



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: MAY 16, 2017**

FROM: PUBLIC UTILITIES **WARDS: ALL**

SUBJECT: 2017 COOPERATIVE AGREEMENT FOR LONG-TERM WHEELING AND SURPLUS WATER SALES WITH WESTERN MUNICIPAL WATER DISTRICT THROUGH JUNE 30, 2037 FOR PRODUCTION, TREATMENT AND CONVEYANCE OF WESTERN WATER AND THROUGH JUNE 30, 2027 FOR RIVERSIDE WATER

ISSUE:

Approve the 2017 Cooperative Agreement for Long-Term Wheeling and Surplus Water Sales between the City of Riverside and Western Municipal Water District to lease and monetize anticipated unused production and conveyance capacity within Riverside's water system through June 30, 2037; and, to lease and monetize anticipated unused water export rights in the Bunker Hill Basin through June 30, 2027.

RECOMMENDATION:

That the City Council:

1. Approve the 2017 Cooperative Agreement for Long-Term Wheeling and Surplus Water Sales between the City of Riverside and Western Municipal Water District; and
2. Authorize the City Manager, or his designee, to execute the agreement.

BOARD RECOMMENDATION:

The Board of Public Utilities, by unanimous vote with seven members present (one seat vacant) at their meeting April 24, 2017, recommended the City Council approve the 2017 Cooperative Agreement for Long-Term Wheeling and Surplus Water Sales between the City of Riverside and Western Municipal Water District; and, authorize the City Manager, or his designee, to execute the agreement.

BACKGROUND:

In late 2008, the Board of Public Utilities approved the Cooperative Agreement for Water Production and Conveyance with Western Municipal Water District (WMWD) wherein the City of

Riverside Public Utilities (RPU) operates its excess production, transmission, and distribution facilities to deliver potable and nonpotable water that WMWD owns, leases, or controls in the Bunker Hill, Rialto/Colton, Riverside North, and/or Riverside South groundwater basins to WMWD's service area (i.e. wheeled water). "Wheeling" means that RPU allows WMWD to transport WMWD water through the RPU transmission system. The Agreement was subsequently approved by the City Council and the Agreement executed on March 30, 2009. Between 2009 and 2016 RPU has wheeled, on average, about 4,800 Acre Foot per Year (AFY) to WMWD.

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 WMWD for the balance of calendar year 2015 (i.e. Surplus 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 Surplus Water. In calendar year 2015, RPU also produced and conveyed about 5,708 acre feet (AF) or 1.86 billion gallons of wheeled water to WMWD.

In August 2016, the Board of Public Utilities approved the Second Amendment to the Agreement to allow RPU to lease and monetize its unused water export rights in the Bunker Hill Basin to WMWD for the balance of calendar year 2016 through February 2017. The Second Amendment was subsequently approved by the City Council and was executed on September 13, 2016. Under the Second Amendment, RPU produced and conveyed 3,197 acre feet (AF) or 1.04 billion gallons of Surplus Water. In calendar year 2016, RPU also produced and conveyed about 5,508 acre feet (AF) or 1.79 billion gallons of wheeled water to WMWD.

DISCUSSION:

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 (Attachment 1). 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 CONVEYANCE CAPACITY

RPU's water system is designed to meet peak flow demands which typically occur during summer months. During non-peak conditions, there is excess production, treatment, and conveyance capacity within RPU's wells, treatment plants, booster stations, and pipelines. RPU staff has evaluated several scenarios based on historical seasonal patterns and current water use trends. The analysis demonstrates that RPU will have surplus capacity within its system during non-peak conditions to wheel the estimated 5,408 AF per year to WMWD. Where practical and when deliveries to WMWD will not impact service to RPU customers, water may be wheeled during summer months. The intent is to lease conveyance capacity within RPU's water system,

when surplus capacity exists, to facilitate WMWD's expanded use of local water supplies for the benefit of both WMWD and RPU customers.

RPU WATER RIGHTS

RPU's rights to extract and export groundwater from the Bunker Hill Basin in San Bernardino County are governed 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, RPU 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. Since June 2015, when the State first mandated that RPU conserve water, RPU customers have stepped-up and have conserved close to 20% compared to the 2013 baseline period, which translate into about 12,000 AF per year of water use reduction, on average. RPU's customers have continued this high level of conservation even though the City self-certified that a 0% conservation level was warranted last July. This is due in part to demand hardening, which means that RPU customers have made changes that resulted in permanent reduction in water usage. Furthermore, with the State's new water use criteria as outlined in Executive Order B-37-16 "Making Water Conservation a California Way of Life", RPU staff projects that future customer demands will result in an under-production of RPU's total water rights by more than 5,000 acre feet per year over the next 10-years.

AGREEMENT TERMS

The Cooperative Agreement for long-term Wheeling and Surplus Water sales with WMWD is intended to amend and restate the terms of the 2009 Cooperative Agreement for Water Production and Conveyance. RPU and WMWD desire to enter into this agreement to expand the use of local water supplies for the benefit of all customers. The Agreement requires close coordination between both Operations' staff, yet allows for operational flexibility in meeting the annual commitments. The Agreement provides certain assurances to RPU, mainly that deliveries to WMWD are secondary to RPU's retail customers and any other existing obligation or commitment (i.e. Gage Exchange, etc.).

The Agreement provides for a new long-term commitment by RPU to produce, treat, and convey a firm annual volume, 5,408 AFY, of WMWD-acquired water for 20-years and the associated pricing structure. For each acre foot of water Wheeled, RPU will charge WMWD based on three cost components:

1. Actual energy costs associated with wells and booster stations,
2. Actual Operations and Maintenance costs associated with supply and transmission, and,
3. A capital recovery charge associated with the Waterman wells and supply transmission pipelines, distribution system, reservoirs, and booster stations.

For 2017-18 the anticipated Wheeling cost is estimated at \$517 per AF. The exact cost will be based on the volume of water delivered and the actual costs incurred by RPU to deliver WMWD's water.

Furthermore, the Agreement provides for a new long-term commitment by RPU to produce, treat, and convey a firm annual volume, 2,000 AFY, of RPU's export right to WMWD for 10-years and the associated pricing structure. For each acre foot of Surplus Water sold, RPU will charge WMWD the Wheeling cost plus a commodity charge. The commodity price will be calculated

based on a “Shared Benefit Methodology”. The Shared Benefit Methodology is intended to establish an all-inclusive price that equally splits the difference between RPU’s rate to deliver WMWD Water, less WMWD’s weighted average transmission cost to boost into their system, and Metropolitan Water District of Southern California (MWD) Tier 1 cost. The difference between the calculated all-inclusive price and RPU’s rate to deliver WMWD Water will be deemed to be the Surplus Water price. The Surplus Water price calculation, presented as an equation is:

$$\frac{(\text{Wheeled Water Cost} - \text{Western's Pumping Cost} + \text{MWD's Tier 1 Cost})}{2} = \text{Surplus Water Price}$$

An example of the Surplus Water price calculation is:

$$\frac{(\$517/AF - \$60/AF + \$979/AF)}{2} = \$718 \text{ per AF}$$

In the example Surplus Water price calculation, RPU would be paid about \$201 per AF for the use of its export rights above the Wheeling cost (i.e. commodity price) and WMWD would save about \$201 per AF (e.g. \$979 - \$718 + \$60) as compared to purchasing imported water from MWD. With this price structure, both RPU and WMWD equitably split the savings. The exact cost will be based on the volume of water delivered and the actual costs incurred by RPU to deliver Surplus Water.

FISCAL IMPACT:

RPU would receive approximately \$2.8 million in 2017-18 from wheeling WMWD’s water. RPU would receive about \$1.44 million in 2017-18 from Surplus Water sales. Revenue from Wheeling and Surplus Water sales are anticipated to increase each subsequent year. Over the term of this agreement, revenue from Wheeling and Surplus Water sales may exceed \$100 million dollars.

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 Certified as to
 Availability of funds: Scott G. Miller, Ph.D., Chief Financial Officer/City Treasurer
 Approved by: John A. Russo, City Manager
 Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Policy Principles for Water Portfolio Management
2. 2017 Cooperative Agreement for Long-Term Wheeling and Surplus Water Sales
3. Board Minutes
4. Presentation