



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: NOVEMBER 3, 2015**

FROM: PUBLIC UTILITIES **WARDS: ALL**

SUBJECT: UTILITY 2.0: FIRST AMENDMENT TO 2009 WATER PRODUCTION AND CONVEYANCE AGREEMENT WITH WESTERN MUNICIPAL WATER DISTRICT- MONETIZATION OF EXCESS WATER RESOURCES FOR CALENDAR YEAR 2015 FOR ESTIMATED REVENUE OF \$1,660,000

ISSUE:

The issue for City Council consideration is the approval of the First Amendment to the 2009 Water Production and Conveyance Agreement with Western Municipal Water District of Riverside County to lease and monetize anticipated unused water export rights in the Bunker Hill Basin for the balance of calendar year 2015.

RECOMMENDATIONS:

That the City Council:

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

Board of Public Utilities Recommendation:

The Board of Public Utilities approved this item at their regular meeting on October 16, 2015.

BACKGROUND:

In late 2008, the Board of Public Utilities approved the Water Production and Conveyance Agreement (Wheeling Agreement) with Western Municipal Water District (Western) wherein the City of Riverside Public Utilities (RPU) operates its excess production, transmission, and distribution facilities to deliver potable and non-potable water that Western owns, leases, or controls in the Bunker Hill, Rialto/Colton, Riverside North, and/or Riverside South ground water basins to Western's service area. The agreement was subsequently approved by the City Council and the Agreement executed on March 30, 2009. To date for calendar year 2015, RPU has produced and conveyed (wheeled) approximately 5,000 acre feet (one acre foot (AF) equals 325,800 gallons) of Western controlled groundwater from the Bunker Hill Basin. For each acre foot of water wheeled, RPU charges Western based on three cost components: 1) energy used at the well, based on actual cost; 2) energy used at distribution pump stations, based on actual cost; and, 3) system operation and maintenance cost of \$350/AF.

RPU Water Rights and 2015 Extractions

RPU's rights to extract and export groundwater from the Bunker Hill Basin in San Bernardino County are controlled by the terms of a 1969 court decision and judgement in *Western Municipal Water District v. East San Bernardino County Water District* (Riverside County Superior Court No. 78426). Under the terms of that judgment, Riverside has the annual right to extract and export from its wells approximately 55,000 AF annually. Any volume of water not produced and exported is forfeited at the end of the calendar year, and the export right begins new for the following calendar year. As such RPU does not have the ability to store or bank under-produced water for future years.

As California endures the fourth year of a historic drought, RPU customers have stepped up and responded to calls for water conservation. To date, RPU customers have conserved close to 28% compared to the June through September 2013 baseline period. As a result, RPU staff expects we will under-produce our Bunker Hill water export right by approximately 5,000 acre feet.

Revenue Impacts of Conservation

During the first two months of the fiscal year, water utility revenue from retail sales is at 84% of projected budget. This equates to a revenue shortfall of \$2,000,000 for the start of the fiscal year. Staff is projecting revenue will continue to fall short of the budgeted target as customers continue to conserve. A wet winter from El Nino conditions would have a similar dampening effect on revenue, as does customer conservation efforts.

Water Management Policy Principles

The Board of Public Utilities adopted, and the City Council subsequently approved on October 28, 2014, the Policy Principles for Water Portfolio Management (copy attached). The principles recognize first and foremost the City's role as stewards of a limited natural resource for the benefit of our customer-owners. Within that role, and recognizing the adjudicated nature of our groundwater rights, the policy principles frame potential actions for the acquisition and use of the City's water resources. To that end, included in the policy principles is the following:

- "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."

Amendment to Wheeling Agreement

Staff recommends an amendment to the Wheeling Agreement to provide for RPU delivery of excess RPU water rights from the Bunker Hill Basin during calendar year 2015. In discussions with Western, staff believes an opportunity to delivery approximately 2,500 AF exists before year-end. Staff will work with Western to maximize the delivery, which could be more or less than the current estimate, but would not in any case cause RPU to exceed its maximum export right.

In January 2015, Western negotiated the lease of 1,500 AF of Bunker Hill export right with Riverside Highland Water Company. The lease rate Western negotiated is \$150/AF in the ground. Western relies on its Wheeling Agreement with RPU to exercise this lease for delivery. RPU participated in the Seven Oaks Dam water conservation project in 2011, and estimates the cost of additional water supply (resource in the ground) at approximately \$220/AF.

The October 6, 2015 agreement with the Regents of the University of California (UCR) for water sales specifies a negotiated reciprocal sale price of water from UCR to RPU of \$225/AF in the ground. The rate of \$225/AF represents a negotiated price based roughly on the average cost for UCR to develop their rights for Seven Oaks Water. RPU does not anticipate exercising the reciprocal sales clause of the agreement in the near future, but it is an indicator of value or proxy for an artificial water market.

RPU and Western staff approached the lease rate for the proposed amendment based on an even split of the previously negotiated Western rate with Riverside Highlands Water Company (\$150/AF) and the market price RPU established through the UCR negotiations (\$225/AF). As such, staff proposes the amended agreement would include the three cost components from the current Wheeling Agreement, plus a supply charge of \$187.50/AF.

Total cost of the water delivered to Western would be approximately \$665/AF, depending on actual energy costs from the wells and distribution boosters. Anticipating approximately 2,500 AF of water deliveries, new revenue to RPU is estimated at approximately \$1,660,000, less direct energy costs of \$312,000 for new net revenue of \$1,348,000.

Western would purchase water from RPU at a discount from the current Metropolitan Water District of Southern California rate of \$923/AF, for net savings to them of approximately \$410,000. Details of the pricing terms are shown on the attached sheet.

FISCAL IMPACT:

RPU would incur direct costs of approximately \$312,000 for energy to produce and convey 2,500 AF of water from the Bunker Hill Basin to Western's point of interconnection with RPU. These costs would be recovered through estimated revenue of \$1,660,000 under the terms of the proposed agreement. Net revenue after direct costs to RPU would be approximately \$1,348,000. This revenue would help backfill reduced revenue from retail customers that has resulted from water conservation efforts throughout 2015. Funds for payment of electrical costs related to pumping are budgeted and available in the Public Utilities Water Production and Operations Account 620000-422200.

Prepared by: Girish Balachandran, 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. First Amendment to the Water Production and Conveyance Agreement with Western Municipal Water District
2. Water Production and Conveyance Agreement with Western Municipal Water District
3. Policy Principles for Water Portfolio Management (adopted 10/20/2014)
4. Pricing Term Sheet – Estimate
5. Presentation