



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE:** AUGUST 22, 2016

**ITEM NO:** 7

**SUBJECT:** PROPOSED SECOND AMENDMENT TO COOPERATIVE AGREEMENT FOR WATER PRODUCTION AND CONVEYANCE BETWEEN CITY OF RIVERSIDE AND WESTERN MUNICIPAL WATER DISTRICT TO INCLUDE MONETIZATION OF EXCESS WATER RESOURCES FOR CALENDAR YEAR 2016 AND 2017 FOR ESTIMATED GROSS REVENUE OF ABOUT \$3,500,000

**ISSUE:**

Recommend City Council approve the Second Amendment to the Cooperative Agreement for Water Production and Conveyance between City of Riverside and Western Municipal Water District of Riverside County to lease and monetize anticipated unused water export rights in the Bunker Hill Basin for calendar year 2016 and 2017.

**RECOMMENDATIONS:**

That the Board of Public Utilities recommend that the City Council:

1. Approve the Second Amendment to the Cooperative Agreement for Production and Conveyance between City of Riverside and Western Municipal Water District of Riverside County; and
2. Authorize the City Manager or designee to execute the agreement.

**BACKGROUND:**

In late 2008, the Board of Public Utilities approved the Cooperative Agreement for Water Production and Conveyance (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 (i.e. wheeled water). "Wheeling" means that RPU allows Western to transport Western water through the RPU transmission system. The Agreement was subsequently approved by the City Council and the Agreement executed on March 30, 2009.

In October 2015, the Board of Public Utilities approved the First Amendment to the Agreement to allow RPU to lease and monetize its unused water export rights in the Bunker Hill Basin to Western for the balance of calendar year 2015 (i.e. wholesale water). The First Amendment was subsequently approved by the City Council and was executed on November 13, 2015. Under the First Amendment, RPU produced and conveyed 1,442 acre feet (AF) or 470,000,000 gallons of wholesale water.

To date for calendar year 2016, RPU has produced and conveyed (wheeled) approximately 4,500 acre feet (about 1.5 billion gallons) of Western-leased 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. Staff anticipates that RPU will have wheeled all of Western's 2016 water rights (5,708 AF) by the end of September.

### 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.”

### RPU Water Rights and 2016 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 judgment 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 a 5-year period. As such RPU does not have the ability to store or bank under-produced water for future years.

As California endures the fifth 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 20% compared to the 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 in calendar year 2016. Surplus water supply in excess of RPU's retail demand is also anticipated in 2017.

### Revenue Impacts of Conservation

During fiscal year 2015-16, water utility revenue from retail sales was at about 90% of projected budget. This equates to a revenue shortfall of approximately \$6 Million. Beginning in June of 2016, the State Water Resources Control Board lifted the mandatory outside watering restrictions and staff projects an increase in retail water sales in fiscal year 2016-17. (This has resulted in an increase of domestic water consumption, which has been figured into the 5,000 acre-feet in under production estimated above.)

### Amending the Agreement

Staff recommends an amendment to the Agreement (Second Amendment) to provide for RPU delivery of excess RPU water rights from the Bunker Hill Basin during the balance of calendar year 2016 through February 2017. In discussions with Western, staff estimates a maximum delivery of approximately 5,000 AF of water exists by the end of February 2017 depending on operational conditions. Staff will work with Western to maximize the delivery, which could be more or less than the current estimate, but would not cause RPU to exceed its maximum export right.

In 2015, the Board of Public Utilities and City Council approved an agreement with the Regents of the University of California (UCR) for water sales which included a reciprocal sale price of groundwater from UCR to RPU of \$225/AF. 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 agreed to a lease rate for the proposed amendment based on the UCR agreement. As such, staff proposes the amended agreement would include the three cost components from the current Wheeling Agreement, plus a supply charge of \$225/AF. The First Amendment with Western included a

supply charge of \$187.50.

Total cost of the water delivered to Western would be approximately \$700/AF, depending on actual energy costs from the wells and distribution boosters. Anticipating up to 5,000 AF of water deliveries, new gross revenue to RPU is estimated at approximately \$3,500,000. The estimated energy costs to produce and convey 5,000 AF of water from the Bunker Hill Basin to Western is approximately \$625,000.

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 \$1,115,000. Details of the pricing terms are shown on the attached sheet.

**FISCAL IMPACT:**

RPU would incur direct costs of approximately \$625,000 for energy to produce and convey about 5,000 AF of water from the Bunker Hill Basin to Western's point of interconnection with RPU. These costs would be recovered through estimated gross revenue of \$3,500,000 under the terms of the proposed agreement. This revenue would help backfill reduced revenue from retail customers that have resulted from water conservation efforts throughout 2015 and 2016. 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:	Todd L. Jorgenson, Public Utilities Assistant General Manager/Water
Approved by:	Girish Balachandran, Public Utilities General Manager
Approved by:	John A. Russo, City Manager
Approved as to form:	Gary G Guess, City Attorney

- Attachments:
- 1) Second Amendment to the Water Production and Conveyance Agreement with Western Municipal Water District
  - 2) First Amendment to the Water Production and Conveyance Agreement with Western Municipal Water District
  - 3) Original Water Production and Conveyance Agreement with Western Municipal Water District
  - 4) Policy Principles for Water Portfolio Management (adopted 10/20/2014)
  - 5) Pricing Term Sheet - Estimate