

First Amendment to the 2009 Water Production and Conveyance Agreement with Western Municipal Water District

Utility 2.0 - Monetization of Excess Water Resources

Riverside City Council

November 3, 2015

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Policy Context

- Within City Council approved Policy:
 - Create short-term revenue;
 - through time-limited lease of unused water rights;
 - that otherwise expire December 31, 2015

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Background – Current Agreement

- Water Production and Conveyance Agreement with Western Municipal Water District
 - Approved by City Council, March 30, 2009
 - Authorizes use of underutilized system capacity
 - Water system built for peak capacity
 - Production & conveyance available seasonally & off-peak



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Background – Current Agreement

- WMWD secures their own groundwater rights
 - 4,208 acre-feet annually (afa) from Elsinore Valley Municipal Water District (Meeks and Daley)
 - 1,500 afa from Riverside Highland Water Company
- RPU produces & conveys WMWD's water
 - Recovers energy costs
 - Charges average Operation and Maintenance cost



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Conservation Effect

- RPU has underutilized Bunker Hill Basin Rights
 - Drought response near 28% from baseline
 - Production down 5,000 af out of 55,000 af export rights
 - Essentially use or lose water rights

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Why didn't we pump all our rights?

- RPU produces water with three priorities:
 - Water Quality
 - Minimize Costs
 - Produce water rights
- Maintaining water quality requires blend of water resources from different basins
- Customer demand is down 28% from 2013

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Policy Background

- Policy Principles for Water Portfolio Management

– Approved by City Council October 2014

“Riverside will strive to appropriately monetize unused and potentially expiring local water production and export rights through pre-planned and pre-executed water sales agreements.”

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Proposed First Amendment

- Implements 2014 Policy intent
- Provides lease of portion of RPU remaining 2015 water export rights:
- Recovers marginal cost of operation
- Recovers water resource value
- Limited to remaining 2 months of 2015

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How did we arrive at the price?

- Cost components for production and conveyance were carried over from the original agreement
- Water resource cost was negotiated with WMWD
 - No real market for water – “Oligopsony”
 - Price represents value to RPU
 - Price represents value to WMWD

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Why would we sell for less than UCR agreement?

- RPU has not transacted with UCR at this rate.
- RPU willingness to pay UCR for future excess resources represents value to RPU versus cost of developing new resources (Rubber Dam, Seven Oaks, Recycled, imported, etc).
- Value of \$187.50/af to WMWD represents value to ratepayers versus loss of water through expiration.

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Shared Benefits

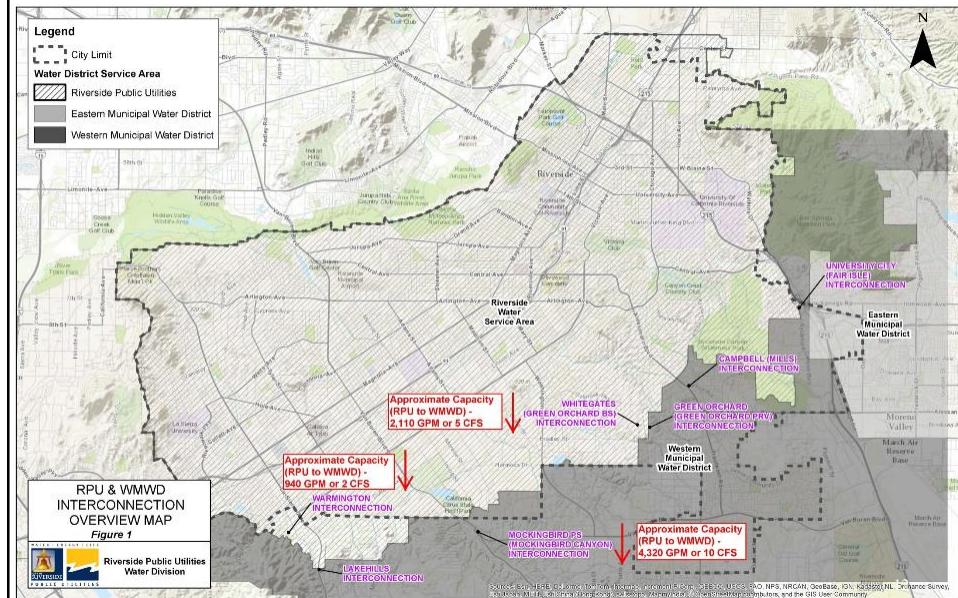
- RPU's revenues increase
 - Net about \$1,300,000 after direct cost
 - Backfills revenue shortfall from conservation action
- WMWD has access to lower cost source
 - Save about \$400,000 versus imported water

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Three Interconnections with WMWD



Mockingbird Delivery Site

1200 Zone – 55%



Green Orchard Delivery Site

1650 Zone – 45%



Typical Wheeling Revenue (\$/af)

Leased Water	\$188
Average Production (Typical)	\$40
Average O&M for the System	\$350
Weighted Energy	\$85
Weighted Unit	\$664

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Are there other alternatives?

- One alternative is to leave the water in the ground.
 - By not transacting, however, we expose our customers to higher future rate increases.
 - Value of this action equates to 3% one-time rate increase (\$1,500,000 revenue against \$50,000,000 rate base)

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Have we transacted like this before?

- Operationally, this is no different than our current deliveries under the conveyance agreement.
- We have transacted with Home Gardens County Water District for wholesale sales in the past (c. 1989 – 2014).
- This is our first transaction regarding short-term excess water rights.

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Are there other buyers?

- Not at this time, but future potential.
- Future market limited geographically by 1969 Judgment.
- Future market limited by physical proximity, water system adjacency, and system connectivity.

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How will the revenue be used?

- Revenue will not be ear-marked for any specific purpose.
- Over-arching goal is to backfill revenue loss from conservation action of our retail base.

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Recommendations

That the City Council:

1. Approve the First Amendment to the 2009 Water Production and Conveyance Agreement with Water Municipal Water District of Riverside County; and
2. Authorize the City Manager or designee to execute the agreement.

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