



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL** **DATE: MARCH 3, 2020**  
**FROM: PUBLIC UTILITIES DEPARTMENT** **WARD: ALL**  
**SUBJECT: AGREEMENT FOR SALE OF SURPLUS POTABLE WATER AND EMERGENCY POTABLE WATER WITH CITY OF NORCO FOR A FIVE-YEAR TERM**

## **ISSUE:**

Approve the Agreement for the Sale of Surplus Potable Water and Emergency Potable Water with the City of Norco for a five-year term.

## **RECOMMENDATIONS:**

That the City Council:

1. Approve the Agreement for the Sale of Surplus Potable Water and Emergency Potable Water with the City of Norco for a five-year term;
2. Authorize the City Manager, or designee, to execute the Agreement for the Sale of Surplus Potable Water and Emergency Potable Water including the ability to make minor non-substantive changes; and
3. Review the availability of surplus water during year four of the Agreement for the Sale of Surplus Potable Water and Emergency Potable Water and determine whether the agreement should be terminated.

## **BOARD RECOMMENDATIONS:**

On February 10, 2020, the Board of Public Utilities, with eight (8) members present, following discussion, unanimously voted to recommend that the City Council approve the Agreement for the Sale of Surplus Potable Water and Emergency Potable Water with the City of Norco for a five-year term and authorized the City Manager, or designee, to execute the Agreement including making minor non-substantive changes.

Board Member Walcker offered a substitution motion, which was also approved, to recommend that City Council review the availability of surplus water during year four of the proposed agreement and requested that staff bring back to the Board annual reporting of cost of next year's delivery for water and amount of deliveries for the past year.

## **BACKGROUND:**

On November 14, 2016, the Board of Public Utilities (Board) approved the construction of the Arlington Avenue 16-inch Water Main Extension Project. This pipeline allowed Riverside Public Utilities (RPU) to serve customers within RPU's service area who were previously being served by the City of Norco and provides for an interconnection with the City of Norco (Norco) for Surplus Potable Water and Emergency Potable Water sales.

On February 12, 2019, City Council approved an agreement for the sale of Emergency Potable Water between the Cities of Norco and Riverside.

## **DISCUSSION:**

### **Water Management Principles**

The Board adopted, and the City Council subsequently approved on October 28, 2014, the Policy Principles for Water Portfolio Management (Attachment 2). 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 the City's 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 deliver the estimated 1,000 acre-feet (AF) per year to Norco. Where practical and when deliveries to Norco will not impact service to RPU customers or to any other obligations, water may be delivered during summer months. The intent is to lease conveyance capacity within RPU's water system, when surplus capacity exists, to facilitate Norco's expanded use of local water supplies for the benefit of both Norco 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 five-year period. As such, RPU does not have the ability to store or bank under-produced water for future years.

Initially, when the State first mandated that all municipalities conserve water, RPU customers stepped-up and conserved close to 20% compared to the 2013 baseline period. Even with the mandatory restrictions removed, RPU customers still conserve about 10% compared to the 2013 baseline period, which translates into about 6,000 AF per year of water use reduction. This is due in part to demand hardening, which means that RPU customers have made changes that resulted in a 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 about 5,000 AF per year over the next 5 to 10 years depending on the amount of development.

### Agreement Terms

The Agreement for the Sale of Surplus Potable Water and Emergency Potable Water is intended to amend and restate the terms of the 2019 agreement for the sale of Emergency Potable Water. Norco and RPU desire to enter into this agreement to expand the use of local water supplies for the benefit of all customers, and to also improve the reliability to both cities in the event of a loss of water due to a pipeline shutdown, mechanical failure of water system equipment, loss of an existing water supply or to overcome other short-term water quality impediments. Emergency water shall not be provided for longer than 60 calendar days without the written approval of the selling party. Under the agreement, both agencies acknowledge that the selling party shall have the sole discretion to determine what amount of water, if any, to sell to the purchasing party in case of emergency and can exercise that discretion for any reason.

The term of the agreement is five years, and then will automatically renew for another five year term unless either party gives a one-year written notice of termination. This notice must be given prior to expiration of the agreement, which means the fourth year of the agreement.

The agreement requires close coordination between both operations' staff allowing for operational flexibility in meeting the annual commitments. The agreement provides certain assurances to RPU, mainly that deliveries to Norco are secondary to RPU's retail customers and any other existing obligation or commitment (e.g. Gage Exchange, Western Agreement, etc.).

The agreement provides for a new commitment by RPU to produce, treat, and convey a volume of about 1,000 AFY of RPU's export right to Norco for five (5) years and the associated pricing structure. For each acre-foot of surplus water sold, RPU will charge Norco the delivery cost plus a commodity charge. Pricing will be set 12 months prior to deliveries for the year. The delivery portion of the cost is based on the following three (3) cost components:

1. Energy costs associated with wells and booster stations,
2. 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.

The 2020 delivery cost is estimated at \$592 per AF.

The commodity price is 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 Norco Water 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 Norco Water will be deemed to be the Surplus Water price. The equation for calculating the Surplus Water price is as follows:

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

An example of the Surplus Water price calculation is:

$$\frac{(\$592/AF + \$1,050/AF)}{2} = \$821 \text{ per AF}$$

In the example Surplus Water price calculation, RPU would be paid about \$229 per AF for the use of its export rights above the delivery cost (i.e. commodity price) and Norco would save about \$229 per AF (e.g. \$1,050 - \$821) as compared to purchasing imported water from MWD. With this price structure, both RPU and Norco split the savings equally. Pricing will be set 12 months prior to deliveries for the year.

### **FISCAL IMPACT:**

RPU would receive approximately \$821,000 annually from delivering surplus water to Norco. Revenue from the Surplus Water sales are anticipated to increase each subsequent year. Over the term of this agreement, revenue from the surplus water sales may exceed \$4 million dollars.

Prepared by: Todd M. Corbin, Utilities General Manager  
Certified as to  
availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer  
Approved by: Al Zelinka, FAICP, City Manager  
Approved as to form: Gary G. Geuss, City Attorney

### **Attachments:**

1. Agreement for the Sale of Surplus Potable Water and Emergency Potable Water
2. Site Map
3. Policy Principles for Water Portfolio Management
4. Unofficial February 10, 2020 Board of Public Utilities Meeting Minutes
5. Presentation