



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: NOVEMBER 3, 2015**
FROM: PUBLIC UTILITIES DEPARTMENT **WARD: 2**
SUBJECT: PROPOSED WATER PRODUCTION, CONVEYANCE AND RECIPROCAL SALES AGREEMENT WITH THE REGENTS OF THE UNIVERSITY OF CALIFORNIA (UC RIVERSIDE) - CONTINUED FROM OCTOBER 6, 2015

ISSUE:

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. As such, this agreement acknowledges that UCR has obtained its own water rights and RPU provides the service of "wheeling" or delivering their water rights to them. The costs are tied to the usage of specific infrastructure as well as the cost to move the water (energy). The general format of the Agreement breaks costs of producing and conveying water into categories that are priced or costed in different manners as appropriate to the specific cost component. The cost terms are more fully explained in the latter text of this report.

In developing the Agreement, Riverside and UC Riverside staff acknowledged that at some future date, UCR may have water resources within its control from new resource development (for example construction of a new well on campus) or through heightened water conservation in excess of growing demand. If and when those events occur, Riverside may benefit from purchase or lease of those resources and avoid construction of new facilities wherein Riverside bears all the costs and risks. The agreement provides that optionality for Riverside, but does not obligate Riverside to any specific actions.

Presently, UC Riverside's annual domestic water use on the campus (water delivered through its two meters) is approximately 1,200 acre feet or 522,000 ccf (RPU's standard billing unit). An acre foot of water is approximately 325,800 gallons. UC Riverside's water use on campus has grown over time as new buildings have been constructed and student enrollment has increased.

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. Individual cost terms are highlighted more fully below.

Energy Component

Under the terms of Section 9.1.1 of the Agreement, Regents will pay the actual cost of the energy used (RPU and Southern California Edison power rates) to pump water out of the ground and deliver it to either of the two Riverside water meters serving the campus. Based on the piping configuration of Riverside's water system, these facilities used to produce and convey Regents water rights are easily determined. Exhibit B of the Agreement identifies the current estimated cost of the energy for production and conveyance at \$60 and \$110 per acre foot (\$0.14 and \$0.25/ccf), but billing will be based on actual cost incurred.

Operation and Maintenance Component

Under the terms of Section 9.1.2 of the Agreement, Regents would pay the current average system operation and maintenance cost for that portion of Riverside's water system actually used in the production and conveyance of Regents water resources. These costs are proposed to be escalated at 2-percent annually, with a review and potential adjustment of those costs at year five of the agreement. Exhibit B identifies those costs for each differing water resource location and Exhibit C lays out the rationale and calculations for the various cost components.

Capital Recovery Factor

The proposed agreement uses a capital recovery factor or system leasing methodology to assign a cost for Regents use of Riverside's water system for production and conveyance. The cost methodology assumes the cost of facility replacement in nominal 2015 dollars, bond financed at 20 years at current interest rates and apportions Regents use based on annual volume delivered through those facilities. Exhibit D identifies the calculations for determination of the Capital Recovery Component of the rate which is fixed for the 10 year term of the agreement.

Other

Regents will be responsible for any current or future groundwater production, storage, or conservation assessment levied by outside governmental agencies. Currently, the San Bernardino Valley Water Conservation District levies a groundwater assessment of approximately \$12 per acre foot which will be passed on the Regents in a separate annual billing. Customer and meter charges will be billed to Regents in accordance with adopted rate tariff WA-6, presently \$1,330.40 per month per meter. Any water used by the Regents in excess of their owned resources (1,290 acre feet annually or approximately 561,870 ccf) would be billed under the standard WA-6 tiered rate schedule.

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. Riverside is not obligated to this purchase but may find it more economical than constructing new capital improvements that increase our resource portfolio.

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. This rate is approximately 30% of the standard WA-6 rate but reflects the nature of the Regents water rights, the campuses unique location and Riverside's water system components necessary for delivery and fully recovers Riverside's costs for producing and conveying Regents water rights from the point of origin to the campus. Estimated annual revenue from the production and conveyance Agreement is \$250,000 for the first full year and compares favorably to the terms of the prior agreement which yielded revenue to Riverside on the order of \$180,000 annually.

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
3. Board of Public Utilities Presentation from July 10, 2015