



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: November 21, 2011

Approved

Date

11/30/11

SUBJECT: SECOND AMENDMENT TO AGREEMENT BETWEEN CITY OF SAN JOSÉ AND SAN JOSE WATER COMPANY FOR SUPPLY OF RECYCLED WATER

RECOMMENDATION

Adopt a resolution authorizing the City Manager:

- (a) To negotiate and execute a Second Amendment to the Wholesaler-Retailer Agreement for Supply of Recycled Water between the City of San José and San Jose Water Company (SJWC): to permit SJWC to connect recycled water pipeline, to be built, operated and maintained by SJWC, to the South Bay Water Recycling (SBWR) System;
- (b) To permit SJWC to issue a temporary recycled water meter for construction purposes to a SBWR authorized contractor for use at a recycled water access point (RWAP) within the Retailer's service area; and
- (c) To accept funding for the right to connect the new recycled water pipelines constructed by SJWC to the SBWR System; and to require insurance to be maintained by SJWC for the duration of the agreement.

OUTCOME

Approval of the Second Amendment to the Wholesaler-Retailer Agreement for Supply of Recycled Water between the City and SJWC will provide funding for the SBWR system to accommodate pipeline expansion constructed by SJWC, including the repayment of principal and interest on any bonds issued, loans or advances received and any engineering, direct, indirect and administrative costs incurred for such construction and reconstruction of the SBWR System and the acquisition of land. The amendment will allow SJWC to retail water to contractors for construction purposes through access points constructed by SBWR. Approval of the amendment will also clarify ownership of pipeline constructed by SJWC, and where such construction

includes a meter, the pipeline will be owned by SBWR. The amendment will clarify that SJWC must maintain insurance coverage for the duration of the agreement.

BACKGROUND

As administering agency for the San José/Santa Clara Water Pollution Control Plant (Plant), the City of San José serves as the wholesaler for recycled water produced and delivered by the SBWR system, and the City has agreements with water retailers in Santa Clara, Milpitas and San José (including SJWC) to deliver recycled water to their customer meters. The retailers in turn supply recycled water to their retail water customers, charging a markup on the wholesale cost of recycled water comparable to what they receive for selling potable water. However, unlike the retailers' potable systems, the City owns all recycled water distribution pipelines and is responsible for maintaining them, and also pays for all pipeline extensions, except for those funded by developers. Furthermore, the recycled water system was initially built by the Plant to reduce effluent discharge to San Francisco Bay, and since this objective has been largely achieved by means of the existing infrastructure, further system expansion has been limited to extensions justified by projected water revenues and developer-funded or grant-funded projects.

In 2008 SJWC proposed to begin funding recycled water pipeline extensions in their service area as a means of ensuring a more reliable local water supply. Their proposal was facilitated by a change in the policy of the California Public Utilities Commission (PUC) which regulates the rates charged by San Jose Water Company and other investor-owned utilities. SJWC developed a Recycled Water Master Plan (RWMP) that evaluated different pipeline alignment's ability to deliver recycled water to its customers, primarily for landscape irrigation purposes. Customers identified included schools, parks, and commercial, industrial, and multi-family common areas. SJWC is now constructing these alignments and has begun to connect customers. In 2010, the City and SJWC executed the First Amendment to the Wholesaler-Retailer Agreement that permitted SJWC to build, own, operate and maintain recycled water pipeline in their service area. The Second Amendment to the Wholesaler-Retailer Agreement expands SJWC's capacity to build, own, operate and maintain additional recycled water pipeline in their service area.

ANALYSIS

The proposed second amendment will authorize future pipeline extensions shown on Attachment A, and promote the use of recycled water for construction purposes within the SJWC service area at access points constructed by SBWR. The amendment could provide revenue up to \$1,941,986 to support SBWR staffing including engineering and inspection for the proposed pipeline alignments; ensures ownership of pipelines constructed by SJWC are clearly designated; and requires SJWC to maintain appropriate insurance for the duration for this agreement. The \$1,941,986 is the maximum amount that could be expected from payments made by the San Jose Water Company (per this agreement) if they choose to build recycled water pipeline. The actual payment will depend on how much of the proposed pipeline alignments SJWC decides to build;

should SJWC build some or all of the proposed pipeline alignments (see table below), payments to the City could begin between 2012 and 2015. Under this agreement, recycled water use is projected to increase as more customers are connected to the pipeline constructed by SJWC; operating costs allocated to Plant ratepayers for the expansion of the SBWR distribution system would be offset by additional water sales to customers along pipeline built by SJWC.

Per the recommended amendment, SJWC will be fully responsible for all pipeline construction and customer-related retrofit costs, including engineering, environmental clearance, state and local permitting, pipeline construction, and customer connections. SBWR will be responsible for the ongoing administrative costs associated with regulatory compliance, permitting and reporting. The revenue from the increased wholesale water sales is estimated at 1,100 acre feet and will generate approximately \$350,000. The increased revenue to the City from SJWC for the wholesale recycled water sales for the proposed SJWC alignments will more than offset any increase in City ongoing administrative costs necessary to meet the City's obligations under this amendment.

SJWC Wholesaler Retailer Agreement Amendment #2

Estimated Construction Year	Alignment	Payment to City
2012	S	\$29,635
2012	M	\$24,083
2012	N	\$76,663
2013	R	\$148,787
2013	A	\$347,516
2014	D	\$1,315,302
	Total:	\$1,941,986

EVALUATION AND FOLLOW-UP

The City will continue to be responsible for billing SJWC for use of recycled water. SBWR staff will also collaborate with SJWC in planning, designing and constructing new facilities. Staff will also measure the increase in revenues due to the addition of customers on the proposed pipelines.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

San Jose Water Company and the City of San José have attended monthly meetings to review recycled water planning and operations since the inception of the SBWR program in 1994. This amendment to the existing Wholesaler-Retailer Agreement between the City and SJWC will allow the City to increase recycled water and support the City's Green Vision adopted by the San José City Council in October 2007.

COORDINATION

This memo has been coordinated with Planning and the City Attorney's Office. This memorandum is scheduled to be heard at the December 8, 2011 Treatment Plant Advisory Committee (TPAC) meeting.

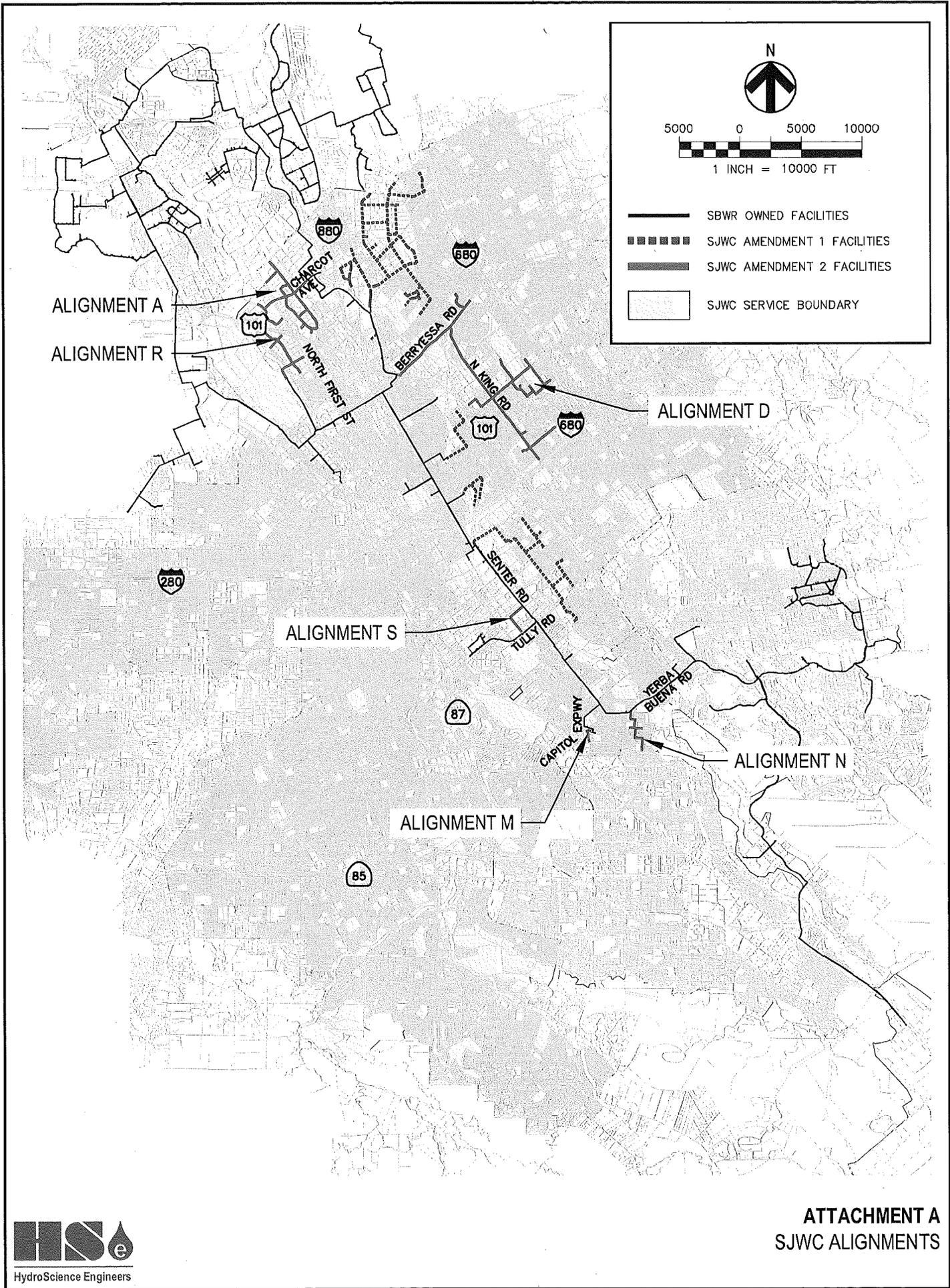
CEQA

Mitigated Negative Declaration PP11-041

/s/
Kerrie Romanow
Acting Director, Environmental Services

Attachment A – Exhibit E

For questions please contact Mansour Nasser, Deputy Director, at (408) 277-2558.



N

5000 0 5000 10000

1 INCH = 10000 FT

- SBWR OWNED FACILITIES
- ▣ SJWC AMENDMENT 1 FACILITIES
- ▬ SJWC AMENDMENT 2 FACILITIES
- SJWC SERVICE BOUNDARY

ALIGNMENT A
ALIGNMENT R

ALIGNMENT D

ALIGNMENT S

ALIGNMENT M

ALIGNMENT N