders.

...

⁸ "Unimpaired flow represents the natural water production of a river basin, unaltered by upstream diversions, storage, or by export or import of water to or from other watersheds." (Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary (Dec. 12, 2018) p.17, fn. 14, available at: https://www.waterboards.ca.gov/plans_policies/docs/2018wqcp.pdf.)

Third, in recognition of the obstacles to implementation of the Bay-Delta Plan Amendment, the SWRCB Resolution No. 2018-0059 adopting the Bay-Delta Plan Amendment directed staff to help complete a “Delta watershed-wide agreement, including potential flow measures for the Tuolumne River” by March 1, 2019, and to incorporate such agreements as an “alternative” for a future amendment to the Bay-Delta Plan to be presented to the SWRCB “as early as possible after December 1, 2019.” In accordance with the SWRCB’s instruction, on March 1, 2019, SFPUC, in partnership with other key stakeholders, submitted a proposed project description for the Tuolumne River that could be the basis for a voluntary substitute agreement with the SWRCB (“March 1st Proposed Voluntary Agreement”). On March 26, 2019, the Commission adopted Resolution No. 19-0057 to support the SFPUC’s participation in the Voluntary Agreement negotiation process. To date, those negotiations are ongoing under the California Natural Resources Agency and the leadership of the Newsom administration.^{9,10}

The 2020 UWMP further summarized the current sources of uncertainty regarding RWS dry year water supply projections. This discussion is excerpted (with minor refinements) below:

- *Benefits of the AWSP are not accounted for in current supply projections.* As discussed above, SFPUC is exploring options to increase its supplies through the AWSP. Implementation of feasible projects developed under the AWSP is not yet reflected in the supply reliability scenarios presented herein and is anticipated to reduce the projected RWS supply shortfalls.
- *Methodology for Tier One and Tier Two Wholesale drought allocations have not been established for wholesale shortages greater than 20%.* As discussed further in Section 6.1.1.4, the current Tier One and Tier Two Plans are not designed for RWS supply shortages of greater than 20%. For UWMP planning purposes per BAWSCA guidance, the Tier One Wholesale share for a 16% to 20% supply reduction (62.5%) has been applied for reductions greater than 20% and an equal percent reduction has been applied across all Wholesale Customers. BAWSCA member agencies have not formally agreed to adopt this shortage allocation methodology and are in discussions about jointly developing an alternative allocation method that would consider additional equity factors if SFPUC is unable to deliver its contractual supply volume and cutbacks to the RWS supply exceed 20%.
- *RWS demands are subject to change.* The RWS supply availability is dependent upon the system demands. The supply scenarios are based on the total projected Wholesale Customer purchases provided by BAWSCA to SFPUC in January 2021. Many BAWSCA agencies have refined their projected demands during the UWMP process after these

⁹ California Natural Resources Agency, “Voluntary Agreements to Improve Habitat and Flow in the Delta and its Watersheds,” available at <https://files.resources.ca.gov/voluntary-agreements/>.

¹⁰ As of 29 October 2021, state regulators announced that the Voluntary Agreement negotiations process has ceased, with no agreement reached. San Francisco Chronicle, “California Drought: Key Talks Over Water Use Break Down, SF May Face Tighter Regulation,” available at <https://www.sfchronicle.com/sf/article/California-drought-Key-talks-over-water-use-16576132.php>

estimates were provided to SFPUC. Furthermore, the RWS demand projections are subject to change in the future based upon future housing needs, increased conservation, and development of additional local supplies.

- *Frequency and duration of cutbacks are also uncertain.* While the projected shortfalls presented in the UWMP appear severe, the actual frequency and duration of such shortfalls are uncertain. Based on the Hetch Hetchy and Local Simulation Model (HHLSM) simulations provided by BAWSCA for the Bay-Delta Plan Amendment scenario, rationing is anticipated to be required 20% of years for base year 2025 through 2035, 23% of all years for base year 2040, and 25% of years for base year 2045. In addition to the supply volumes, the above listed uncertainties would also impact the projected frequency and duration of shortfalls. As such, in addition to evaluating local options to increase supply reliability, Cal Water has placed high priority on working with BAWSCA and SFPUC in the upcoming years to better refine the estimates of RWS supply reliability and may amend the 2020 UWMP when new information becomes available.
- *Voluntary agreement may be reached.* The SFPUC 2020 UWMP also discussed that the implementation of the Bay-Delta Plan Amendment was under negotiation, through Voluntary Agreement negotiations between SFPUC, in partnership with other key stakeholders, and SWRCB. In November 2022, SFPUC, along with Governor Newsom's senior water policy officials and the Modesto and Turlock Irrigation Districts, reached an agreement on a Memorandum of Understanding (MOU) with an eight-year term. The MOU includes, among other things, protection of water supplies for RWS customers, as well as a commitment by the Tuolumne River parties for new flows in the Tuolumne River to benefit native fish species that are in addition to the current requirements. The MOU also provides that pending litigation concerning the adopted 2018 Bay-Delta Plan Amendment will be the subject of future negotiations.

Regardless of the recent progress made through the November 2022 MOU, a Voluntary Agreement has yet to be approved by the SWRCB as an alternative to the Bay-Delta Plan Amendment, and shortages and supply cutback values associated with this alternative are unknown. Despite this uncertainty, the relative degree of shortfall associated with the Voluntary Agreement is assumed to be less than under the Bay-Delta Plan Amendment, as further explained in a recently approved SFPUC WSA (SFPUC, 2022c):

However, given that the objectives of the Voluntary Agreement are to provide fishery improvements while protecting water supply through flow and non-flow measures, the RWS supply shortfalls under the Voluntary Agreement would be less than those under the Bay-Delta Plan Amendment, and therefore would require water use reductions of a lesser degree. The degree of water use reduction would also more closely align with the SFPUC's RWS [Level of Service] LOS goal of limiting water use reduction to no more than 20% on a system-wide basis in drought years.

There are currently over a dozen active lawsuits challenging the SWRCB's adoption of the Bay-Delta Plan Amendment. This litigation is in the early stages and there have been no dispositive court rulings as of this date. This is a dynamic situation and the projected drought cutback allocations may need to be revised before the next (i.e., 2025) UWMP process depending on court decisions and/or an adopted implementation policy.

Per the above, numerous uncertainties remain surrounding the implementation of the Bay-Delta Plan Amendment. The water supply projections presented in SFPUC's 2020 UWMP likely represent a worst-case scenario in which the Bay-Delta Plan Amendment is implemented as written, and do not account for implementation of SFPUC's AWSP or a Voluntary Agreement. Additional information regarding drought allocations can be found in Section 8 of the SFPUC 2020 UWMP.

6.1.1.3 Efforts to Increase RWS Supply Reliability

On 2 June 2021, the SFPUC released a memorandum which outlines numerous options the SFPUC is pursuing to improve the supply reliability projected in its 2020 UWMP and meet its Level of Service (LOS) Goals. This memorandum is included as **Appendix C**. Furthermore, the SFPUC's Water Supply Improvement Program (WSIP) and its Water Management Action Plan (Water MAP) articulate the SFPUC's goals and objectives to improve the delivery reliability of the RWS, including water supply reliability.

The WSIP program goal is to improve the SFPUC's ability to reliably meet its Retail and Wholesale Customers water needs in non-drought and drought periods. In 2008, the SFPUC adopted LOS Goals and Objectives in conjunction with the adoption of the WSIP. The SFPUC's LOS Goals and Objectives include: (a) meeting average annual water demand of 265 MGD from the SFPUC watersheds for Retail and Wholesale Customers during non-drought years for system demands through 2028; (b) meeting dry-year delivery needs through 2028 while limiting rationing to a maximum 20% system-wide reduction in water service during extended droughts; (c) diversifying water supply options during non-drought and drought periods; and (d) improving use of new water sources and drought management, including groundwater, recycled water, conservation, and transfers (SFPUC, 2018). The anticipated completion date of the overall WSIP is May 2023. As of 31 December 2021, WSIP local projects are 100% complete and regional projects are 98.9% complete (SFPUC, 2022b).

The SFPUC also developed a Water MAP in 2016 to provide the information necessary to begin developing a water supply program for the 2019 to 2040 planning horizon. The SFPUC intends that the Water MAP will guide its efforts to continue to meet its commitments and responsibilities to its customers, including the BAWSCA member agencies (BAWSCA, 2017). The Water MAP was developed with consideration of the 2018 SFPUC's supply decisions (now postponed to 2028; as discussed above), as well as recent changes to instream flow requirements and customer demand projections. The Water MAP has identified water supply needs on the RWS by 2040 and prioritized those needs in the following order:

1. Meeting existing obligations to existing permanent customers (3.5 MGD).
2. New supply in order to make the City of San Jose a permanent customer of the SFPUC (Up to 9.5 MGD).
3. New supply in order to make the City of Santa Clara a permanent customer of the SFPUC (Up to 5.0 MGD).

4. New supply to meet the City of East Palo Alto's projected needs above its ISG (Up to 1.5 MGD).

Through implementation of its Long-Term Water Supply Reliability Strategy (LTWSRS), BAWCSA is also actively evaluating opportunities to increase the supply reliability of the RWS (BAWSCA, 2015). The strategy includes short- and long-term implementation plans including water supply management projects that could be implemented to meet identified needs. Potential projects include recycled water projects, desalination projects, water transfer projects, and local capture and reuse projects.

6.1.1.4 RWS Water Shortage Allocations

The Agreement includes a Water Shortage Allocation Plan (WSAP) that allocates water from the RWS to Retail and Wholesale Customers during system-wide shortages of 20% or less. As described in detail in the 2020 UWMP, the WSAP has two components:

1. The Tier One Plan, which allocates water between San Francisco and the Wholesale Customers collectively; and
2. The Tier Two Plan, which allocates the collective Wholesale Customer share among the Wholesale Customers.

We note that the dry year supply reliability projections provided herein (Section 6.2) are obtained from the 2020 UWMP based on application of BAWSCA-provided revised methodology to allocate RWS supplies during projected future single dry and multiple dry years in the instance where the supply shortfalls are greater than 20%.¹¹ However, BAWSCA member agencies are in discussions about jointly developing an allocation method that would consider additional equity factors in the event that SFPUC is not able to deliver its contractual supply volume, and its cutbacks to the RWS supply exceed 20%. While Cal Water is working independently and with the other BAWSCA agencies to identify regional mitigation measures to improve reliability for regional and local water supplies and meet its customers' water needs, Cal Water expects that SFPUC's LOS Goals and Objectives will be met and is comfortable assuming its contract with SFPUC will be honored as written.

6.1.2 Surface Water Supply

Surface water supplies a small portion of the three Peninsula Districts' water demands. From 2016 to 2020, it supplied an average of 537 AFY, or less than 2% of total supplies (Cal Water, 2021b). Surface water is collected from the Bear Gulch Creek by two diversion facilities and is stored in Bear Gulch Reservoir prior to use.

¹¹ The projected SFPUC RWS supplies presented in this WSA are based on dry year allocation projections included in the SSF, Bear Gulch, and Mid-Peninsula District 2020 UWMPs based on the methodology, assumptions and information utilized and provided by SFPUC and BAWSCA; however, actual future supply allocations may vary based on actual shortage levels and the then-applicable allocation methodology being applied by BAWSCA and SFPUC.

The Bear Gulch District diverts water from two points of diversion (PODs) along the creek – the Upper POD (with an upstream area of 2.5 square miles) and the Lower POD (with an upstream area of 9.4 square miles). Diversions from the Upper and Lower PODs are each governed by separate SWRCB-administered water rights (i.e., pre-1914 claimed water rights and post-1914 SWRCB-issues diversion permits/licenses) that specify the volumes, rates, and timing of allowed diversions at each POD. In addition to these SWRCB-administered water rights, diversions are further constrained by certain diversion limitations and minimum instream flow requirements imposed by the California Department of Fish and Wildlife (CDFW) at the Upper POD and by the National Oceanic and Atmospheric Administration (NOAA) at the Lower POD. There also exists a 1936 agreement with Stanford University that prohibits Cal Water from diverting more than 50% of the flows that pass by (i.e., are not diverted at) the Upper POD.

Water diverted from the Upper POD flows through a gravity conveyance pipeline to a junction point where it is joined by water diverted from the Lower POD, at which point the water is pumped into the Bear Gulch District-owned Bear Gulch Reservoir, a man-made storage facility impounded by an earthen dam. The Bear Gulch Reservoir is operated to have a minimum “dead pool” storage of 50 million gallons (MG), or approximately 153 AF. The maximum storage capacity of the reservoir has been reduced from 149 MG (547 AF) to 142.7 MG (438 AF), a limit imposed by the California Division of Safety of Dams (DSOD), based on a maximum storage elevation of 230 feet above mean sea level. Cal Water is undertaking capital improvements to Bear Gulch Reservoir to address DSOD’s seismic safety concerns and may also consider increasing the maximum storage capacity. Outflows from Bear Gulch Reservoir are currently limited by the DSOD to the rate that causes a water surface elevation decline of 0.3 feet per day.

Water stored in Bear Gulch Reservoir is released and sent through the Bear Gulch District-owned Bear Gulch Water Treatment Plant (BGWTP) prior to addition to the distribution system. The BGWTP, which was placed into operation in 1977, has a rated capacity of 6.0 MGD. There the water is clarified, filtered, and chloraminated in compliance with the Surface Water Treatment Rule and the Safe Drinking Water Act. Based on data from Water Years 1981 through 2019, annual production from the reservoir has ranged from a high of 2,809 AF (915 MG) in 1983 to a low of 0 AF (0 MG) in 2014.

Recent analysis by the Bear Gulch District has shown that the projected long-term average annual diversion amount by the Bear Gulch District from the Bear Gulch local surface water system is approximately 840 AFY. This estimate considers the hydrology of the watershed, the various regulatory constraints that govern diversions (i.e., water rights and instream flow requirements), and current infrastructure limitations (i.e., pump, pipeline and treatment plant capacity). The storage capacity of Bear Gulch Reservoir is relatively small compared to average annual diversion/production, and therefore there is typically no carryover storage from one year to the next. Furthermore, given the various constraints on diversions at the Bear District’s two PODs under the SWRCB-administered water rights and the CDFW/NOAA-governed minimum instream flow requirements, the allowable diversions by the Bear Gulch District are significantly lower during dry years even though the creek itself maintains flow. Although local surface water diversions (and subsequent treatment and use of local surface water) have occurred historically during dry years, and the Bear District’s analysis indicates that some diversions are likely to occur

in future dry years¹², for the purposes of its 2020 UWMP the Bear Gulch District conservatively assumed that local surface water supplies will be zero during single dry and multiple dry years over the planning horizon.

¹² Diversions from the Bear Gulch Creek system are estimated at 291 AF with a 90% exceedance probability.

6.1.3 Groundwater Supply

CWC § 10910 (f)

If a water supply for a proposed project includes groundwater, the following additional information shall be included in the water supply assessment:

(1) A review of any information contained in the urban water management plan relevant to the identified water supply for the proposed project.

(2)(A) A description of any groundwater basin or basins from which the proposed project will be supplied.

(B) For those basins for which a court or the board has adjudicated the rights to pump groundwater, a copy of the order or decree adopted by the court or the board and a description of the amount of groundwater the public water system, or the city or county if either is required to comply with this part pursuant to subdivision (b), has the legal right to pump under the order or decree.

(C) For a basin that has not been adjudicated that is a basin designated as high- or medium-priority pursuant to Section 10722.4, information regarding the following:

(i) Whether the department has identified the basin as being subject to critical conditions of overdraft pursuant to Section 12924.

(ii) If a groundwater sustainability agency has adopted a groundwater sustainability plan or has an approved alternative, a copy of that alternative or plan.

(D) For a basin that has not been adjudicated that is a basin designated as low- or very low priority pursuant to Section 10722.4, information as to whether the department has identified the basin or basins as overdrafted or has projected that the basin will become overdrafted if present management conditions continue, in the most current bulletin of the department that characterizes the condition of the groundwater basin, and a detailed description by the public water system, or the city or county if either is required to comply with this part pursuant to subdivision (b), of the efforts being undertaken in the basin or basins to eliminate the long-term overdraft condition.

(3) A detailed description and analysis of the amount and location of groundwater pumped by the public water system, or the city or county if either is required to comply with this part pursuant to subdivision (b), for the past five years from any groundwater basin from which the proposed project will be supplied. The description and analysis shall be based on information that is reasonably available, including, but not limited to, historic use records.

(4) A detailed description and analysis of the amount and location of groundwater that is projected to be pumped by the public water system, or the city or county if either is required to comply with this part pursuant to subdivision (b), from any basin from which the proposed project will be supplied. The description and analysis shall be based on information that is reasonably available, including, but not limited to, historic use records.

(5) An analysis of the sufficiency of the groundwater from the basin or basins from which the proposed project will be supplied to meet the projected water demand associated with the proposed project. A water supply assessment shall not be required to include the information required by this paragraph if the public water system determines, as part of the review required by paragraph (1), that the sufficiency of groundwater necessary to meet the initial and projected water demand associated with the project was addressed in the description and analysis required by paragraph (4) of subdivision (b) of Section 10631.

Groundwater pumped from the Westside Basin constitutes a portion of supply to the Cal Water SSF District. Additional detail regarding basin description, groundwater management, and historical groundwater use is included below.

6.1.3.1 Basin Description

The Westside Basin (California Department of Water Resources [DWR] Basin No. 2-35) underlies the proposed Project and the Cal Water SSF District service area, as shown on **Figure 3**.¹³ The Westside Basin (Basin) covers an area of approximately 25,400 acres and is separated from the Lobos Basin to the north by a northwest trending bedrock ridge through the northeastern part of Golden Gate Park. The San Bruno Mountains bound the Basin on the east. The San Andreas Fault and Pacific Ocean form its western boundary and its southern limit is defined by bedrock high that separates it from the San Mateo Plain Subbasin. The Basin is connected to the Pacific Ocean on the northwest and San Francisco Bay on the southeast (Cal Water, 2021a). The Basin is not adjudicated and, in its recent evaluation of California groundwater basins, DWR determined that the Basin was not in a condition of critical overdraft and designated the Basin as low priority (DWR, 2019).

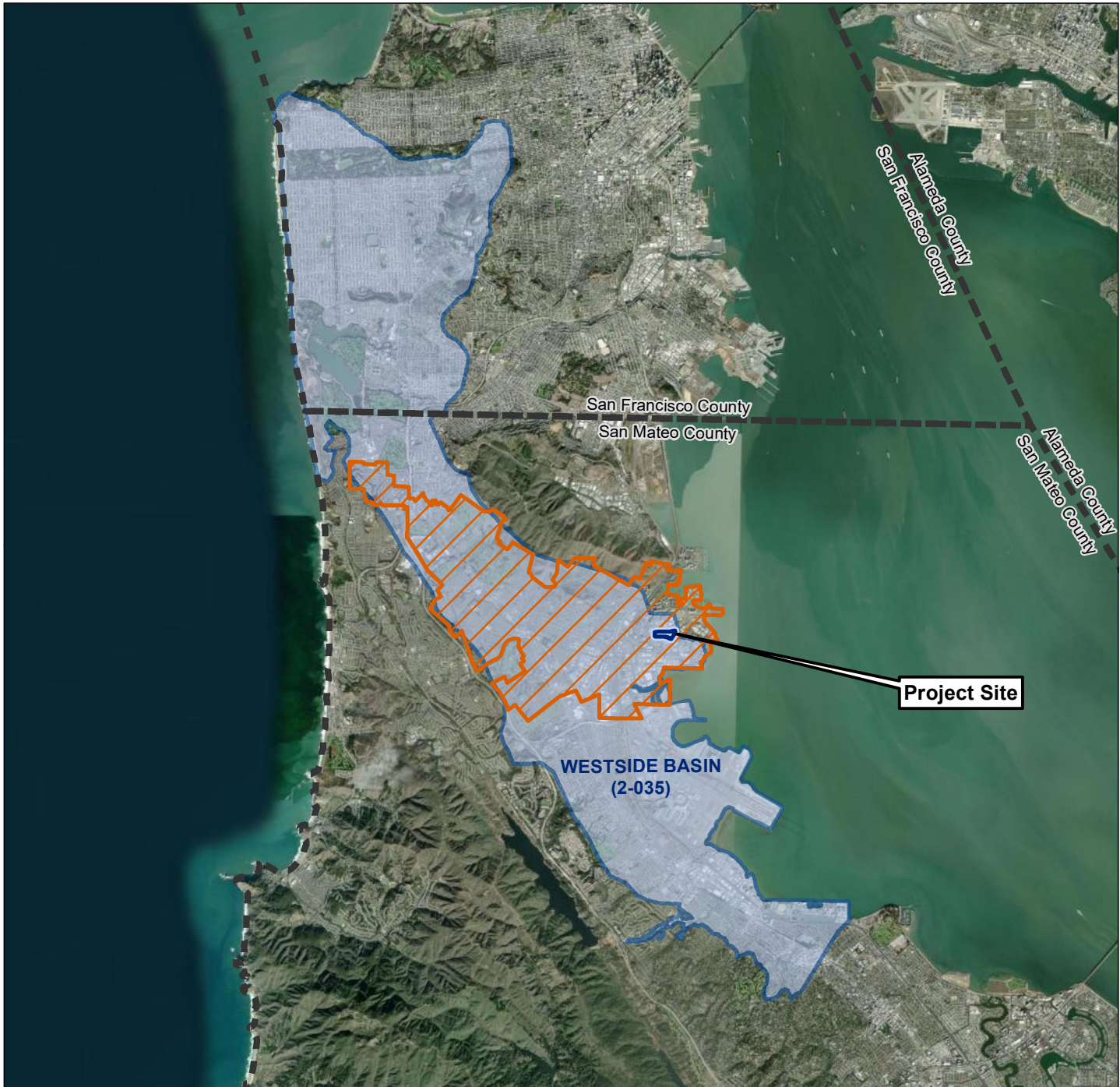
Geologically, the Basin is comprised of two groups, consisting of bedrock and unconsolidated materials. The impermeable bedrock is composed of consolidated sediment of the Franciscan Complex and the Great Valley Sequence of late Jurassic and Cretaceous age. Unconsolidated materials overlying the bedrock comprise the water bearing formations. These consist of dune sands, the Colma Formation of Pleistocene age and the Merced Formation of Pleistocene/Pliocene age (Phillips and others, 1993; DWR, 2006).

Groundwater used for water supply within the Basin is generally pumped from in the Merced and Colma Formations. The Merced Formation is composed of sand and thin interbedded silt and clay layers of shallow marine depositional origin. The Colma Formation overlies the Merced Formation and consists of fine-grained sand, silty sand, and inter-fingered clay layers (DWR, 2006; 2016). Water is produced from the coarse-grained layers within these complex, layered formations (WRIME, 2012).

The Basin is subdivided for management purposes into northern and southern portions by the county line separating San Francisco and San Mateo counties. The county-line boundary between the “North Westside Basin” and the “South Westside Basin” does not have hydrogeological significance other than influencing the jurisdictional distribution of groundwater pumping. No geologic features restrict groundwater flow between the northern and southern parts of the Basin (SFPUC, 2016). Groundwater pumping has historically provided up to 50% of local water supply in the South Westside Basin for the communities of San Bruno, Daly City, and South San Francisco (WRIME, 2012), although current usage is significantly less as a proportion.

The Basin is not adjudicated and, in its recent evaluation of California groundwater basins, DWR determined that the Basin was not in a condition of critical overdraft and was a low priority basin (DWR, 2019). Recent evaluations by others have also found that current pumping is estimated to be within the Basin’s safe yield (WRIME, 2012).

¹³ A very small portion (approximately 8%) of the SSF District service area overlies the Visitacion Valley Basin (DWR Basin No. 2-32). However, no groundwater is used from this basin and so the basin is not discussed further herein.



Legend

-  Project Boundary
-  SSF District Service Area
-  County Boundary
-  Groundwater Basin

Abbreviations

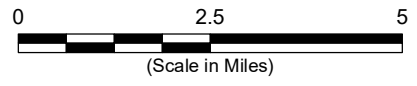
- Cal Water = California Water Service
- DWR = California Department of Water Resources
- SSF = South San Francisco

Notes

- 1. All locations are approximate.

Sources

- 1. Basemap is ESRI's ArcGIS Online world aerial map, obtained 16 March 2023.
- 2. DWR groundwater basins are based on the boundaries defined in California's Groundwater, Bulletin 118-2016 Update.
- 3. Boundary data for Cal Water districts' service areas received from Cal Water on 16 October 2017.



Regional Setting and Groundwater Basin

Healthpeak Vantage Project
 South San Francisco, CA
 March 2023
 EKI C20168.00



Figure 3

Path: X:\C20168\001\2023\03\Fig3_DWRGWBasinLocation_20230316.mxd

6.1.3.2 Groundwater Management

As described below, several groundwater management programs are actively implemented within the Basin that have relevance to the Cal Water SSF District.

South Westside Basin Groundwater Management Plan

The South Westside Basin Groundwater Management Plan (GWMP) was completed in July 2012 as a joint effort between Cal Water, the SFPUC, and the Cities of Daly City and San Bruno that superseded prior groundwater management and planning efforts (WRIME, 2012). The GWMP was prepared pursuant to Assembly Bill 3030 (AB 3030; codified in CWC §10750 et seq.).¹⁴

The goal of the GWMP is to ensure a sustainable, high quality, reliable water supply at a fair price for beneficial uses achieved through local groundwater management (WRIME, 2012). The GWMP development was supported by a companion effort by the City of Daly City to develop a numerical groundwater model for the Basin. The GWMP includes the following elements:

- Groundwater Storage and Quality Monitoring
- Control of Saltwater Intrusion
- Conjunctive Use
- Recycled Water
- Source Water Protection

Among other things, the GWMP provides steps for monitoring water quality and quantity in the South Westside Basin. Each groundwater well identified in the GWMP has defined triggers for overdraft, seawater intrusion, and various water quality measures. The GWMP also identifies two levels of trigger thresholds for each groundwater well based on historical water levels and actions to address the trigger that is met.

Regional Groundwater Storage and Recovery Project

In a joint effort between SFPUC, Cal Water, Daly City, and San Bruno, the Regional Groundwater Storage and Recovery Project (RGSR Project) was developed to support groundwater and surface water management in the South Westside Basin and improve the reliability of the RWS (Cal Water, 2021a). The RGSR Project agreement was signed in December 2014 following two phases of successful pilot programs. As part of the RGSR project agreement, the municipal pumpers within the South Westside Basin agreed to self-limit pumping within the South Westside basin to no more than 6.9 MGD, of which Cal Water's designated quantity is an annual average rate of 1.37 MGD or 1,534 AFY.

Under the RGSR project, the SFPUC will provide supplemental RWS water to Cal Water and the other "Partner Agencies" (i.e. Cal Water, Daly City, and San Bruno) during normal and wet years

¹⁴ AB 3030 provided a systematic procedure to develop a groundwater management plan by local agencies overlying DWR Bulletin 118 groundwater basins. Upon adoption of such plan, these agencies could possess the same authority as a water replenishment district to "fix and collect fees and assessments for groundwater management" (CWC §10754) (WRIME, 2012).

and in turn the Partner Agencies will reduce their groundwater pumping in their own wells to allow the Basin to recharge.¹⁵ During dry years, the Partner Agencies may pump from RGSR project wells in addition to resuming use of their own wells up to designated quantities. The in-lieu recharge (i.e. “put”) and additional groundwater pumping from RGSR wells (i.e. “take”) under the RGSR project are tracked under the Westside Basin Storage Account. Production wells in the Basin are considered to be either a RGSR Well Facility or a Partner Agency Facility, where only production from RGSR Well facilities is tracked under the RGSR project.

The RGSR Project is one of the SFPUC’s WSIP projects and provides additional dry-year water supply to help achieve the WSIP goals to increase RWS supply reliability. The RGSR Project consists of the construction of up to 16 new recovery wells and associated facilities, such as pumping systems, pipelines, and chemical treatment equipment. Construction for this project began in April 2015 and is anticipated to be completed in winter 2022 (SFPUC, 2022a).

Sustainable Groundwater Management Act

In 2014, the California State Legislature enacted the Sustainable Groundwater Management Act (SGMA), with subsequent amendments in 2015. The SGMA requires the formation of Groundwater Sustainability Agencies (GSAs) and the development and implementation of Groundwater Sustainability Plans (GSPs) for groundwater basins that are designated by DWR as medium or high priority.

The Basin is currently categorized by DWR as a very low priority basin (DWR, 2019). As such, the Basin is not subject to the requirements of SGMA. However, as discussed above, the Basin has been actively managed for years, including the establishment of pumping limitations.

6.1.3.3 Groundwater Use

Cal Water operates five groundwater production wells within its SSF District service area (Cal Water, 2021a). The Basin is not adjudicated and, in its recent evaluation of California groundwater basins, DWR determined that the Basin was not in a condition of critical overdraft and designated the Basin as low priority (DWR, 2019). As shown in **Table 6**, from 2005 to 2021, the Cal Water SSF District met up to 19% of its water demand from groundwater, excluding purchased in-lieu groundwater credits, and up to 22% including in-lieu groundwater credits purchased from SFPUC. Groundwater use was reduced in 2016 and later due to in-lieu recharge as part of the RGSR Project discussed above in Section 6.1.3.2.

Historical groundwater pumping from 2010 through 2020 and projected groundwater pumping through 2045 for the four municipal groundwater users in the Basin are shown in **Table 7**. From 2010 through 2020, the average total groundwater production by these entities was approximately 5,090 AFY, of which 505 AFY was by Cal Water (SFPUC, 2021b). The total projected groundwater pumping by the RGSR Partner Agencies is conservatively assumed to be equal to each agency’s agreed-upon pumping limitation from 2020 through 2045, of which Cal Water is

¹⁵ Supplemental deliveries do not count towards the Member Agencies’ ISGs.

projecting to pump up to 1,534 AFY (Cal Water, 2021a). The projected groundwater pumping by the City of San Francisco is based on projected pumping values included in Table 6-5 of SFPUC's 2020 UWMP (SFPUC, 2021a).

6.1.4 Cal Water Bay Area Water Supply Reliability Study

Cal Water is currently in the process of developing the Bay Area Regional Water Supply Reliability Study (WSRS), which employs integrated resource planning practices to create a long-term supply reliability strategy through 2050 for the three Peninsula Districts. The study will create long-term strategies to address a wide range of water supply challenges including climate change, new regulatory requirements (e.g., the Bay-Delta Plan Amendment), and potential growth in demands due to new development. The Bay Area WSRS is anticipated to be complete by 2024.

6.1.4.1 Potential Recycled Water Development

The Bay Area WSRS will explore potential recycled water developments to augment supply in the three Peninsula Districts. Recycled water is not currently provided in the SSF District service area and Cal Water has not projected recycled water use in its 2020 UWMP (Cal Water, 2021a). However, there is currently a coordinated effort between Cal Water and other partners to potentially develop recycled water for various uses.

Cal Water is participating in the development of the Potable Reuse Exploratory Plan (PREP) Project, a purified water project that could provide 6 to 12 MGD of water supply through reservoir water augmentation at Crystal Springs Reservoir, which is a facility of the RWS. Treated wastewater from Silicon Valley Clean Water (SVCW) and/or the City of San Mateo would go through an advanced water treatment plant to produce purified water that meets state and federal drinking water quality standards. The purified water would then be transmitted 10 to 20 miles (depending on the alignment) to Crystal Springs Reservoir, blended with regional surface water supplies and treated again at Harry Tracy Water Treatment Plant. Project partners include Cal Water, the SFPUC, BAWSCA, SVCW, Redwood City, Foster City, and the City of San Mateo. Partner agencies are contributing financial and staff resources towards the work effort. Potential scenarios include a direct connection to the Bear Gulch District or the Mid-Peninsula District. The SSF District will benefit indirectly through increased supply availability to the three Peninsula Districts collectively. This WSA does not rely on an assumption of recycled water as a supply source.

6.2 Total Potable Supply in Normal, Single Dry, and Multiple Dry Years

The projected potable water supply sources, as described above, are surface water purchased from the RWS, local surface water from the Bear Gulch Reservoir, and groundwater. Historical supplies from 2017 through 2021 and projected normal year supplies through 2045 for each source are shown in **Table 8**¹⁶. This table also shows the historical and projected demand for each

¹⁶ Projected groundwater and Bear Gulch Reservoir supply is shown based on the 2020 UWMP. Projected purchased SFPUC supply in normal years is based on Cal Water's contract allocation of 35.68 MGD (39,993 AFY).

of the three Peninsula Districts, based on updated demand projections included in their respective 2020 UWMPs. **Table 9** shows the projected demand by the three Peninsula Districts, with the inclusion of the proposed Project, and the total available supply through 2045. The current and planned future water supply within the three Peninsula Districts for normal hydrologic years is expected to meet all projected demands, which are estimated to be 36,396 AFY by 2045.

The anticipated dry-year supply estimates presented below are based on the delivery estimates provided by Cal Water as part of the 2020 UWMP (Cal Water, 2021a).¹⁷ As discussed above, BAWSCA provided a revised methodology to allocate RWS supplies during projected future single dry and multiple dry years in the instance where the supply shortfalls are greater than 20% in support of 2020 UWMP development. However, BAWSCA member agencies are in discussions about jointly developing an allocation method that would consider additional equity factors in the event that SFPUC is not able to deliver its contractual supply volume, and its cutbacks to the RWS supply exceed 20%.

During single dry years, the annual supply within the three Peninsula Districts' service areas will be reduced to 21,039 AFY by 2045. Supply shortfalls relative to total demands during single dry years are estimated to range between 34% in 2025 and 44% in 2045 (see **Table 10**).

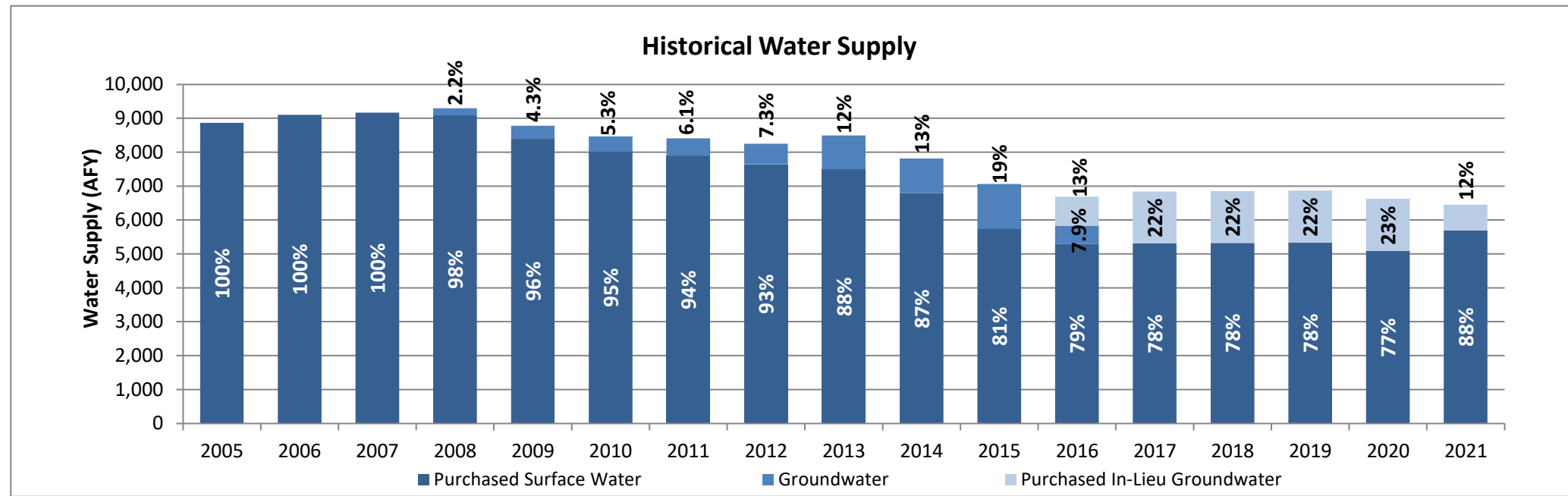
During multiple dry years, the 2020 UWMP estimates that annual supply within the three Peninsula Districts' service areas will be reduced to 23,615 AFY in 2025 during the first year of a drought, and 20,492 AFY in 2025 in the second, third, fourth, and fifth years of drought. The 2020 UWMP further estimates that in 2045, annual supply will be reduced to 20,954 AFY during the first three years of a drought, and 18,061 AFY in fourth and fifth years of drought. Supply shortfalls relative to total demands are estimated to range between 36% during the first year of a drought in 2025 to 53% during the fifth year of a drought in 2045 (see **Table 11**).

If the "worst-case" supply scenario described under Section 6.1.1.2 in which the Bay-Delta Plan Amendment is implemented as written, and not accounting for the implementation of actions identified as part of the Settlement Agreements, SFPUC's AWSP, BAWSCA's LTWSRS, or Cal Water's WSRS, shortfalls of up to 53% are projected during drought years. To address this issue, under Rule 14.1, Cal Water plans to enact its WSCP, which includes Mandatory Staged Restrictions of Water Use. The WSCP systematically identifies ways in which the SSF, Bear Gulch, and Mid-Peninsula Districts can reduce water demands during dry years. The overall reduction goals in the WSCP are established for six drought stages and address water demand reductions over 50%. The WSCPs for all three Peninsula Districts were revised as part of the 2020 UWMP update process and include detailed information about how drought risks are evaluated by Cal Water on an annual basis to determine the potential need for reductions.

¹⁷ The projected SFPUC RWS supplies presented in this WSA are based on dry year allocation projections included in the SSF, Bear Gulch, and Mid-Peninsula District 2020 UWMPs based on the methodology, assumptions and information utilized and provided by SFPUC and BAWSCA; however, actual future supply allocations may vary based on actual shortage levels and the then-applicable allocation methodology being applied by BAWSCA and SFPUC.

Table 6
Historical Water Supply for the South San Francisco District
 Healthpeak Vantage, South San Francisco, California

Water Supply Source	Historical Water Supply (AFY) (a)(b)																
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Purchased Surface Water	8,869	9,101	9,169	9,086	8,397	8,013	7,892	7,644	7,500	6,787	5,751	5,296	5,308	5,322	5,332	5,089	5,694
Purchased In-Lieu Groundwater	0	0	0	0	0	0	0	0	0	0	0	863	1,535	1,535	1,535	1,539	761
Groundwater	0	0	0	206	380	452	515	606	995	1,028	1,312	527	0	0	0	0	0
Total Water Supply	8,869	9,101	9,169	9,292	8,777	8,465	8,408	8,250	8,495	7,816	7,064	6,687	6,842	6,856	6,866	6,627	6,455



Abbreviations:

- "AFY" = acre feet per year
- "Cal Water" = California Water Service
- "SSF" = South San Francisco

Notes:

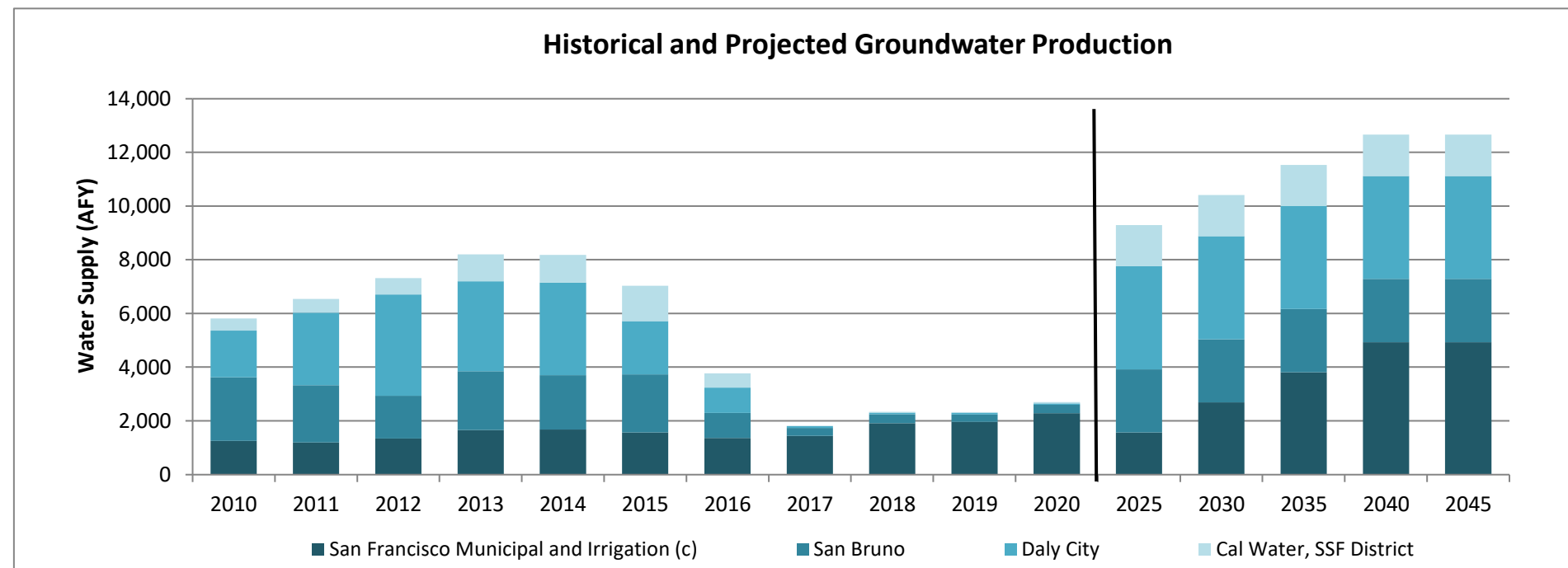
- (a) Historical water supply for per Reference 1.
- (b) Since 2016, the SSF District has derived 100 percent of its designated quantity of supply from the Westside Basin as in-lieu water provided through the Regional Groundwater Storage and Recovery (RGSR). As such the volume of groundwater pumped in Table 6 does not represent actual extractions from the Basin, but rather the combined volume of in-lieu surface water deliveries and extractions from the Basin per Reference 2.

References:

- 1. Historical Demand and Production Data Provided by Cal Water, 2022.
- 2. 2020 Urban Water Management Plan, South San Francisco District, prepared by California Water Service, dated June 2021.

Table 7
Historical and Projected Groundwater Pumping from the Westside Basin
 Healthpeak Vantage, South San Francisco, California

Water Supplier	Historical Groundwater Production (AFY) (a)											Projected Groundwater Production (AFY) (b)				
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025	2030	2035	2040	2045
Cal Water, SSF District	453	515	606	995	1,028	1,312	528	0.4	35	31	52	1,534	1,534	1,534	1,534	1,534
Daly City	1,743	2,699	3,772	3,351	3,452	1,980	941	62	59	56	51	3,840	3,840	3,840	3,840	3,840
San Bruno	2,364	2,129	1,596	2,198	2,025	2,164	937	303	333	277	311	2,350	2,350	2,350	2,350	2,350
San Francisco Municipal and Irrigation (c)	1,256	1,197	1,339	1,651	1,672	1,570	1,359	1,435	1,911	1,960	2,286	1,569	2,690	3,811	4,932	4,932
Total Groundwater Supply	5,816	6,540	7,313	8,195	8,177	7,026	3,765	1,800	2,338	2,324	2,700	9,293	10,414	11,535	12,656	12,656



Abbreviations:

- "AFY" = acre feet per year
- "Cal Water" = California Water Service
- "SSF" = South San Francisco

Notes:

- (a) Historical groundwater pumping as reported on Table 1 of Reference 1.
- (b) Projected groundwater pumping by the SSF District, City of Daly City, and City of San Bruno is conservatively estimated as the maximum apportionment for each partner agency as dictated by the Regional Groundwater Storage and Recovery Project, per Reference 2.
- (c) Projected groundwater pumping by San Francisco Municipal and Irrigation provided per Reference 3.

References:

- 1. 2020 Annual Groundwater Monitoring Report, Westside Basin, San Francisco and San Mateo Counties, California prepared by the San Francisco Public Utilities Commission, dated April 2021.
- 2. Draft Environmental Impact Report for the San Francisco Public Utilities Commission's Regional Groundwater Storage and Recovery Project, dated April 2013.
- 3. 2020 Urban Water Management Plan for the City and County of San Francisco, prepared by the San Francisco Public Utilities Commission, dated June 2021.

Table 8
Historical and Projected Supplies by Source
 Healthpeak Vantage, South San Francisco, California

Water Supply and Demand	Historical Supply and Demand (AFY)					Projected Supply and Demand (AFY)				
	2017	2018	2019	2020	2021	2025	2030	2035	2040	2045
Historical and Projected Demand (a)										
SSF District	6,842	6,856	6,866	6,627	6,455	7,543	7,483	7,635	8,000	8,423
Healthpeak Vantage Project (b)	--	--	--	--	--	--	--	--	--	--
Mid-Peninsula District	13,601	13,924	14,046	14,584	13,990	14,418	14,530	14,786	14,977	15,279
Bear Gulch District	11,395	11,936	11,869	13,097	12,248	12,796	12,699	12,730	12,675	12,694
Total Demand	31,838	32,716	32,782	34,308	32,693	34,757	34,712	35,151	35,652	36,396
Historical and Projected Supply (All Districts) (a) (c)										
Purchased (SFPUC)	29,204	31,012	30,408	32,770	31,932	32,383	32,338	32,777	33,278	34,022
Bear Gulch Reservoir	1,100	170	839	0	0	840	840	840	840	840
Groundwater	1,535	1,535	1,535	1,539	761	1,534	1,534	1,534	1,534	1,534
Total Supply	31,838	32,716	32,782	34,308	32,693	34,757	34,712	35,151	35,652	36,396
Supply Minus Demand	0	0	0	0	0	0	0	0	0	0

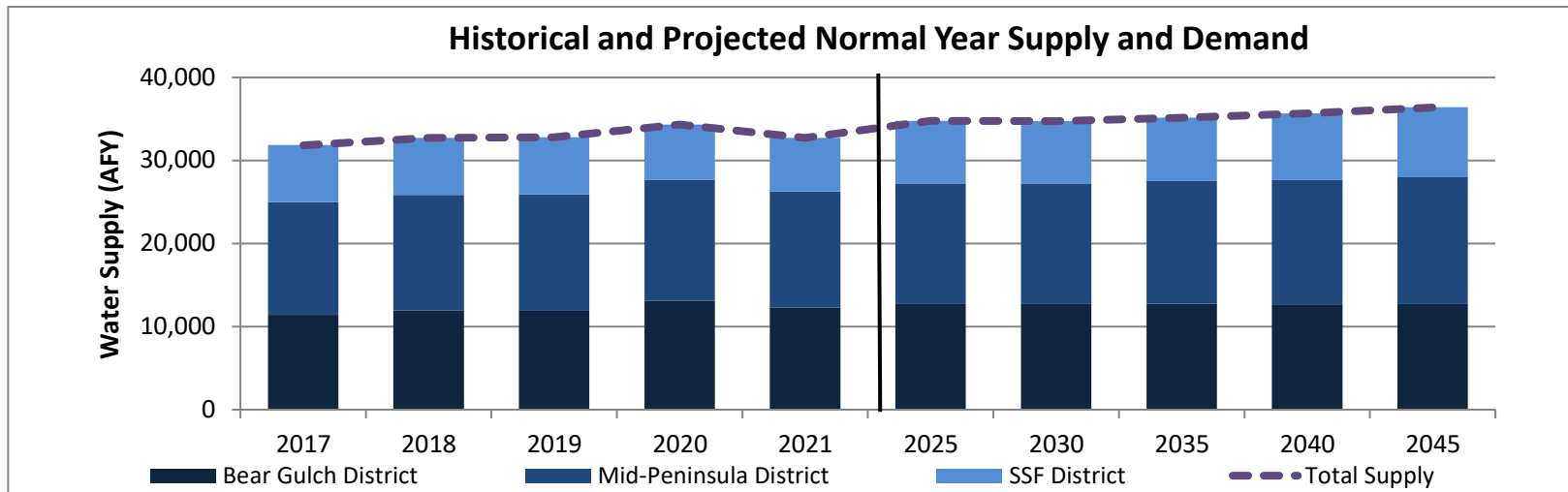


Table 8
Historical and Projected Supplies by Source
Healthpeak Vantage, South San Francisco, California

Abbreviations:

"AFY" = acre feet per year

"SFPUC" = San Francisco Public Utilities Commission

"Cal Water" = California Water Service

"SSF" = South San Francisco

"MGD" = millions gallons per day

"UWMP" = Urban Water Management Plan

Notes:

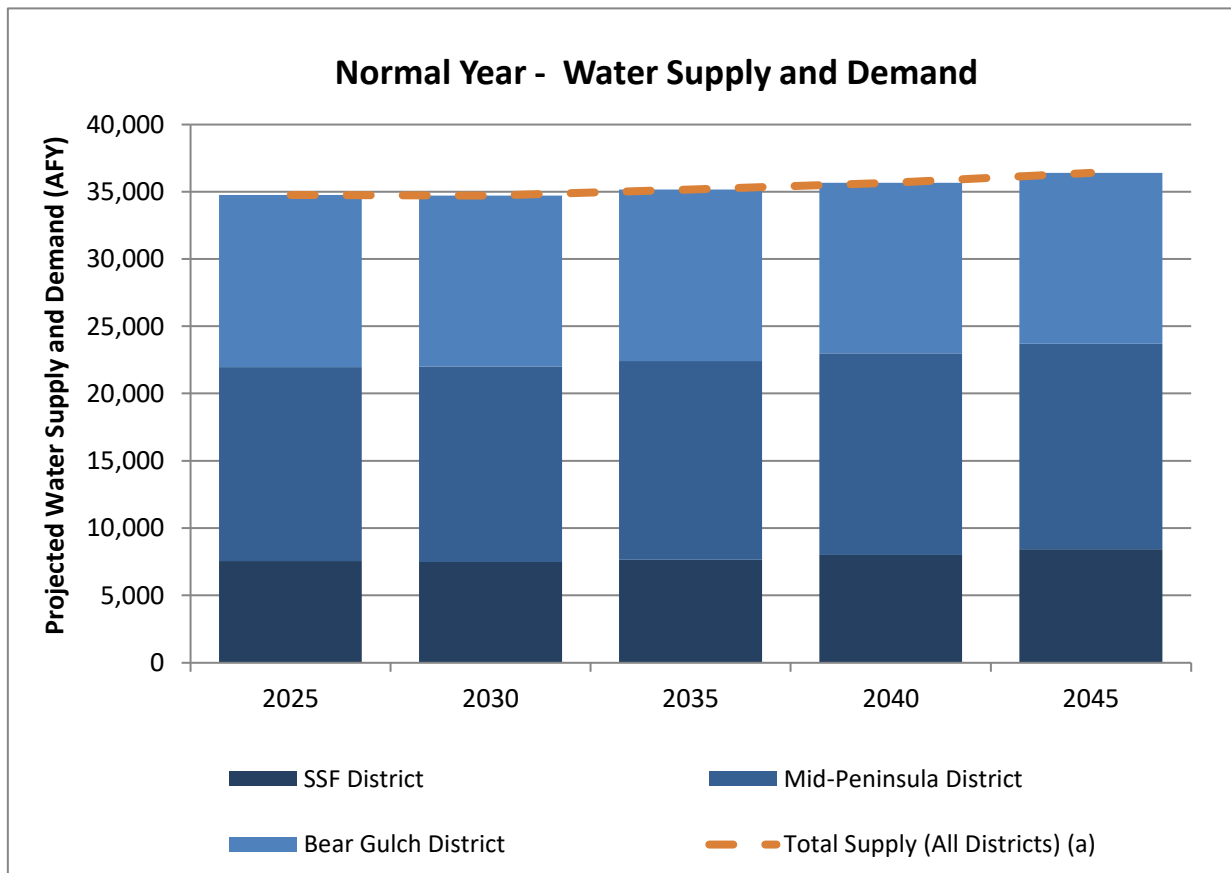
- (a) Historical water demand and supply for the SSF, Bear Gulch, and Mid-Peninsula Districts per Reference 1. Projected water demands were updated by Cal Water in 2021, per References 2 through 4.
- (b) In accordance with and through implementation of Cal Water's Development Offset Program, the proposed Project will not result in a net increase in demands for the SSF District.
- (c) Projected supply is inclusive of supplies available for all three districts that share the same contractual allocation of water from SFPUC, per References 2 through 4. The projected purchase volumes are based on having full local supply (i.e., 840 AFY in the Bear Gulch Reservoir and 1,534 AFY from the South San Francisco wells), per Reference 2. Projected SFPUC supply is based on total demand minus local supplies and does not exceed Cal Water's contractual allocation of 35.68 MGD, or 39,993 AFY.

References:

1. Historical Demand and Production Data Provided by Cal Water, 2022.
2. 2020 Urban Water Management Plan, South San Francisco District, prepared by California Water Service, dated June 2021.
3. 2020 Urban Water Management Plan, Bear Gulch District, prepared by California Water Service, dated June 2021.
4. 2020 Urban Water Management Plan, Mid-Peninsula District, prepared by California Water Service, dated June 2021.

Table 9
Projected Normal Year Water Supply and Demand
 Healthpeak Vantage, South San Francisco, California

Water Supply and Demand	Projected Normal Year Supply and Demand (AFY)				
	2025	2030	2035	2040	2045
Total Supply (All Districts) (a)	34,757	34,712	35,151	35,652	36,396
Demand (b)					
SSF District	7,543	7,483	7,635	8,000	8,423
Mid-Peninsula District	14,418	14,530	14,786	14,977	15,279
Bear Gulch District	12,796	12,699	12,730	12,675	12,694
Healthpeak Vantage Project (c)	--	--	--	--	--
Total Potable Water Demand Inclusive of Project	34,757	34,712	35,151	35,652	36,396
Supply Shortfall (% demand)	0%	0%	0%	0%	0%



Abbreviations:

"AFY" = acre feet per year
 "Cal Water" = California Water Service
 "MGD" = millions gallons per day
 "RWS" = Regional Water System

"SFPUC" = San Francisco Public Utilities Commission
 "SSF" = South San Francisco
 "UWMP" = Urban Water Management Plan

Table 9
Projected Normal Year Water Supply and Demand
Healthpeak Vantage, South San Francisco, California

Notes:

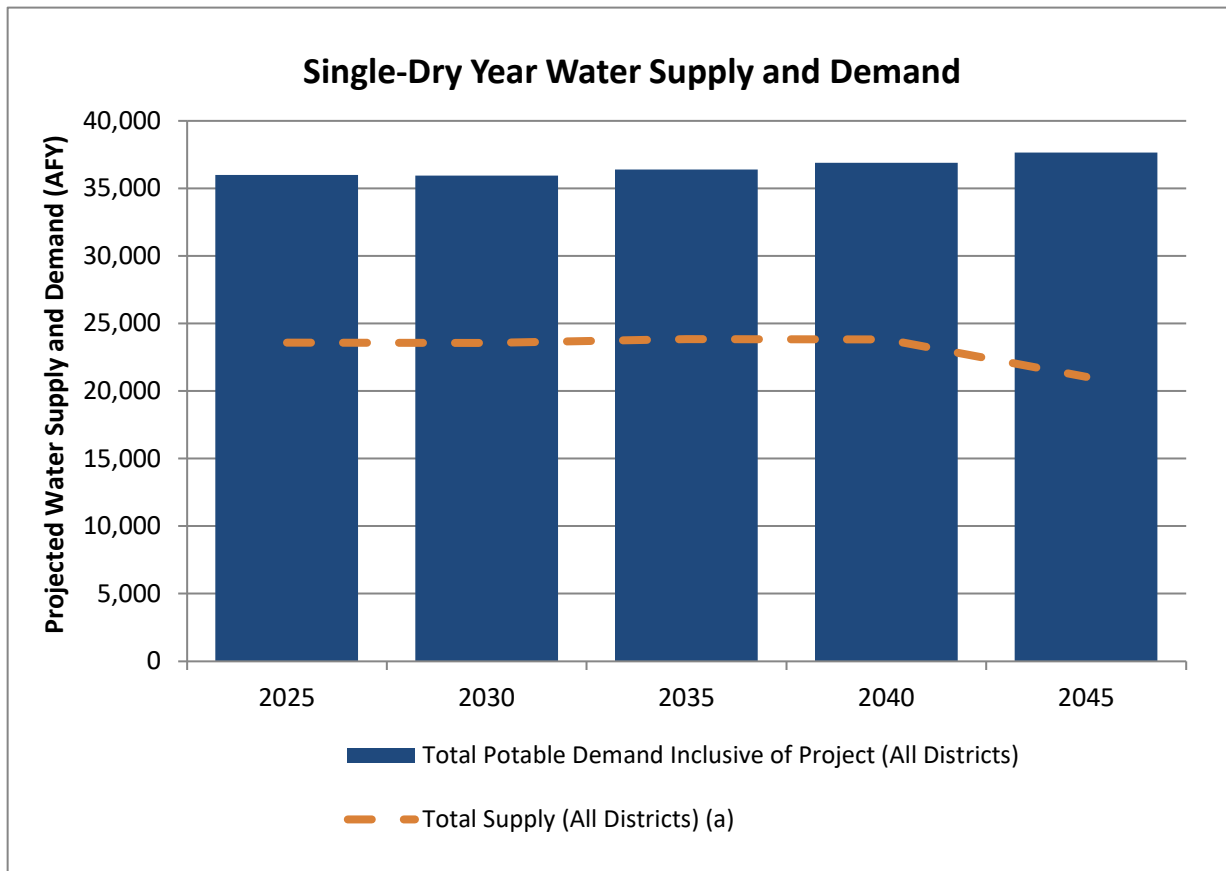
- (a) Projected supply is inclusive of supplies available for all three districts that share the same contractual allocation of water from SFPUC, per References 1 through 3. The projected purchase volumes are based on having full local supply (i.e., 840 AFY in the Bear Gulch Reservoir and 1,534 AFY from the South San Francisco wells), per References 1 through 3. Projected SFPUC supply is based on total demand minus local supplies and does not exceed Cal Water's contractual allocation of 35.68 MGD, or 39,993 AFY.
- (b) Projected water demands were updated by Cal Water in 2021, per Reference 2.
- (c) In accordance with and through implementation of Cal Water's Development Offset Program, the proposed Project will not result in a net increase in demands for the SSF District.

References:

1. 2020 Urban Water Management Plan, South San Francisco District, prepared by California Water Service, dated June 2021.
2. 2020 Urban Water Management Plan, Bear Gulch District, prepared by California Water Service, dated June 2021.
3. 2020 Urban Water Management Plan, Mid-Peninsula District, prepared by California Water Service, dated June 2021.

Table 10
Single Dry Year Water Supply and Demand
 Healthpeak Vantage, South San Francisco, California

Water Supply and Demand	Projected Dry Year Supply and Demand (AFY)				
	2025	2030	2035	2040	2045
Total Supply (All Districts) (a)	23,580	23,546	23,835	23,809	21,039
Demand (b)					
SSF District	7,831	7,767	7,925	8,304	8,743
Mid-Peninsula District	14,797	14,908	15,168	15,359	15,662
Bear Gulch District	13,354	13,253	13,285	13,228	13,248
Healthpeak Vantage Project (c)	--	--	--	--	--
Total Potable Water Demand Inclusive of Project	35,982	35,928	36,378	36,891	37,653
Supply Shortfall (% demand)	34%	34%	34%	35%	44%



Abbreviations:

"AFY" = acre feet per year
 "Cal Water" = California Water Service
 "MGD" = millions gallons per day

"SFPUC" = San Francisco Public Utilities Commission
 "SSF" = South San Francisco
 "UWMP" = Urban Water Management Plan

Table 10
Single Dry Year Water Supply and Demand
Healthpeak Vantage, South San Francisco, California

Notes:

- (a) Projected supply is inclusive of supplies available for all three districts that share the same contractual allocation of water from SFPUC, per References 1 through 3. The projected purchase volumes are based on having full local supply (i.e., 1,534 AFY) from the South San Francisco wells. Although local surface water diversions in the Bear Gulch District (and subsequent treatment and use of local surface water) have occurred historically during dry years, the Bear Gulch District conservatively assumes that local surface water supplies will be zero during single dry and multiple dry years over the planning horizon, per Reference 2. Projected SFPUC supply is based on dry year allocation projections included in the SSF, Bear Gulch, and Mid-Peninsula District 2020 UWMPs based on the methodology, assumptions and information utilized and provided by SFPUC and BAWSCA; however, actual future supply allocations may vary based on actual shortage levels and the then-applicable allocation methodology being applied by BAWSCA and SFPUC.
- (b) Projected water demands per References 1 through 3.
- (c) In accordance with and through implementation of Cal Water's Development Offset Program, the proposed Project will not result in a net increase in demands for the SSF District.

References:

1. 2020 Urban Water Management Plan, South San Francisco District, prepared by California Water Service, dated June 2021.
2. 2020 Urban Water Management Plan, Bear Gulch District, prepared by California Water Service, dated June 2021.
3. 2020 Urban Water Management Plan, Mid-Peninsula District, prepared by California Water Service, dated June 2021.

Table 11
Multiple Dry Year Water Supply and Demand
 Healthpeak Vantage, South San Francisco, California

Water Supply and Demand	Projected Water Supply and Demand During Multiple Dry Years (AFY) (a)																								
	2025					2030					2035					2040					2045				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5
Total Supply (All Districts) (b)	23,615	20,492	20,492	20,492	20,492	23,483	20,383	20,383	20,383	20,383	23,647	20,313	20,313	20,313	18,849	23,762	20,594	20,594	18,424	18,424	20,954	20,954	20,954	18,061	18,061
Demand (c)																									
SSF District	8,009	8,009	8,009	8,009	8,009	7,943	7,943	7,943	7,943	7,943	8,104	8,104	8,104	8,104	8,104	8,492	8,492	8,492	8,492	8,492	8,940	8,940	8,940	8,940	8,940
Mid-Peninsula District	15,031	15,031	15,031	15,031	15,031	15,143	15,143	15,143	15,143	15,143	15,405	15,405	15,405	15,405	15,405	15,595	15,595	15,595	15,595	15,595	15,900	15,900	15,900	15,900	15,900
Bear Gulch District	13,699	13,699	13,699	13,699	13,699	13,595	13,595	13,595	13,595	13,595	13,629	13,629	13,629	13,629	13,629	13,570	13,570	13,570	13,570	13,570	13,591	13,591	13,591	13,591	13,591
Healthpeak Vantage Project (d)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Potable Water Demand Inclusive of Project	36,739	36,739	36,739	36,739	36,739	36,681	36,681	36,681	36,681	36,681	37,138	37,138	37,138	37,138	37,138	37,657	37,657	37,657	37,657	37,657	38,431	38,431	38,431	38,431	38,431
Supply Shortfall (% demand)	36%	44%	44%	44%	44%	36%	44%	44%	44%	44%	36%	45%	45%	45%	49%	37%	45%	45%	51%	51%	45%	45%	45%	53%	53%

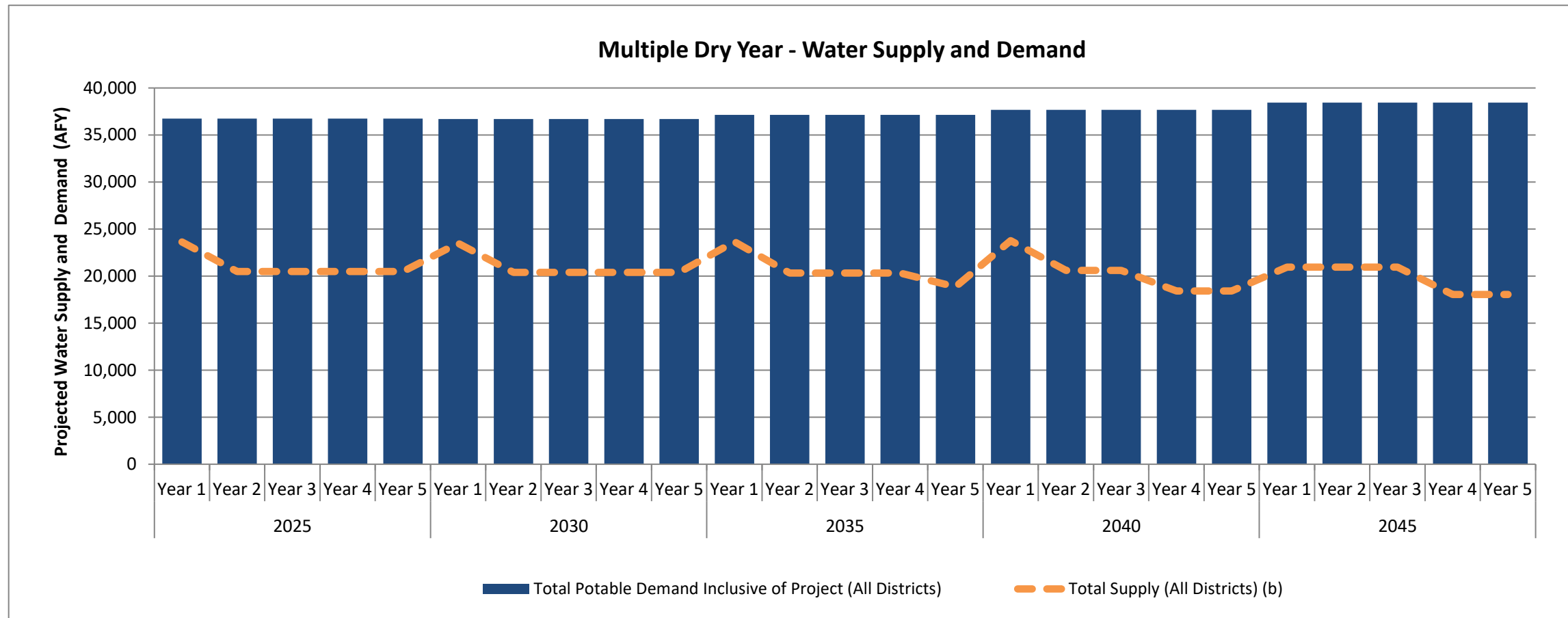


Table 11
Multiple Dry Year Water Supply and Demand
Healthpeak Vantage, South San Francisco, California

Abbreviations:

"AFY" = acre feet per year	"SSF" = South San Francisco
"Cal Water" = California Water Service	"UWMP" = Urban Water Management Plan
"MGD" = millions gallons per day	"WSA" = Water Supply Assessment
"SFPUC" = San Francisco Public Utilities Commission	

Notes:

- (a) While WSA regulations only require an analysis of a three-year drought scenario, UWMP regulations were updated in 2018 to include a five-year drought scenario (California Water Code §10635). Therefore, a five-year drought scenario is presented here.
- (b) Projected supply is inclusive of supplies available for all three districts that share the same contractual allocation of water from SFPUC, per References 1 through 3. The projected purchase volumes are based on having full local supply (i.e., 1,534 AFY) from the South San Francisco wells. Although local surface water diversions in the Bear Gulch District (and subsequent treatment and use of local surface water) have occurred historically during dry years, the Bear Gulch District conservatively assumes that local surface water supplies will be zero during single dry and multiple dry years over the planning horizon, per Reference 2. Projected SFPUC supply is based on dry year allocation projections included in the SSF, Bear Gulch, and Mid-Peninsula District 2020 UWMPs based on the methodology, assumptions and information utilized and provided by SFPUC and BAWSCA; however, actual future supply allocations may vary based on actual shortage levels and the then-applicable allocation methodology being applied by BAWSCA and SFPUC.
- (c) Projected water demands per References 1 through 3.
- (d) In accordance with and through implementation of Cal Water's Development Offset Program, the proposed Project will not result in a net increase in demands for the SSF District.

References:

1. 2020 Urban Water Management Plan, South San Francisco District, prepared by California Water Service, dated June 2021.
2. 2020 Urban Water Management Plan, Bear Gulch District, prepared by California Water Service, dated June 2021.
3. 2020 Urban Water Management Plan, Mid-Peninsula District, prepared by California Water Service, dated June 2021.

7 COMPARISON OF SUPPLY AND DEMAND

CWC § 10910 (c)(3)

If the projected water demand associated with the proposed project was not accounted for in the most recently adopted urban water management plan, or the public water system has no urban water management plan, the water supply assessment for the project shall include a discussion with regard to whether the public water system's total projected water supplies available during normal, single dry, and multiple dry water years during a 20-year projection will meet the projected water demand associated with the proposed project, in addition to the public water system's existing and planned future uses, including agricultural and manufacturing uses.

CWC § 10911 (a)

If, as a result of its assessment, the public water system concludes that its water supplies are, or will be, insufficient, the public water system shall provide to the city or county its plans for acquiring additional water supplies, setting forth the measures that are being undertaken to acquire and develop those water supplies. If the city or county, if either is required to comply with this part pursuant to subdivision (b), concludes as a result of its assessment, that water supplies are, or will be, insufficient, the city or county shall include in its water supply assessment its plans for acquiring additional water supplies, setting forth the measures that are being undertaken to acquire and develop those water supplies. Those plans may include, but are not limited to, information concerning all of the following:

(1) The estimated total costs, and the proposed method of financing the costs, associated with acquiring the additional water supplies.

(2) All federal, state, and local permits, approvals, or entitlements that are anticipated to be required in order to acquire and develop the additional water supplies.

(3) Based on the considerations set forth in paragraphs (1) and (2), the estimated timeframes within which the public water system, or the city or county if either is required to comply with this part pursuant to subdivision (b), expects to be able to acquire additional water supplies.

CWC § 10911 (c)

The city or county may include in any environmental document an evaluation of any information included in that environmental document provided pursuant to subdivision (b). The city or county shall determine, based on the entire record, whether projected water supplies will be sufficient to satisfy the demands of the project, in addition to existing and planned future uses. If the city or county determines that water supplies will not be sufficient, the city or county shall include that determination in its findings for the project.

Pursuant to CWC §10910(c)(3), this WSA must include an estimate of the projected water supplies available to the SSF District under normal, single dry, and multiple dry years, and a discussion of whether those supplies will meet the projected demand associated with the proposed Project, in addition to the water system's existing and planned future uses. This assessment is parallel to the multiple dry year supply reliability analysis required for UWMPs under CWC §10635. In 2018, CWC §10635 was revised to require UWMPs to extend this analysis to consider "a drought lasting five consecutive water years." Although CWC §10910(c)(3) has not yet been updated to require this for WSAs, a five-year drought scenario is also evaluated herein. However, as discussed in Section 5, with the implementation of Cal Water's Development Offset Program, the proposed Project is expected to result in no net increase in water demands to Cal Water's SSF District.

Table 9 through **Table 11** provide a comparison of the demands and supplies in normal year, single-dry year, and multiple dry year hydrologic scenarios for the SSF, Bear Gulch, and Mid-Peninsula Districts. It is projected that available water supplies will be sufficient to meet the demands under normal year hydrologic conditions through 2045, inclusive of the proposed Project. However, in drought periods, shortfalls of up to 53% are possible if, as discussed above, the “worst-case” supply scenario is realized in which the Bay-Delta Plan Amendment is implemented as written, and not accounting for the implementation of actions identified as part of the Settlement Agreement, SFPUC’s AWSP, BAWSCA’s LTWSRS, or Cal Water’s WSRS. As discussed in Section 6.1.1.4, Cal Water is working independently and with the other BAWSCA agencies to identify regional mitigation measures to improve reliability for regional and local water supplies and meet its customers’ water needs. As a result, Cal Water expects that SFPUC’s LOS Goals and Objectives will be met and is comfortable assuming its contract with SFPUC will be honored as written. Thus, any dry year shortfalls would be expected to be lower than those shown in **Table 10** and **Table 11**.

As described in Section 6, in response to anticipated future dry-year shortfalls, Cal Water has developed a WSCP that systematically identifies ways in which the SSF District can reduce water demands during dry years. The overall reduction goals in the WSCP are established for six drought stages ranging from 10% to greater than 50% shortfalls.

On 24 May 2022, in response to Governor Newsom’s Executive Order N-7-22 and calls for water conservation from the SWRCB, the SFPUC entered into Level 2 of its WSCP, resulting in a voluntary water use reduction of 11%. The RWS has historically met demand in its service area in all year types, and prior to 2021, only called for voluntary 10% rationing during 2007 to 2009 and 2014 to 2015. Although the SSF District has not experienced any shortage of RWS deliveries, during the recent drought, it was subject to the SWRCB’s mandatory water reduction target at 8% between June 2015 and May 2016.¹⁸ During this period, the SSF District surpassed its reduction targets in each month and achieved an average water demand reduction of 20% compared to its water use in 2013 (SWRCB, 2016). The Mid-Peninsula and Bear Gulch Districts were required to reduce water use by 16% and 36%, respectively, and through May 2016 exceeded their targets with cumulative reductions of 24.1% and 36.7%, respectively (SWRCB, 2016).

While RWS reliability is constrained by hydrology, physical facilities, institutional parameters including state and federal regulations, the SFPUC is implementing both capital improvement and planning processes to enhance RWS reliability and meet its contractual commitment to

¹⁸ On 5 May 2015, the SWRCB adopted Resolution 2015-0032 that mandates minimum actions by water suppliers and their customers to conserve water supplies into 2016 and assigned a mandatory water conservation goal to each water supplier based on their R-GPCD. The Resolution was adopted pursuant to Executive Order B-29-15 that directed SWRCB to impose mandatory restrictions on urban water suppliers to achieve a statewide 25% reduction in potable urban water usage to address California’s severe drought conditions. Based on its R-GPCD, SSF District was required to reduce water use by 8% relative to its 2013 water use. The Mid-Peninsula and Bear Gulch Districts were required to reduce water use by 16% and 36%, respectively. All three Peninsula Districts exceeded their mandatory savings targets by May 2016.

Wholesale Customers through 2045 (see SFPUC memorandum included as **Appendix C**). Within and outside the RWS, BAWSCA is also leading multiple efforts to develop additional water supply for its member agencies through implementation of its LTWSRS.

Cal Water is also striving to increase the water supply portfolio for the SSF, Mid-Peninsula, and Bear Gulch Districts through: (1) investment in water conservation, (2) participation in the RGSR Project and the regional water recycling project (i.e., PREP), and (3) development of a regional WSRS using integrated resource planning practices to create a long-term supply reliability strategy through 2050 for Cal Water districts in the Bay Area, among other things as described in the 2020 UWMPs for each District. As described above, the three Peninsula Districts share access to Cal Water's SFPUC supply and, as such, any supply added to one of these Districts will benefit the others.

8 CONCLUSIONS

As listed in Water Code §10910(c)(4), the primary purpose of this WSA is to evaluate whether sufficient water supply is available to meet all future water demands within the water supplier's service area, including those associated with the proposed Project, during normal and dry hydrologic years for a 20-year time horizon.

As described in Section 4, the net water demand of the proposed Project (i.e., estimated at 229 AFY at buildout) has been conservatively estimated, and as discussed in Section 4.1, due to implementation of Cal Water's Development Offset Program, the proposed Project is not expected to result in a net increase in water demands to Cal Water's SSF District. The findings of this WSA are contingent on the proposed Project's compliance with the requirements included in Cal Water's Development Offset Program.

It should be noted that if the "worst-case" supply scenario described under Section 6.1.1.2 in which the Bay-Delta Plan Amendment is implemented as written and not accounting for the implementation of actions identified as part of the Settlement Agreement, SFPUC's AWSP, BAWSCA's LTWSRS, or Cal Water's WSRS, shortfalls of up to 53% are projected during drought years. However, as described in Section 6.1.1, Cal Water expects that SFPUC's LOS Goals will be met and is comfortable assuming its contract with SFPUC will be honored as written. If drought conditions should arise, Cal Water will meet its demands through the implementation of its WSCP, as described in Section 7. In addition, Cal Water, through local and regional efforts, is striving to increase its water supply portfolio for the SSF District and the other two Peninsula Districts.

This WSA concludes that, through supply augmentation and implementation of demand management measures equal to the Project's estimated net new demands consistent with Cal Water's Development Offset Program, the proposed Project will not affect water supply reliability within the SSF District. Based on currently available information and conservative estimates of projected demand, Cal Water expects to be able to meet all future demands within its existing SSF District service area (as well as the Mid-Peninsula and Bear Gulch Districts), inclusive of the proposed Project in normal hydrologic years. The shortfalls that are currently projected during dry years will be addressed through planned implementation of the SSF District WSCP. In addition, as described herein and in Cal Water's 2020 UWMP, BAWSCA, Cal Water, and SFPUC are pursuing the development of additional water supplies to improve the RWS and SSF District supply reliability.

9 REFERENCES

- Bay Area Water Supply & Conservation Agency (BAWSCA), 2015. Long-Term Reliable Water Supply Strategy, Phase II Final Report, dated February 2015.
- BAWSCA, 2017. Water Recycling and Potable Reuse, White Paper, prepared by BAWSCA, dated July 2017.
- BAWSCA, 2018. Statement from Tom Francis, Acting Chief Executive Officer, Before the State Water Resources Control Board (State Board) in Regards to their “Draft Final Bay-Delta Plan Update,” Which Could Severely Reduce the Water Supply for Residents and Businesses in Alameda, San Mateo, and Santa Clara Counties, dated August 2018.
http://bawasca.org/uploads/userfiles/files/08-21-18_BAWSCA's%20SWRCB%20Statement%20-%20TBF%20Final.pdf
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- Cal Water, 2021b. 2020 Urban Water Management Plan, Bear Gulch District, prepared by California Water Service, dated June 2021.
- Cal Water, 2021c. 2020 Urban Water Management Plan, Mid-Peninsula District, prepared by California Water Service, dated June 2021.
- Cal Water, 2022a. Data provided by Cal Water on 14 December 2022.
- Cal Water, 2022b. Historical Demand and Production Data Provided by Cal Water, 2022.
- Cal Water, 2022c. California Water Service Company South San Francisco 2021 Water Audit Data Report, accessed via the WUEdata - Water Audit Report Data website on 9 December 2022, (https://wuedata.water.ca.gov/awwa_plans).
- Cal Water, 2022d. Advice Letter No. 2453, Rule 15 Update for Developer Offset Fee, dated 7 June 2022.
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- DWR, 2006. California's Groundwater Bulletin 118, Westside Groundwater Basin, dated January 2006.
- DWR, 2015. California Code of Regulations, Title 23, Division 2, Chapter 2.7, Model Water Efficient Landscape Ordinance, effective 1 December 2015.
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- Impact Sciences, 2012. 494 Forbes Boulevard R&D Project 2nd Partial Recirculated Draft Environmental Impact Report, City of South San Francisco, prepared by Impact Sciences, Inc., dated April 2012.
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- Phillips, Steven P., Scott N. Hamlin, Eugene B. Yates. Geohydrology, Water Quality, and Estimation of Ground-Water Recharge in San Francisco, California 1987-92. US Geological Survey Water-Resources Investigations Report 93-4019, 1993.
- San Francisco Public Utilities Commission (SFPUC), 2016. 2015 Urban Water Management Plan, City and County of San Francisco District, prepared by the San Francisco Public Utilities Commission, dated June 2016.
- SFPUC, 2018. Amended and Restated Water Supply Agreement between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo and Santa Clara County, prepared by SFPUC, dated November 2018.
- SFPUC, 2021a. 2020 Urban Water Management Plan for the City and County of San Francisco, prepared by the San Francisco Public Utilities Commission, dated June 2021.
- SFPUC, 2021b. 2020 Annual Groundwater Monitoring Report Westside Basin San Francisco and San Mateo Counties, California, Prepared by the San Francisco Public Utilities Commission, dated April 2021.
- SFPUC, 2022a. Regional Groundwater Storage & Recovery, <https://sfwater.org/index.aspx?page=982>, accessed 16 May 2022.
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SWRCB, 2016. May 2016 Supplier Conservation Compliance, State Water Resources Control Board, Water Conservation Portal
https://www.waterboards.ca.gov/water_issues/programs/conservation_portal/conservation_reporting.html.

Wilsey Ham, 2022a. Request for Information Form, provided by Wilsey Ham on 21 November 2022.

Wilsey Ham, 2022b. Information provided by Wilsey Ham via email on 9 December 2022.

Wilsey Ham, 2023a. Information provided by Wilsey Ham via email on 17 February 2023.

Wilsey Ham, 2023b. Information provided by Wilsey Ham via email on 2 March 2023.

WRIME, 2012. South Westside Basin Groundwater Management Plan, City and County of San Francisco, prepared by the San Francisco Public Utilities Commission, City of San Bruno, Daly City, and Cal Water South San Francisco District, dated July 2012.

Appendix A

Healthpeak Vantage Vesting Tentative Subdivision Map, dated 1 November 2022

STATEMENT OF PROPOSED TREE SIZE AND PLANTING:

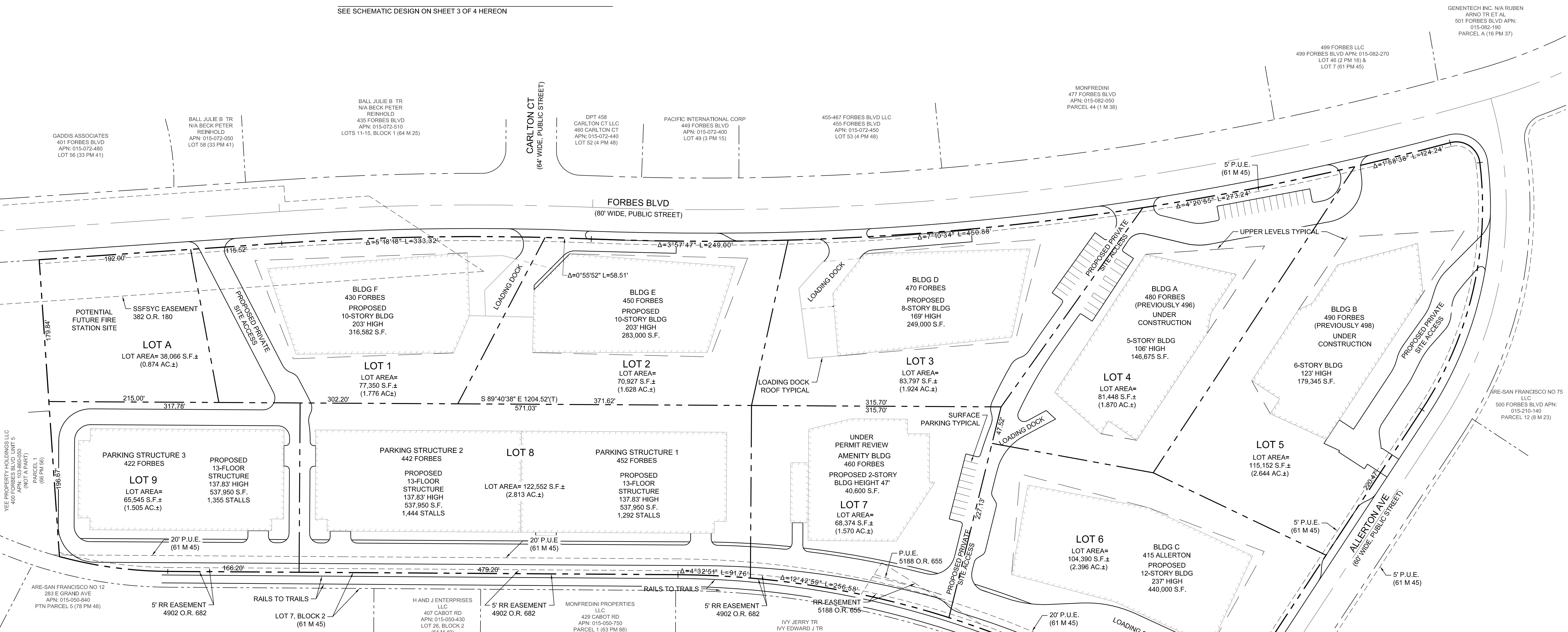
PROPOSED TREE SIZE AND PLANTING IS DESCRIBED AND DEPICTED ON THE ACCOMPANYING VANTAGE "CONDITIONAL USE PERMIT APPLICATION" (CUP) BOOKLET DATED OCTOBER 14, 2022 AT PAGES 12 - 14. LANDSCAPE PLANS WILL ALSO ACCOMPANY THIS APPLICATION.

STATEMENT OF PROPOSED WATER AND SEWER SERVICE:

1. WATER SERVICE WILL BE PROVIDED BY CAL WATER SERVICE CO 341 N DELAWARE STREET SAN MATEO, CA 94401
SEE SCHEMATIC DESIGN ON SHEET 3 OF 4 HEREOIN
2. SANITARY SEWER SERVICE WILL BE GRAVITY FLOW TO CITY OF SSF INFRASTRUCTURE
SEE SCHEMATIC DESIGN ON SHEET 3 OF 4 HEREOIN

STATEMENT OF PUBLIC AREAS TO BE DEDICATED

THIS MAP DOES NOT OFFER FOR DEDICATION PUBLIC AREAS OR PARKS.
LOT A - ANTICIPATED "POTENTIAL FUTURE FIRE STATION" MAY BE GRANTED TO THE CITY OF SOUTH SAN FRANCISCO BY SEPARATE INSTRUMENT.



STATEMENT OF MAP INTENT:

1. THE INTENT OF THIS MAP IS TO MERGE AND RE-SUBDIVIDE LANDS OWNED BY LS FORBES, LLC AND HCP FORBES, LLC (COLLECTIVELY, "HEALTH PEAK PROPERTIES") FOR CONVEYANCE AND DEVELOPMENT PURPOSES.
2. THE ABANDONMENT AND DEDICATION OF RIGHTS OF WAY OR UTILITY EASEMENTS AND OTHER ENCUMBRANCES WILL BE BY FUTURE AND SEPARATE INSTRUMENT.
3. PURSUANT TO CHAPTER 3, ARTICLE 4, SECTION 66456.1 OF THE SUBDIVISION MAP ACT, THE SUBDIVIDER RESERVES THE RIGHT TO FILE MULTIPLE PHASED FINAL MAPS. ONLY THE IMPROVEMENTS REQUIRED TO SUPPORT THE LEVEL OF DEVELOPMENT INCLUDED IN EACH PHASED FINAL MAP AS DETERMINED BY THE CITY FOR EACH PARTICULAR FINAL MAP NEEDS TO BE COMPLETED OR BONDED PURSUANT TO A SUBDIVISION IMPROVEMENT AGREEMENT.
4. THE PROPOSED IMPROVEMENTS AND LOT DIMENSIONS SHOWN ON THIS VESTING TENTATIVE SUBDIVISION MAP ARE CONCEPTUAL AND ARE SUBJECT TO FINAL DESIGN AND DEVELOPMENT REQUIREMENTS ESTABLISHED IN THE IMPROVEMENT PLANS.
5. THE PROPOSED SUBDIVISION CONCEPT AND PERMITTED BUILDINGS SHOWN HEREON ARE CONSISTENT WITH A LIFE SCIENCE OFFICE, RESEARCH AND DEVELOPMENT CAMPUS / BUSINESS TECHNOLOGY PARK.
6. THIS VESTING TENTATIVE SUBDIVISION MAP IS SUBMITTED IN ACCORDANCE WITH ARTICLE 2, SECTION 86452 AND CHAPTER 4.5, SECTION 66498 OF THE SUBDIVISION MAP ACT.

PROPOSED IMPROVEMENT STATEMENT

THE IMPROVEMENTS WILL BE CONSTRUCTED BY THE SUBDIVIDER, AS REQUIRED IN CHAPTERS 19.20 AND 19.24 OF THE SOUTH SAN FRANCISCO MUNICIPAL CODE. ALL STREETS SHALL CONFORM TO THE STANDARDS SET OUT IN THE TABLE OF SPECIFIC STREET DESIGN DIMENSIONS CONTAINED IN CHAPTER 19.20 AS FURTHER DESCRIBED IN THE VANTAGE MASTER PLAN DATED OCTOBER 14, 2022. ALL IMPROVEMENTS SHOWN ON THE UTILITY PLAN ON SHEET 3 SHALL CONFORM TO APPLICABLE SOUTH SAN FRANCISCO MUNICIPAL CODE ENGINEERING STANDARDS SET FORTH IN CHAPTER 19.24 AS SHOWN ON THE VANTAGE MASTER PLAN DATED OCTOBER 14, 2022. UTILITY DISTRIBUTION LINES INCLUDING, BUT NOT LIMITED TO, ELECTRIC, COMMUNICATIONS, STREET LIGHTING AND CABLE TELEVISION SHALL BE REQUIRED TO BE PLACED UNDERGROUND. THE SUBDIVIDER SHALL MAKE THE NECESSARY ARRANGEMENTS WITH THE UTILITY COMPANIES FOR THE INSTALLATION OF SUCH FACILITIES. FOR THE PURPOSES OF THIS SECTION, APPURTENANCES AND ASSOCIATED EQUIPMENT MAY BE PLACED ABOVEGROUND IN COMMERCIAL AND INDUSTRIAL SUBDIVISIONS ONLY. ALL SURFACE-MOUNTED INSTALLATIONS SHALL BE SCREENED WITH LANDSCAPING AS APPROVED BY THE CITY OF SOUTH SAN FRANCISCO OR PLACED BEYOND ANY SETBACK REQUIRED BY THE BTP-H ZONING REGULATIONS.

SOILS REPORT STATEMENT:

PRELIMINARY GEOTECHNICAL SITE ASSESSMENT "GALLO SITE" WAS PREPARED BY LANGAN - PROJECT NO. 770675101 DATED OCTOBER 27, 2020. AFFECTS APN: 015-050-230/8907/10/720/730.
GEOTECHNICAL INVESTIGATION "FORBES RESEARCH CENTER" PREPARED BY LANGAN ENGINEERING AND ENVIRONMENTAL SERVICES, INC. PROJECT NO. 770688401 DATED APRIL 17, 2019. AFFECTS 494 FORBES BLVD APN: 015-050-580.

EROSION CONTROL NOTE:

EROSION CONTROL PLANS WILL BE PREPARED/SUBMITTED BY THE SUBDIVIDER CIVIL ENGINEER AND APPROVED BY THE CITY OF SOUTH SAN FRANCISCO PRIOR TO ANY DEMOLITION OR CONSTRUCTION.

OVERALL EXISTING BOUNDARY:

- 827,601 SF± (18,999 AC±)
- NOTE:**
1. SURFACE PARKING= 47 STALLS
 2. PARKING WITHIN STRUCTURES= 4091 STALLS
 3. SETBACK REQUIREMENTS ADHERED TO HEREOIN:
- FRONT= 20'
STREET SIDE= 0'
INTERIOR AND REAR= 0'

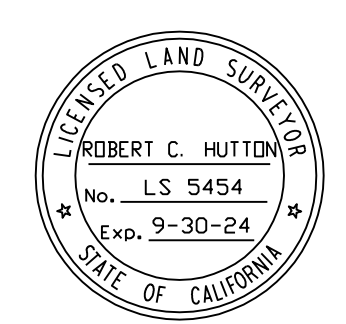
ABBREVIATIONS:

- APN ASSESSOR'S PARCEL NUMBER
- BLDG BUILDING
- M MAPS
- O.R. OFFICIAL RECORDS
- PM PARCEL MAPS
- PUE PUBLIC UTILITY EASEMENT
- RR RAIL ROAD
- SSFYSY SOUTH SAN FRANCISCO STOCK YARD COMPANY
- S.F. SQUARE FEET
- (T) TOTAL

PROPOSED PARCEL LAYOUT

NO.	DATE	ISSUE / REVISION DESCRIPTION	BY
	11/01/22	MAP SUBMITTAL	

WILSEY HAM
Engineering, Surveying & Planning
3130 La Selva Street, Suite 100
San Mateo, CA 94403
650.349.2151
wilseyham.com



Project Mgr	RCH	11/01/22
Drawn	TGH	11/01/22
Checked	RCH	11/01/22
Plotted	thammond	11/01/22
BY		DATE

VESTING TENTATIVE SUBDIVISION MAP #

OF THE LANDS OF LS FORBES, LLC & HCP FORBES, LLC
CITY OF SOUTH SAN FRANCISCO, SAN MATEO COUNTY, CALIFORNIA

SHEET	2	of 4
PROJECT NO:	796-040	
SCALE:	1" = 60'	
DATE:	NOVEMBER 01, 2022	

I:\796-FLAD\796-040 Final HP Vantage Tent-Final Map\DWG\796-040 Tentative Map.dwg 11-01-22 03:06:22 PM thammond

Appendix B

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 (excluding attachments)

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

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AMENDED AND RESTATED
WHOLESALE WATER SUPPLY AGREEMENT

Introductory Statement

Both San Francisco, as the Regional Water System owner and operator, and its Wholesale Customers share a commitment to the Regional Water System providing a reliable supply of high quality water at a fair price, and achieving these goals in an environmentally sustainable manner.

Article 1. Parties, Effective Date, And Defined Terms

1.01. Definitions

The capitalized terms used in this Agreement shall have the meanings set forth in Attachment A.

1.02. Parties

The parties to this Agreement are the City and County of San Francisco and such of the following entities (all of which purchase water from San Francisco) as have executed this Agreement:

- Alameda County Water District
- California Water Service Company
- City of Brisbane
- City of Burlingame
- City of Daly City
- City of East Palo Alto
- City of Hayward
- City of Menlo Park
- City of Millbrae
- City of Milpitas
- City of Mountain View
- City of Palo Alto

City of Redwood City
City of San Bruno
City of San José
City of Santa Clara
City of Sunnyvale
Coastside County Water District
Estero Municipal Improvement District
Guadalupe Valley Municipal Improvement District
Mid-Peninsula Water District
North Coast County Water District
Purissima Hills Water District
Stanford University
Town of Hillsborough
Westborough Water District

The entities listed above which have executed this Agreement shall be collectively referred to as the “Wholesale Customers.”

1.03. Effective Date

A. Except as provided in subsection C, this Agreement shall become effective only when it has been approved by San Francisco and by each of the entities listed in Section 1.02 and when San Francisco and each of those entities (except for the City of Hayward) have entered into an Individual Water Sales Contract as provided in Section 9.01.

B. If San Francisco and all of the entities listed in Section 1.02 approve this Agreement and (except for the City of Hayward) an Individual Water Sales Contract on or before July 1, 2009, the effective date shall be July 1, 2009. If San Francisco and all of the entities listed in Section 1.02 approve this Agreement and (except for the City of Hayward) an Individual Water Sales Contract after July 1, 2009 but on or before September 1, 2009, the effective date shall be the date on which the last entity listed in Section 1.02 approves this Agreement and, if required, an Individual Water Sales Contract.

C. If by September 1, 2009 this Agreement has been approved by fewer than all of the entities listed in Section 1.02 or fewer than all of such entities (other than the City of Hayward) have entered into an Individual Water Sales Contract, but it has been approved by entities representing at least 75% in number and 75% of the water purchased from SFPUC by

all listed agencies during FY 2007-08 (i.e., 173.39 MGD), then San Francisco shall have the option to waive the requirement in subsection A that all listed agencies have approved this Agreement and an Individual Water Sales Contract as a condition precedent to this Agreement and any Individual Water Sales Contract becoming effective. San Francisco shall have 60 days from September 1, 2009 (i.e., until October 31, 2009) within which to decide whether or not to waive the condition. If San Francisco decides to waive the condition, those listed agencies that have approved this Agreement and Individual Water Sales Contract before October 31, 2009 will be bound thereby and this Agreement and Individual Water Sales Contracts will become effective as to them, as of the date of San Francisco's waiver. For purposes of determining whether listed agencies that have approved this Agreement represent at least 75% of the water purchased during FY 2007-08, the quantity of water attributable to each listed entity shall be as set forth on Attachment B.

D. The provisions of Article 9 that apply to fewer than all Wholesale Customers (i.e., Sections 9.02 - 9.07) shall not become effective unless San Francisco and the entity to which the section applies have each approved (1) this Agreement, and (2) the underlying Individual Water Sales Contract, unless otherwise provided in Article 9. This provision does not affect the continued enforceability of provisions in those sections that derive from independently enforceable judgments, orders or agreements.

Article 2. Term; Amendments During Term

2.01. Term

The term ("Term") of this Agreement shall be twenty five (25) years. The Term shall begin on July 1, 2009, regardless of whether the Effective Date is before or after that date, and shall end on June 30, 2034. Except as provided in Article 9, the term of all Individual Water Sales Contracts shall also begin on July 1, 2009 and end on June 30, 2034.

2.02. Extension and Renewal of Term

A. In December 2031, the SFPUC may provide written notice to the Wholesale Customers that it is willing to extend the Term of this Agreement. Between January 1, 2032 and June 30, 2032, any Wholesale Customer may accept the SFPUC's offer to extend the Term by providing a written notice of extension to the SFPUC. If such notices of extension are received from Wholesale Customers representing at least two-thirds in number as of June 30, 2032 and seventy five percent (75%) of the quantity of water delivered by the SFPUC to all Wholesale Customers during fiscal year 2030-31, the Term shall be extended for another five (5) years ("First Extension Term"), through June 30, 2039. No party to this Agreement which does not wish to remain a party during the Extension Term shall be compelled to do so by the actions of other parties under this section.

B. In December 2036, the SFPUC may provide written notice to the Wholesale Customers that it is willing to extend the Term of this Agreement. Between January 1, 2037 and June 30, 2037, any Wholesale Customer may accept the SFPUC's offer to extend the Term by providing a written notice of extension to the SFPUC. If such notices of extension are received from Wholesale Customers representing at least two-thirds in number as of June 30, 2037 and seventy five percent (75%) of the quantity of water delivered by the SFPUC to all Wholesale Customers during fiscal year 2035-36, the Term shall be extended for another five (5) years ("Second Extension Term"), through June 30, 2044. No party to this Agreement which does not wish to remain a party during the Extension Term shall be compelled to do so by the actions of other parties under this section.

C. After the expiration of the Term, and, if applicable, the Extension Terms, this Agreement may be renewed by mutual consent of the parties, subject to any modifications thereof which may be determined at that time. If fewer than all of the parties desire to renew this Agreement beyond its Term, with or without modifications, the SFPUC and the Wholesale

Customers who wish to extend the Agreement shall be free to do so, provided that no party to this Agreement which does not wish to become a party to such a renewed Agreement shall be compelled to do so by the actions of other parties under this section.

2.03. Amendments

A. Amendments to Agreement; General

1. This Agreement may be amended with the written consent of all parties.
2. This Agreement may also be amended with the written consent of San Francisco and of Wholesale Customers representing at least two-thirds in number (i.e., 18 as of July 1, 2009) and seventy five percent (75%) of the quantity of water delivered by San Francisco to all Wholesale Customers during the fiscal year immediately preceding the amendment.
3. No amendment which adversely affects a Fundamental Right of a Wholesale Customer may be made without the written consent of that customer. Amendments to Article 5 which merely affect the allocation of costs between City Retail customers on the one hand and Wholesale Customers collectively on the other, and amendments to Articles 6 and 7 which merely alter budgetary, accounting and auditing procedures do not affect Fundamental Rights and may be made with the consent of parties meeting the requirements of Section 2.03.A.2.
4. When an amendment has been approved by San Francisco and the number of Wholesale Customers required in Section 2.03.A.2, San Francisco shall notify each of the Wholesale Customers in writing of the amendment's adoption. Notwithstanding any provision of law or this Agreement, any Wholesale Customer that claims that the amendment violates its Fundamental Rights under Section 2.03.A.3, shall have 30 days from the date San Francisco delivers the notice of its adoption in which to challenge the amendment's validity through a judicial action. If no such action is filed within 30 days, the amendment shall be finally and conclusively deemed to have been adopted in compliance with this section.

B. Amendments to Article 9

1. Notwithstanding the provisions of Sections 2.03.A.2 and 2.03.A.3, any provision of Article 9 which applies only to an individual Wholesale Customer may be amended with the written concurrence of San Francisco and the Wholesale Customer to which it applies;

provided that the amendment will not, directly or indirectly, adversely affect the Fundamental Rights of the other Wholesale Customers.

2. Before making any such amendment effective, San Francisco shall give notice, with a copy of the text of the proposed amendment, to all other Wholesale Customers. The Wholesale Customers shall have 30 days in which to object to the amendment on the ground that it is not permissible under this subsection. If no such objection is received by San Francisco, the proposed amendment shall become effective. If one or more Wholesale Customers object to the amendment, San Francisco, the individual Wholesale Customer with which San Francisco intends to effect the amendment, and the Wholesale Customer(s) which lodged the objection shall meet to discuss the matter.

3. If the dispute cannot be resolved and San Francisco and the Wholesale Customer involved elect to proceed with the amendment, either San Francisco or the Wholesale Customer shall give written notice of such election to each Wholesale Customer that has objected. Any Wholesale Customer that has objected to such amendment shall have 30 days from receipt of this notice within which to commence an action challenging the validity of such amendment, and such amendment shall be deemed effective as of the end of this 30-day period unless restrained by order of court.

C. **Amendments to Attachments.** The following attachments may be amended with the written concurrence of San Francisco and BAWSCA on behalf of the Wholesale Customers:

<u>Attachment</u>	<u>Name</u>
C	Individual Supply Guarantees (amendments reflecting Section 3.04 transfers only)
E	Minimum Annual Purchase Quantities (amendments reflecting Section 3.04 transfers only)
E-1	Temporary Modified Minimum Annual Purchase Quantities
G	Water Quality Notification and Communications Plan (2019 Update of 2017 Plan, Rev. 6)
J	Water Use Measurement and Tabulation
L-1	Identification of WSIP Projects as Regional/Retail
N-1	Balancing Account/Rate Setting Calculation Table
N-2	Wholesale Revenue Requirement Schedules

N-3	Schedule of Projected Water Sales, Wholesale Revenue Requirement and Wholesale Rates
P	Management Representation Letter
R	Classification of Existing System Assets (subject to Section 5.11)

Amendments to these attachments shall be approved on behalf of San Francisco by the Commission and on behalf of BAWSCA by its Board of Directors, unless the Commission by resolution delegates such authority to the General Manager of the SFPUC or the Board of Directors by resolution delegates such authority to the General Manager/CEO of BAWSCA.

D. **Amendments to Individual Water Sales Contracts.** Individual Water Sales Contracts described in Section 9.01 may be amended with the written concurrence of San Francisco and the Wholesale Customer which is a party to that Individual Water Sales Contract; provided that the amendment is not inconsistent with this Agreement or in derogation of the Fundamental Rights of other Wholesale Customers under this Agreement.

Article 3. Water Supply

3.01. Supply Assurance

A. San Francisco agrees to deliver water to the Wholesale Customers up to the amount of the Supply Assurance. The Supply Assurance is for the benefit of the entities listed in Section 1.02, irrespective of whether or not they have executed this Agreement. Water delivered by San Francisco to Retail Customers shall not be included in the Supply Assurance. Until December 31, 2018, the foregoing commitment is subject to Article 4.

B. Both the Supply Assurance and the Individual Supply Guarantees identified in Section 3.02 are expressed in terms of daily deliveries on an annual average basis and do not themselves constitute a guarantee by San Francisco to meet peak daily or hourly demands of the Wholesale Customers, irrespective of what those peak demands may be. The parties acknowledge, however, that the Regional Water System has been designed and constructed to meet peak daily and hourly demands and that its capacity to do so has not yet been reached. San Francisco agrees to operate the Regional Water System to meet peak requirements of the Wholesale Customers to the extent possible without adversely affecting its ability to meet peak demands of Retail Customers. This Agreement shall not preclude San Francisco from undertaking to meet specific peak demand requirements of individual Wholesale Customers in their Individual Water Sales Contracts.

C. The Supply Assurance is perpetual and shall survive the expiration or earlier termination of this Agreement. Similarly, the Individual Supply Guarantees identified in Section 3.02 and/or the Individual Water Sales Contracts are perpetual and shall survive the expiration or earlier termination of this Agreement or the Individual Water Sales Contracts.

D. Notwithstanding the Supply Assurance established by this section, the Individual Supply Guarantees identified in Section 3.02 and the Individual Water Sales Contracts, the amount of water made available by San Francisco to the Wholesale Customers is subject to reduction, to the extent and for the period made necessary by reason of water shortage, Drought, Emergencies, or by malfunctioning or rehabilitation of facilities in the Regional Water System. Any such reduction will be implemented in accordance with Section 3.11. The amount of water made available to the Wholesale Customers may not be reduced, however, merely because the water recycling and groundwater projects which the WSIP envisions to be constructed within San Francisco, or the conservation programs intended to reduce water use

by Retail Customers that are included in the WSIP, do not generate the yield or savings (10 MGD combined) anticipated by San Francisco.

3.02. Allocation of Supply Assurance

A. Pursuant to Section 7.02 of the 1984 Agreement, a portion of the Supply Assurance has been allocated among 24 of the 26 Wholesale Customers. These Individual Supply Guarantees are also expressed in terms of annual average metered deliveries of millions of gallons per day and are listed in Attachment C.

B. Three Wholesale Customers do not have Individual Supply Guarantees. The cities of San Jose and Santa Clara do not have an Individual Supply Guarantees because San Francisco has provided water to them on a temporary and interruptible basis as described in Sections 4.05 and 9.06. The City of Hayward does not have an Individual Supply Guarantee because of the terms of the 1962 contract between it and San Francisco, as further described in Section 9.03.

C. If the total amount of water delivered by San Francisco to Hayward and to the Wholesale Customers that are listed on Attachment C exceeds 184 MGD over a period of three consecutive fiscal years (i.e., July 1 through June 30), then the Individual Supply Guarantees of those Wholesale Customers listed on Attachment C shall be reduced pro rata so that their combined entitlement and the sustained use by Hayward does not exceed 184 MGD. The procedure for calculating the pro rata reduction in Individual Supply Guarantees is set out in Attachment D.

1. The provisions of this subsection C are not in derogation of the reservation of claims to water in excess of the Supply Assurance which are contained in Section 8.07. Nor do they constitute an acknowledgement by Wholesale Customers other than Hayward that San Francisco is obligated or entitled to reduce their Individual Supply Guarantees in the circumstances described herein. The provisions of this subsection C shall, however, be operative unless and until a court determines that its provisions violate rights of the Wholesale Customers derived independently of this Agreement.

2. The foregoing paragraph is not intended to and shall not constitute a contractual commitment on the part of San Francisco to furnish more water than the Supply Assurance to the Wholesale Customers or a concession by San Francisco that the provisions of this subsection violate any rights of the Wholesale Customers.

D. Notwithstanding the reservation of claims contained in Sections 3.02.C and 8.07, it shall be the responsibility of each Wholesale Customer to limit its purchases of water from San Francisco so as to remain within its Individual Supply Guarantee. San Francisco shall not be liable to any Wholesale Customer or be obligated to supply more water to any Wholesale Customer individually or to the Wholesale Customers collectively than the amount to which it or they are otherwise entitled under this Agreement due to the use by any Wholesale Customer of more water than the amount to which it is entitled under this Agreement.

E. San Francisco shall install such new connections between the Regional Water System and the distribution system of any Wholesale Customer that are necessary to deliver the quantities of water to which the Wholesale Customer is entitled under this Agreement. San Francisco shall have the right to determine the location of such connections, in light of the need to maintain the structural integrity of the Regional Water System and, where applicable, the need to limit peaking directly off of Regional Water System pipelines by a Wholesale Customer's individual retail customers, the need to ensure that a Wholesale Customer's individual retail customers have access to alternative sources of water in the event of a reduction in San Francisco's ability to provide them with water, and other factors which may affect the desirability or undesirability of a particular location. San Francisco's decisions regarding the location of new connections and the location, size and type of any new meters shall not be reviewable by a court except for an abuse of discretion or failure to provide a Wholesale Customer with connections and meters adequate to deliver the quantity of water to which it is entitled under this Agreement.

3.03. Wholesale Customer Service Areas

A. Each of the Individual Water Sales Contracts described in Section 9.01 will contain, as an exhibit, a map of the Wholesale Customer's service area. A Wholesale Customer may not deliver water furnished to it by San Francisco outside the boundary of its service area without the prior written consent of San Francisco, except for deliveries to another Wholesale Customer on an emergency and temporary basis pursuant to Section 3.07.B.

B. If a Wholesale Customer wishes to expand its service area, it shall request San Francisco's consent to the expansion and provide information reasonably requested by San Francisco about the amount of water projected to be purchased from San Francisco to meet demand within the area proposed to be added to the service area.

C. San Francisco may refuse a Wholesale Customer's request to expand its service area on any reasonable basis. If San Francisco denies a request by a Wholesale Customer to expand its service area, or fails to act on the request for six months after it has been submitted, the Wholesale Customer may challenge San Francisco's denial or delay in court. Such a challenge may be based on the Wholesale Customers' claim, reserved in Section 8.07, that San Francisco is obligated under federal or state law to furnish water, included within its Individual Supply Guarantee, to it for delivery outside its then-existing service area and that it is entitled to enlarge its service area to supply water to such customers. San Francisco reserves the right to contest any such claim on any applicable ground. This subsection does not apply to San Jose and Santa Clara, whose maximum service areas are fixed pursuant to Section 9.06.

D. This section will not prevent San Francisco and any Wholesale Customer, other than San Jose and Santa Clara, from agreeing in an Individual Water Sales Contract or an amendment thereto that:

- the Wholesale Customer may expand its service area without subsequent San Francisco approval to a definitive size but no larger, or
- the Wholesale Customer will not expand its service area beyond its present limits without San Francisco approval

and waiving the provisions of this section with respect to any additional expansion.

E. If two or more Wholesale Customers agree to adjust the boundaries of their respective service areas so that one assumes an obligation to serve customers in an area that was previously within the service area of another Wholesale Customer, they may also correspondingly adjust their respective Individual Supply Guarantees. Such adjustments are not subject to the requirements of Section 3.04 and shall require only the consent of San Francisco and the Wholesale Customers involved, so long as the Supply Assurance and the Individual Supply Guarantees of other Wholesale Customers are not affected. Service area boundary adjustments that would result in the expansion of any California Water Service Company service areas are subject to the requirements of Section 9.02.D. Any adjustment of service area boundaries that would result in the supply of water in violation of this Agreement or the Act shall be void.

F. San Francisco acknowledges that it has heretofore consented in writing to deliveries of water by individual Wholesale Customers outside their service area boundaries and

agrees that nothing in this Agreement is intended to affect such prior authorizations, which remain in full force and effect according to their terms. Such authorizations shall be identified in the Individual Water Sales Contracts.

3.04. Permanent Transfers of Individual Supply Guarantees and Minimum Annual Purchase Quantities

A. A Wholesale Customer that has an Individual Supply Guarantee may transfer a portion of it to one or more other Wholesale Customers, as provided in this section.

B. Transfers of a portion of an Individual Supply Guarantee must be permanent, as opposed to temporary or time-limited. Notwithstanding the previous sentence, a portion of an Individual Supply Guarantee that has been transferred under this section may be included in another transfer under this section at a later date. The minimum quantity that may be transferred is 1/10th of a MGD.

C. Transfers of a portion of a Minimum Annual Purchase Quantity may be included in transfers of a portion of an Individual Supply Guarantee and are subject to the same requirements for Individual Supply Guarantee transfers in this section as well as the following conditions:

1. Transferor of Minimum Annual Purchase Quantity. A Wholesale Customer subject to the minimum annual purchase requirements of Section 3.07.C may transfer both a portion of its Individual Supply Guarantee and a portion of its Minimum Annual Purchase Quantity to one or more Wholesale Customers that have an Individual Supply Guarantee. The process by which such a transfer may be proposed and approved is set forth in subparts D and E of this section. A Wholesale Customer that had a Minimum Annual Purchase Quantity at the start of the Term of this Agreement may not cumulatively transfer, over the course of one or multiple transfers, more than half (50%) of its Minimum Annual Purchase Quantity as first specified in Attachment E at the start of the Term of this Agreement. Wholesale Customers that had a Minimum Annual Purchase Quantity at the start of the Term of this Agreement may not cumulatively transfer, over the course of one or multiple transfers, more than 6 MGD of the total aggregate Minimum Annual Purchase Quantity specified in Attachment E at the start of the Term of this Agreement. A Wholesale Customer that received a Minimum Annual Purchase Quantity through a transfer under this section may cumulatively transfer, over the course of one or multiple transfers, a portion of or all of the Minimum Annual Purchase Quantity it received

pursuant to this section. The effect of such a transfer will be a reduction in the transferor's Individual Supply Guarantee, specified in Attachment C, and a reduction in the transferor's Minimum Annual Purchase Quantity, specified in Attachment E. The SFPUC and BAWSCA will update Attachments C and E to reflect such changes, pursuant to Section 3.04.F. The reduction in the transferor's permanent Minimum Annual Purchase Quantity shall become effective in the same fiscal year in which the transfer becomes effective.

2. Transferee of Minimum Annual Purchase Quantity. A Wholesale Customer that has an Individual Supply Guarantee may be the recipient, or transferee, of both a portion of Individual Supply Guarantee and a portion of Minimum Annual Purchase Quantity from another Wholesale Customer that has an Individual Supply Guarantee, whether or not the transferee is already subject to the minimum annual purchase requirements of Section 3.07.C. When such a transfer is approved and effective, the transferee will initially have a revised Individual Supply Guarantee and a Temporary Modified Minimum Annual Purchase Quantity, which will be reflected on Attachments C and E-1, respectively, pursuant to Section 3.04.F. A Temporary Modified Minimum Annual Purchase Quantity will become effective in the same fiscal year in which the transfer becomes effective. The transferee's Temporary Modified Minimum Annual Purchase Quantity will ultimately be replaced by a permanent Minimum Annual Purchase Quantity, as described in this sub-section, which will be reflected on Attachment E pursuant to Section 3.04.F.

3. Calculation of Temporary Modified Minimum Annual Purchase Quantity. The Temporary Modified Minimum Annual Purchase Quantity that a transferee receives from a transfer under this sub-section is the sum of (1) the average annual (fiscal year) quantity of water purchased by the transferee from the SFPUC (plus Imputed Sales, if applicable) in the most recent five previous non-drought fiscal years, plus (2) the relevant reduction in the transferor's Minimum Annual Purchase Quantity. For this calculation, the five previous non-drought fiscal years need not be consecutive. Notwithstanding the preceding sentences in this paragraph, if a transferee has an existing Temporary Modified Minimum Annual Purchase Quantity at the time of a new transfer under this sub-section, the transferee's new Temporary Modified Minimum Annual Purchase Quantity under the new transfer will be the sum of (1) the transferee's existing Temporary Modified Minimum Annual Purchase Quantity, plus (2) the relevant reduction in the transferor's Minimum Annual Purchase Quantity. Attachment E-2 contains sample calculations of the Temporary Modified Minimum Annual Purchase Quantity for

transferees who are subject to, or not yet subject to, the minimum annual purchase requirements of Section 3.07.C.

4. Duration and Expiration of Temporary Modified Minimum Annual Purchase Quantity.

a. Once a transfer under this sub-section is approved and effective, the transferee is required to purchase from the SFPUC its Temporary Modified Minimum Annual Purchase Quantity until the quantity of water delivered annually to the transferee by the SFPUC meets or exceeds the Temporary Modified Minimum Annual Purchase Quantity for three consecutive fiscal years. It may take many years for the quantity of water delivered to meet or exceed this amount. The transferee's Temporary Modified Minimum Annual Purchase Quantity is subject to waiver by the SFPUC as described in Section 3.07.C. However, even in the event of such a waiver, a fiscal year in which the transferee still purchases from the SFPUC an amount of water that meets or exceeds its Temporary Modified Minimum Annual Purchase Quantity will count as a fiscal year in which the transferee has met or exceeded its Temporary Modified Minimum Annual Purchase Quantity for the purposes of this paragraph.

b. Once the quantity of water delivered to the transferee by the SFPUC reaches the milestone described in the preceding paragraph, the transferee will no longer be subject to the Temporary Modified Minimum Annual Purchase Quantity. Instead, the transferee will have a new permanent Minimum Annual Purchase Quantity, which will equal the sum of (1) its previous Minimum Annual Purchase Quantity, if applicable, plus (2) the relevant reduction in the transferor's Minimum Annual Purchase Quantity. The transferee's new permanent Minimum Annual Purchase Quantity will be reflected on Attachment E, and its expired Temporary Modified Minimum Annual Purchase Quantity will be removed from Attachment E-1, pursuant to Section 3.04.F. Any other Temporary Modified Minimum Annual Purchase Quantities of the transferee will remain in effect on Attachment E-1.

D. Transfers of portions of Individual Supply Guarantees, including transfers of portions of Minimum Annual Purchase Quantities, are subject to approval by the SFPUC. SFPUC review is limited to determining (1) whether a proposed transfer complies with the Act, and (2) whether the affected facilities in the Regional Water System have sufficient capacity to accommodate delivery of the increased amount of water to the proposed transferee.

E. The participants in a proposed transfer shall provide written notice to the SFPUC and BAWSCA specifying (1) the amount of the Individual Supply Guarantee proposed to be

transferred, (2) the proposed effective date of the transfer, which shall not be less than 60 days after the notice is submitted to the SFPUC, and (3) the Individual Supply Guarantees of both participants resulting from the transfer. If a proposed transfer includes the transfer of a portion of Minimum Annual Purchase Quantity, then the participants will provide additional written notice specifying (4) the amount of the Minimum Annual Purchase Quantity proposed to be transferred, (5) transferee's Temporary Modified Minimum Annual Purchase Quantity and permanent Minimum Annual Purchase Quantity under the transfer, and (6) the transferor's new Minimum Annual Purchase Quantity under the transfer. The SFPUC may require that the participants in any proposed transfer provide additional information reasonably necessary to evaluate the operational impacts of the proposed transfer and any additional information that will assist the SFPUC in its review of the proposed transfer. The SFPUC will not unreasonably withhold or delay its approval of a proposed transfer; if the SFPUC does not act on the written notice provided by the participants within 60 days, the transfer will be deemed to have been approved. An approved transfer becomes effective on the proposed effective date set forth in the written notice of the proposed transfer provided to the SFPUC and BAWSCA.

F. Within 30 days after the transfer has become effective, both the transferor and the transferee will provide written notice to the SFPUC and BAWSCA. By September 30 of each year during the Term, the SFPUC and BAWSCA will prepare an updated Attachment C, and updated Attachments E and E-1 where applicable, to reflect the effects of transfers occurring during the immediately preceding fiscal year. By September 30 of each year during the Term, the Individual Water Sales Contracts between San Francisco and any Wholesale Customers who are participants in a transfer under this Section will be amended with the written concurrence of San Francisco and those Wholesale Customers to reflect the effects of transfers occurring during the immediately preceding fiscal year, as necessary.

G. Amounts transferred will remain subject to pro rata reduction under the circumstances described in Section 3.02.C and according to the formula set forth in Attachment D.

H. A proposed transfer that does not satisfy the requirements of this section may be presented as an amendment to this Agreement pursuant to Section 2.03.

3.05. Restrictions on Resale

Each Wholesale Customer agrees that it will not sell any water purchased from San Francisco to a private party for resale by such private party to others in violation of the Act.

Each Wholesale Customer also agrees that it will not sell water purchased from San Francisco to another Wholesale Customer without prior written approval of the SFPUC, except on a temporary and emergency basis as permitted in Section 3.07.B.2. The SFPUC agrees that it will not unreasonably withhold its consent to a request by a Wholesale Customer to deliver water to another Wholesale Customer for resale.

3.06. Conservation; Use of Local Sources; Water Management Charge

A. In order to support the continuation and expansion of water conservation programs, water recycling, and development of alternative supplies within the Wholesale Customers' service areas, the SFPUC will, if requested by BAWSCA, include the Water Management Charge in water bills sent to Wholesale Customers. The SFPUC will deliver all Water Management Charge revenue to BAWSCA monthly and shall deliver an annual accounting of Water Management Charge revenue to BAWSCA within 90 days after the end of each fiscal year. The SFPUC's obligations to collect and deliver Water Management Charge revenue to BAWSCA under this subsection are conditioned on BAWSCA's delivery to the SFPUC of an annual report describing the projects and programs on which Water Management Charge funds received from the SFPUC during the previous fiscal year were expended and an estimate of the amount of water savings attributable to conservation programs and of the yield of alternative supplies developed. This report will be due within 180 days after the end of each fiscal year during which Water Management Charge funds were received.

B. The SFPUC will work together with BAWSCA to explore ways to support water conservation programs, recycling projects, and conjunctive use alternatives outside the Wholesale Service Area, in particular projects and programs that have the potential to increase both flows in the lower Tuolumne River (downstream of New Don Pedro Reservoir) and water deliveries to the Regional Water System.

C. Each Wholesale Customer shall take all actions within its legal authority related to water conservation that are necessary to insure that the SFPUC (a) remains eligible for (i) state and federal grants and (ii) access to the Drought Water Bank operated by the California Department of Water Resources, as well as other Drought-related water purchase or transfer

programs, and (b) complies with future legal requirements imposed on the Regional Water System by the federal government, the State, or any other third party as conditions for receiving funding or water supply.

D. San Francisco and each Wholesale Customer agree that they will diligently apply their best efforts to use both surface water and groundwater sources located within their respective service areas and available recycled water to the maximum feasible extent, taking into account the environmental impacts, the public health effects and the effects on supply reliability of such use, as well as the cost of developing such sources.

3.07. Restrictions on Purchases of Water from Others; Minimum Annual Purchases

A. Each Wholesale Customer (except for Alameda County Water District and the cities of Milpitas, Mountain View and Sunnyvale) agrees that it will not contract for, purchase or receive, with or without compensation, directly or indirectly, from any person, corporation, governmental agency or other entity, any water for delivery or use within its service area without the prior written consent of San Francisco.

B. The prohibition in subsection A does not apply to:

1. recycled water;
2. water necessary on an emergency and temporary basis, provided that the Wholesale Customer promptly gives San Francisco notice of the nature of the emergency, the amount of water that has been or is to be purchased, and the expected duration of the emergency; or
3. water in excess of a Wholesale Customer's Individual Supply Guarantee.

C. Alameda County Water District and the cities of Milpitas, Mountain View and Sunnyvale may purchase water from sources other than San Francisco, provided that San Francisco shall require that each purchase a minimum annual quantity of water from San Francisco. These Minimum Annual Purchase Quantities are set out in Attachment E and shall also be included in the Individual Water Sales Contracts between San Francisco and each of these four Wholesale Customers. Pursuant to Section 3.04, certain Wholesale Customers may also be required to purchase Temporary Modified Minimum Annual Purchase Quantities, set out in Attachment E-1, from San Francisco. Attachment E will be updated pursuant to Section 3.04 to reflect any reduction in existing Minimum Annual Purchase Quantities and any addition of

new Minimum Annual Purchase Quantities when Temporary Modified Minimum Annual Purchase Quantities expire and are removed from Attachment E-1; Individual Water Sales Contracts between San Francisco and any Wholesale Customers who are participants in a transfer under Section 3.04 will similarly be amended, as necessary. After the end of each fiscal year, the SFPUC will send a written notice to each Wholesale Customer that is subject to the minimum annual purchase requirements of this section with a copy to BAWSCA. The notice will include: (1) the quantity of water delivered to the Wholesale Customer during the previous fiscal year; (2) whether or not the Wholesale Customer met its minimum annual purchase requirement under this section; (3) any Imputed Sales charged to the Wholesale Customer; and (4) the status of any Temporary Modified Minimum Annual Purchase Quantity of the Wholesale Customer, if applicable. The minimum annual purchase requirements set out in Attachments E and E-1 will be waived during a Drought or other period of water shortage if the water San Francisco makes available to these Wholesale Customers is less than its Minimum Annual Purchase Quantity, and may be waived during a state of emergency declared by the Governor of California that impacts water supply use or deliveries from the Regional Water System.

3.08. Water Quality

A. San Francisco shall deliver treated water to Wholesale Customers (except Coastside County Water District, which receives untreated water from Crystal Springs and Pilarcitos Reservoirs) that complies with primary maximum contaminant level and treatment technique standards at the regulatory entry points designated in the San Francisco Regional Water System Domestic Water Supply Permit (currently Permit No. 02-04-04P3810001) issued by the California Department of Public Health (CDPH).

B. San Francisco will provide notice to the Wholesale Customers in accordance with the Water Quality Notification and Communications Plan (2019 Update of 2017 Plan, Rev. 6), attached hereto as Attachment G. San Francisco will regularly update its plan in consultation with the Wholesale Customers and the CDPH. The next update will be completed one year after the Effective Date and include expanded coverage of secondary maximum contaminant level exceedances and water quality communication triggers. The plan will note that the Wholesale Customers will receive the same notification no later than the San Francisco water system (currently Permit No. 02-04-01P3810011) except for distribution-related issues.

C. San Francisco and the Wholesale Customers will establish a Water Quality Committee. The Water Quality Committee will meet at least quarterly to collaboratively address

water quality issues, such as Water Quality Notification and Communications Plan updates, regulatory issues, and water quality planning studies/ applied research. San Francisco and each Wholesale Customer will designate a representative to serve on the committee. There will be a Chair and Vice Chair position for the Water Quality Committee. The Chair and Vice Chair positions will be held by San Francisco and the Wholesale Customers and rotate between them on an annual basis.

3.09. Completion of WSIP

San Francisco will complete construction of the physical facilities in the WSIP by December 30, 2021. The SFPUC agrees to provide for full public review and comment by local and state interests of any proposed changes that delay previously adopted project completion dates or that delete projects. The SFPUC shall meet and consult with BAWSCA before proposing to the Commission any changes in the scope of WSIP projects which reduce their capacity or ability to achieve adopted Level of Service Goals and Objectives. The SFPUC retains discretion to determine whether to approve the physical facilities in the WSIP until after it completes the CEQA process as set forth in Section 4.07.

3.10. Regional Water System Repair, Maintenance and Operation

A. San Francisco will keep the Regional Water System in good working order and repair consistent with prudent utility practice.

B. San Francisco will submit reports to its Retail and Wholesale Customers on the "State of the Regional Water System," including reports on completed and planned maintenance, repair or replacement projects or programs, by September of every even-numbered year, with reports to start in September 2010.

C. San Francisco will cooperate with any audit of the SFPUC's asset management practices that may be initiated and financed by BAWSCA or the Wholesale Customers. BAWSCA may contract with third parties to conduct the audits. San Francisco will consider the findings and recommendations of such audits and will provide a written response indicating agreement with the recommendations, or disagreement with particular recommendations and the reasons why, within 90 calendar days after receipt.

D. San Francisco will continue to operate its reservoirs in a manner that assigns higher priority to the delivery of water to the Bay Area and the environment than to the

generation of electric power. The SFPUC, as the Regional Water System operator, is solely responsible for making day-to-day operational decisions.

3.11. Shortages

A. **Localized Water Reductions.** Notwithstanding San Francisco's obligations to deliver the Supply Assurance to the Wholesale Customers collectively and the Individual Supply Guarantees to Wholesale Customers individually, San Francisco may reduce the amount of water available or interrupt water deliveries to specific geographical areas within the Regional Water System service area to the extent that such reductions are necessary due to Emergencies, or in order to install, repair, rehabilitate, replace, investigate or inspect equipment in, or perform other maintenance work on, the Regional Water System. Such reductions or interruptions may be imposed by San Francisco without corresponding reductions or interruptions in the amount of water available to SFPUC water users outside the specific geographical area where reductions or interruptions are necessary, if the system's ability to supply water outside the specific geographical area has not been impaired. In the event of such a reduction or interruption, San Francisco will restore the supply of water to the specific geographical area as soon as is possible. Except in cases of Emergencies (during which oral notice shall be sufficient), San Francisco will give the affected Wholesale Customer(s) reasonable written notice of such localized reductions or interruptions, the reasons therefor, and the probable duration thereof.

B. **System-Wide Shortages and SFPUC Response to Regional Emergencies.** Following a major system emergency event, the SFPUC will work closely with its Wholesale Customers to monitor customer demand, including the demand source. In the event that any individual Wholesale Service Area or Retail Service Area customer's uncontrolled distribution system leaks could result in major water waste and endanger the supply provided by the Regional Water System as a whole, flow through some customer connections may need to be temporarily reduced or terminated. SFPUC will work closely with customers to assess the nature of the demand (e.g. fire-fighting versus leakage), so that public health and safety protection can be given top priority.

1. All emergencies that require use of non-potable source water will require use of chlorine, or other suitable disinfectant, if feasible.

2. San Francisco will use its best efforts to meet the seismic reliability and delivery reliability Level of Service Goals and Objectives adopted by the Commission in conjunction with the WSIP. San Francisco will distribute water on an equitable basis throughout the Regional Water System service area following a regional Emergency, subject to physical limitations caused by damage to the Regional Water System.

3. San Francisco's response to Emergencies will be guided by the then-current version of the ERRP. The SFPUC shall periodically review, and the Commission may amend, the ERRP to ensure that it remains an up-to-date and effective management tool.

4. The SFPUC will give the Wholesale Customers notice of any proposal to amend the ERRP in a manner that would affect them. The notice will be delivered at least thirty days in advance of the date on which the proposal is to be considered by the Commission and will be accompanied by the text of the proposed amendment.

C. **Shortages Caused by Drought; Acquisition of Dry Year Supplies.**

Notwithstanding San Francisco's obligations to deliver the Supply Assurance to the Wholesale Customers collectively and the Individual Supply Guarantees to Wholesale Customers individually, San Francisco may reduce the amount of water available to the Wholesale Customers in response to Drought.

1. The Tier 1 Shortage Plan (Attachment H) will continue to be used to allocate water from the Regional Water System between Retail and Wholesale Customers during system-wide shortages of 20% or less.

2. San Francisco and the Wholesale Customers may negotiate in good faith revisions to the Tier 1 Shortage Plan to adjust for and accommodate anticipated changes due to demand hardening in the SFPUC's Wholesale and Retail Service Areas. Until agreement is reached, the current Tier 1 Shortage Plan will remain in effect.

3. The SFPUC will honor allocations of water among the Wholesale Customers ("Tier 2 Allocations") provided by BAWSCA or if unanimously agreed to by all Wholesale Customers. If BAWSCA or all Wholesale Customers do not provide the SFPUC with Tier 2 Allocations, then the SFPUC may make a final allocation decision after first meeting and discussing allocations with BAWSCA and the Wholesale Customers. For Regional Water System shortages in excess of 20%, San Francisco shall (a) follow the Tier 1 Shortage Plan allocations up to the 20% reduction, (b) meet and discuss how to implement incremental

reductions above 20% with the Wholesale Customers, and (c) make a final determination of allocations above the 20% reduction. After the SFPUC has made the final allocation decision, the Wholesale Customers shall be free to challenge the allocation on any applicable legal or equitable basis.

4. San Francisco will use its best efforts to identify potential sources of dry year water supplies and establish the contractual and other means to access and deliver those supplies in sufficient quantity to meet a goal of not more than 20 percent system-wide shortage in any year of the design drought.

5. San Francisco will cooperate with BAWSCA to improve water supply reliability. As an example of such cooperation, San Francisco may invite a representative of BAWSCA to attend and participate in meetings with third parties for development of dry year water supplies. If San Francisco does not invite a BAWSCA representative to attend a specific scheduled meeting, it will promptly (within 30 days of any such meeting) provide BAWSCA with a written or oral report on the meeting, including any decisions reached at it, as well as information about planned subsequent meetings. Progress in securing dry year water supplies will be reported to the SFPUC and the BAWSCA board of directors during the first quarter of each calendar year.

3.12. Wheeling of Water from Outside SFPUC System

Subject to the Wheeling Statute, the SFPUC will not deny use of Regional Water System unused capacity for wheeling when such capacity is available for wheeling purposes during periods when the SFPUC has declared a water shortage emergency under Water Code Section 350 if the following conditions are met:

A. The transferor pays reasonable charges incurred by the SFPUC as a result of the wheeling, including capital, operation, maintenance, administrative and replacement costs (as such are defined in the Wheeling Statute).

B. Wheeled water that is stored in the Regional Water System spills first.

C. Wheeled water will not unreasonably: (1) impact fish and wildlife resources in Regional Water System reservoirs; (2) diminish the quality of water delivered for consumptive uses; or (3) increase the risk of exotic species impairing Regional Water System operations. The transferor may at its own expense provide for treatment to mitigate these effects.

D. Priority will be given to wheeling by Wholesale Customers or BAWSCA over arrangements for third-party public entities.

3.13. Limits on New Customers

A. **New Wholesale Customers Prior to December 31, 2028.** Until December 31, 2028, San Francisco will not enter into contracts to supply water to any entity other than a Wholesale Customer (whether permanent or temporary, firm or interruptible) unless:

1. It completes any necessary environmental review under CEQA of the proposed new wholesale water service obligations as provided in Section 4.07;
2. It concurrently completes any necessary environmental review under CEQA as provided in Section 4.07 and commits to make both San Jose and Santa Clara permanent customers with Individual Supply Guarantees equal to at least 9 MGD; and
3. This Agreement is amended to incorporate any commitments to proposed new wholesale customers and to San Jose and Santa Clara, and to address the effects, if any, of the new customer(s) on water supply reliability, water quality and cost to existing customers of the Regional Water System.

B. **New Wholesale Customers After December 31, 2028.** As of January 1, 2029, San Francisco will not enter into contracts to supply water to any entity other than a Wholesale Customer (whether permanent or temporary, firm or interruptible) unless:

1. It completes any necessary environmental review under CEQA of the proposed new wholesale water service obligations as provided in Section 4.07;
2. It concurrently completes any necessary environmental review under CEQA as provided in Section 4.07 and commits to make both San Jose and Santa Clara permanent customers with Individual Supply Guarantees equal to at least 9 MGD;
3. Doing so increases the reliability of the Regional Water System; and
4. This Agreement is concurrently amended (a) to reflect that increased reliability by means of an increased commitment by San Francisco to deliver water during Droughts and (b) to address the effects, if any, of the new customer(s) on water supply, water quality and cost to existing customers of the Regional Water System.

C. **New Retail Customers.** San Francisco may enter into new retail water service obligations outside of the City and County of San Francisco:

1. Only in Alameda, San Mateo, Santa Clara, San Joaquin and Tuolumne Counties;
2. That are within or immediately adjacent to areas in which it currently serves other Retail Customers; and
3. Until the aggregate additional demand represented by the new retail customers reaches 0.5 MGD.

The limitations on serving new Retail Customers described in this subsection do not apply to historical obligations to supply water that may be contained in prior agreements between the SFPUC or its predecessor the Spring Valley Water Company, and individual users or property owners located adjacent to Regional Water System transmission pipelines.

D. **Water Exchanges and Cost Sharing Agreements with Other Water Suppliers.** Subject to completion of necessary environmental review under CEQA, San Francisco may at any time enter into water exchanges or cost sharing agreements with other water suppliers to enhance dry year or normal year water deliveries, provided that San Francisco cannot incur new water service obligations to such other water suppliers unless the requirements for taking on new wholesale customers in subsections A and B above are met.

3.14. **Measurement of Water**

A. The parties recognize that continuous and accurate measurement of water deliveries to and from the Regional Water System and maintenance of complete and accurate records of those measurements is necessary (1) for the costs of the Regional Water System to be allocated in accordance with this Agreement, (2) for implementation of other provisions of this Agreement, and (3) for effective operation and maintenance of a water system serving a large urbanized region.

B. It is the responsibility of the SFPUC to obtain and record these measurements. To do so, the SFPUC shall install, maintain and operate measuring and recording equipment at the following locations: (1) inputs to the Regional Water System from all water sources (“System Input Meters”), (2) internal flow meters to support operation of the Regional Water System (“In-Line Meters”), (3) deliveries to the City at the San Francisco-San Mateo County line (“County-

Line Meters”) and to three reservoirs in San Francisco (“In-City Terminal Reservoir Meters”), (4) deliveries to SFPUC Retail Customers located outside the boundaries of the City, and (5) deliveries to the Wholesale Customers, as described and illustrated in Attachment J.

C. The SFPUC shall inspect, test, service, and calibrate the measuring and recording equipment installed at the locations described in subsection B and will repair or replace them when necessary, in order to ensure that their accuracy is consistent with specifications provided in Attachment J.

D. The SFPUC shall continue to contract with a qualified independent metering consultant to perform periodic inspection, testing, servicing and calibration of the County-Line Meters, the In-City Terminal Reservoir Meters, and the System Input and In-Line Meters described in Attachment J, as well as the portion of the SFPUC’s Supervisory Control and Data Acquisition (SCADA) system that utilizes the flow signals produced by that measuring and recording equipment. The method, schedule and frequency for calibration and maintenance of the County-Line Meters and the In-City Terminal Reservoir Meters are specified in Attachment J. The SFPUC shall provide copies of the metering consultant’s reports to BAWSCA.

E. System Input Meters measure water deliveries into the Regional Water System from sources such as Hetch Hetchy and the SFPUC’s water treatment plants. System Input Meters also measure deliveries from the Regional Water System to outside sources or from such sources to the Regional Water System through interties with the Santa Clara Valley Water District and the East Bay Municipal Utility District. In-Line Meters measure internal system flows and are located on the Bay Division Pipelines and other main transmission pipelines. These meters are collectively referred to as the “System Input and In-line Meters.” Similar to the County-Line Meters, the System Input and In-Line Meters have secondary metering equipment, such as differential pressure transmitters and flow recorders. The System Input and In-Line Meters, and all associated secondary metering equipment, shall be calibrated and maintained according to the method, schedule, and frequency specified in the Procedures Manual described in subsection G, below.

F. The locations of the smaller and more numerous meters described in subsection B (4) and (5) are not illustrated in Attachment J; however, they are also critical in the determination of cost allocations, and accordingly require continued maintenance and

calibration. It is the responsibility of the SFPUC to maintain the accuracy of these meters and their secondary metering equipment.

G. The SFPUC will prepare a Procedures Manual which will describe in detail the procedures for periodic inspection, testing, servicing and calibration of the measuring and recording equipment described in subsection B. Once the Procedures Manual is completed, the SFPUC and BAWSCA may agree that it should supersede some or all of the requirements in Attachment J regarding the County-Line and the In-City Terminal Reservoir Meters. Unless and until such an agreement is reached and documented, however, the requirements in Attachment J, Section D will continue in force as minimum standards for meter maintenance and calibration of the County-Line and In-City Terminal Reservoir Meters (subject to modification under the circumstances described in Attachment J, Section A.4).

H. If BAWSCA and the SFPUC are unable to agree on the water use calculations required by Attachment J for a particular year, the Wholesale Customers may file a demand for arbitration challenging the SFPUC's determination of the Wholesale Revenue Requirement for that year on the basis of its reliance on disputed water use calculations. Such a challenge must be brought in the manner and within the time specified in Section 8.01.

3.15. New Sources of Water Supply to Maintain Supply Assurance

A. **Urgent Reductions of Existing Surface Water Supplies.** Sudden and unanticipated events may require San Francisco to act promptly to protect the health, safety and economic well-being of its Retail and Wholesale Customers. Such sudden events include, but are not limited to drought, earthquakes, terrorist acts, catastrophic failures of facilities owned and operated by San Francisco, and other natural or man-made events. If such events diminish San Francisco's ability to maintain the Supply Assurance, San Francisco may increase the Wholesale Revenue Requirement to pay for planning, evaluation and implementation of replacement sources of supply when such needs arise and without the prior approval of the Wholesale Customers. San Francisco will keep the Wholesale Customers informed of actions being taken under this subsection, progress made, and contingency actions the Wholesale Customers may need to consider taking. To the extent appropriate and applicable, San Francisco will act in accordance with Section 3.11 and the ERRP. Nothing in this subsection limits San Francisco's obligations under Section 3.11 to pursue additional sources of supply to augment supplies available during drought.

B. **Non-Urgent Reductions of Existing Surface Water Supplies.** Climate change, regulatory actions and other events may impact San Francisco's ability to maintain the Supply Assurance from its existing surface water supplies, but on timescales long enough to permit San Francisco to collaborate with its Wholesale Customers on how best to address possible impacts to water supply. If such events diminish San Francisco's ability to maintain the Supply Assurance, San Francisco may increase the Wholesale Revenue Requirement to pay for planning, evaluation and implementation of replacement sources of supply when such needs arise and without the prior approval of the Wholesale Customers. San Francisco will keep the Wholesale Customers informed of actions being taken under this subsection, progress made, and contingency actions the Wholesale Customers may need to consider taking. San Francisco will solicit input and recommendations from BAWSCA and the Wholesale Customers, and take those recommendations into consideration. Prior to Commission approval of plans or taking other actions that would impact the Wholesale Revenue Requirement, San Francisco will hold a public hearing to receive written and oral comments. Nothing in this subsection modifies San Francisco's obligation to maintain the ability to provide the Supply Assurance under this Agreement.

3.16. **New Sources of Water Supply to Increase Supply Assurance**

A. **Surface Water Supplies From Existing Watersheds After 2018.** The Commission action in SFPUC Resolution Number 08-0200, adopted October 30, 2008 requires certain decisions by San Francisco regarding whether to supply more than 265 MGD from its watersheds following 2018. Such decisions are to be made by December 31, 2018, subject to the exercise of San Francisco's retained CEQA discretion in Section 4.07. San Francisco's future decisions may include an offer to increase the Supply Assurance at the request of some or all of its Wholesale Customers. Costs associated with providing additional water from its existing water supplies in San Mateo, Santa Clara, Alameda, Tuolumne, and Stanislaus Counties shall be allocated to Wholesale and Retail Customers as described in Article 5.

B. **New Water Supplies.** If San Francisco seeks to develop additional water supplies from new sources to increase the Supply Assurance available to Wholesale Customers, studies and resulting water supply projects will be conducted jointly with BAWSCA under separate agreement(s) specifying the purpose of the projects, the anticipated regional benefits and how costs of studies and implementation will be allocated and charged. Nothing in this Agreement shall serve as precedent for the allocation of such new supply capital costs

between Retail and Wholesale Customers or associated operational expenses, which shall only occur following approval of both parties and amendment of this Agreement, if necessary, under Section 2.03.

3.17. Westside Basin Groundwater Storage and Recovery Project

In August 2014, the SFPUC approved a WSIP project called the Groundwater Storage and Recovery Project (“Project”), which authorized the SFPUC to enter into an agreement governing the operation of the Project with the Participating Pumpers entitled “Agreement for Groundwater Storage and Recovery from the Southern Portion of the Westside Groundwater Basin by and among the San Francisco Public Utilities Commission, the City of Daly City, the City of San Bruno, and California Water Service Company” (“Project Operating Agreement”), which became effective on December 16, 2014. The Project produces Regional benefits for all customers of the Regional Water System by making use of available groundwater storage capacity in the Southern portion of the Westside Basin through the supply of additional surface water (“In Lieu Water”) to the Participating Pumpers from the Regional Water System, in exchange for a corresponding reduction in groundwater pumping at existing wells owned by the Participating Pumpers. The new groundwater supply that accrues to storage as a result of delivery of In Lieu Water will be recovered from the SFPUC Storage Account during water shortages using new Regional Project Facilities or Shared Facilities operated by the Participating Pumpers and the SFPUC. Project mitigation capital costs and annual Project operations and maintenance expenses and water supplies shall be allocated as follows:

A. All In Lieu Water delivered to the Participating Pumpers shall be (1) temporary and interruptible in nature and (2) at the sole discretion of the SFPUC based on the total volume of water available to the Regional Water System.

B. All In Lieu Water delivered to the Participating Pumpers shall be considered a delivery of water to storage and shall not be construed to affect or increase the Individual Supply Guarantees of these Wholesale Customers or to otherwise entitle them to any claim of water in excess of their Individual Supply Guarantees.

C. In the event that it is necessary to reduce the Participating Pumpers’ aggregate designated quantity of groundwater production allocation pursuant to Section 4.7 of the Project Operating Agreement, the SFPUC may supply an annual maximum of up to 500 acre feet of Participating Pumper Replacement Water from the Regional Water System at a price

comparable to the Participating Pumpers' then-current groundwater cost, as may be adjusted annually as provided for in Section 4.7 of the Project Operating Agreement. Each of the Participating Pumpers may elect to take delivery of its share of Participating Pumper Replacement Water either as interruptible surface water deliveries from the Regional Water System or as a transfer of storage credits from the SFPUC Storage Account. All revenue received from such water sales or transfers shall be considered revenue related to the sale of water and allocated between Retail Customers and Wholesale Customers on the basis of Proportional Water Use. All volumes of Participating Pumper Replacement Water delivered shall not be construed to affect or increase the Individual Supply Guarantees of these Wholesale Customers or to otherwise entitle them to any claim of water in excess of their Individual Supply Guarantees.

D. Any operation and maintenance expenses incurred by the Participating Pumpers and the SFPUC that are related to the operation of Project Facilities and Shared Facilities for Project purposes shall be included as Regional pumping expenses under Section 5.05.B of this Agreement and included as part of the Wholesale Revenue Requirement. For rate setting purposes, estimated Project operation and maintenance expenses shall be used as set forth in Section 6.01 of this Agreement. Operation and maintenance expenses associated with the Participating Pumpers' Existing Facilities that do not provide Regional benefits shall not be included in the Wholesale Revenue Requirement. On a case-by-case basis, the SFPUC may include operation and maintenance expenses associated operation of the Participating Pumpers' Existing Facilities in the Wholesale Revenue Requirement provided that such expenses (1) are solely attributable to Project operations for a Regional benefit and (2) are not caused by the Participating Pumper's failure to operate and maintain its existing wells in a reasonable and prudent manner consistent with water utility industry standards. The SFPUC shall provide the Wholesale Customers with copies of Project Operation and Maintenance Expenses documentation provided by the Participating Pumpers under Section 9.2 of the Project Operating Agreement.

E. The Project Mitigation, Monitoring and Reporting Program ("MMRP") adopted by the SFPUC included mitigation measure HY-6 to prevent well interference impacts to the Irrigation Well Owners. In mitigation measure HY-6, the SFPUC agreed to provide standby supplies of Irrigation Well Owner Replacement Water from the Regional Water System, to alter Project operations, and implement other actions (e.g., well replacement) to avoid well interference impacts that require the consent of the Irrigation Well Owners. The SFPUC's

Project mitigation and other obligations to the Irrigation Well Owners are memorialized in substantially identical “Groundwater Well Monitoring and Mitigation Agreements” with one or more of the Irrigation Well Owners. For purposes of this Agreement, water supplies, and the capital costs and operations and maintenance expenses associated with providing Irrigation Well Owner Replacement Water and implementing other mitigation actions identified in the Project MMRP, shall be allocated as follows:

1. Irrigation Well Owner Replacement Water shall be limited to a cumulative maximum of 1.76 mgd and shall be delivered only in volumes necessary for mitigating well interference impacts as provided in the Project MMRP. The supply of Irrigation Well Owner Replacement Water by the SFPUC shall not be considered a new water supply commitment to Retail Customers or Wholesale Customers under Section 3.13 of this Agreement. The annual volume of Irrigation Well Owner Replacement Water supplied shall be metered and allocated as water from the Regional Water System during shortages between Retail Customers and Wholesale Customers in proportion to and consistent with the provisions of the Shortage Allocation Plan. All revenue received from Irrigation Well Owners for metered deliveries of Irrigation Well Owner Replacement Water shall be considered revenue related to the sale of water and allocated between Retail Customers and Wholesale Customers on the basis of Proportional Water Use.

2. All Project capital costs incurred by the SFPUC in complying with the mitigation measures in the Project MMRP shall be considered Regional capital costs under Section 5.04 of this Agreement.

3. Operations and maintenance expenses incurred by the SFPUC in maintaining Project mitigation assets described in the Project MMRP shall be considered Regional transmission and distribution expenses under Section 5.05.D of this Agreement. Well pumping expenses that are required to be paid by the SFPUC in the agreements with the Irrigation Well Owners shall be considered Regional pumping expenses under Section 5.05.B of this Agreement.

4. Any wheeling charges imposed by California Water Service Company for delivery of Irrigation Well Owner Replacement Water shall be considered Regional transmission and distribution expenses under Section 5.05.D of this Agreement.

F. The SFPUC will audit (1) operation and maintenance expenses submitted by the Participating Pumpers, and (2) well pumping expenses submitted by the Irrigation Well Owners,

for reimbursement to confirm that such costs were incurred, respectively, as a result of (1) operating Project Facilities and Shared Facilities for a Regional benefit and (2) complying with mitigation obligations in the Project MMRP. Costs associated with the use of Project Facilities or Shared Facilities for Direct Retail or Direct Wholesale purposes, or that do not otherwise provide Regional benefits, shall not be included in the Wholesale Revenue Requirement. The SFPUC is responsible for resolving disputes with the Participating Pumpers and Irrigation Well Owners concerning expense allocations. Project expense documentation, including documentation of negotiation and settlement of disputed costs, will be available for review during the Compliance Audit described in Section 7.04 of this Agreement. The Wholesale Customers may dispute the SFPUC's resolution of expense allocations through the arbitration provisions in Section 8.01 of this Agreement.

G. The SFPUC may direct the Participating Pumpers to recover water from the SFPUC Storage Account for any type of shortage referenced in Section 3.11 of this Agreement. Water recovered from the SFPUC Storage Account using Project Facilities and Shared Facilities may be used for (1) the benefit of all Regional Water System customers; (2) Retail Customers; or (3) one or more of the Participating Pumpers. The Wholesale Revenue Requirement shall only include operation and maintenance expenses incurred due to the operation of Project Facilities and Shared Facilities for Regional benefits, including expenses incurred due to compliance with mitigation measures in the Project MMRP.

H. All water recovered during shortages caused by drought from the SFPUC Storage Account for Regional benefit, by the Participating Pumpers and by the SFPUC for delivery to Retail and Wholesale Customers, shall be used to free up a comparable volume of surface water from the Regional Water System for allocation in accordance with the Tier 1 Shortage Plan.

I. If the Project is terminated for any reason, including breach of the Project Operating Agreement by one or more of the Participating Pumpers or the SFPUC, a force majeure event as specifically defined by the Project Operating Agreement, or due to regulatory action or legal action, then:

1. Any water remaining in the SFPUC Storage Account shall be used for the benefit of all customers of the Regional Water System;

2. Outstanding eligible operation and maintenance expenses, including costs incurred during recovery of remaining stored water, will be allocated as provided in this Section 3.17 of this Agreement; and

3. If Project Facilities are no longer capable of being used for a Regional benefit, the Wholesale Customers will be credited with their share of proceeds from disposition of Project Facilities or reimbursed their share of such capital costs for any Project Facilities which are retained by the SFPUC for Direct Retail benefit and not used for the benefit of the Wholesale Customers, on the basis of (a) original cost less depreciation and outstanding related Indebtedness or (b) original cost less accumulated depreciation for revenue funded Project Facilities.

J. In the event that a Participating Pumper establishes the occurrence of a force majeure event as defined in the Project Operating Agreement, the SFPUC may enter into negotiations with the Participating Pumper to take over the operation of the portion of any Shared Facilities used for Project purposes for continued Regional use. If the SFPUC cannot reach agreement regarding the continued use of Shared Facilities for ongoing Regional benefit, the Participating Pumper shall reimburse the SFPUC and the Wholesale Customers for their respective shares of previously incurred Project capital costs used to upgrade the Shared Facilities on the basis of (a) original cost less depreciation and outstanding related Indebtedness or (b) original cost less accumulated depreciation for revenue funded Shared Facilities. In the event that the SFPUC seeks to take over the operation of Shared Facilities for Direct Retail use, or one or more Wholesale Customers seeks to negotiate with a Participating Pumper to take over the operation of Shared Facilities for individual use or Direct Wholesale use, the party or parties benefiting from such transfer of Shared Facilities shall reimburse the other parties to this Agreement with their respective shares of previously incurred Project capital costs on the basis described in the previous sentence, or as the parties may otherwise agree.

3.18. Water Supply Agreement Amendment Required.

San Francisco may not change the existing condition of the Hetch Hetchy Reservoir by:

1. Abandoning or decommissioning O'Shaughnessy Dam; or
2. Draining Hetch Hetchy Reservoir, except for purposes of (i) repair, rehabilitation, maintenance, improvement, or reconstruction of O'Shaughnessy Dam or appurtenances, (ii) supplying water to the Bay

Area during drought, or (iii) meeting water release requirements under the Raker Act, or federal or state law,

unless the parties enter into an amendment to the Water Supply Agreement, in full force and effect, adopted in accordance with Section 2.03.

The amendment shall state, or restate, as the case may be:

- A. The level of service goals for seismic reliability and delivery reliability adopted by the Commission in conjunction with such proposed changes to the Regional Water System, provided such goals are at least as protective of the Wholesale Customers as the Level of Service Goals and Objectives;
- B. The level of water quality to be delivered, which is currently provided for in Section 3.08, and
- C. The specific cost allocation procedures, written as an amendment to Article 5, which apply to (1) the abandonment or decommissioning of O'Shaughnessy Dam, or (2) the draining of Hetch Hetchy Reservoir, and (3) the development, operation and maintenance of New Regional Assets that may be required to replace water supplied by Hetch Hetchy Reservoir and delivered to the Bay Area.

In the event that the parties are not able to agree upon and approve an amendment to the Water Supply Agreement as set forth above, San Francisco may not abandon or decommission O'Shaughnessy Dam or drain Hetch Hetchy Reservoir.

Article 4. Implementation of Interim Supply Limitation.

4.01. Interim Supply Limitation Imposed by SFPUC

In adopting the WSIP in Res. No. 08-0200, the Commission included full implementation of all proposed WSIP capital improvement projects to achieve Level of Service Goals and Objectives relating to public health, seismic safety, and delivery reliability, but decided to adopt a water supply element that includes the Interim Supply Limitation. This article describes how the parties will implement the Interim Supply Limitation imposed by the SFPUC between the Effective Date and December 31, 2018, and how the SFPUC will conduct water supply planning after December 31, 2018.

4.02. Retail and Wholesale Customer Allocations Under Interim Supply Limitation

The Interim Supply Limitation is allocated as follows between Retail and Wholesale Customers:

Retail Customers' allocation: 81 MGD

Wholesale Customers' allocation: 184 MGD

The Wholesale Customers' collective allocation of 184 MGD under the Interim Supply Limitation includes the demand of the cities of San Jose and Santa Clara, whose demand is not included in the Supply Assurance, as provided in Section 3.02.B. By December 31st, 2010, the Commission will establish each Wholesale Customer's Interim Supply Allocation at a public meeting.

4.03. Transfers of Interim Supply Allocations

A. Any Wholesale Customer, including Hayward, may transfer a portion of its Interim Supply Allocation to one or more other Wholesale Customers, as provided in this section. All Wholesale Customers are also eligible transferees, including California Water Service Company up to its Individual Supply Guarantee.

B. Transfers of a portion of an Interim Supply Allocation must be prospective. The duration of a transfer cannot be less than the balance of the fiscal year. The minimum quantity that may be transferred is 1/10th of a MGD.

C. Transfers of portions of Interim Supply Allocations are subject to approval by the SFPUC. SFPUC review is limited to determining (1) whether a proposed transfer complies with

the Act, and (2) whether the affected facilities in the Regional Water System have sufficient capacity to accommodate delivery of the increased amount of water to the proposed transferee.

D. The participants in a proposed transfer shall provide notice to the SFPUC specifying the amount of the Interim Supply Allocation proposed to be transferred and the proposed effective date of the transfer, which shall not be less than 60 days after the notice is submitted to the SFPUC. The SFPUC may require additional information reasonably necessary to evaluate the operational impacts of the transfer. The SFPUC will not unreasonably withhold or delay its approval; if the SFPUC does not act on the notice within 60 days, the transfer will be deemed to have been approved.

E. Within 30 days after the transfer has become effective, both the transferor and the transferee will provide written notice to the SFPUC and BAWSCA.

F. Transfers of Interim Supply Allocations shall continue in effect until the earlier of (1) delivery of written notice to the SFPUC by the transfer participants that the transfer has been rescinded or (2) December 31, 2018.

4.04. Environmental Enhancement Surcharge

A. **Establishment of Environmental Enhancement Surcharge.** Beginning with wholesale water rates for fiscal year 2011-2012, and continuing for the duration of the Interim Supply Limitation, the Commission will establish the Environmental Enhancement Surcharge concurrently with the budget-coordinated rate process set forth in Article 6 of this Agreement. The monetary amount of the Environmental Enhancement Surcharge per volume of water, such as dollars per acre-foot, will be equivalent for Retail Customer use in excess of 81 MGD and Wholesale Customer use in excess of 184 MGD. The Environmental Enhancement Surcharge will be simple to calculate so that Wholesale Customers can estimate potential surcharges for budgeting purposes and establish retail rates within their service areas.

B. **Application of Environmental Enhancement Surcharge.** Beginning in fiscal year 2011-12, the Environmental Enhancement Surcharge will be levied only if and when combined Retail Customer and Wholesale Customer purchases exceed the Interim Supply Limitation of 265 MGD and if the fund described in subsection D below has been established by the San Francisco Board of Supervisors. In that event, the Environmental Enhancement Surcharge will apply to Retail Customers for use in excess of 81 MGD and to individual

Wholesale Customers for use in excess of their Interim Supply Allocations established by the Commission pursuant to Section 4.02.

1. Environmental Enhancement Surcharges related to the Retail Customers' use in excess of their 81 MGD Retail Customer Allocation will be paid by the SFPUC, and no portion of such surcharges may be allocated to Wholesale Customers. The method of recovering the Environmental Enhancement Surcharges imposed upon Retail Customers shall be within the sole discretion of the SFPUC.

2. Environmental Enhancement Surcharges related to the individual Wholesale Customers' use in excess of their respective Interim Supply Allocations will be paid to the SFPUC by individual Wholesale Customers.

C. **Collection of Environmental Enhancement Surcharge.** Notwithstanding the budget-coordinated rate setting process contemplated in Article 6 of this Agreement, the Environmental Enhancement Surcharge for any given year will be determined retrospectively based on actual annual usage during the fiscal year in excess of the Interim Supply Allocation and paid in equal monthly installments over the remainder of the immediately following fiscal year.

D. **Establishment of Fund for Environmental Enhancement Surcharge Proceeds.** Environmental Enhancement Surcharges paid by the SFPUC and by Wholesale Customers will be placed into a restricted reserve fund. The SFPUC will request the San Francisco Board of Supervisors to establish this fund by ordinance and, if adopted, the fund will be subject to the following restrictions:

1. Interest earnings will stay in the reserve fund.
2. The reserve fund shall (a) be subject to automatic appropriation; (b) require unexpended and unencumbered fund balances to be carried forward from year to year; and (c) not be transferred to the San Francisco General Fund.
3. The reserve fund may be used only for specific environmental restoration and enhancement measures for the Sierra and local watersheds, such as those included in the Watershed Environmental Improvement Program.
4. Environmental Enhancement Surcharge proceeds shall be expended in an expeditious manner. Any Environmental Enhancement Surcharge

proceeds that remain in the reserve fund as of December 31, 2018 shall be used to complete projects previously approved under subsection E. Upon completion of the identified projects, the balance of any unexpended sums in the reserve fund shall be distributed to BAWSCA and the SFPUC in proportion to the total amount of surcharges assessed to the Wholesale and Retail Customers, respectively.

E. **Use of Environmental Enhancement Surcharge Proceeds**. Specific uses of Environmental Enhancement Surcharges will be decided by the SFPUC and BAWSCA General Managers following input from environmental stakeholders and other interested members of the public. If parties are unable to agree, then they will jointly select a third person to participate in making the decision.

4.05. San Jose/ Santa Clara Interim Supply Allocation and Process for Reduction/ Termination.

San Francisco will supply a combined annual average of 9 MGD to the cities of San Jose and Santa Clara through 2028. Water supplied by San Francisco may only be used in the defined service areas of San Jose and Santa Clara shown on Attachment Q-1 and Q-2, respectively. San Francisco may reduce the quantity of water specified in this section when it establishes the Interim Supply Allocations for Wholesale Customers in Section 4.02. The establishment of Interim Supply Allocations for San Jose and Santa Clara shall not be considered a reduction of supply within the meaning of this section, provided that the Interim Supply Allocations assigned to San Jose and Santa Clara do not effect a reduction greater than the aggregate average reduction in Individual Supply Guarantees for Wholesale Customers that have such guarantees. The application of Interim Supply Allocations to San Jose and Santa Clara, and water supply planning after December 31, 2018, are subject to the following provisions:

A. In December 2010 and in each December thereafter through 2027, the SFPUC shall prepare and the Commission shall consider, at a regularly scheduled public meeting, a Water Supply Development Report detailing progress made toward (1) meeting the Interim Supply Limitation by June 30, 2018 and (2) developing additional water supplies that will allow the Commission to designate San Jose and Santa Clara as permanent Wholesale Customers of the Regional Water System with a combined Individual Supply Guarantee of up to 9 MGD by the end of the Term on June 30, 2034.

B. The annual Water Supply Development Report shall be based on water purchase projections and work plans prepared by the SFPUC for the Retail Customers and by BAWSCA for the Wholesale Customers, respectively, and submitted to the Commission in June of each year beginning in 2010.

C. If the Commission finds that the projections in the Water Supply Development Report show that (1) the Interim Supply Limitation will not be met by June 30, 2018, as a result of Wholesale Customers' projected use exceeding 184 MGD, or (2) the purchases of the Wholesale Customers, including San Jose and Santa Clara, are projected to exceed 184 MGD before June 30, 2028, the Commission may issue a conditional ten year notice of interruption or reduction in supply of water to San Jose and Santa Clara.

D. Upon issuance of the conditional notice of interruption or reduction, the SFPUC will prepare a new analysis of water supply that will be utilized by the San Francisco Planning Department in its preparation of any necessary documentation under CEQA pursuant to Section 4.07 on the impacts of interrupting or reducing service to San Jose and Santa Clara.

E. Such notice of interruption or reduction will be rescinded if the Commission finds, based upon a subsequent annual Water Supply Development Report, that (1) sufficient progress has been made toward meeting the Interim Supply Limitation, or (2) projections show that the projected purchases of the Wholesale Customers, including San Jose and Santa Clara, will not exceed 184 MGD by June 30, 2028.

F. In no case shall any interruption or reduction of service to San Jose or Santa Clara pursuant to this section become effective less than two years from the completion of the CEQA process (not including resolution of any appeals or litigation) or ten years from the notice, whichever is longer. If the ten year notice is issued after 2018, such interruption or reduction would be effective after 2028.

G. If deliveries to San Jose and Santa Clara are interrupted, existing turnout facilities to San Jose and Santa Clara will remain in place for possible use during emergencies.

H. San Francisco and the cities of San Jose and Santa Clara will cooperate with BAWSCA and the Santa Clara Valley Water District in the identification and implementation of additional water sources and conservation measures for the cities' service areas that are

relevant to the water supply and the possible offer of permanent status for the two cities by the SFPUC.

4.06. San Francisco Decisions in 2028 Regarding Future Water Supply

A. By December 31, 2028, San Francisco will have completed any necessary CEQA review pursuant to Section 4.07 that is relevant to making San Jose and Santa Clara permanent customers of the Regional Water System and will decide whether or not to make San Jose and Santa Clara permanent customers of the Regional Water System with a combined Individual Supply Guarantee of 9 MGD allocated equally between the two cities, as well as how much water in excess of 9 MGD it will supply to San Jose and Santa Clara. San Francisco will make San Jose and Santa Clara permanent customers only if, and to the extent that, San Francisco determines that Regional Water System long term water supplies are available. In the event that San Francisco decides to afford permanent status to San Jose and Santa Clara, this Agreement will be amended pursuant to Section 2.03.

B. By December 31, 2028, San Francisco will have completed any necessary CEQA review pursuant to Section 4.07 and will decide how much water, if any, in excess of the Supply Assurance it will supply to Wholesale Customers from the Regional Water System to meet their projected future water demands until the year 2040, and whether to offer a corresponding increase in the Supply Assurance as a result of these determinations.

4.07. Retained Discretion of SFPUC and Wholesale Customers

A. This Agreement contemplates discretionary actions that the SFPUC and the Wholesale Customers may choose to take in the future that could result in physical changes to the environment ("Discretionary Actions"). The Discretionary Actions include decisions to:

1. Develop additional or alternate water resources by the SFPUC or one or more Wholesale Customers;
2. Implement the physical facilities comprising the WSIP by December 30, 2021;
3. Approve wheeling proposals by Wholesale Customers;
4. Approve new wholesale customers and water exchange or cost sharing agreements with other water suppliers;
5. Provide additional water to San Jose and/or Santa Clara;
6. Offer permanent status to San Jose and/or Santa Clara;

7. Reduce or terminate supply to San Jose and/or Santa Clara;
8. Provide additional water to Wholesale Customers in excess of the Supply Assurance to meet their projected future water demands;
9. Offer a corresponding volumetric increase in the Supply Assurance; and
10. Implement the Hetch Hetchy Water and Power projects listed in Attachment R-2.

The Discretionary Actions may require the SFPUC or Wholesale Customers to prepare environmental documents in accordance with CEQA prior to the SFPUC or the Wholesale Customers determining whether to proceed with any of the Discretionary Actions. Accordingly, and notwithstanding any provision of this Agreement to the contrary, nothing in this Agreement commits the SFPUC or the Wholesale Customers to approve or carry out any Discretionary Actions that are subject to CEQA. Furthermore, the SFPUC's or Wholesale Customers' decisions to approve any of these Discretionary Actions are subject to the requirement that San Francisco and each Wholesale Customer, as either a "Lead Agency" (as defined in Section 21067 of CEQA and Section 15367 of the CEQA Guidelines) or a "Responsible Agency" (as defined in Section 21069 of CEQA and Section 15381 of the CEQA Guidelines) shall have completed any CEQA-required environmental review prior to approving a proposed Discretionary Action.

B. In considering any proposed Discretionary Actions, the SFPUC and Wholesale Customers retain absolute discretion to: (1) make such modifications to any of the proposed Discretionary Actions as may be necessary to mitigate significant environmental impacts; (2) select feasible alternatives to the proposed Discretionary Actions that avoid significant adverse impacts; (3) require the implementation of specific measures to mitigate the significant adverse environmental impacts as part of the decision to approve the Discretionary Actions; (4) balance the benefits of the proposed Discretionary Actions against any significant environmental impacts before taking final actions to approve the proposed Discretionary Actions if such significant impacts cannot otherwise be avoided; or (5) determine not to proceed with the proposed Discretionary Actions.

Article 5. Wholesale Revenue Requirement

5.01. Scope of Agreement

This Article shall be applicable only to the water rates charged by San Francisco to the Wholesale Customers. Nothing contained in this Agreement shall limit, constrain, or in any way affect the rates which San Francisco may charge for water sold to Retail Customers or the methodology by which such rates are determined.

5.02. General Principles

This Article sets forth the method by which the Wholesale Customers' collective share of expenses incurred by the SFPUC in delivering water to them will be determined. This collective share is defined as the "Wholesale Revenue Requirement."

A. The SFPUC currently operates several enterprises, including the Water Enterprise, the Wastewater Enterprise, and the Hetch Hetchy Enterprise.

B. The Wastewater Enterprise is responsible for treating sewage within San Francisco and provides no benefit to the Wholesale Customers.

C. The Hetch Hetchy Enterprise is responsible for storing and transmitting water to the Water Enterprise, generating hydroelectric power and transmitting it to San Francisco, generating electric power within San Francisco, and distributing electricity and steam heat within San Francisco. Its water supply operations provide benefits to the Wholesale Customers.

D. The Water Enterprise delivers water to both Retail Customers, which are located both within and outside San Francisco, and to the Wholesale Customers, all of which are located outside San Francisco.

E. This Article implements two general principles as follows: (1) the Wholesale Customers should not pay for expenses of SFPUC operations from which they receive no benefit and (2) the Wholesale Customers should pay their share of expenses incurred by the SFPUC in delivering water to them on the basis of Proportional Annual Use unless otherwise explicitly provided in this Agreement.

F. To implement these general principles, the Wholesale Revenue Requirement will consist of, and be limited to, the Wholesale Customers' shares of the following categories of expense:

1. Capital cost recovery of Water Enterprise Existing Assets, and Hetch Hetchy Enterprise Existing Assets classified as Water-Only and the Water-Related portion of Joint assets (Section 5.03)
2. Contribution to the capital cost of Water Enterprise New Regional Assets (Section 5.04)
3. Water Enterprise operation and maintenance expenses, including power purchased from the Hetch Hetchy Enterprise that is used in the operation of the Water Enterprise (Section 5.05)
4. Water Enterprise administrative and general expenses (Section 5.06)
5. Water Enterprise property taxes (Section 5.07)
6. The Water Enterprise's share of the Hetch Hetchy Enterprise's operation and maintenance, administrative and general, and property tax expenses (Section 5.08)
7. The Water Enterprise's share of the Hetch Hetchy Enterprise's capital cost of New Assets classified as Water-Only and the Water-Related portion of Joint assets (Section 5.09)

In each of these cost categories, Direct Retail Expenses will be allocated entirely to Retail Customers. Direct Wholesale Expenses will be allocated entirely to the Wholesale Customers. Regional Expenses will be allocated between Retail Customers and Wholesale Customers as provided in this Article.

G. For purposes of establishing the rates to be charged Wholesale Customers, expenses will be based on the budget for, and estimates of water purchases in, the following fiscal year, as provided in Article 6. For purposes of accounting, the Wholesale Revenue Requirement will be determined on the basis of actual expenses incurred and actual water use, as provided in Article 7.

H. In addition, rates charged to Wholesale Customers may include the Wholesale Customers' contribution to a Wholesale Revenue Coverage Reserve, as provided in Section 6.06, which is not included in the Wholesale Revenue Requirement itself.

5.03. Capital Cost Recovery - Existing Regional Assets

A. SFPUC has previously advanced funds to acquire or construct Existing Assets used and useful in the delivery of water to both Wholesale Customers and Retail Customers. The parties estimate that the Wholesale Customers' share of the net book value of these assets, as of the expiration of the 1984 Agreement on June 30, 2009, will be approximately \$366,734,424, as shown on Attachment K-1.

B. In addition, SFPUC has also previously advanced funds received from Retail Customer revenues to acquire or construct assets included in Construction-Work-In-Progress (CWIP) as of June 30, 2009. The parties estimate that the Wholesale Customers' share of the book value of these revenue funded capital expenditures, as of the expiration of the 1984 Agreement on June 30, 2009, will be approximately \$15,594,990, as shown on Attachment K-2. The Wholesale Customers shall pay their share of the cost of Existing Assets and revenue-funded CWIP by amortizing the amounts shown on Attachment K-1 and Attachment K-2 over 25 years at an interest rate of 5.13 percent. The amounts to be included in the Wholesale Revenue Requirement pursuant to this section shall be the sum of the annual principal and interest amounts shown on Attachments K-3 (for Water Enterprise Regional Assets and the one Direct Wholesale Asset) and K-4 (for Hetch Hetchy Enterprise Water-Only Assets and the Water-Related portion [45 percent] of Joint assets) calculated on the basis of monthly amortization of principal as set forth on Attachments K-3 and K-4.

C. In addition, the Commission has previously appropriated funds, advanced through rates charged to Retail Customers, for construction of capital projects. Some of these projects are active, and have unexpended balances of appropriated funds that are not included in CWIP as of June 30, 2009. These projects, and the associated balances, are shown on Attachment K-5. Expenditures of funds from these balances during FY 2009-10, FY 2010-11 and FY 2011-12 will be reviewed in FY 2012-13. The SFPUC will prepare a report showing the amount expended in each year on each project and the total expended during all years on all projects that are categorized as Regional or, in the case of Hetch Hetchy Enterprise, are categorized as either Water-Only or Joint. The wholesale share of that total will be determined using the allocation principles in this Agreement based on Proportional Water Use during those three years. The result, plus accrued interest at the rate specified in Section 6.05.B, will be calculated by the SFPUC and its calculation reviewed by the Compliance Auditor as part of the Compliance Audit for FY 2012-13. The audited total will be paid based on a schedule of level

annual principal and interest amounts over ten years at an interest rate of 4.00%, calculated on a monthly amortization basis. All or any portion of the balance may be prepaid. The first year's payment will be included in the Wholesale Revenue Requirement for FY 2014-15.

D. The parties agree that the Wholesale Customers' share of the net book values of Existing Regional Assets as of June 30, 2008 as shown on Attachment K-1 are accurate. The compliance audit conducted on the calculation of the FY 2008-09 Suburban Revenue Requirement required by the 1984 Agreement will determine the actual amounts of depreciation on, and capital additions to, plant in service during that fiscal year. Those amounts will be compared to the corresponding estimates shown on Attachments K-1 and K-2. The differences will be added to or subtracted from the estimated asset values shown on Attachments K-1 and K-2 and the amortization schedules in Attachments K-3 and K-4 will be recalculated. The wholesale allocation factors shall be fixed at 70.1% for the Water Enterprise Existing Assets and 64.2% for Hetch Hetchy Enterprise Existing Assets for both the preliminary and final payment schedules. The SFPUC will prepare and provide to the Wholesale Customers revised Attachments K-1 through K-4 based on the Wholesale Customers' share of the net book value of the assets placed in service as of June 30, 2009 used to provide water service to the Wholesale Customers and the net book value of revenue-funded CWIP expended as of June 30, 2009. The revised Attachments K-1 through K-4 shall be approved by the General Manager of the SFPUC and the General Manager/CEO of BAWSCA and will be substituted for the original Attachments K-1 through K-4.

E. The original Attachments K-1 through K-4, based on estimates, shall be used for estimating the Wholesale Revenue Requirement for the fiscal year beginning July 1, 2009. The revised Attachments, based on audited actuals, shall be used to determine the actual Wholesale Revenue Requirement for FY 2009-10 and to determine the Wholesale Revenue Requirement(s) in all subsequent years, except as may be provided elsewhere in this Agreement.

F. The Wholesale Customers, acting through BAWSCA, may prepay the remaining unpaid Existing Assets principal balance, in whole or in part, at any time without penalty or early payment premium. Any prepayments will be applied in the month immediately following the month in which the prepayment is made and the revised monthly amount(s) will be used to calculate the Wholesale Revenue Requirement. Any partial prepayments must be in an amount at least equal to \$10 million. In the event of a partial prepayment, an updated schedule for the

remaining payments shall be prepared reflecting the unpaid balance after prepayment, amortized through the end of FY 2034, calculated as provided in this section. The updated schedule, approved by the General Manager of the SFPUC and the General Manager/CEO of BAWSCA, will be substituted for Attachment K-3 and/or Attachment K-4.

5.04. Capital Cost Contribution - New Regional Assets

A. **Debt-Funded Capital Additions.** The Wholesale Customers shall pay the wholesale share of Net Annual Debt Service for New Regional Assets. The Regional projects in the WSIP are identified in Attachment L-1.

1. The amount of Net Annual Debt Service for New Regional Assets will be determined for each series of Indebtedness issued. Until the proceeds of a particular series are Substantially Expended, the amount attributable to specific projects will be based on the expected use of proceeds shown in the "Certificate Regarding Use of Proceeds" executed by the SFPUC General Manager on behalf of the Commission in connection with the sale of the Indebtedness, provided such certificate identifies the use of proceeds at a level of detail equivalent to that shown on Attachment L-2, which is a copy of the certificate prepared for the 2006 Revenue Bonds, Series A. If a certificate does not identify the use of proceeds at that level of detail, the SFPUC General Manager shall prepare and execute a separate certificate which does identify the use of proceeds at the level of detail shown on Attachment L-2 and deliver it to BAWSCA within 15 days from the closing of the sale of the Indebtedness.

2. After the proceeds of a series are Substantially Expended, the SFPUC General Manager will prepare and execute a certificate showing the actual expenditure of proceeds at a level of detail equivalent to the initial General Manager certificate. The resulting allocation of Net Debt Service to New Regional Assets for a series of bonds will be used in the fiscal year in which the proceeds have been Substantially Expended and thereafter. Differences between the amount of Net Debt Service paid by Wholesale Customers prior to that year and the amount of Net Debt Service that they should have paid during that time based on the actual expenditure of proceeds will be taken into account in calculation of the balancing account for the fiscal year in which the proceeds were Substantially Expended. The application of the remaining proceeds shall be proportionate to the allocation of the Net Debt Service to New Regional Assets.

3. The Wholesale Customers' share of Net Annual Debt Service for the New Regional Assets that are categorized as Direct Wholesale will be 100 percent. (None of the

projects in the WSIP are categorized as Direct Wholesale.) The Wholesale Customers' share of Net Annual Debt Service for all other New Regional Assets will be determined each year and will be equal to the Wholesale Customers' Proportional Annual Use.

4. If Indebtedness is issued by the SFPUC to refund the 2006 Revenue Bonds, Series A or to refund any other long-term Indebtedness issued after July 1, 2009, the Net Annual Debt Service attributable to proceeds used for refunding will be allocated on the same basis as the Indebtedness being refunded.

5. The SFPUC will prepare an annual report showing for each issue of Indebtedness and through the most recently completed fiscal year: (1) net financing proceeds available to pay project costs, (2) actual earnings on proceeds, (3) actual expenditures by project. The report shall be substantially in the form of Attachment L-3 and shall be delivered to BAWSCA on or before November 30 of each year, commencing November 2009.

6. In addition to Net Debt Service, Wholesale Customers will pay a proportionate share of annual administrative costs associated with Indebtedness, such as bond trustee fees, credit rating agency fees, letter of credit issuer fees, San Francisco Revenue Bond Oversight Committee fees, etc., but only to the extent such fees are neither paid from proceeds of Indebtedness nor included in SFPUC operation and maintenance or administrative and general expenses.

B. **Revenue-Funded Capital Additions.** The Wholesale Customers shall pay the wholesale share of the appropriation contained in the SFPUC annual budget for each year to be used to acquire or construct New Regional Assets. If such appropriations are reimbursed from proceeds of Indebtedness, the Wholesale Customers will be credited for prior payments made under this Section 5.04.B.

The Wholesale Customers' share of the annual appropriation for revenue-funded New Regional Assets that are categorized as Direct Wholesale will be 100 percent. (None of the Repair and Replacement projects in the SFPUC's most recent capital improvement program updated on February 10, 2009, is categorized as Direct Wholesale.) The Wholesale Customers' share of the annual appropriation for all other revenue-funded New Regional Assets will be determined each year and will be equal to the Wholesale Customers' Proportional Annual Use in each fiscal year. The amount appropriated in each fiscal year for the wholesale share of New Regional Assets shall be contributed to the Wholesale Capital Fund described in Section 6.08 and reported on and administered as shown in that section and Attachments M-1 through M-3.

5.05. Water Enterprise Operation and Maintenance Expenses

There are five categories of Water Enterprise Operation and Maintenance Expenses, described below:

A. Source of Supply

1. Description: This category consists of the costs of labor, supervision and engineering; materials and supplies; and other expenses incurred in the operation and maintenance of collecting and impounding reservoirs, dams, wells and other water supply facilities located outside San Francisco; watershed protection; water supply planning; and the purchase of water.

2. Allocation: Direct Retail expenses, including water supply planning for Retail operations (such as City Retail water conservation programs), will be assigned to the Retail Customers. Regional expenses will be allocated between Retail Customers and Wholesale Customers on the basis of Proportional Annual Use. Direct Wholesale expenses will be assigned to the Wholesale Customers. (As of the Effective Date there are no Direct Wholesale expenses in the Source of Supply category.)

B. Pumping

1. Description: This category consists of the costs of labor, supervision and engineering; materials and supplies; and other expenses incurred in the operation and maintenance of water pumping plants, ancillary structures and equipment and surrounding grounds; and fuel and power purchased for pumping water.

2. Allocation: Direct Retail expenses will be assigned to the Retail Customers. Regional expenses will be allocated between Retail Customers and Wholesale Customers on the basis of Proportional Annual Use. Direct Wholesale expenses will be assigned to the Wholesale Customers. (As of the Effective Date there are no Direct Wholesale expenses in the Pumping category.)

C. Treatment

1. Description: This category consists of the costs of labor, supervision and engineering; materials and supplies and other expenses incurred in the operation and maintenance of water treatment plants and drinking water quality sampling and testing. The cost of water quality testing will not include expenses incurred on behalf of the Wastewater

Enterprise. Any remaining costs, after adjusting for the Wastewater Enterprise, will be reduced by the amount of revenue received for laboratory analyses of any type performed for agencies, businesses and/or individuals other than the Water and Hetch Hetchy Enterprises.

2. Allocation: Direct Retail expenses will be assigned to the Retail Customers. Regional expenses will be allocated between Retail Customers and Wholesale Customers on the basis of Proportional Annual Use. Direct Wholesale expenses will be assigned to the Wholesale Customers. (As of the Effective Date there are no Direct Wholesale expenses in the Treatment category.)

D. **Transmission and Distribution**

1. Description: This category consists of the cost of labor, supervision and engineering; materials and supplies; and other expenses incurred in the operation and maintenance of transmission and distribution pipelines, appurtenances, meters (other than those expenses payable by individual Wholesale Customers pursuant to Section 5.10.C.3), distribution reservoirs storing treated water, craft shops and auto shops servicing vehicles used for operation and maintenance of the Regional Water System rather than for Direct Retail facilities, and miscellaneous facilities related to the transmission and distribution of water.

2. Allocation: Direct Retail Transmission and Distribution expenses will be assigned to the Retail Customers. Regional Transmission and Distribution expenses will be allocated between Retail and Wholesale Customers on the basis of Proportional Annual Use. Expenses incurred for the operation and maintenance of three terminal reservoirs, i.e., Sunset Reservoir (North and South Basins), University Mound Reservoir (North and South Basins), and Merced Manor Reservoir, as well as transmission pipelines delivering water to them, are classified as Regional expenses notwithstanding the location of the reservoirs within San Francisco. Direct Wholesale expenses will be assigned to the Wholesale Customers. (As of the Effective Date the only Direct Wholesale expenses in the Transmission and Distribution category are associated with the Palo Alto pipeline.)

E. **Customer Services**

1. Description: This category consists of labor; materials and supplies; and other expenses incurred for meter reading, customer record keeping, and billing and collection for the Water Enterprise.

2. Allocation: Customer Services expenses will be allocated among the Water Enterprise, the Wastewater Enterprise, and Hetch Hetchy Enterprise in proportion to the time spent by employees in Customer Services for each operating department/enterprise. The Water Enterprise's share of Customer Services expense will be allocated 98 percent to the Retail Customers and two percent to the Wholesale Customers, as illustrated on Attachment N-2, Schedule 1.

5.06. Water Enterprise Administrative and General Expenses

Administrative and General expenses consist of the Water Enterprise's share of the cost of general government distributed through the full-cost Countywide Cost Allocation Plan, the services of SFPUC support bureaus, Water Enterprise administrative and general expenses that cannot be directly assigned to a specific operating and maintenance category, and the cost of the Compliance Audit. These four subcategories, and the method by which costs in each are to be calculated and allocated, are as follows:

A. Countywide Cost Allocation Plan

1. Description: This subcategory consists of the Water Enterprise's share of the costs of San Francisco general government and other City central service departments which are not directly billed to the Water Enterprise or other operating departments. All San Francisco operating departments are assigned a prorated share of these costs through the full-cost Countywide Cost Allocation Plan (COWCAP) prepared annually by the San Francisco Controller.

2. Allocation: The Water Enterprise's assigned share of central government costs as shown in the annual full-cost COWCAP prepared by the San Francisco Controller, will be allocated between Retail Customers and Wholesale Customers on the basis of the composite percentage of the allocated expenses in the five categories of operation and maintenance expense described in Section 5.05. The composite wholesale percentage shown on Attachment N-2, Schedule 1 is 42.07 percent, derived by dividing the wholesale share of Operation and Maintenance expenses (\$46,573,883) by total Operation and Maintenance expenses (\$110,700,133).

B. Services of SFPUC Bureaus

1. Description: This subcategory consists of the support services provided to the Water Enterprise by the SFPUC Bureaus, which presently consist of the General

Manager's Office, Business Services, External Affairs, and Infrastructure Bureau. Business Services presently includes Financial Services, Information Technology Services, Human Resource Services, Fleet Management, and Customer Services.

2. Allocation: There are three steps involved in determining the Wholesale Customers' share of SFPUC Bureau costs.

a. Step One: Bureau expenses which have either been recovered separately or which provide no benefit to Wholesale Customers will be excluded. Examples of Bureau expenses recovered separately include (1) Customer Services expenses, which are recovered as provided in Section 5.05.E, and (2) Infrastructure expenses, which are assigned to individual projects and capitalized. An example of a Bureau expense that provides no benefit to Wholesale Customers is Information Technology Services expenses for support of the San Francisco Municipal Railway. In addition, the SFPUC will continue its practice of assigning City Attorney Office expenses charged to the General Manager's Office for projects or lawsuits that relate to only one enterprise directly to that enterprise. For example, costs related to a lawsuit involving the Wastewater Enterprise will not be assigned to the Water Enterprise.

b. Step Two: Bureau expenses adjusted as provided in Step One will be allocated among the Water Enterprise, the Wastewater Enterprise and the Hetch Hetchy Enterprise on the basis of the actual salaries of employees in each enterprise or department, as illustrated on Attachment N-2, Schedule 7.

c. Step Three: The amount allocated to the Water Enterprise through Step Two will be allocated between Retail Customers and Wholesale Customers on the basis of Proportional Annual Use.

C. Water Enterprise Administrative and General

1. Description: This category includes expenses incurred by the Water Enterprise that are not readily assignable to specific operating divisions. This category includes the following expenses:

a. Water Administration: This includes the costs of labor and other expenses of the administrative section of the Water Enterprise, supervision and engineering expenses, professional services, travel and training, equipment purchases, and materials and supplies not directly assignable to a specific operating unit.

b. Services Provided by Other City Departments: This includes charges of other San Francisco departments directly billed to the Water Enterprise

administration by other San Francisco departments for services ordered by the Water Enterprise, such as legal services, risk management, telecommunications, employee relations, purchasing, mail services, and workers compensation claims paid.

c. Litigation and Claims Paid: This includes charges incurred for attorney services and claims and judgments paid in litigation arising from the operation of the Water Enterprise.

2. Allocation: In each of these three subcategories, expenses that benefit only Retail Customers will be excluded. For example, the cost of claims and judgments resulting from a break in or leak from pipelines or reservoirs in the Retail Service Area (with the exception of the three terminal reservoirs and pipelines delivering water to them) will be assigned to the Retail Customers. Remaining Water Enterprise Administrative and General expenses will be allocated between Retail Customers and Wholesale Customers on the basis of the composite percentage of allocated operation and maintenance expense categories described in Section 5.05.

D. Compliance Audit. The cost of the Compliance Audit described in Section 7.04 will be assigned 50 percent to the Retail Customers and 50 percent to the Wholesale Customers.

5.07. Water Enterprise Property Taxes

A. Description: This category consists of property taxes levied against property owned by San Francisco located in Alameda, San Mateo and Santa Clara counties and used and managed by the SFPUC.

B. Allocation: All property taxes paid, net of (1) reimbursements received from lessees and permit holders, and (2) refunds from the taxing authority, are Regional expenses. Net property taxes will be allocated between Retail Customers and Wholesale Customers on the basis of Proportional Annual Use.

5.08. Hetch Hetchy Enterprise Expenses

A. **Introduction.** There are two steps involved in determining the amount of the Wholesale Customers' share of Hetch Hetchy Enterprise expenses.

1. The first step is to determine the Water Enterprise's share of Hetch Hetchy Enterprise operation expenses, maintenance expenses, administrative and general expenses, and property taxes.

2. The second step is to determine the Wholesale Customers' share of expenses allocable to the Water Enterprise.

B. Determination of the Water-Related Portion of Hetch Hetchy Enterprise Expenses

1. Operation and Maintenance Expenses: This category consists of the cost of labor, materials and supplies, and other expenses incurred in operating and maintaining Hetch Hetchy Enterprise physical facilities.

a. Description: Expenses associated exclusively with the production and distribution of hydroelectric power (e.g., generating plants and power transmission lines and towers, transformers and associated electric equipment, purchased power, wheeling charges, rental of power lines, etc.) are categorized as Power-Only and are allocated to power. Expenses associated exclusively with the operation and maintenance of facilities that serve only the water function (e.g., water transmission pipelines and aqueducts, activities related to compliance with federal and state drinking water quality laws, etc.) are categorized as Water-Only and are allocated entirely to water. Expenses associated with the operation and maintenance of facilities that serve both the water and power functions (e.g., dams, security programs, etc.) are categorized as Joint and are reallocated as 55 percent Power-Related and 45 percent Water-Related.

2. Administrative and General Expenses: There are three subcategories of Hetch Hetchy Enterprise Administrative and General expenses.

a. Full-Cost Countywide Cost Allocation Plan: This subcategory consists of the cost of San Francisco general government and other City central service departments which are not directly billed to operating departments but allocated through the full-cost Countywide Cost Allocation Plan described in Section 5.06.A. Costs in this subcategory are classified as Joint, and are reallocated as 55 percent Power-Related and 45 percent Water-Related.

b. SFPUC Bureau Costs: This subcategory consists of the expenses described in Section 5.06.B. One hundred percent of Customer Services expenses allocated to the Hetch Hetchy Enterprise are categorized as Power-Only. The remaining amount of Bureau

expenses allocated to the Hetch Hetchy Enterprise pursuant to Section 5.06.B will be reallocated between power and water in proportion to the salaries of Hetch Hetchy Enterprise employees assigned to each function as shown on Attachment N-2, Schedule 7.1.

c. **Other Administrative and General:** This subcategory includes payments to the United States required by the Act, labor, supervision and engineering and other costs not readily assignable to a specific operation or maintenance function or program. Costs related to power administration (such as long range planning and policy analysis for energy development, administration of power contracts, and administration of work orders to City departments for energy services) are Power-Only costs. Costs related to water administration (such as legal and professional services for the protection of the City's water rights) are Water-Only costs and will be assigned to the Water Enterprise. Costs related to both power administration and water administration (such as general administration, office rents, office materials and supplies, and services of other City departments benefitting to both power and water) are Joint administrative and general costs and are reallocated as 55 percent Power-Related and 45 percent Water-Related.

3. **Property Taxes.** This category consists of property taxes levied against property owned by San Francisco in Tuolumne, Stanislaus, San Joaquin, and Alameda counties and operated and managed by the Hetch Hetchy Enterprise.

Allocation: Property taxes are classified as Joint costs. They will be reallocated as 55 percent Power-Related and 45 percent Water-Related.

C. **Calculation of Wholesale Customers' Share of Hetch Hetchy Enterprise Expenses.** The Water Enterprise's share of Hetch Hetchy Enterprise expenses consist of 100 percent of Water-Only expenses and the Water-Related portion (45%) of Joint expenses.

The Wholesale Customers' share of the sum of the Water Enterprise's share of Hetch Hetchy Enterprise expenses determined under subsection B shall be calculated by multiplying that dollar amount by Adjusted Proportional Annual Use.

5.09. Hetch Hetchy Enterprise Capital Costs

A. **Introduction.** Wholesale Customers are also allocated a share of Hetch Hetchy Enterprise capital costs.

B. **Components of Capital Costs.** The components of Hetch Hetchy Enterprise capital costs are as follows:

1. Existing Assets Cost Recovery. The Wholesale Customers' repayment of their share of Hetch Hetchy Existing Assets (Water-Only and the Water-Related portion [45 percent] of Joint assets) is shown on Attachment K-4 accompanying Section 5.03.

2. Debt Service on New Assets. The Water Enterprise will be assigned 100 percent of Net Annual Debt Service attributable to acquisition and construction of New Hetch Hetchy Enterprise assets that are Water-Only and the Water-Related portion (45 percent) of Net Annual Debt Service on New Hetch Hetchy Enterprise Joint assets. The provisions of Section 5.04.A apply to debt service on New Hetch Hetchy Enterprise assets.

3. Revenue-Funded Capital Additions. The Water Enterprise will be assigned 100 percent of capital expenditures from revenues for New Hetch Hetchy Enterprise assets that are Water-Only and the Water-Related portion (45 percent) of such expenditures for new Hetch Hetchy Enterprise Joint assets. The provisions of Section 5.04.B apply to the payment of New revenue-funded Hetch Hetchy Enterprise assets.

C. Calculation of Wholesale Customers' Share of Hetch Hetchy Enterprise Capital Costs. The Wholesale Customers' share of the Net Annual Debt Service and revenue funded capital expenditures determined under subsections B.2 and 3 shall be calculated by multiplying that dollar amount by Adjusted Proportional Annual Use.

5.10. Additional Agreements Related to Financial Issues

A. Wholesale Customers Not Entitled to Certain Revenues. The Wholesale Customers have no entitlement to any of the following sources of revenue to the SFPUC.

1. Revenues from leases or sales of SFPUC real property.
2. Revenues from the other utility services such as the sale of electric power, natural gas and steam.
3. Revenues from the sale of water to customers and entities other than the Wholesale Customers.
4. Revenues earned from the investment of SFPUC funds other than funds contributed by the Wholesale Customers to the Wholesale Revenue Coverage Reserve described in Section 6.06 or the Wholesale Capital Fund described in Section 6.08. Wholesale Customers are also entitled to the benefit of earnings on proceeds of Indebtedness (through

expenditure on New Regional Assets and /or application to Debt Service) and to interest on the Balancing Account as provided in Section 6.05.B.

5. Revenues not related to the sale of water.

B. **Wholesale Customers Not Charged with Certain Expenses**. The Wholesale Customers will not be charged with any of the following expenses:

1. Capital costs for assets constructed or acquired prior to July 1, 1984 other than Existing Asset costs that are repaid pursuant to Section 5.03.

2. Expenses incurred by the SFPUC for generation and distribution of electric power, including Hetch Hetchy Enterprise Power-Only expenses and the Power-Related share of Hetch Hetchy Enterprise Joint expenses. An exception to this is Regional energy costs incurred by the Water Enterprise, for which Wholesale Customers are charged on the basis of Proportional Annual Use.

3. Expenses incurred by SFPUC in providing water to Retail Customers.

4. Expenses associated with the SFPUC's accruals or allocations for uncollectible Retail Water accounts.

5. Attorneys' fees and costs incurred by the Wholesale Customers that a court of competent jurisdiction orders San Francisco to pay as part of a final, binding judgment against San Francisco as provided in Section 8.03.B.2.

6. Any expenses associated with funding any reserves (other than the required Wholesale Revenue Coverage Reserve described in Section 6.06) accrued and not anticipated to be paid within one year unless such reserve is established by mutual agreement of the SFPUC and BAWSCA.

7. Any expenses accrued in respect to pending or threatened litigation, damage or personal injury claims or other loss contingencies unless projected to be paid within one year. Otherwise, such expenses will be charged to the Wholesale Customers when actually paid.

8. Any expense associated with installing, relocating, enlarging, removing or modifying meters and service connections at the request of an individual Wholesale Customer.

9. The Retail Customers' portion of any Environmental Enhancement Surcharges imposed to enforce the Interim Supply Limitation set forth in Section 4.04.

C. **Revenues Not Credited to Payment of Wholesale Revenue Requirement.**

The following payments by Wholesale Customers, individually or collectively, are not credited as Wholesale revenues for purposes of Section 6.05.B:

1. Payments by individual Wholesale Customers of the Environmental Enhancement Surcharge imposed to enforce the Interim Supply Limitation set forth in Section 4.04.
2. Payments of attorneys' fees and costs incurred by San Francisco that a court of competent jurisdiction orders the Wholesale Customers to pay as part of a final, binding judgment against the Wholesale Customers, as provided in Section 8.03.B.3.
3. Payments by individual Wholesale Customers for installation, relocation, enlargement, removal or modification of meters and service connections requested by, and charged to, a Wholesale Customer.
4. Payments applied to the amortization of the ending balance in the balancing account under the 1984 Agreement, pursuant to Section 6.05.A.
5. Payments of the Water Management Charge which are delivered to BAWSCA pursuant to Section 3.06.
6. Payments directed to the Wholesale Revenue Coverage Reserve pursuant to Section 6.06.
7. Prepayments authorized by Sections 5.03.C and 5.03.F.

D. **Other**

1. The Wholesale Customers will receive a proportional benefit from funds received by the SFPUC from (a) governmental grants, rebates, reimbursements or other subventions, (b) private-sector grants for Regional capital or operating purposes of the Water Enterprise and the Water-Only and Water-related portion of Joint Hetch Hetchy Water Enterprise expenses, or (c) a SFPUC use of taxable bonds.

2. The Wholesale Customers will receive a proportionate benefit from recovery of damages, including liquidated damages, by SFPUC from judgments against or settlements with contractors, suppliers, sureties, etc., related to Regional Water System projects and the Water-Only and Water-Related portion of Joint Hetch Hetchy Enterprise projects.

3. The SFPUC will continue to charge Wholesale Customers for assets acquired or constructed with proceeds of Indebtedness on which Wholesale Customers paid Debt Service during the Term of this Agreement on the “cash” basis (as opposed to the “utility” basis) after the expiration or earlier termination of this Agreement. The undertaking in this Section 5.10.D.3 will survive the expiration or earlier termination of this Agreement.

5.11. Classification of Existing System Assets.

Existing System Assets of the Regional Water System include the water storage, transmission, and treatment systems owned and operated by San Francisco in Tuolumne, Stanislaus, San Joaquin, Alameda, Santa Clara, San Mateo and San Francisco Counties. These assets are managed by either the Water Enterprise or the Hetch Hetchy Enterprise and the assets have been classified for purposes of cost allocation.

A. **Water Enterprise Assets.** Water Enterprise assets are currently managed, operated, and maintained by the Water Enterprise and are generally located west of Alameda East Portal, in addition to the treatment facilities located at Tesla and the Thomas Shaft Emergency Disinfection Facility. These assets are classified as Direct Retail, Direct Wholesale, or Regional.

B. **Hetch Hetchy Enterprise Assets.** Hetch Hetchy Enterprise assets are currently managed, operated and maintained by the Hetch Hetchy Enterprise and are generally located east of the Alameda East Portal of the Coast Range Tunnel in Sunol Valley, Alameda County. These assets are classified as Power-Only, Water-Only, or Joint, in accordance with Sections 5.08 and 5.09. Through the Wholesale Revenue Requirement, the Wholesale Customers pay Existing System Asset capital costs and operating expenses in accordance with Section 5.02.F and do not pay capital costs or operating expenses associated with assets classified as Direct Retail, Power-Only, and the Power-Related portion of Joint assets.

C. **Attachment R Documents Classifications.** To facilitate WSA administration, Attachment R documents the classification of major Existing System Assets operated by the Hetch Hetchy Enterprise. Attachment R consists of three documents: R-1 Introduction, R-2 Special Classification of Discrete Projects for 2018 Amendment Purposes, and R-3 Major Hetch Hetchy Enterprise Existing System Assets. Attachment R may be modified as specified in Section 5.11.D and in the manner set forth in Section 2.03.C.

D. **Attachment R-3, Major Hetch Hetchy Enterprise Existing System Assets, is Not Exhaustive.** Existing System Assets include, but are not limited to, land; fixed infrastructure such as dams, tunnels, buildings, water treatment plants and pipelines; equipment such as pumps and vehicles; and related appurtenances. Major Hetch Hetchy Enterprise Existing System Assets, and their classifications, are listed in Attachment R-3. Attachment R-3 does not include all assets of the Regional Water System, but represents the parties' best efforts to document major Hetch Hetchy Enterprise Existing System Assets that would incur capital costs and operating expenses subject to cost allocation. The classification of assets listed on R-3 may not be changed during the Term, any Extension Term, and any renewal of the Agreement, however, Attachment R-3 may be modified by mutual agreement in accordance with Section 2.03.C to (1) add an asset that was inadvertently omitted, (2) to add a new asset, and (3) remove a destroyed or obsolete asset. In the event that the parties cannot agree on the classification of any omitted or new assets, the dispute shall be subject to arbitration under Section 8.01.

E. **Attachment R-3, Major Hetch Hetchy Enterprise Existing System Assets, Classifications are Fixed.** The classification of the major Hetch Hetchy Enterprise Existing System Assets is fixed and shall control the allocation of capital costs and operating expenses for the remainder of the Term, any Extension Terms, and any renewal of the Agreement. However, changes may be proposed in accordance with subsection G below. Capital costs and operating expenses are meant to be inclusive of all costs related to assets, including, but not limited to, any alterations, additions, improvements, rehabilitation, replacement of assets, and equipment that is appurtenant thereto. Since asset classifications are fixed in Attachment R-3, asset classifications may not be modified by mutual agreement in accordance with Section 2.03.C.

F. **Attachment R-2, Special Classification of Discrete Projects for 2018 Amendment Purposes.** Past, ongoing and future capital projects involving five Hetch Hetchy Enterprise Existing System Assets defined in Attachment R-2 have classifications that differ from the underlying asset classifications. These project-related classification changes shown on Attachment R-2, are part of the 2018 amendments to the Agreement and are not precedential for any other asset-related capital cost or operating expense. With the exception of the defined projects related to the five assets listed on R-2, the capital projects for all assets follow the asset classifications. Capital projects listed on Attachment R-2 must be approved by the SFPUC following necessary CEQA review.

G. **Five Year Notice of Intent to Renegotiate Cost Allocation.** In the event San Francisco or the Wholesale Customers, which may be represented by BAWSCA, wish to propose and negotiate a change in Existing System Asset classifications, or a change in the Water-Related portion (45 percent) of Joint expenses, for the next Water Supply Agreement, such party must provide the other at least 5 years' written notice prior to the expiration of the Term or Extension Term, or the renewal of the Agreement. At a minimum, the noticing party must provide a comprehensive analysis of the financial and rate impacts of the proposed change at least two years prior to the expiration of the Term or Extension Term, or the renewal of the Agreement.

To meet this requirement, the parties may agree to jointly analyze, under a separate agreement, system capacity and usage and/or new assets, as well as other possible alternative cost allocation methodologies. Either party may also unilaterally initiate such studies by consultants of their choice and bear all their own costs.

Article 6. Integration of Wholesale Revenue Requirement with SFPUC Budget Development and Rate Adjustments

6.01. General

A. The purpose of the allocation bases set forth in Article 5 is to determine the Wholesale Revenue Requirement for each fiscal year. The Wholesale Revenue Requirement can only be estimated in advance, based on projected costs and water deliveries. These projections are used to establish water rates applicable to the Wholesale Customers.

B. After the close of each fiscal year, the procedures described in Article 7 will be used to determine the actual Wholesale Revenue Requirement for that year, based on actual costs incurred, allocated according to the provisions of Article 5, and using actual water delivery data. The amount properly allocated to the Wholesale Customers shall be compared to the amount billed to the Wholesale Customers for the fiscal year, other than those identified in Section 5.10.C. The difference will be entered into a balancing account to be charged to, or credited to, the Wholesale Customers, as appropriate.

C. The balancing account shall be managed as described in Section 6.05.

6.02. Budget Development

The SFPUC General Manager will send a copy of the proposed SFPUC budget to BAWSCA at the same time as it is sent to the Commission. In addition, a copy of materials submitted to the Commission for consideration at meetings prior to the meeting at which the overall SFPUC budget is considered (including (a) operating budgets for the Water Enterprise and the Hetch Hetchy Enterprise, (b) budgets for SFPUC Bureaus, and (c) capital budgets for the Water Enterprise and the Hetch Hetchy Enterprise) will also be sent to BAWSCA concurrently with their submission to the Commission.

6.03. Rate Adjustments

A. **Budget Coordinated Rate Adjustments**. Adjustments to the rates applicable to the Wholesale Customers shall be coordinated with the budget development process described in this section except to the extent that Sections 6.03.B and 6.03.C authorize emergency rate increases and drought rate increases, respectively.

If the SFPUC intends to increase wholesale water rates during the ensuing fiscal year, it will comply with the following procedures:

1. Adjustments to the wholesale rates will be adopted by the Commission at a regularly scheduled meeting or at special meeting, properly noticed, called for the purpose of adjusting rates or for taking any other action under the jurisdiction of the Commission.

2. The SFPUC will send a written notice by mail or electronic means to each Wholesale Customer and to BAWSCA of the recommended adjustment at least thirty (30) days prior to the date of the meeting at which the Commission will consider the proposed adjustment. The notice will include the date, time and place of the Commission meeting.

3. The SFPUC shall prepare and provide to each Wholesale Customer and to BAWSCA the following materials: (a) a table illustrating how the increase or decrease in the Wholesale Revenue Requirement and wholesale rates were calculated, substantially in the form of Attachment N-1, (b) a schedule showing the projected expenses included in the Wholesale Revenue Requirement for the fiscal year for which the rates are being proposed, and supporting materials, substantially in the form of Attachment N-2, and (c) a schedule showing projected water sales, Wholesale Revenue Requirements and wholesale rates for the fiscal year for which rates are being set and the following four years, substantially in the form of Attachment N-3. These materials will be included with the notification required by Section 6.03.A.2.

4. Rate adjustments will be effective no sooner than thirty (30) days after adoption of the wholesale rate by the Commission.

5. San Francisco will use its best efforts to provide the Wholesale Customers with the information described above. San Francisco's failure to comply with the requirements set forth in this section shall not invalidate any action taken by the Commission (including, but not limited to, any rate increase or decrease adopted). In the event of such failure, the Wholesale Customers may either invoke arbitration, as set forth in Section 8.01, or seek injunctive relief, to compel San Francisco to remedy the failure as soon as is reasonably practical, and San Francisco shall be free to oppose the issuance of the requested judicial or arbitral relief on any applicable legal or equitable basis. The existence of this right to resort to arbitration shall not be deemed to preclude the right to seek injunctive relief.

6. Because delays in the budget process or other events may cause San Francisco to defer the effective date of Wholesale Customer rate adjustments until after the beginning of San Francisco's fiscal year, nothing contained in this Agreement shall require San Francisco to make any changes in the water rates charged to Wholesale Customers effective at

the start of San Francisco's fiscal year or at any other specific date. Nothing in the preceding sentence shall excuse non-compliance with the provisions of Section 6.02 and this section.

B. **Emergency Rate Increases.** The Commission may adjust the Wholesale Customers' rates without complying with the requirements of Section 6.03.A in response to an Emergency that damages the Regional Water System and disrupts San Francisco's ability to maintain normal deliveries of water to Retail and Wholesale Customers. In such an Emergency, the Commission may adopt an emergency rate surcharge applicable to Wholesale Customers without following the procedures set forth in this section, provided that any such rate surcharge imposed by the Commission shall be applicable to both Retail and Wholesale Customers and incorporate the same percentage increase for all customers. Any emergency rate surcharge adopted by the Commission shall remain in effect only until the next-budget coordinated rate-setting cycle.

C. **Drought Rates.** If the Commission declares a water shortage emergency under Water Code Section 350, implements the Tier 1 Shortage Plan (Attachment H) described in Section 3.11.C, and imposes drought rates on Retail Customers, it may concurrently adjust wholesale rates independently of coordination with the annual budget process. Those adjustments may be designed to encourage water conservation and may constitute changes to the structure of the rates within the meaning of Section 6.04. The parties agree, however, that, in adopting changes in rates in response to a declaration of water shortage emergency, the Commission shall comply with Section 6.03.A.1 and 2 but need not comply with Section 6.04.B. Drought Rate payments and payments of excess use charges levied in accordance with the Tier 1 Shortage Plan described in Section 3.11.C constitute Wholesale Customer Revenue and count towards the Wholesale Revenue Requirement. The SFPUC may use these revenues to purchase additional water for the Wholesale Customers from the State Drought Water Bank or other willing seller.

6.04. Rate Structure

A. This Agreement is not intended and shall not be construed to limit the Commission's right (a) to adjust the structure of the rate schedule applicable to the Wholesale Customers (i.e., the relationship among the several charges set out therein) or (b) to add, delete, or change the various charges which make up the rate schedule, provided that neither such charges nor the structure of the rate schedule(s) applicable to the Wholesale Customers shall be arbitrary, unreasonable, or unjustly discriminatory as among said customers. The

SFPUC will give careful consideration to proposals for changes in the rate schedule made jointly by the Wholesale Customers but, subject to the limitations set out above, shall retain the sole and exclusive right to determine the structure of the rate schedule.

B. If the SFPUC intends to recommend that the Commission adopt one or more changes to the structure of wholesale rates (currently set forth in SFPUC Rate Schedule W-25), it shall prepare and distribute to the Wholesale Customers and BAWSCA a report describing the proposed change(s), the purpose(s) for which it/they are being considered, and the estimated financial effect on individual Wholesale Customers or classes of customers. Wholesale Customers may submit comments on the report to the SFPUC for sixty (60) days after receiving the report. The SFPUC will consider these comments and, if it determines to recommend that the Commission adopt the change(s), as described in the report or as modified in response to comments, the SFPUC General Manager shall submit a report to the Commission recommending specific change(s) in the rate structure. Copies of the General Manager's report shall be sent to all Wholesale Customers and BAWSCA at least thirty (30) days prior to the Commission meeting at which the changes will be considered.

C. The SFPUC may recommend, and the Commission may adopt, changes in the structure of wholesale rates at any time. However, the new rate schedule implementing these changes will become effective at the beginning of the following fiscal year.

6.05. Balancing Account

A. **Balancing Account Established Under 1984 Agreement.** The amount of credit in favor of San Francisco as of the expiration of the term of 1984 Agreement (June 30, 2009) is not known with certainty as of preparation and execution of this Agreement. It will not be known with certainty until the Compliance Audit for FY 2008-09 is completed and disputes, if any, that the Wholesale Customers or the SFPUC may have with the calculation of the Suburban Revenue Requirement for that fiscal year and for previous fiscal years have been settled or decided by arbitration.

The parties anticipate that the amount of the credit in favor of San Francisco as of June 30, 2009 may be within the range of \$15 million to \$20 million.

In order to reduce the credit balance due San Francisco under the 1984 Agreement in an orderly manner, while avoiding unnecessary fluctuations in wholesale rates, the parties agree to implement the following procedure.

1. In setting wholesale rates for FY 2009-10, SFPUC will include a balancing account repayment of approximately \$2 million.

2. In setting wholesale rates for FY 2010-11 and following years, SFPUC will include a balancing account repayment of not less than \$2 million and not more than \$5 million annually until the full amount of the balance due, plus interest at the rate specified in Section 6.05.B, is repaid.

3. The actual ending balance as of June 30, 2009 will be determined, by the parties' agreement or arbitral ruling, after the Compliance Audit report for FY 2008-09 is delivered to BAWSCA. That amount, once determined, will establish the principal to be amortized through subsequent years' repayments pursuant to this Section 6.05.A.

B. Balancing Account Under This Agreement

1. Operation. After the close of each fiscal year, the SFPUC will compute the costs allocable to the Wholesale Customers for that fiscal year pursuant to Article 5, based on actual costs incurred by the SFPUC and actual amounts of water used by the Wholesale Customers and the Retail Customers. That amount will be compared to the amounts billed to the Wholesale Customers for that fiscal year (including any Excess Use Charges, but excluding revenues described in Section 5.10.C). The difference will be posted to a "balancing account" as a credit to, or charge against, the Wholesale Customers. Interest shall also be posted to the balancing account calculated by multiplying the amount of the opening balance by the average net interest rate, certified by the Controller as earned in the San Francisco Treasury for the previous fiscal year on the San Francisco County Pooled Investment Account. Interest, when posted, will carry the same mathematical sign (whether positive or negative) as carried by the opening balance. The amount posted to the balancing account in each year shall be added to, or subtracted from, the balance in the account from previous years. The calculation of the amount to be posted to the balancing account shall be included in the report prepared by the SFPUC pursuant to Section 7.02.

The opening balance for fiscal year 2009-10 shall be zero.

2. Integration of Balancing Account with Wholesale Rate Setting Process. If the amount in the balancing account is owed to the Wholesale Customers (a positive balance), the SFPUC shall take it into consideration in establishing wholesale rates. However, the SFPUC need not apply the entire amount to reduce wholesale rates for the immediately ensuing

year. Instead, the SFPUC may prorate a positive ending balance over a period of up to three successive years in order to avoid fluctuating decreases and increases in wholesale rates.

a. If a positive balance is maintained for three successive years and represents 10 percent or more of the Wholesale Revenue Requirement for the most recent fiscal year, the SFPUC shall consult with BAWSCA as to the Wholesale Customers' preferred application of the balance. The Wholesale Customers shall, through BAWSCA, direct that the positive balance be applied to one or more of the following purposes: (a) transfer to the Wholesale Revenue Coverage Reserve, (b) amortization of any remaining negative balance from the ending balancing account under the 1984 Agreement, (c) prepayment of the existing asset balance under Section 5.03, (d) water conservation or water supply projects administered by or through BAWSCA, (e) immediate reduction of wholesale rates, or (f) continued retention for future rate stabilization purposes. In the absence of a direction from BAWSCA, the SFPUC shall continue to retain the balance for rate stabilization in subsequent years.

b. If the amount in the balancing account is owed to the SFPUC (a negative balance), the SFPUC shall not be obligated to apply all or any part of the negative balance in establishing wholesale rates for the immediately ensuring year. Instead, the SFPUC may prorate the negative balance in whole or in part over multiple years in order to avoid fluctuating increases and decreases in wholesale rates.

6.06. Wholesale Revenue Coverage Reserve

A. The SFPUC may include in wholesale rates for any fiscal year an additional dollar amount ("Wholesale Revenue Coverage"), which for any fiscal year shall equal the following:

1. The lesser of (i) 25% of the Wholesale Customers' share of Net Annual Debt Service for that fiscal year determined as described in Section 5.04.A, or (ii) the amount necessary to meet the Wholesale Customers' proportionate share of Debt Service coverage required by then-current Indebtedness for that fiscal year, minus

2. A credit for (i) the actual amounts previously deposited in the "Wholesale Revenue Coverage Reserve" (as defined in subsection B below), (ii) accrued interest on the amounts on deposit in the Wholesale Revenue Coverage Reserve, and (iii) an amount equal to any additional interest that would have accrued on the actual amounts previously deposited in the Wholesale Revenue Coverage Reserve assuming no withdrawals had been made therefrom.

B. During each fiscal year, the SFPUC will set aside and deposit that portion of revenue equal to Wholesale Revenue Coverage into a separate account that the SFPUC will establish and maintain, to be known as the "Wholesale Revenue Coverage Reserve." Deposits into the Wholesale Revenue Coverage Reserve shall be made no less frequently than monthly. The Wholesale Revenue Coverage Reserve shall be credited with interest at the rate specified in Section 6.05.B. The SFPUC may use amounts in the Wholesale Revenue Coverage Reserve for any lawful purpose. Any balance in the Wholesale Revenue Coverage Reserve in excess of the Wholesale Revenue Coverage amount as of the end of any fiscal year (as calculated in subsection 6.06(A) above) shall be applied as a credit against wholesale rates in the immediately following fiscal year unless otherwise directed by BAWSCA.

C. Within 180 days following the later of expiration of the Term or final payment of Debt Service due on Indebtedness issued during the Term to which Wholesale Customers were contributing, SFPUC shall rebate to the Wholesale Customers an amount equal to the Wholesale Revenue Coverage amount in effect for the fiscal year during which the Term expires or the final payment of Debt Service on Indebtedness is made based on each Wholesale Customer's Proportional Annual Use in the fiscal year during which the Term expires or the final payment of debt service on Indebtedness is made.

D. SFPUC shall provide a schedule of debt issuance (with assumptions), and the Wholesale Customers' share of Net Annual Debt Service (actual and projected) expected to be included in wholesale rates starting in 2009-10 through the expected completion of the WSIP. The schedule is to be updated annually prior to rate setting. If estimated Debt Service is used in rate setting, the SFPUC must be able to demonstrate that the Water Enterprise revenues will be sufficient to meet the additional bonds test for the proposed bonds and rate covenants for the upcoming year.

E. Conditions in the municipal bond market may change from those prevailing in 2009. If, prior to expiration of the Term, the SFPUC determines that it would be in the best financial interest of both Retail Customers and Wholesale Customers of the Regional Water System for the Debt Service coverage requirement to be increased in one or more series of proposed new Indebtedness above 1.25%, or for the coverage covenant to be strengthened in other ways, it will provide a written report to BAWSCA. The report will contain (1) a description of proposed covenant(s) in the bond indenture; (2) an explanation of how savings are expected to be achieved (e.g., increase in the SFPUC's credit rating over the then-current level; ability to

obtain credit enhancement, etc.); (3) the estimated all-in true interest cost savings; (4) a comparison of the Wholesale Revenue Requirements using the Debt Service coverage limitation in subsection A and under the proposed methodology; and (5) a comparison of the respective monetary benefits expected to be received by both Retail and Wholesale Customers. The SFPUC and BAWSCA agree to meet and confer in good faith about the proposed changes.

F. Any increase in Debt Service coverage proposed by the SFPUC shall be commensurate with Proportional Water Use by Retail and Wholesale Customers. If the SFPUC demonstrates that an increase in Debt Service coverage will result in equivalent percentage reductions in total Wholesale and Retail Debt Service payments over the life of the proposed new Indebtedness, based on Proportional Water Use, BAWSCA may agree to a modification of the Wholesale Revenue Coverage requirement in subsection A. If BAWSCA does not agree to a proposed modification in coverage requirements in the covenants for new Indebtedness, SFPUC may nevertheless proceed with the modification and the issuance of new Indebtedness. Any Wholesale Customer, or BAWSCA, may challenge an increase in the Wholesale Revenue Requirement resulting from the modification in Debt Service coverage through arbitration as provided in Section 8.01.A. If the arbitrator finds that the increase in Debt Service coverage (1) did not and will not result in equivalent percentage reductions in total Wholesale and Retail Debt Service payments over the life of the proposed new Indebtedness, based on Proportional Water Use, or (2) was not commensurate with Proportional Water Use, the arbitrator may order the Wholesale Revenue Requirement to be recalculated both retrospectively and prospectively to eliminate the differential impact to Wholesale or Retail Customers, subject to the limitation in Section 8.01.C.

6.07. Working Capital Requirement

A. The SFPUC maintains working capital in the form of unappropriated reserves for the purpose of bridging the gap between when the SFPUC incurs operating expenses required to provide service and when it receives revenues from its Retail and Wholesale Customers. The Wholesale Customers shall fund their share of working capital as part of the annual Wholesale Revenue Requirement calculation. The amount of wholesale working capital for which the Wholesale Customers will be responsible will be determined using the 60-day standard formula approach.

B. Applying this approach, annual wholesale working capital equals one-sixth of the wholesale allocation of operation and maintenance, administrative and general, and property tax

expenses for the Water and Hetch Hetchy Enterprises. Wholesale working capital shall be calculated separately for the Water and Hetch Hetchy Enterprises.

C. Each month, the sum of the Water Enterprise and Hetch Hetchy Enterprise working capital components will be compared with the ending balance in the Wholesale Revenue Coverage Reserve to determine if the Wholesale Customers provided the minimum required working capital. If the Wholesale Revenue Coverage Reserve is greater than the total Water Enterprise and Hetch Hetchy Enterprise working capital requirement, the Wholesale Customers will have provided their share of working capital. If the Wholesale Revenue Coverage Reserve is less than the total Water Enterprise and Hetch Hetchy Enterprise working capital requirement, the Wholesale Customers will be charged interest on the difference, which will be included in the adjustment to the Balancing Account under Section 6.05.B for the subsequent fiscal year.

6.08. Wholesale Capital Fund

A. The SFPUC currently funds revenue-funded capital projects through annual budget appropriations that are included in rates established for that fiscal year and transferred to a capital project fund from which expenditures are made. Consistent with the San Francisco Charter and Administrative Code, the SFPUC appropriates funds in advance of construction in order to maintain a positive balance in the capital project fund. The capital project fund also accrues interest and any unspent appropriations in excess of total project costs. It is the SFPUC's practice to regularly monitor the capital project fund balance to determine whether a surplus has accumulated, which can be credited against the next fiscal year's capital project appropriation.

B. The SFPUC shall establish a comparable Wholesale Revenue-Funded Capital Fund (Wholesale Capital Fund) to enable the Wholesale Customers to fund the wholesale share of revenue-funded New Regional Assets. The Wholesale Capital Fund balance is zero as of July 1, 2009. The SFPUC may include in wholesale rates for any fiscal year an amount equal to the wholesale share of the SFPUC's appropriation for revenue funded New Regional Assets for that year, which sum will be credited to the Wholesale Capital Fund. The wholesale share of other sources of funding, where legally permitted and appropriately accounted for under GAAP, will also be credited to the Wholesale Capital Fund, together with interest earnings on the Wholesale Capital Fund balance.

C. The SFPUC will expend revenues appropriated and transferred to the Wholesale Capital Fund only on New Regional Assets. The annual capital appropriation included in each fiscal year's budget will be provided to BAWSCA in accordance with Section 6.02 and will take into account the current and projected balance in the Wholesale Capital Fund, as well as current and projected unexpended and unencumbered surplus, as shown on attachment M-1, which will be prepared by the SFPUC each year.

D. Commencing on November 30, 2010 and thereafter in each fiscal year during the Term, the SFPUC will also provide an annual report to BAWSCA on the status of individual revenue-funded New Regional Assets, substantially in the form of Attachment M-2.

E. In order to prevent the accumulation of an excessive unexpended and unencumbered balance in the Wholesale Capital Fund, the status of the fund balance will be reviewed through the annual Compliance Audit, commencing in FY 2018-19. The FY 2018-19 Compliance Audit and the Wholesale Customer/BAWSCA review under Section 7.06 shall include Wholesale Capital Fund appropriations, expenditures and interest earnings for FY 2014-15 through 2017-18 for the purpose of determining whether a Balancing Account transfer is required. If the June 30 unencumbered balance of the Wholesale Capital Fund exceeds the lesser of the following: (i) the Target Balance; (ii) the unencumbered remaining cumulative appropriations, the amount of such excess shall be transferred to the credit of the Wholesale Customers to the Balancing Account described in Section 6.05.

In order to avoid funding delays for New Regional Asset capital projects resulting from prior year transfers of excess Wholesale Capital fund balances to the Wholesale Customers, if the June 30 unencumbered balance of the Wholesale Capital Fund is below the lesser of the following: (i) the Target Balance; (ii) the unencumbered remaining cumulative appropriation, such deficiency shall be posted to the Balancing Account described in Section 6.05 as a charge to the Wholesale Customers. Notwithstanding the foregoing, no such charge to the Wholesale Customers shall exceed \$4 million annually.

Amended Attachment M-3 illustrates the process for determining the Wholesale Capital Fund balance as of June 30, 2019.

F. Three years prior to the end of the Term, the SFPUC and BAWSCA will discuss the disposition of the Wholesale Capital Fund balance at the end of the Term. Absent

agreement, any balance remaining in the Wholesale Capital Fund at the end of the Term shall be transferred to the Balancing Account, to the credit of the Wholesale Customers.

6.09. SFPUC Adoption of Regional Water System 10-Year Capital Improvement Program

A. **Established Level of Service Goals and Objectives.** In approving the WSIP, the Commission adopted Level of Service Goals and Objectives that are, in part, used to develop capital programs related to water, including the 10-Year Capital Improvement Program for the Regional Water System (“10-Year CIP”). BAWSCA and the Wholesale Customers shall have the opportunity to review and provide written or oral comments on any changes to the Level of Service Goals and Objectives that may be submitted to the Commission for approval.

B. **Submittal of an Asset Management Policy.** Prior to December 31, 2020, the SFPUC shall develop and submit to the Commission for approval an Asset Management Policy applicable to the Regional Water System.

C. **Coordination of 10-Year CIP and SFPUC Budget Meetings.** The Commission annually reviews, updates, and adopts a 10-Year CIP pursuant to Section 8B.123 of the San Francisco Charter. At two-year intervals, the Commission holds two budget meetings concerning the 10-Year CIP. Over the course of the two budget meetings, the SFPUC reviews its budget priorities, potential changes to projects in the previously adopted 10-Year CIP, and the potential financial implications of such changes. In the event that Charter amendments are placed on the ballot that could alter or amend the City’s budget preparation and adoption efforts, BAWSCA shall be notified in advance of any proposed change that could result in a less robust CIP development effort, and BAWSCA and the SFPUC shall meet to consider BAWSCA’s comments on maintaining a robust CIP development effort.

D. **Mid-cycle Changes to the 10-Year CIP.** The SFPUC shall include within the Water Enterprise Capital Improvement Program Quarterly Projects Reports that it provides to the Commission (“CIP Quarterly Projects Reports”) discussion of any material changes proposed to projects that are included in the most recently adopted 10-Year CIP. The SFPUC defines a material change as a change that applies to a CIP project whose approved CIP budget is equal to or greater than \$5,000,000 that results in one or more of the following:

1. Increases the cost of the CIP project by more than 10%.
2. Increases the schedule of the CIP project by extending said schedule by 12 calendar months or greater.

3. Affects the SFPUC's ability to meet the Level of Service Goals and Objectives.

The SFPUC shall also include within the CIP Quarterly Projects Reports discussion of any new capital project that is not included in the most recently adopted 10-Year CIP if the SFPUC has 1) begun spending on the project and 2) anticipates that it will require total funding in excess of \$5,000,000. For such projects, the parties recognize that the work may be of an urgent nature and that details of those projects may be developing quickly to address a critical need. The SFPUC commits that, for these projects, an expanded discussion will be provided in quarterly reports generated 6 months following the creation of the project in the City's finance and accounting system. At a minimum, the discussion will include: 1) a detailed scope of work, 2) schedule, 3) cost breakdown, and 4) proposed source of funding. This level of detail shall continue to be included in subsequent quarterly reports through either the completion of the work or until the work is included as part of an adopted 10-Year CIP.

E. **BAWSCA and Wholesale Customer Notice and Review.** Beginning in 2020, at least 30 days before the first budget meeting, the SFPUC shall provide BAWSCA and the Wholesale Customers with written notice of the dates of the two budget meetings. At least 30 days before the first budget meeting, the SFPUC shall also provide BAWSCA and the Wholesale Customers with a draft of the 10-Year CIP and meet with those same parties to review potential candidate projects that it is considering for inclusion in the 10-Year CIP. Final materials for the first budget meeting will be made available to BAWSCA and the Wholesale Customers no less than 14 days prior to that budget meeting. Final materials for the second budget meeting will be made available to BAWSCA and the Wholesale Customers on the same date that they are made available to the Commission. Prior to the Commission's adoption of the 10-Year CIP at the second budget meeting, San Francisco shall respond, in writing, to all written comments by BAWSCA and the Wholesale Customers on the 10-Year CIP that were submitted prior to the date of the first budget meeting.

F. **Contents of Draft 10-Year CIP – Projects in Years One and Two of 10-Year Schedule.** The SFPUC's CIP projects generally fall into three categories: defined projects, placeholder concepts that could become projects, and programmatic spending for expenses likely to be made but for which there is no schedule. Projects in the near-term years of the 10-Year CIP have more definition than those in the outer years, and as a result more detailed information is available for them. For each project listed that has significant expected

expenditures identified in the first two years of the 10-Year CIP, the draft 10-Year CIP made available to BAWSCA and the Wholesale Customers shall include the following elements:

1. Project name.
2. Project description and justification.
3. Description of the project's relationship to the Level of Service Goals and Objectives.
4. Project asset classification for cost-allocation purposes, pursuant to Attachment R for Hetch Hetchy Enterprise assets, or as Regional or Retail for Water Enterprise assets.
5. Project schedule where applicable, broken down by phase, through to completion.
6. Total project budget estimate including a proposed inflation rate.

G. **Contents of Draft 10-Year CIP – Projects Listed After First Two Years of 10-Year Schedule.** For each project that is listed in years three through ten of the 10-Year CIP, the draft 10-Year CIP made available to BAWSCA and the Wholesale Customers shall include the following elements:

1. Project name.
2. Project description and justification.
3. Description of the project's relationship to the Level of Service Goals and Objectives.
4. Project asset classification for cost-allocation purposes, pursuant to Attachment R for Hetch Hetchy Enterprise assets, or as Regional or Retail for Water Enterprise assets.
5. Project schedule information that forms the basis for project planning if available.
6. Total project budget estimate.

H. **Additional Contents of Draft 10-Year CIP.** The draft 10-Year CIP made available to BAWSCA and the Wholesale Customers shall also include the following:

1. A discussion of any changes to projects in the previously adopted 10-Year CIP, the reasons for such changes, any impact of the proposed changes on the SFPUC's ability to achieve the Level of Service Goals

and Objectives, and the SFPUC's proposal for meeting the specific Level of Service Goals and Objectives in question.

2. A discussion of factors that have influenced the 10-Year CIP budget or identified projects, or have the potential to influence the overall budget or the number, cost and scale of identified projects, such as rate increase considerations, local rate setting policies, etc.
3. A discussion of how the CIP will be staffed.
4. A cash flow estimate for each project included as part of the first five years of the 10-Year CIP that considers historical spending and changes in the amount of work to be done.
5. Project spreadsheets that separate new projects from existing projects.
6. A summary roll-up for Regional costs, including all programmatic costs budgeted in the 10-Year CIP.

I. **Quarterly Reporting and Meetings.**

1. **CIP Quarterly Projects Reports.** The SFPUC shall include within the CIP Quarterly Projects Reports a detailed status update of each Regional project in the 10-Year CIP that has an estimated cost greater than \$5 million and a summary of the work completed to date for such projects. The CIP Quarterly Projects Reports shall focus on the first two years' projects in the 10-Year CIP, but shall also demonstrate a connection to the 10-Year CIP asset classification and the Level of Service Goals and Objectives. The CIP Quarterly Projects Reports shall identify any Regional project in the 10-Year CIP with an estimated cost greater than \$5 million that is behind schedule, and, for each project so identified, shall describe the SFPUC's plan and timeline for either making up the delay or adopting a revised project schedule. In each fourth quarter of the fiscal year CIP Quarterly Projects Report, the SFPUC will also address the status of Regional projects in the 10-Year CIP that have an estimated cost of less than \$5 million, noting any such projects that are behind schedule and describing the SFPUC's plan and timeline for either making up the delay or adopting a revised project schedule.

2. **Quarterly Meetings.** If requested by BAWSCA, the SFPUC shall hold quarterly meetings with BAWSCA to review each CIP Quarterly Projects Report, during which the SFPUC shall present information and detail about the individual projects and overall implementation of the 10-Year CIP, as well as the need for re-prioritization and/or the proposal

of new candidate projects for consideration as part of the next update of the 10-Year CIP. As part of the meeting held in each fourth quarter of the fiscal year, the SFPUC shall provide additional information and detail regarding the CIP development schedule and associated coordination proposed with BAWSCA.

Article 7. Accounting Procedures; Compliance Audit

7.01. SFPUC Accounting Principles, Practices

A. **Accounting Principles.** San Francisco will maintain the accounts of the SFPUC and the Water and Hetch Hetchy Enterprises in conformity with Generally Accepted Accounting Principles. San Francisco will apply all applicable pronouncements of the Governmental Accounting Standards Board (GASB) as well as statements and interpretations of the Financial Accounting Standards Board and Accounting Principles Board opinions issued on or before March 30, 1989, unless those pronouncements or opinions conflict with GASB pronouncements.

B. **General Rule.** San Francisco will maintain the accounting records of the SFPUC and the Water and Hetch Hetchy Enterprises in a format and level of detail sufficient to allow it to determine the annual Wholesale Revenue Requirement in compliance with this Agreement and to allow its determination of the Wholesale Revenue Requirement to be audited as provided in Section 7.04.

C. **Water Enterprise.** San Francisco will maintain an account structure which allows utility plant and operating and maintenance expenses to be segregated by location (inside San Francisco and outside San Francisco) and by function (Direct Retail, Regional and Direct Wholesale).

D. **Hetch Hetchy Enterprise.** San Francisco will maintain an account structure which allows utility plant and operating and maintenance expenses to be segregated into Water Only, Power Only and Joint categories.

E. **SFPUC.** San Francisco will maintain an account structure which allows any expenses of SFPUC bureaus that benefit only the Wastewater Enterprise, the Power-Only operations of the Hetch Hetchy Enterprise or Retail Customers to be excluded from the Wholesale Revenue Requirement.

F. **Utility Plant Ledgers.** San Francisco will maintain subsidiary plant ledgers for the Water and Hetch Hetchy Enterprises that contain unique identifying numbers for all assets included in the rate base and identify the original cost, annual depreciation, accumulated depreciation, date placed in service, useful life, salvage value if any, source of funding (e.g., bond series, revenues, grants), and classification for purposes of this Agreement.

G. **Debt.** San Francisco will maintain documentation identifying:

1. The portion of total bonded debt outstanding related to each series of each bond issue.
2. The portion of total interest expense related to each series of each bond issue.
3. The use of proceeds of each bond issue (including proceeds of commercial paper and/or other interim financial instruments redeemed or expected to be redeemed from bonds and earnings on the proceeds of financings) in sufficient detail to determine, for each bond issue, the proceeds and earnings of each (including proceeds and earnings of interim financing vehicles redeemed by a bond issue) and the total amounts expended on Direct Retail improvements and the total amounts expended on Regional improvements.

H. **Changes in Accounting.** Subject to subsections A thru G, San Francisco may change the chart of accounts and accounting practices of the SFPUC and the Water and Hetch Hetchy Enterprises. However, the allocation of any expense to the Wholesale Customers that is specified in the Agreement may not be changed merely because of a change in (1) the accounting system or chart of accounts used by SFPUC, (2) the account to which an expense is posted or (3) a change in the organizational structure of the SFPUC or the Water or Hetch Hetchy Enterprises.

I. **Audit.** San Francisco will arrange for an audit of the financial statements of Water and Hetch Hetchy Enterprises to be conducted each year by an independent certified public accountant, appointed by the Controller, in accordance with Generally Accepted Auditing Standards.

7.02. Calculation of and Report on Wholesale Revenue Requirement

A. Within five months after the close of each fiscal year, San Francisco will prepare a report showing its calculation of the Wholesale Revenue Requirement for the preceding fiscal year and the change in the balancing account as of the end of that fiscal year. The first such report will be prepared by November 30, 2010 and will cover fiscal year 2009-10 and the balancing account as of June 30, 2010.

B. The report will consist of the following items:

1. Statement of changes in the balancing account for the fiscal year being reported on, and for the immediately preceding fiscal year, substantially in the form of Attachment O.
2. Detailed supporting schedules 8.1 through 8.2 substantially in the form of Attachment N-2.
3. Description and explanation of any changes in San Francisco's accounting practices from those previously in effect.
4. Explanation of any line item of expense (shown on Attachment N-2, schedules 1 and 4) for which the amount allocated to the Wholesale Customers increased by (a) ten percent or more from the preceding fiscal year, or (b) more than \$1,000,000.
5. Representation letter signed by the SFPUC General Manager and by other SFPUC financial staff shown on Attachment P, as the General Manager may direct, subject to change in position titles at the discretion of the SFPUC.

C. The report will be delivered to the BAWSCA General Manager by the date identified in Subsection A.

Once the report has been delivered to BAWSCA, San Francisco will, upon request:

1. Provide BAWSCA with access to, and copies of, all worksheets and supporting documents used or prepared by San Francisco during its calculation of the Wholesale Revenue Requirement;
2. Make available to BAWSCA all supporting documentation and calculations used by San Francisco in preparing the report; and
3. Promptly provide answers to questions from BAWSCA staff about the report.

7.03. Appointment of Compliance Auditor

A. **Purpose.** The purpose of this section is to provide for an annual Compliance Audit by an independent certified public accountant of the procedures followed and the underlying data used by San Francisco in calculating the Wholesale Revenue Requirement for the preceding fiscal year. The annual Compliance Audit shall also determine whether the Wholesale Revenue Requirement has been calculated in accordance with the terms of the Agreement and whether amounts paid by the Wholesale Customers in excess of or less than

the Wholesale Revenue Requirement have been posted to the balancing account, together with interest as provided in Section 6.05.

B. **Method of Appointment.** The Controller shall select an independent certified public accountant (“Compliance Auditor”) to conduct the Compliance Audit described below. The Compliance Auditor may be the same certified public accountant engaged by the Controller to audit the financial statements of the Water and Hetch Hetchy Enterprises. Subject to approval by the Controller and the General Manager of the SFPUC, the Compliance Auditor shall have the authority to engage such consultants as it deems necessary or appropriate to assist in the audit. The terms of this Article shall be incorporated into the contract between San Francisco and the Compliance Auditor, and the Wholesale Customers shall be deemed to be third-party beneficiaries of said contract.

7.04. Conduct of Compliance Audit

A. **Standards.** The Compliance Auditor shall perform the Compliance Audit in accordance with Generally Accepted Auditing Standards. In particular, its review shall be governed by the standards contained in Section AU 623 (Reports on Specified Elements, Accounts or Items of a Financial Statement) of the AICPA, Professional Standards, as amended from time to time.

B. **Preliminary Meeting; Periodic Status Reports; Access to Data.** Prior to commencing the audit, the Compliance Auditor shall meet with San Francisco and BAWSCA to discuss the audit plan, the procedures to be employed and the schedule to be followed. During the course of the audit, the Compliance Auditor shall keep San Francisco and BAWSCA informed of any unforeseen problems or circumstances which could cause a delay in the audit or any material expansion of the audit’s scope. The Compliance Auditor shall be given full access to all records of the SFPUC and the Water and Hetch Hetchy Enterprises that the Auditor deems necessary for the audit.

C. **Audit Procedures.** The Compliance Auditor shall review San Francisco’s calculation of the Wholesale Revenue Requirement and the underlying data in order to carry out the purpose of the audit described in Section 7.03.A and to issue the report described in Section 7.05. At a minimum, the Compliance Auditor shall address the following:

1. **Water Enterprise Operating and Maintenance Expenses.** The Compliance Auditor shall review Water Enterprise cost ledgers to determine whether the

recorded operating and maintenance expenses fairly reflect the costs incurred, were recorded on a basis consistent with applicable Generally Accepted Accounting Principles, and were allocated to the Wholesale Customers as provided in this Agreement.

2. Water Enterprise Administrative and General Expenses. The Compliance Auditor shall review Water Enterprise cost ledgers and other appropriate financial records, including those of the SFPUC, to determine whether the recorded administrative and general expenses fairly reflect the costs incurred by or allocated to the Water Enterprise, whether they were recorded on a basis consistent with applicable Generally Accepted Accounting Principles, whether SFPUC charges were allocated to the Water Enterprise in accordance with this Agreement, and whether the amount of administrative and general expenses allocated to the Wholesale Customers was determined as provided by this Agreement.

3. Property Taxes. The Compliance Auditor shall review Water Enterprise cost ledgers to determine whether the amount of property taxes shown on the report fairly reflects the property tax expense incurred by San Francisco for Water Enterprise property outside of San Francisco and whether there has been deducted from the amount to be allocated (1) all taxes actually reimbursed to San Francisco by tenants of Water Enterprise property under leases that require such reimbursement and (2) any refunds received from the taxing authority. The Compliance Auditor also shall determine whether the amount of property taxes allocated to the Wholesale Customers was determined as provided in this Agreement.

4. Debt Service. The Compliance Auditor shall review SFPUC records to determine whether debt service, and associated coverage requirements, were allocated to the Wholesale Customers as provided in this Agreement.

5. Amortization of Existing Assets in Service as of June 30, 2009. The Compliance Auditor shall review both Water and Hetch Hetchy Enterprise records to determine whether the payoff amount for Existing Assets allocated to the Wholesale Customers as shown on Attachment K-1 through K-4 was calculated as provided in Section 5.03 of this Agreement.

6. Revenue-Funded Capital Appropriations/Expenditures. The Compliance Auditor shall review San Francisco's calculation of actual expenditures on the wholesale share of revenue-funded New Regional Assets and remaining unexpended and unencumbered project balances in the "Wholesale Capital Fund" described in Section 6.08, to determine whether the procedures contained in that section were followed.

7. Hetch Hetchy Expenses. The Compliance Auditor shall determine whether Hetch Hetchy Enterprise expenses were allocated to the Wholesale Customers as provided in this Agreement.

D. **Use of and Reliance on Audited Financial Statements and Water Use Data**

1. In performing the audit, the Compliance Auditor shall incorporate any adjustments to the cost ledgers recommended by the independent certified public accountant, referred to in Section 7.01.I, which audited the financial statements of the Water and Hetch Hetchy Enterprises. The Compliance Auditor may rely upon the work performed by that independent certified public accountant if the Compliance Auditor reviews the work and is willing to take responsibility for it as part of the compliance audit.

2. In performing the Compliance Audit and issuing its report, the Compliance Auditor may rely on water use data furnished by the Water Enterprise, regardless of whether the Wholesale Customers contest the accuracy of such data. The Compliance Auditor shall have no obligation to independently verify the accuracy of the water use data provided by San Francisco; however, the Compliance Auditor shall disclose in its report any information which came to its attention suggesting that the water use data provided by San Francisco are inaccurate in any significant respect.

E. **Exit Conference**. Upon completion of the audit, the Compliance Auditor shall meet with San Francisco and BAWSCA to discuss audit findings, including (1) any material weakness in internal controls and (2) adjustments proposed by the Compliance Auditor and San Francisco's response (i.e., booked or waived).

7.05. Issuance of Compliance Auditor's Report

A. San Francisco will require the Compliance Auditor to issue its report no later than nine months after the fiscal year under audit (i.e., March 31 of the following calendar year). The Compliance Auditor's report shall be addressed and delivered to San Francisco and BAWSCA. The report shall contain:

1. A statement that the Auditor has audited the report on the calculation of the Wholesale Revenue Requirement and changes in the balancing account, and supporting documents, prepared by San Francisco as required by Section 7.02.

2. A statement that the audit was conducted in accordance with auditing standards generally accepted in the United States of America, and that the audit provides a reasonable basis for its opinion.

3. A statement that in the Compliance Auditor's opinion the Wholesale Revenue Requirement was calculated by San Francisco in accordance with this Agreement and that the change in the balancing account shown in San Francisco's report was calculated as required by this Agreement and presents fairly, in all material respects, changes in and the balance due to (or from) the Wholesale Customers as of the end of the fiscal year under audit.

7.06. Wholesale Customer Review

A. One or more Wholesale Customers, or BAWSCA, may engage an independent certified public accountant (CPA) to conduct a review (at its or their expense) of San Francisco's calculation of the annual Wholesale Revenue Requirement and a review of changes in the balancing account.

B. If a Wholesale Customer or BAWSCA wishes such a review to be conducted it will provide written notice to SFPUC within 30 days of the date the Compliance Auditor's report is issued. The notice will identify the CPA or accounting/auditing firm that will conduct the review and the specific aspects of the Compliance Auditor's report that are the subject of the review. If more than one notice of review is received by the SFPUC, the requesting Wholesale Customers shall combine and coordinate their reviews and select a lead auditor to act on their behalf for the purposes of requesting documents and conducting on-site investigations.

C. San Francisco will cooperate with the CPA appointed by a Wholesale Customer or BAWSCA. This cooperation includes making requested records promptly available, making knowledgeable SFPUC personnel available to timely and truthfully answer the CPA's questions and directing the Compliance Auditor to cooperate with the CPA.

D. The Wholesale Customer's review shall be completed within 60 days after the date the Compliance Auditor's report is issued. At the conclusion of the review, representatives of San Francisco and BAWSCA shall meet to discuss any differences between them concerning San Francisco's compliance with Articles 5 or 6 of this Agreement during the preceding fiscal year or San Francisco's calculation of the Wholesale Revenue Requirement for the preceding fiscal year. If such differences cannot be resolved, the dispute shall be submitted to arbitration in accordance with Section 8.01.

Article 8. Other Agreements of the Parties

8.01. Arbitration and Judicial Review

A. **General Principles re Scope of Arbitration.** All questions or disputes arising under the following subject areas shall be subject to mandatory, binding arbitration and shall not be subject to judicial determination:

1. the determination of the Wholesale Revenue Requirement, which shall include both the calculations used in the determination and the variables used in those calculations;

2. the SFPUC's adherence to accounting practices and conduct of the Compliance Audit; and

3. the SFPUC's classification of new or omitted assets for purposes of determining the Wholesale Revenue Requirement.

All other questions or disputes arising under this Agreement shall be subject to judicial determination. Disputes about the scope of arbitrability shall be resolved by the courts.

B. **Demand for Arbitration.** If any arbitrable question or dispute should arise, any Wholesale Customer or the SFPUC may commence arbitration proceedings hereunder by service of a written Demand for Arbitration. Demands for arbitration shall set forth all of the issues to be arbitrated, the general contentions relating to those issues, and the relief sought by the party serving the Demand. Within 45 days after service of a Demand upon it, any Wholesale Customer or the SFPUC may serve a Notice of Election to become a party to the arbitration and a Response to the issues set forth in the Demand. The Response shall include the party's general contentions and defenses with respect to the claims made in the Demand, and may include any otherwise arbitrable claims, contentions and demands that concern the fiscal year covered by the Demand. If a timely Notice of Election and Response is not filed by any such entity, it shall not be a party to the arbitration but shall nonetheless be bound by the award of the arbitrator. If no party to this Agreement serves a timely Notice of Election and Response, the party seeking arbitration shall be entitled to the relief sought in its Demand for Arbitration without the necessity of further proceedings. Any claims not made in a Demand or Response shall be deemed waived.

If a Demand or Notice of Election is made by the SFPUC, it shall be served by personal delivery or certified mail to each Wholesale Customer at the address of such customer as set forth in the billing records of the SFPUC. If a Demand or Notice of Election is made by a Wholesale Customer, service shall be by certified mail or personal delivery to the General Manager, SFPUC, 525 Golden Gate Avenue, 13th Floor, San Francisco, California 94102, and to each of the other Wholesale Customers. If arbitration is commenced, the Wholesale Customers shall use their best efforts to formulate a single, joint position with respect thereto. In any event, with respect to the appointment of arbitrators, as hereinafter provided, all Wholesale Customers that take the same position as to the issues to be arbitrated shall jointly and collectively be deemed to be a single party.

C. **Limitations Period.** All Demands For Arbitration shall be served within twelve months of receipt by BAWSCA of the Wholesale Revenue Requirement Compliance Auditor's Report for that year. If a party fails to file a Demand within the time period specified in this subsection, that party waives all present and future claims with respect to the fiscal year in question. If no such Demand is served within the twelve month period specified above, the SFPUC's determination of the Wholesale Revenue Requirement for that year shall be final and conclusive. Whether any particular claim is barred by the twelve month limitations period provided for herein shall be for the arbitrator to determine. Prior to the expiration of the twelve month limitations period, the parties to the dispute may agree by written stipulation to extend the period by up to six additional months.

The Arbitrator may order the alteration or recalculation of underlying Water Enterprise and/or Hetch Hetchy Enterprise accounts or asset classifications. Such changes shall be used to calculate the Wholesale Revenue Requirement for the fiscal year in dispute and shall also be used to determine future Wholesale Revenue Requirements, if otherwise applicable, even though the existing entries in such accounts or the asset classifications, in whole or in part, predate the twelve month period described above, so long as a timely arbitration Demand has been filed in accordance with this subsection.

D. **Number and Appointment of Arbitrators.** All arbitration proceedings under this section shall be conducted by a single arbitrator, selected by the SFPUC and a designated representative of the Wholesale Customers or each group of Wholesale Customers that take the same position with respect to the arbitration, within 75 days after service of the Demand. If the parties to the arbitration cannot agree on an arbitrator within 75 days, any party may petition

the Marin County Superior Court for the appointment of an arbitrator pursuant to Code of Civil Procedure Section 1281.6 (or any successor provision).

E. **Guidelines for Qualifications of Arbitrators.** The Wholesale Customers and the SFPUC acknowledge that the qualifications of the arbitrator will vary with the nature of the matter arbitrated, but, in general, agree that such qualifications may include service as a judge or expertise in one or more of the following fields: public utility law, water utility rate setting, water system and hydraulic engineering, utility accounting methods and practices, and water system operation and management. The parties to the arbitration shall use their best efforts to agree in advance upon the qualifications of any arbitrator to be appointed by the Superior Court.

F. **Powers of Arbitrator; Conduct of Proceedings**

1. Except as provided in this section, arbitrations under this section shall be conducted under and be governed by the provisions of California Code of Civil Procedure Sections 1282.2 through 1284.2 (hereinafter, collectively, "Code sections"), and arbitrators appointed hereunder shall have the powers and duties specified by the Code sections.

2. Within the meaning of the Code sections, the term "neutral arbitrator" shall mean the single arbitrator selected by the parties to the arbitration.

3. Unless waived in writing by the parties to the arbitration, the notice of hearing served by the arbitrator shall not be less than 90 days.

4. The lists of witnesses (including expert witnesses), and the lists of documents (including the reports of expert witnesses) referred to in Code of Civil Procedure Section 1282.2 shall be mutually exchanged, without necessity of demand therefore, no later than 60 days prior to the date of the hearing, unless otherwise agreed in writing by the parties to the arbitration. Upon application of any party, or on his or her own motion, the arbitrator may schedule one or more prehearing conferences for the purposes of narrowing and/or expediting resolution of the issues in dispute. Strict conformity to the rules of evidence is not required, except that the arbitrator shall apply applicable law relating to privileges and work product. The arbitrator shall consider evidence that he or she finds relevant and material to the dispute, giving the evidence such weight as is appropriate. The arbitrator may limit testimony to exclude evidence that would be immaterial or unduly repetitive, provided that all parties are afforded the opportunity to present material and relevant evidence.

5. Within thirty days after the close of the arbitration hearing, or such other time as the arbitrator shall determine, the parties will submit proposed findings and a proposed remedy to the arbitrator. The parties may file objections to their adversary's proposed findings and remedy within a time limit to be specified by the arbitrator. The arbitrator shall not base his or her award on information not obtained at the hearing.

6. The arbitrator shall render a written award no later than twelve months after the arbitrator is appointed, either by the parties or by the court, provided that such time may be waived or extended as provided in Code of Civil Procedure Section 1283.8.

7. The provisions for discovery set forth in Code of Civil Procedure Section 1283.05 are incorporated into and made part of this Agreement, except that: (a) leave of the arbitrator need not be obtained for the taking of depositions, including the depositions of expert witnesses; (b) the provisions of Code of Civil Procedure Section 2034.010 et seq., relating to discovery of expert witnesses, shall automatically be applicable to arbitration proceedings arising under this Agreement without the necessity for a formal demand pursuant to Section 2034.210 and the date for the exchange of expert discovery provided by Sections 2034.260 and 2034.270 shall be not later than 60 days prior to the date for the hearing; and (c) all reports, documents, and other materials prepared or reviewed by any expert designated to testify at the arbitration shall be discoverable. In appropriate circumstances, the arbitrator may order any party to this Agreement that is not a party to the arbitration to comply with any discovery request.

8. For the purposes of allocation of expenses and fees, as provided in Code of Civil Procedure Section 1284.2, if any two or more Wholesale Customers join together in a single, joint position in the arbitration, those Wholesale Customers shall be deemed to be a single party. If any Wholesale Customer or customers join together with the SFPUC in a single joint position in the arbitration, those Wholesale Customers and the SFPUC together shall be deemed to be a single party.

9. Subject to any other limitations imposed by the Agreement, the arbitrator shall have power to issue orders mandating compliance with the terms of the Agreement or enjoining violations of the Agreement. With respect to any arbitration brought to redress a claimed wholesale overpayment to the SFPUC, the arbitrator's power to award monetary relief shall be limited to entering an order requiring that an adjustment be made in the amount posted to the balancing account for the fiscal year covered by the Demand.

10. All awards of the arbitrator shall be binding on the SFPUC and the Wholesale Customers regardless of the participation or lack thereof by any Wholesale Customer or the SFPUC as a party to the arbitration proceeding. The parties to an arbitration shall have the power to modify or amend any arbitration award by mutual consent. The arbitrator shall apply California law.

8.02. Attorneys' Fees

A. **Arbitration or Litigation Between San Francisco and Wholesale Customers Arising under the Agreement or Individual Water Sales Contracts.** Each party will bear its own costs, including attorneys' fees, incurred in any arbitration or litigation arising under this Agreement or the Individual Water Sales Contracts between San Francisco and the Wholesale Customers. Notwithstanding the foregoing, and subject to the limitations contained herein, the SFPUC may allocate to the Wholesale Customers as an allowable expense, utilizing the composite rate used for allocating other Water Enterprise administrative and general expenses, any attorneys' fees and costs incurred by the SFPUC in connection with arbitration and/or litigation arising under this Agreement and/or the Individual Water Sales Contracts. Attorneys' fees incurred by the SFPUC for attorneys employed in the San Francisco City Attorney's office shall be billed at the hourly rates charged for the attorneys in question by the San Francisco City Attorney's Office to the SFPUC. Attorneys' fees incurred by the SFPUC for attorneys other than those employed in the San Francisco City Attorney's Office shall be limited to the hourly rates charged to the SFPUC for attorneys and paralegals with comparable experience employed in the San Francisco City Attorney's office and in no event shall exceed the highest hourly rate charged by any attorney or paralegal employed in the City Attorney's Office to the SFPUC.

B. Arbitration or Litigation Outside of Agreement Concerning the SFPUC Water System or Reserved Issues

1. The attorneys' fees and costs incurred by the SFPUC in litigation between San Francisco and one or more of the Wholesale Customers arising from matters outside of the Agreement, including, without limitation, litigation and/or arbitration concerning the issues specifically reserved in the Agreement, shall be allocated between the Retail Customers and the Wholesale Customers utilizing the composite rate used for allocating other Water Enterprise administrative and general expenses.

2. If, in any litigation described in subsection B.1 above, attorneys' fees and costs are awarded to one or more of the Wholesale Customers as prevailing parties, the

SFPUC's payment of the Wholesale Customers' attorneys' fees and costs shall not be an allowable expense pursuant to subsection A.

3. If, in any litigation described in subsection B.1, the SFPUC obtains an award of attorneys' fees and costs as a prevailing party against one or more of the Wholesale Customers, any such award shall be reduced to offset the amount of the SFPUC's fees and costs, if any, that have already been paid by the Wholesale Customers in the current or any prior fiscal years pursuant to subsection B.1 and the provisions of Articles 5 and 6 of the Agreement.

4. Nothing contained in this Agreement, including this subsection, shall authorize a court to award attorneys' fees and costs to a prevailing party as a matter of contract and/or the provisions of Civil Code Section 1717, in litigation between San Francisco and one or more of the Wholesale Customers arising from matters outside of the Agreement, including, without limitation, litigation and/or arbitration concerning the issues specifically reserved in the Agreement.

C. **Attorneys' Fees and Costs Incurred by the SFPUC in Connection with the Operation and Maintenance of the SFPUC Water Supply System.** All attorneys' fees and costs incurred by the SFPUC in connection with the operation and maintenance of the SFPUC's water supply system shall be allocated between Retail Customers and the Wholesale Customers utilizing the composite rate used for allocating other Water Enterprise administrative and general expenses.

8.03. Annual Meeting and Report

A. The parties wish to ensure that the Wholesale Customers may, in an orderly way, be informed of matters affecting the Regional Water System, including matters affecting the continuity and adequacy of their water supply from San Francisco.

For this purpose, the General Manager of the SFPUC shall meet annually with the Wholesale Customers and BAWSCA during the month of February, commencing February 2010. At these annual meetings, the SFPUC shall provide the Wholesale Customers a report on the following topics:

1. Capital additions under construction or being planned for the Regional Water System, including the status of planning studies, financing plans, environmental reviews, permit applications, etc.;

2. Water use trends and projections for Retail Customers and Wholesale Customers;
3. Water supply conditions and projections;
4. The status of any administrative proceedings or litigation affecting San Francisco's water rights or the SFPUC's ability to deliver water from the watersheds which currently supply the Regional Water System;
5. Existing or anticipated problems with the maintenance and repair of the Regional Water System or with water quality;
6. Projections of Wholesale Revenue Requirements for the next five years;
7. Any other topic which the SFPUC General Manager places on the agenda for the meeting;
8. Any topic which the Wholesale Customers, through BAWSCA, request be placed on the agenda, provided that the SFPUC is notified of the request at least 10 days before the meeting.

B. The General Manager of the SFPUC, the Assistant General Manager of the Water Enterprise, and the Assistant General Manager of Business Services-CFO will use their best efforts to attend the annual meetings. If one or more of these officers are unable to attend, they will designate an appropriately informed assistant to attend in their place.

8.04. Administrative Matters Delegated to BAWSCA

A. The Wholesale Customers hereby delegate the authority and responsibility for performing the following administrative functions contemplated in this Agreement to BAWSCA:

1. Approval of calculations of Proportional Annual Water Use required by Section 3.14 and Attachment J, "Water Use Measurement and Tabulation";
2. Approval of amendments to Attachments J and K-3 and K-4, "25-Year Payoff Schedules for Existing Rate Base";
3. Agreement that the Water Meter and Calibration Procedures Manual to be prepared by the SFPUC may supersede some or all of the requirements in Attachment J, as described in Section 3.14;

4. Conduct of Wholesale Customer review of SFPUC's calculation of annual Wholesale Revenue Requirement/Change in Balancing Account described in Section 7.06;

5. Approval of an adjustment to Wholesale Revenue Coverage as described in Section 6.06.

B. A majority of the Wholesale Customers may, without amending this Agreement, delegate additional administrative functions to BAWSCA. To be effective, such expanded delegation must be evidenced by resolutions adopted by the governing bodies of a majority of the Wholesale Customers. In 2014, all twenty-six Wholesale Customers adopted resolutions delegating authority to BAWSCA to initiate, defend and settle arbitration for the matters that, pursuant to Section 8.01 of this Agreement, are subject to mandatory, binding arbitration.

C. Unless otherwise explicitly stated, the administrative authority delegated to BAWSCA may be exercised by the General Manager/CEO of BAWSCA, rather than requiring action by the BAWSCA Board of Directors. In addition, the Wholesale Customers may, with the consent of BAWSCA, delegate to BAWSCA the initiation, defense, and settlement of arbitration proceedings provided for in Section 8.01.

8.05. Preservation of Water Rights; Notice of Water Rights Proceedings

A. It is the intention of San Francisco to preserve all of its water rights, irrespective of whether the water held under such water rights is allocated under this Agreement. Nothing in this Agreement shall be construed as an abandonment, or evidence of an intent to abandon, any of the water rights that San Francisco presently possesses.

B. San Francisco shall use its best efforts to give prompt notice to BAWSCA of any litigation or administrative proceedings to which San Francisco is a party involving water rights to the Regional Water System. The failure of San Francisco to provide notice as required by this section, for whatever reason, shall not give rise to any monetary liability.

8.06. SFPUC Rules and Regulations

The sale and delivery of all water under this Agreement shall be subject to such of the "Rules and Regulations Governing Water Service to Customers" of the Water Enterprise adopted by the Commission, as those rules and regulations may be amended from time to time, as are (1) applicable to the sale and delivery of water to the Wholesale Customers, (2) reasonable, and (3) not inconsistent with either this Agreement or with an Individual Water

Sales Contract. The SFPUC will give the Wholesale Customers notice of any proposal to amend the Rules and Regulations in a manner that would affect the Wholesale Customers. The notice will be delivered at least thirty days in advance of the date on which the proposal is to be considered by the Commission and will be accompanied by the text of the proposed amendment.

8.07. Reservations of, and Limitations on, Claims

A. **General Reservation of Raker Act Contentions.** The 1984 Agreement resolved a civil action brought against San Francisco by certain of the Wholesale Customers. Plaintiffs in that action contended that they, and other Wholesale Customers that are municipalities or special districts, were “co-grantees” within the meaning of Section 8 of the Act and were entitled to certain rights, benefits and privileges by virtue of that status. San Francisco disputed those claims.

Nothing in this Agreement, or in the Individual Water Sales Contracts, shall be construed or interpreted in any way to affect the ultimate resolution of the controversy between the parties concerning whether any of the Wholesale Customers are “co-grantees” under the Act and, if so, what rights, benefits and privileges accrue to them by reason of that claimed status.

B. **Claims Reserved but not Assertable During Term or Portions Thereof.** The following claims, which San Francisco disputes, are reserved but may not be asserted during the Term (or portions thereof, as indicated):

1. The Wholesale Customers’ claim that the Act entitles them to water at cost.
2. The Wholesale Customers’ claim that San Francisco is obligated under the Act or state law to supply them with additional water in excess of the Supply Assurance. This claim may not be asserted unless and until San Francisco decides not to meet projected water demands of Wholesale Customers in excess of the Supply Assurance pursuant to Section 4.06.
3. The claim by San Jose and Santa Clara that they are entitled under the Act, or any other federal or state law, to permanent, non-interruptible status and to be charged rates identical to those charged other Wholesale Customers. This claim may not be asserted unless and until San Francisco notifies San Jose or Santa Clara that it intends to interrupt or terminate water deliveries pursuant to Section 4.05.

4. The Wholesale Customers' claim that the SFPUC is not entitled to impose a surcharge for lost power generation revenues attributable to furnishing water in excess of the Supply Assurance. This claim may not be asserted unless and until SFPUC furnishes water in excess of the Supply Assurance during the Term and also includes such a surcharge in the price of such water.

5. Claims by Wholesale Customers (other than San Jose and Santa Clara, whose service areas are fixed) that SFPUC is obligated under the Act or state law to furnish water, within their Individual Supply Guarantee, for delivery to customers outside their existing service area and that Wholesale Customers are entitled to enlarge their service areas to supply those customers. Such claims may be asserted only after compliance with the procedure set forth in Section 3.03, followed by SFPUC's denial of, or failure for six months to act on, a written request by a Wholesale Customer to expand its service area.

C. **Waived Activities.** The Wholesale Customers (and the SFPUC, where specified) will refrain from the following activities during the Term (or portions thereof, as specified):

1. The Wholesale Customers and the SFPUC will not contend before any court, administrative agency or legislative body or committee that the methodology for determining the Wholesale Revenue Requirement (or the requirements for (a) amortization of the ending balance under the 1984 Agreement, or (b) contribution to the Wholesale Revenue Coverage) determined in accordance with this Agreement violates the Act or any other provision of federal law, state law, or San Francisco's City Charter, or is unfair, unreasonable or unlawful.

2. The Wholesale Customers will not challenge the transfer of funds by the SFPUC to any other San Francisco City department or fund, provided such transfer complies with the San Francisco City Charter. The transfer of its funds, whether or not permitted by the City Charter, will not excuse the SFPUC from its failure to perform any obligation imposed by this Agreement.

3. The Wholesale Customers and the SFPUC will not assert monetary claims against one another based on the 1984 Agreement other than otherwise arbitrable claims arising from the three fiscal years immediately preceding the start of the Term (i.e., FYs 2006-07, 2007-08 and 2008-09). Such claims, if any, shall be governed by the dispute resolution provisions of this Agreement, except that the time within which arbitration must be commenced shall be 18 months from delivery of the Compliance Auditor's report.

D. **Other**

1. This Agreement shall determine the respective monetary rights and obligations of the parties with respect to water sold by the SFPUC to the Wholesale Customers during the Term. Such rights and obligations shall not be affected by any judgments or orders issued by any court in litigation, whether or not between parties hereto, and whether or not related to the controversy over co-grantee status, except for arbitration and/or litigation expressly permitted in this Agreement. No judicial or other resolution of issues reserved by this section will affect the Wholesale Revenue Requirement which, during the Term, will be determined exclusively as provided in Articles 5, 6 and 7 of this Agreement.

2. Because delays in the budget process or other events may cause the SFPUC to defer the effective date of changes in wholesale rates until after the beginning of the fiscal year, this Agreement does not require the SFPUC to make changes in wholesale rates effective at the start of the fiscal year or at any other specific date.

3. The Wholesale Customers do not, by executing this Agreement, concede the legality of the SFPUC's establishing Interim Supply Allocations, as provided in Article 4 or imposing Environmental Enhancement Surcharges on water use in excess of such allocations. Any Wholesale Customer may challenge such allocation when imposed and/or such surcharges if and when levied, in any court of competent jurisdiction.

4. The furnishing of water in excess of the Supply Assurance by San Francisco to the Wholesale Customers shall not be deemed or construed to be a waiver by San Francisco of its claim that it has no obligation under any provision of law to supply such water to the Wholesale Customers, nor shall it constitute a dedication by San Francisco to the Wholesale Customers of such water.

8.08. Prohibition of Assignment

A. This Agreement shall be binding on, and shall inure to the benefit of, the parties and their respective successors and permitted assigns. Each Wholesale Customer agrees that it will not transfer or assign any rights or privileges under this Agreement, either in whole or in part, or make any transfer of all or any part of its water system or allow the use thereof in any manner whereby any provision of this Agreement will not continue to be binding on it, its assignee or transferee, or such user of the system. Any assignment or transfer in violation of this covenant, and any assignment or transfer that would result in the supply of water in violation of the Act, shall be void.

B. Nothing in this section shall prevent any Wholesale Customer (except the California Water Service Company and Stanford) from entering into a joint powers agreement or a municipal or multi-party water district with any other Wholesale Customer (except the two listed above) to exercise the rights and obligations granted to and imposed upon the Wholesale Customers hereunder, nor shall this section prevent any Wholesale Customer (except the two listed above) from succeeding to the rights and obligations of another Wholesale Customer hereunder as long as the Wholesale Service Area served by the Wholesale Customers involved in the succession is not thereby enlarged.

8.09. Notices

A. All notices and other documents that San Francisco is required or permitted to send to the Wholesale Customers under this Agreement shall be sent to each and all of the Wholesale Customers by United States mail, first class postage prepaid, addressed to each Wholesale Customer at the address to which monthly water bills are mailed by the Water Enterprise.

B. All notices or other documents which the Wholesale Customers are required or permitted to send to San Francisco under this Agreement shall be sent by United States mail, first class postage prepaid, addressed as follows:

General Manager
San Francisco Public Utilities Commission
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102

C. Each Wholesale Customer is a member of BAWSCA. San Francisco shall send a copy of each notice or other document which it is required to send to all Wholesale Customers to BAWSCA addressed as follows:

General Manager/CEO
Bay Area Water Supply and Conservation Agency
155 Bovet Road, Suite 650
San Mateo, CA 94402

The failure of San Francisco to send a copy of such notices or documents to BAWSCA shall not invalidate any rate set or other action taken by San Francisco.

D. Any party (or BAWSCA) may change the address to which notice is to be sent to it under this Agreement by notice to San Francisco (in the case of a change desired by a Wholesale Customer or BAWSCA) and to the Wholesale Customer and BAWSCA (in the case of a change desired by San Francisco).

The requirements for notice set forth in Section 8.01 concerning arbitration shall prevail over this section, when they are applicable.

8.10. Incorporation of Attachments

Attachments A through R, referred to herein, are incorporated in and made a part of this Agreement.

8.11. Interpretation

In interpreting this Agreement, or any provision thereof, it shall be deemed to have been drafted by all signatories, and no presumption pursuant to Civil Code Section 1654 may be invoked to determine the Agreement's meaning. The marginal headings and titles to the sections and paragraphs of this Agreement are not a part of this Agreement and shall have no effect upon the construction or interpretation of any part hereof.

8.12. Actions and Approvals by San Francisco

Whenever action or approval by San Francisco is required or contemplated by this Agreement, authority to act or approve shall be exercised by the Commission, except if such action is required by law to be taken, or approval required to be given, by the San Francisco Board of Supervisors. The Commission may delegate authority to the General Manager in accordance with the San Francisco City Charter and Administrative Code, except for actions that this Agreement requires to be taken by the Commission.

8.13. Counterparts

Execution of this Agreement may be accomplished by execution of separate counterparts by each signatory. San Francisco shall deliver its executed counterpart to BAWSCA and the counterpart which each Wholesale Customer executes shall be delivered to San Francisco. The separate executed counterparts, taken together, shall constitute a single agreement.

8.14. Limitations on Damages

A. Unless otherwise prohibited by this Agreement, general or direct damages may be recovered for a breach of a party's obligations under this Agreement. No party is liable for, or may recover from any other party, special, indirect or consequential damages or incidental damages, including, but not limited to, lost profits or revenue. No damages may be awarded for a breach of Section 8.17.

B. The limitations in subsection A apply only to claims for damages for an alleged breach of this Agreement. These limitations do not apply to claims for damages for an alleged breach of a legal duty that arises independently of this Agreement, established by constitution or statute.

C. If damages would be an inadequate remedy for a breach of this Agreement, equitable relief may be awarded by a court in a case in which it is otherwise proper.

D. This section does not apply to any claim of breach for which arbitration is the exclusive remedy pursuant to Section 8.01.A.

8.15. Force Majeure

A. **Excuse from Performance.** No party shall be liable in damages to any other party for delay in performance of, or failure to perform, its obligations under this Agreement, including the obligations set forth in Sections 3.09 and 4.06, if such delay or failure is caused by a "Force Majeure Event."

B. **Notice.** The party claiming excuse shall deliver to the other parties a written notice of intent to claim excuse from performance under this Agreement by reason of a Force Majeure Event. Notice required by this section shall be given promptly in light of the circumstances, and, in the case of events described in (c), (d) or (e) of the definition of Force Majeure Event only, not later than ten (10) days after the occurrence of the Force Majeure Event. Such notice shall describe the Force Majeure Event, the services impacted by the claimed event, the length of time that the party expects to be prevented from performing, and the steps which the party intends to take to restore its ability to perform.

C. **Obligation to Restore Ability to Perform.** Any suspension of performance by a party pursuant to this section shall be only to the extent, and for a period of no longer duration

than, required by the nature of the Force Majeure Event, and the party claiming excuse shall use its best efforts to remedy its inability to perform as quickly as possible.

8.16. No Third-Party Beneficiaries

This Agreement is exclusively for the benefit of the parties and not for the benefit of any other Person. There are no third-party beneficiaries of this Agreement and no person not a party shall have any rights under or interests in this Agreement.

No party may assert a claim for damages on behalf of a person other than itself, including a person that is not a party.

8.17. Good Faith and Fair Dealing

San Francisco and the Wholesale Customers each acknowledge their obligation under California law to act in good faith toward, and deal fairly with, each other with respect to this Agreement.

Article 9. Implementation and Special Provisions Affecting Certain Wholesale Customers

9.01. General; Individual Water Sales Contracts

A. As described in Section 1.03, San Francisco previously entered into Individual Water Sales Contracts with each of the Wholesale Customers. The term of the majority of Individual Water Sales Contracts will expire on June 30, 2009, concurrently with the expiration of the 1984 Agreement. Except as provided below in this Article, each of the Wholesale Customers will execute a new Individual Water Sales Contract with San Francisco concurrently with its approval of the Agreement.

B. The Individual Water Sales Contracts will describe the service area of each Wholesale Customer, identify the location and size of connections between the Regional Water System and the Wholesale Customer's distribution system, provide for periodic rendering and payment of bills for water usage, and in some instances contain additional specialized provisions unique to the particular Wholesale Customer and not of general concern or applicability. A sample Individual Water Sales Contract is provided at Attachment F. The Individual Water Sales Contracts between San Francisco and the Wholesale Customers will not contain any provision inconsistent with Articles 1 through 8 of this Agreement except (1) as provided below in this Article or (2) to the extent that such provisions are not in derogation of the Fundamental Rights of other Wholesale Customers under this Agreement. Any provisions in an Individual Water Sales Contract which are in violation of this section shall be void.

9.02. California Water Service Company

A. The parties recognize that the California Water Service Company is an investor-owned utility company and, as such, has no claim to co-grantee status under the Act, which specifically bars private parties from receiving for resale any water produced by the Hetch Hetchy portion of the Regional Water System. Accordingly, the following provisions shall apply to the California Water Service Company, notwithstanding anything to the contrary elsewhere in this Agreement.

B. The total quantity of water delivered by San Francisco to the California Water Service Company shall not in any calendar year exceed 47,400 acre feet, which is the estimated average annual production of Local System Water. If San Francisco develops additional Local System Water after the Effective Date, it may (1) increase the maximum

delivery amount stated herein; and (2) increase the Supply Assurance, but not necessarily both. San Francisco has no obligation to deliver water to California Water Service Company in excess of the maximum stated herein, except as such maximum may be increased by San Francisco pursuant to this subsection. The maximum annual quantity of Local System Water set forth in this subsection is intended to be a limitation on the total quantity of water that may be allocated to California Water Service Company, and is not an Individual Supply Guarantee for purposes of Section 3.02. The maximum quantity of Local System Water set forth in this subsection is subject to reduction in response to (1) changes in long-term hydrology or (2) environmental water requirements that may be imposed by or negotiated with state and federal resource agencies in order to comply with state or federal law or to secure applicable permits for construction of Regional Water System facilities. San Francisco shall notify California Water Service Company of any anticipated reduction of the quantity of Local System Water set forth in this subsection, along with an explanation of the basis for the reduction.

C. Notwithstanding anything in Section 8.08 to the contrary, California Water Service Company shall have the right to assign to a public agency having the power of eminent domain all or a portion of the rights of California Water Service Company under any contract between it and San Francisco applicable to any individual district of California Water Service Company in connection with the acquisition by such public agency of all or a portion of the water system of California Water Service Company in such district. In the event of any such assignment of all the rights, privileges and obligations of California Water Service Company under such contract, California Water Service Company shall be relieved of all further obligations under such contract provided that the assignee public agency expressly assumes the obligations of California Water Service Company thereunder. In the event of such an assignment of a portion of the rights, privileges and obligations of California Water Service Company under such contract, California Water Service Company shall be relieved of such portion of such obligations so assigned thereunder provided that the assignee public agency shall expressly assume such obligations so assigned to it.

D. Should California Water Service Company seek to take over or otherwise acquire, in whole or in part, the service obligations of another Wholesale Customer under Section 3.03.E, it will so inform San Francisco at least six months prior to the effective date of the sale and provide information concerning the total additional demand proposed to be served, in order that San Francisco may compare the proposed additional demand to the then-current estimate of Local System Water. In this regard, California Water Service Company has notified

the SFPUC that it has reached an agreement to acquire the assets of Skyline County Water District (“Skyline”) and assume the responsibility for providing water service to customers in the Skyline service area. California Water Service Company has advised the SFPUC that, on September 18, 2008, the California Public Utilities Commission approved California Water Service Company’s acquisition of Skyline. The SFPUC anticipates approving the transfer of Skyline’s Supply Guarantee as shown on Attachment C to California Water Service Company and the expansion of California Water Service Company’s service area to include the current Skyline service area before the Effective Date of this Agreement. All parties to this Agreement authorize corresponding modifications of Attachment C, as well as any of the Agreement’s other provisions, to reflect the foregoing transaction without the necessity of amending this Agreement.

E. Nothing in this Agreement shall preclude San Francisco from selling water to any county, city, town, district, political subdivision, or other public agency for resale to customers within the service area of the California Water Service Company. Nothing in this Agreement shall require or contemplate any delivery of water to California Water Service Company in violation of the Act.

F. Nothing in this Agreement shall alter, amend or modify the Findings of Fact and Conclusions of Law and the Judgment dated May 25, 1961, in that certain action entitled City and County of San Francisco v. California Water Service Company in the Superior Court of the State of California in and for the County of Marin, No. 23286, as modified by the Quitclaim Deed from California Water Service Company to San Francisco dated August 22, 1961. The rights and obligations of San Francisco and California Water Service Company under these documents shall continue as therein set forth.

9.03. City of Hayward

A. San Francisco and the City of Hayward (“Hayward”) entered into a water supply contract on February 9, 1962 (“the 1962 contract”) which provides, inter alia, that San Francisco will supply Hayward with all water supplemental to sources and supplies of water owned or controlled by Hayward as of that date, in sufficient quantity to supply the total water needs of the service area described on an exhibit to the 1962 contract “on a permanent basis.” The service area map attached as Exhibit C to the 1962 contract was amended in 1974 to remove an area of land in the Hayward hills and in 2008 to make minor boundary adjustments identified in SFPUC Resolution No. 08-0035.

B. The intention of the parties is to continue the 1962 contract, as amended, in effect as the Individual Water Sales Contract between San Francisco and Hayward. Accordingly, it shall not be necessary for San Francisco and Hayward to enter into a new Individual Water Sales Contract pursuant to this Article and approval of this Agreement by Hayward shall constitute approval of both this Agreement and an Individual Water Sales Contract for purposes of Section 1.03. The 1962 contract, as amended, will continue to describe the service area of Hayward, while rates for water delivered to Hayward during the Term shall be governed by Article 5 hereof. The 1962 contract, as amended, will continue in force after the expiration of the Term.

9.04. Estero Municipal Improvement District

A. San Francisco and the Estero Municipal Improvement District (“Estero”) entered into a water supply contract on August 24, 1961, the term of which continues until August 24, 2011 (“the 1961 Contract”). The 1961 Contract provides, inter alia, that San Francisco will supply Estero with all water supplemental to sources and supplies of water owned or controlled by Estero as of that date, in sufficient quantity to supply the total water needs of the service area described on an exhibit to the 1961 Contract.

B. The intention of the parties is to terminate the 1961 Contract and replace it with a new Individual Water Sales Contract which will become effective on July 1, 2009. The new Individual Water Sales Contract will describe the current service area of Estero. The Individual Supply Guarantee applicable to Estero shall be 5.9 MGD, rather than being determined as provided in the 1961 Contract.

9.05. Stanford University

A. The parties recognize that The Board of Trustees of The Leland Stanford Junior University (“Stanford”) operates a non-profit university, and purchases water from San Francisco for redistribution to the academic and related facilities and activities of the university and to residents of Stanford, the majority of whom are either employed by or students of Stanford. Stanford agrees that all water furnished by San Francisco shall be used by Stanford only for domestic purposes and those directly connected with the academic and related facilities and activities of Stanford, and no water furnished by San Francisco shall be used in any area now or hereafter leased or otherwise used for industrial purposes or for commercial purposes

other than those campus support facilities that provide direct services to Stanford faculty, students or staff such as the U.S. Post Office, the bookstore and Student Union.

Nothing in this Agreement shall preclude San Francisco from selling water to any county, city, town, political subdivision or other public agency for resale to Stanford or to customers within the service area of Stanford.

B. Notwithstanding anything in Section 8.08 to the contrary, Stanford shall have the right to assign to a public agency having the power of eminent domain all or a portion of the rights of Stanford under this Agreement or the Individual Water Sales Contract between it and San Francisco in connection with the acquisition by such public agency of all or a portion of Stanford's water system. In the event of any such assignment of all the rights, privileges, and obligations of Stanford under such contract, Stanford shall be relieved of all further obligations under such contract, provided that the assignee public agency expressly assumes Stanford's obligations thereunder. In the event of such an assignment of a portion of the rights, privileges, and obligations of Stanford under such contract, Stanford shall be relieved of such obligations so assigned thereunder, provided that the assignee public agency shall expressly assume such obligations so assigned to it.

Nothing in this Agreement shall require or contemplate any delivery of water to Stanford in violation of the Act.

9.06. City of San Jose and City of Santa Clara

A. **Continued Supply on Temporary, Interruptible Basis.** During the term of the 1984 Agreement, San Francisco provided water to the City of San Jose ("San Jose") and the City of Santa Clara ("Santa Clara") on a temporary, interruptible basis pursuant to SFPUC Resolution No. 85-0256. Subject to termination or reduction of supply as provided in Section 4.05 of this Agreement, San Francisco will continue to supply water to San Jose and Santa Clara on a temporary, interruptible basis pending a decision by the Commission, pursuant to Section 4.05.H, as to whether to make San Jose and Santa Clara permanent customers of the Regional Water System. San Francisco will furnish water to San Jose and Santa Clara at the same rates as those applicable to other Wholesale Customers pursuant to this Agreement. Water delivered to San Jose and Santa Clara after July 1, 2009 may be limited by the SFPUC's ability to meet the full needs of all its other Retail and Wholesale Customers. The service areas of San Jose and Santa Clara set forth in their Individual Water Sales Contracts may not be

expanded using the procedure set forth in Section 3.03. The combined annual average water usage of San Jose and Santa Clara shall not exceed 9 MGD. The allocation of that total amount between San Jose and Santa Clara shall be as set forth in their Individual Water Sales Contracts.

B. **Reservation of Rights**. In signing this Agreement, neither San Jose nor Santa Clara waives any of its rights to contend, in the event that San Francisco (1) elects to terminate or interrupt water deliveries to either or both of the two cities prior to 2028 using the process set forth in Section 4.05, or (2) does not elect to take either city on as a permanent customer in 2028, that it is entitled to permanent customer status, pursuant to the Act or any other federal or state law. Santa Clara's reservation of rights is limited to its existing Service Area A, as shown on Attachment Q-2. Service Area B, south of Highway 101, was added in 2018 solely for the operational convenience of Santa Clara. Santa Clara waives its right to make claims described in this Section 9.06.B and Section 8.07.B.3 with respect to Service Area B. In signing this Agreement, San Francisco does not waive its right to deny any or all such contentions.

9.07. City of Brisbane, Guadalupe Valley Municipal Improvement District, Town of Hillsborough

A. The parties acknowledge that San Francisco has heretofore provided certain quantities of water to the City of Brisbane ("Brisbane"), Guadalupe Valley Municipal Improvement District ("Guadalupe") and the Town of Hillsborough ("Hillsborough") at specified rates or without charge pursuant to obligations arising out of agreements between the predecessors of San Francisco and these parties, which agreements are referred to in judicial orders, resolutions of the SFPUC and/or the 1960 contracts between San Francisco and Brisbane, Guadalupe and Hillsborough. The parties intend to continue those arrangements and accordingly agree as follows:

1. Nothing in this Agreement is intended to alter, amend or modify the terms of SFPUC Resolution No. 74-0653 or the indenture of July 18, 1908 between the Guadalupe Development Company and the Spring Valley Water Company.

2. Nothing in this Agreement is intended to alter, amend or modify the Findings of Fact and Conclusions of Law and Judgment dated May 25, 1961 in that certain action entitled City and County of San Francisco v. Town of Hillsborough in the Superior Court of the State of California in and for the County of Marin, No. 23282, as modified by the Satisfaction of Judgment filed October 23, 1961 and the Compromise and Release between

Hillsborough and San Francisco dated August 22, 1961. The rights and obligations of Hillsborough under these documents shall continue as therein set forth.

3. Nothing in this Agreement is intended to affect or prejudice any claims, rights or remedies of Guadalupe or of Crocker Estate Company, a corporation, or of Crocker Land Company, a corporation, or of San Francisco, or of their successors and assigns, respectively, with respect to or arising out of that certain deed dated May 22, 1884, from Charles Crocker to Spring Valley Water Works, a corporation, recorded on May 24, 1884, in Book 37 of Deeds at page 356, Records of San Mateo County, California, as amended by that certain Deed of Exchange of Easements in Real Property and Agreement for Trade in Connection Therewith, dated July 29, 1954, recorded on August 4, 1954, in Book 2628, at page 298, Official Records of said San Mateo County, or with respect to or arising out of that certain action involving the validity or enforceability of certain provisions of said deed entitled City and County of San Francisco v. Crocker Estate Company, in the Superior Court of the State of California in and for the County of Marin, No. 23281.

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Appendix C

SFPUC Memorandum Re: Regional Water System Supply Reliability and UWMP 2020



TO: SFPUC Wholesale Customers 
 FROM: Steven R. Ritchie, Assistant General Manager, Water
 DATE: June 2, 2021
 RE: Regional Water System Supply Reliability and UWMP 2020

This memo is in response to various comments from Wholesale Customers we have received regarding the reliability of the Regional Water System supply and San Francisco's 2020 Urban Water Management Plan (UWMP).

As you are all aware, the UWMP makes clear the potential effect of the amendments to the Bay-Delta Water Quality Control Plan adopted by the State Water Resources Control Board on December 12, 2018 should it be implemented. Regional Water System-wide water supply shortages of 40-50% could occur until alternative water supplies are developed to replace those shortfalls. Those shortages could increase dramatically if the State Water Board's proposed Water Quality Certification of the Don Pedro Federal Energy Regulatory Commission (FERC) relicensing were implemented.

We are pursuing several courses of action to remedy this situation as detailed below.

Pursuing a Tuolumne River Voluntary Agreement

The State Water Board included in its action of December 12, 2018 a provision allowing for the development of Voluntary Agreements as an alternative to the adopted Plan. Together with the Modesto and Turlock Irrigation Districts, we have been actively pursuing a Tuolumne River Voluntary Agreement (TRVA) since January 2017. We believe the TRVA is a superior approach to producing benefits for fish with a much more modest effect on our water supply. Unfortunately, it has been a challenge to work with the State on this, but we continue to persist, and of course we are still interested in early implementation of the TRVA.

Evaluating our Drought Planning Scenario in light of climate change

Ever since the drought of 1987-92, we have been using a Drought Planning Scenario with a duration of 8.5 years as a stress test of our Regional Water System supplies. Some stakeholders have criticized this methodology as being too conservative. This fall we anticipate our Commission convening a workshop

- London N. Breed**
Mayor
- Sophie Maxwell**
President
- Anson Moran**
Vice President
- Tim Paulson**
Commissioner
- Ed Harrington**
Commissioner
- Newsha Ajami**
Commissioner
- Michael Carlin**
Acting
General Manager



regarding our use of the 8.5-year Drought Planning Scenario, particularly in light of climate change resilience assessment work that we have funded through the Water Research Foundation. We look forward to a valuable discussion with our various stakeholders and the Commission.

Pursuing Alternative Water Supplies

The SFPUC continues to aggressively pursue Alternative Water Supplies to address whatever shortfall may ultimately occur pending the outcome of negotiation and/or litigation. The most extreme degree of Regional Water System supply shortfall is modeled to be 93 million gallons per day under implementation of the Bay-Delta Plan amendments. We are actively pursuing more than a dozen projects, including recycled water for irrigation, purified water for potable use, increased reservoir storage and conveyance, brackish water desalination, and partnerships with other agencies, particularly the Turlock and Modesto Irrigation Districts. Our goal is to have a suite of alternative water supply projects ready for CEQA review by July 1, 2023.

In litigation with the State over the Bay-Delta Plan Amendments

On January 10, 2019, we joined in litigation against the State over the adoption of the Bay-Delta Water Quality Control Plan Amendments on substantive and procedural grounds. The lawsuit was necessary because there is a statute of limitations on CEQA cases of 30 days, and we needed to preserve our legal options in the event that we are unsuccessful in reaching a voluntary agreement for the Tuolumne River. Even then, potential settlement of this litigation is a possibility in the future.

In litigation with the State over the proposed Don Pedro FERC Water Quality Certification

The State Water Board staff raised the stakes on these matters by issuing a Water Quality Certification for the Don Pedro FERC relicensing on January 15, 2021 that goes well beyond the Bay-Delta Plan amendments. The potential impact of the conditions included in the Certification appear to virtually double the water supply impact on our Regional Water System of the Bay-Delta Plan amendments. We requested that the State Water Board reconsider the Certification, including conducting hearings on it, but the State Water Board took no action. As a result, we were left with no choice but to once again file suit against the State. Again, the Certification includes a clause that it could be replaced by a Voluntary Agreement, but that is far from a certainty.

I hope this makes it clear that we are actively pursuing all options to resolve this difficult situation. We remain committed to creating benefits for the Tuolumne River while meeting our Water Supply Level of Service Goals and Objectives for our retail and wholesale customers.

cc.: SFPUC Commissioners

Nicole Sandkulla, CEO/General Manager, BAWSCA