



City of Arts & Innovation

City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE:** OCTOBER 6, 2015

FROM: PUBLIC UTILITIES DEPARTMENT **WARD:** 1

SUBJECT: PROPOSED WATER PRODUCTION, CONVEYANCE AND RECIPROCAL SALES AGREEMENT WITH THE REGENTS OF THE UNIVERSITY OF CALIFORNIA (UC RIVERSIDE)

ISSUE:

The issue for City Council consideration is approval of the 2015 Water Production, Conveyance and Reciprocal Sales Agreement between the City of Riverside and the Regents of the University of California for water service at the University of California, Riverside (UCR) campus.

RECOMMENDATIONS:

That the City Council:

1. Approve the 10-year Water Production, Conveyance and Reciprocal Sales Agreement between the City of Riverside and the Regents of the University of California for water service at the UC Riverside campus;
2. Authorize the City Manager or his designee to execute the Agreement including making minor non-substantive changes to the Agreement;
3. Authorize the City Manager or his designee to execute any documents necessary to administer the Agreement; and
4. Authorize the City Manager or his designee to terminate the Agreement for circumstances provided in the Agreement.

BOARD RECOMMENDATION:

On July 10, 2015 the Board of Public Utilities, with five of eight members present, unanimously approved the proposed Water Production, Conveyance and Reciprocal Sales Agreement with the Regents of the University of California (UC Riverside).

BACKGROUND:

For the past 18 months, staff has been negotiating a successor agreement to the 1993 Water Sales Agreement between the City of Riverside (City) and the Regents of the University of California (Regents) for water service at the UCR campus. The proposed 2015 Water Production, Conveyance and Reciprocal Sales Agreement between the City and the Regents (Agreement)

recognizes the Regents' unique position as: 1) a co-plaintiff to the 1969 Western Judgment which adjudicated the water rights in the Bunker Hill, Rialto-Colton and Riverside Groundwater Basins; 2) a shareholder in the former East Riverside Water Company, including perpetual rights to use certain City owned water facilities; and 3) a current shareholder in the Gage Canal Company.

Regents Water Rights

Under the terms of the judgment in Western Municipal Water District v. East San Bernardino County Water District (Riverside County Superior Court No. 78426, the "1969 Judgment"), the Regents hold certain water rights in the Bunker Hill and Riverside Groundwater basins. Those rights include an export right from the Bunker Hill Basin in the amount of 738 acre feet annually (afa) and production rights in the Riverside Basin totaling 5,520 acre feet over the proposed term of the Agreement. While fully adjudicated, the Riverside Basin production rights are treated differently under the 1969 Judgment than the Bunker Hill export rights and include a carryover provision for basin-wide under-production. As such, the Regents are entitled to a higher total production value from the Riverside Basin than the annual base right described in the 1969 Judgment, which represents its share of the cumulative basin under-production currently credited in the Watermaster accounting.

East Riverside Water Company (ERWCo)

The Regents hold certain perpetual rights to transfer water through the facilities formerly owned by the Gage Canal Company (Company). ERWCo was an early investor in the Company and acquired perpetual rights to flow water through the canal facilities. The City acquired the water rights as well as production, conveyance and distribution facilities of the Company through a stipulated judgment in eminent domain in 1965. With that acquisition, the City acquired the obligations of the Company to its shareholders and original investors. The water rights acquired through ERWCo are reflected in the 738 afa described above, and the right to flowage is reflected in the financial modeling to establish the proposed conveyance rate.

Gage Canal Company

The Regents are shareholders in the Company and receive water for use on the agricultural portions of the campus. The Regents propose to construct a new agricultural well on campus which would make the current 987 afa of Gage Canal water available for delivery to the campus for domestic use.

Proposed Terms

While the Regents own and control certain water rights in the local groundwater basins, it does not own sufficient production, conveyance or distribution facilities to produce and deliver the water from the various groundwater basins to the UC Riverside campus (Campus).

Under the terms of the Agreement, the City would produce and convey the Regents' owned water rights at Riverside's costs, including energy, operation and maintenance, facility capital replacement and assessments. The proposed cost structure is consistent with the methodology previously employed with the production and conveyance agreement between Riverside and the Western Municipal Water District.

Two separate meters serve the Campus. The Agreement terms reflect the costs of delivery to the meters located in different system elevation zones (commonly referred to as pressure zones). A two-percent cost inflator is proposed with a five-year cost review to ensure the sales terms reflect reasonable inflationary and system efficiency costs and improvements.

A reciprocal sales clause is proposed in the event Regents use less than their full annual production or export right. Riverside would lease those rights on an annual basis for \$225 per acre foot for each acre foot actually used by Riverside for delivery to other customers. It is not anticipated that this water would be available until the Regents complete construction and commission a new agricultural well on the campus.

Any water deliveries to the campus in excess of the annual water rights identified in the Agreement would be billed to the Regents at the standard commercial/industrial water rates, presently the WA-6 water rate schedule. To simplify monthly administration of the billing, the Agreement provides for a proxy tariff of \$0.5300 per ccf of water delivered with twice annual reconciliation of the Agreement cost terms to the actual billed amount.

FISCAL IMPACT:

Estimated annual revenue from the Agreement is \$250,000 for the first full year, and will vary depending on actual water usage by the Regents and potential construction of the new agricultural well by the Regents.

Prepared by: Girish Balachandran, Public Utilities General Manager
Certified as to availability of funds: Brent A. Mason, Finance Director/Treasurer
Approved by: John A. Russo, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Agreement
2. Board of Public Utilities Minutes of July 10, 2015