



AGENDA REPORT

Meeting Date: February 3, 2015
Item Number: D-9
To: Honorable Mayor & City Council
From: Trish Rhay, Assistant Director of Public Works Services – Utilities
Michelle Tse, Senior Management Analyst MST.
Subject: APPROVAL OF A TEN YEAR PURCHASE ORDER COMMITMENT FOR
IMPORTED WATER SUPPLIES PROVIDED BY THE METROPOLITAN
WATER DISTRICT OF SOUTHERN CALIFORNIA
Attachments: 1. Summary of Proposed Metropolitan Water District (MWD)
Purchase Orders
2. Purchase Order for Option 1

RECOMMENDATION

Staff recommends that City Council move to approve a ten-year purchase order commitment for imported water supplies entitled "Purchase Order for System Water to be provided by the Metropolitan Water District of Southern California."

INTRODUCTION

On September 17, 2002, City Council adopted Resolution 02-R-11182 approving a purchase order for imported water supply to be provided by the Metropolitan Water District of Southern California ("Metropolitan"). The new rate structure that took effect on July 1, 2003, relied on a Purchase Order to establish a financial commitment from the member agencies to Metropolitan. In return for providing a financial commitment to Metropolitan, member agencies were allowed to purchase more of their retail demand at the lower Tier 1 Supply Rate than they would otherwise have been entitled to. The original Purchase Order expired on December 31, 2012. At the December 4, 2012 meeting, the City Council approved an extension of the purchase order for two more years, which extended the end date to December 31, 2014.

DISCUSSION

In anticipation of the Purchase Order end date, the Public Works Commission discussed available options with Metropolitan Director Dr. Wunderlich during the November 13, 2014 meeting. The discussion included weighing the pros and cons for three options. A summary of the options are as follows:

- Option 1: A 10-year Purchase Order with the water benchmark based on historical data from FY 1990-2002; the benchmark would be 14,867 acre feet per year.
- Option 2: A 10-year Purchase Order with water data based on FY 2003-2014 to calculate the benchmark; the benchmark would be 13,178 acre feet per year.
- Option 3: No Purchase Order

A summary of the options discussed is included as Attachment 1. The Public Works Commission recommends moving forward with Option 1 i.e. a 10-year Purchase Order using the FY 1990-2002 as the baseline to calculate the water purchase. Under Option 1, the City would be committed to purchasing a minimum of 8,920 acre feet per year (60% of benchmark) and provided with Tier 1 price up to 90% of benchmark (or 13,380 acre feet per year). Option 1 makes it less likely that the City would have to buy Tier 2 rate water. Current analysis related to development of the City's Water Enterprise Plan indicates that it is highly unlikely that the City's water purchase will drop below 60%.

During years 2004-2013, the City's water purchase from Metropolitan ranged from 10,184 to 12,463 acre feet per year. Using this information and applying Option 1, the City would pay the Tier 1 rate. In Option 2, however, there would be instances in which the City would pay the Tier 2 rate if water sales exceeded 11,860 acre feet per year.

A ten-year Purchase Order with Metropolitan is consistent with it being one of the City's water resources as identified in the Water Enterprise Plan. This plan is still in development but once completed, will serve as a planning document that identifies the best options for the City's water supply portfolio and identifies strategies for achieving a more reliable water supply.

Description

The Purchase Order is voluntarily submitted by the member agency to Metropolitan. Through the Purchase Order, the member agency commits to purchase a fixed amount of supply from Metropolitan.

Term

The Purchase Order is for a ten-year term beginning January 1, 2015 through December 31, 2024. Ten years was chosen as a balance between the long-term investments Metropolitan makes to secure water supply and a shorter period that would require less of a commitment from the member agencies.

Initial Base Demand

The highest fiscal year purchases during the 13-year period of FY1990 through FY2002 were used to determine the "initial base demand." Firm demands are defined as all deliveries through the Metropolitan system to a member agency excluding long-term seasonal storage service, interim agricultural service, deliveries made under the interruptible service program and deliveries made to cooperative and cyclic storage accounts at the time water was put into the accounts.

Purchase Order Commitment

The Purchase Order Commitment is limited to a portion of a member agency's initial base demand. The 10-year Purchase Order Commitment is defined as ten times 60% of the

member agency's initial base demand. The ten times reflects the ten-year term of the Purchase Order and the 60% was chosen as a fair balance among the member agencies.

First, there is a substantial fluctuation in demands as a result of weather. During cool, wet weather, member agencies use less Metropolitan supply. As a result, the Purchase Order Commitment was set at a level that would accommodate these annual fluctuations in weather driven demands, while helping to ensure that member agencies would have a reasonable opportunity to utilize all of the water during the ten-year Purchase Order term.

Second, the 60% level was selected in consultation with member agency representatives and represents a sufficient incentive to utilize Metropolitan's supplies and provide a base financial commitment to the regional system. Since the Purchase Order Commitment is voluntary, no member agency is required to commit to the minimum level. But in exchange for the commitment, the member agency will be able to purchase more Metropolitan water supply (up to 90% of its Base Demand) at the lower Tier 1 Supply Rate.

FISCAL IMPACT

Approval of the Purchase Order Commitment will guarantee that the City continues to purchase its water supply needs up to 90% at the full service treated Tier 1 Supply Rate of \$923 and \$942 per acre-foot effective January 1, 2015, and January 1, 2016, respectively. The Option 1 purchase order commitment would be 8,920 acre feet per year (60%) at the Tier 1 rate up to 13,380 acre feet per year (90%).

Should the 10-year Purchase Order not be approved, the City would only be guaranteed the Tier 1 Supply Rate up to 60% (8,920 acre feet per year). Any purchase in excess of this amount would be subject to the Tier 2 Supply Rate. Whether we would exceed this amount is driven by retail demand and local production so it is hard to ascertain. The full service treated Tier 2 Supply Rate effective January 1, 2015, is \$1,055 per acre foot while the full service treated Tier 2 Supply Rate effective January 1, 2016 is \$1,076 per acre foot.



George Chavez

Approved By

Attachment 1

Summary of Proposed MWD Purchase Orders

Volumes of Water in Acre-Ft

Objectives of Purchase Orders

1. Tiered pricing to encourage conservation
2. Committed purchases to stabilize capacity needs

Provision	Purchase Order	Option 1	Option 2	No Purchase Order	Amount	Impact on City of BH
Price of Water	Up to 90% of benchmark at Tier 1, averaged over life of P.O.	13,380	11,860	Up to 60% of benchmark at Tier 1	8,920	Without purchase order, likely purchases of some water at Tier 2
Commitment to Purchase	60% of benchmark, averaged over life of P.O.	8,920	7,907	No commitment		With purchase order, possibility of unmet commitment, if water demand decreases significantly
Penalty	Payment for volume below commitment, reduced by water from local project initiated after Jan 1, 2014			None		With purchase order, possibility of penalty if demand decreases significantly, but offset by water from new local projects
Lifetime	10 Years Jan 1, 2015 - Dec 31, 2024			None		
Benchmark	Opt. 1: based on FY 1990-2002 Opt. 2: based on FY 2003-2014	14,867	13,178	Based on FY 1990-2002	14,867	

Options for Proposed Purchase Orders (acre-ft)

Option 1 makes it less likely that BH would have to buy Tier 2 water, but, if BH reduces water purchases significantly, Option 1 increases the small possibility of not purchasing the committed amount

	Option 1		Option 2	
	Committed Purchase	Tier 1 Cap	Committed Purchase	Tier 1 Cap
PO Benchmark	8,920	13,380	7,907	11,860
2013 Purchases of Water	11,364	11,364	11,364	11,364
Increase or Decrease	(2,444)	2,016	(3,457)	496
PO Benchmark	8,920	13,380	7,907	11,860
<i>% Change to hit benchmark</i>	-21.5%	17.7%	-30.4%	4.4%
3 Year Average Purchases	10,881	10,881	10,881	10,881
Increase or Decrease	(1,961)	2,499	(2,974)	979
PO Benchmark	8,920	13,380	7,907	11,860
<i>% Change to hit benchmark</i>	-18.0%	23.0%	-27.3%	9.0%

MWD Deliveries to Beverly Hills (acre-ft)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
12,355	12,016	12,317	12,463	12,292	10,771	10,184	10,247	11,030	11,364

Attachment 2

**PURCHASE ORDER FOR SYSTEM WATER TO BE PROVIDED BY
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

PURCHASER: CITY OF BEVERLY HILLS	TERM 10 years: January 1, 2015 – December 31, 2024
INITIAL BASE PERIOD DEMAND: 14,867 acre-feet	EFFECTIVE DATE: January 1, 2015
INITIAL TIER 1 MAXIMUM—Annual Average: 13,380 acre-feet	INITIAL TIER 1 MAXIMUM—Cumulative: 133,800 acre-feet
PURCHASE ORDER COMMITMENT—Annual Average: 8,920 acre-feet	PURCHASE ORDER COMMITMENT—Cumulative: 89,200 acre-feet

Definitions of capitalized terms used in this Purchase Order are provided in Attachment 1. Terms used in this Purchase Order and not defined in Attachment 1 are defined in Metropolitan's Administrative Code.

COMMITMENT TO PURCHASE:

In consideration of Purchaser's commitment to purchase System Water pursuant to this Purchase Order, Metropolitan agrees to sell such System Water to Purchaser during the Term at the Tier 1 Supply Rate in an amount up to the Tier 1 Maximum—Cumulative. All System Water sold to Purchaser during the Term in an amount greater than the Tier 1 Maximum—Cumulative shall be sold to the Purchaser at the Tier 2 Supply Rate. In connection with the purchase of System Water, the Purchaser also agrees to pay all other applicable rates and charges, as established by Metropolitan from time to time. The rates and charges applicable to System Water as of the Effective Date are shown in Attachment 2.

If Purchaser's applicable System Water purchases during the Term exceed Purchaser's Tier 1 Maximum, Purchaser may elect to:

- a.) Subject to the provisions of paragraph c) below, pay any Tier 2 Supply Rate obligations at the end of the Term, in an amount equal to the difference between the Purchaser's applicable System Water purchases and the Tier 1 Maximum—Cumulative during the Term times the average of the Tier 2 Supply Rate in effect during the Term; or,
- b.) Pay any Tier 2 Supply Rate obligations annually as purchases are incurred, in an amount equal to the difference between the Purchaser's applicable annual System Water purchases and the Tier 1 Maximum—Annual times the Tier 2 Supply Rate in effect during the calendar year. A true-up at the end of the Term will be performed to ensure that the Purchaser has received all Tier 1 Maximum—Cumulative purchases allowed by the Purchase Order.
- c.) If, after the end of the first five years, Purchaser has accrued a cumulative Tier 2 Supply Rate obligation, Purchaser may elect to pay the initial five

year cumulative Tier 2 Supply Rate obligation (i) in full at the end of year five of the Term, (ii) amortize it in five equal installments over the remaining five calendar years of the Term, or (iii) pay it at the end of the Term. Commencing in year 6 of the Term, Purchaser shall pay any additional Tier 2 Supply Rate obligation annually.

Purchaser agrees to purchase System Water from Metropolitan during the Term in an amount not less than the Purchase Order Commitment. If Purchaser's applicable System Water purchases during the Term are less than the Purchase Order Commitment, each acre-foot of unmet commitment will be reduced by the amount of production from a local resource project, measured in acre-feet, that commences operation on or after January 1, 2014. A local resource project includes any project type as approved by the Board.

Purchaser agrees to pay Metropolitan an amount equal to the difference between the sum total in acre-feet of water of the Purchase Order Commitment (minus the amount reduced by the amount of production from a local resource project) and the sum total in acre-feet of water of Purchaser's applicable System Water purchases during the Term, times the average of the Tier 1 Supply Rate in effect during the Term.

Purchaser agrees to pay all amounts owing to Metropolitan, whether to satisfy a Purchase Order Commitment or a Tier 2 Supply Rate obligation, within the next regular billing cycle following the reconciliation of all certifications for special programs that the Purchaser may participate in. The Purchaser may elect to pay such amount in twelve equal monthly payments over the course of the next twelve months beginning with the first regular billing cycle following the reconciliation of all outstanding certifications for special programs. If the Purchaser elects to pay such amount over the course of the next twelve months following the regular billing cycle any outstanding balance shall bear interest at Metropolitan's then current investment portfolio average yield. All other amounts payable under this Purchase Order shall be billed and paid in accordance with the Administrative Code.

WATER SERVICE:

Conditions of water service by Metropolitan to the Purchaser, including but not limited to (i) delivery points, (ii) water delivery schedules, and (iii) water quality, will be determined in accordance with Chapter 5 (Section 4500 through 4514, inclusive, as applicable) of Metropolitan's Administrative Code.

In accordance with its Administrative Code, Metropolitan shall use its reasonable best efforts to supply System Water in the quantities requested by the Purchaser, but is not obligated to dedicate any portion of System capacity for the conveyance, distribution, storage or treatment of System Water for the benefit of the Purchaser or any other member agency. Metropolitan shall use its reasonable best efforts to deliver the System Water when needed by the Purchaser during the Term; provided however, there shall be no default under this Purchase Order if Metropolitan fails to deliver water to the Purchaser in accordance with any such schedule of deliveries during the Term.

By execution of this Purchase Order, the Purchaser recognizes and agrees that it acquires no interest in or to any portion of the System or any other Metropolitan facilities or supplies, or any right to receive water delivered through the System, excepting the right to purchase up to Purchaser's Tier 1 Maximum—Cumulative at the Tier 1 Supply Rate provided that System Water is available. This Purchase Order governs pricing of the System Water delivered to the Purchaser pursuant to this Purchase Order and does not confer any entitlement to receive System Water.

System Water provided to the Purchaser under the terms of this Purchase Order shall be subject to reduction in accordance with the shortage allocation provisions of the Water

Surplus and Drought Management Plan (the "WSDM Plan") or other such policies and principles governing the allocation of System Water as adopted by the Board.

In the event that Metropolitan's Board or General Manager determines to reduce, interrupt or suspend deliveries of System Water, any outstanding balance of the Purchase Order Commitment at the end of the Term shall be reduced by the Purchase Order Commitment—Annual Average for each and every fiscal or calendar year that a reduction, interruption or suspension occurred.

MISCELLANEOUS:

This Purchase Order will be interpreted, governed and enforced in accordance with the laws of the State of California.

This Purchase Order will apply to and bind the successors and assigns of the Purchaser and Metropolitan.

No assignment or transfer of the rights of the Purchaser under this Purchase Order will be valid and effective against Metropolitan or the Purchaser without the prior written consent of Metropolitan and the Purchaser.

If at any time during the Term, by reason of error in computation or other causes, there is an overpayment or underpayment to Metropolitan by the Purchaser of the charges provided for under this Purchase Order, which overpayment or underpayment is not accounted for and corrected in the annual re-determination or reconciliation of said charges, the amount of such overpayment or underpayment shall be credited or debited, as the case may be, to the Purchaser. Metropolitan will notify the Purchaser in writing regarding the amount of such credit or debit, as the case may be. In no case will credits or debits for charges provided for under this Purchase Order be administered beyond the limit for billing adjustments as specified in Metropolitan's Administrative Code.

IN WITNESS WHEREOF, this Purchase Order is executed by the duly authorized officers of the Metropolitan Water District of Southern California and City of Beverly Hills, as of

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

CITY OF BEVERLY HILLS

By: _____
Jeffrey Kightlinger
General Manager

By: _____
Lili Bosse
[Title] _____
Mayor of the City of Beverly Hills

APPROVED AS TO FORM AND CONTENT:

General Counsel

General Counsel

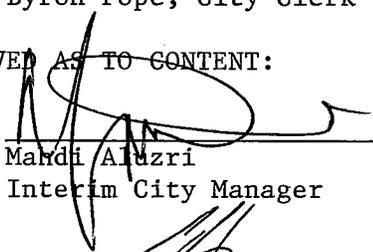
By: _____

By: _____

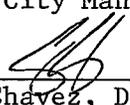
ATTEST:

Byron Pope, City Clerk

APPROVED AS TO CONTENT:



Mandi Aluzri
Interim City Manager



George Chavez, Director of
Public Works Services

APPROVED AS TO FORM:



Laurence S. Wiener, City Attorney

Attachment 1
Purchase Order for System Water
DEFINITIONS

“**Act**” means the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented from time to time.

“**Demand**” means the Purchaser’s purchases of System Water supplies, including full service, seasonal shift, Conjunctive Use Program, Surface Storage Operating Agreement water, Recharge and Recovery Operating Agreement water, or any other water program deemed to be a purchase of System Water.

“**Effective Date**” means the effective date of this Purchase Order as specified above.

“**Metropolitan**” means The Metropolitan Water District of Southern California.

“**Purchase Order Commitment**” means:

- i). if the Purchaser elects option a) under the Base Period Demand as defined in section 4122 of the Administrative Code, then 60% of the Purchaser’s Initial Base Firm Demand times 10; or
- ii). if the Purchaser elects option b) under the Base Period Demand, then 60% of the Purchaser’s highest fiscal year Demand during the period from fiscal year 2002/03 through fiscal year 2013/14, times 10.

“**Purchase Order**” means this Purchase Order for System Water.

“**Purchaser**” means the member public agency specified above, a duly organized [city/water district/county water authority] of the State of California.

“**System**” means the properties, works and facilities operated and/or financed by Metropolitan necessary for the supply, development, storage, conveyance, distribution, treatment or sale of water.

“**System Water**” means water supplies developed by Metropolitan and delivered to the Purchaser through the System or other means (e.g. conjunctive use storage).

“**Term**” means the term of this Purchase Order as specified above.

“**Tier 1 Maximum—Annual**” means an amount equal to 90% of the Base Period Demand.

“**Tier 1 Maximum—Cumulative**” means an amount equal to the sum of the Tier 1 Maximum—Annual amounts during the Term.

“**Tier 1 Supply Rate**” means Metropolitan’s per-acre-foot Tier 1 Supply Rate, as determined from time to time by Metropolitan’s Board of Directors. The Tier 1 Rate effective January 1, 2015, is \$158/AF.

“Tier 2 Supply Rate” means Metropolitan’s per-acre-foot Tier 2 Supply Rate, as determined from time to time by Metropolitan’s Board of Directors. The Tier 2 Rate effective January 1, 2015, is \$290/AF.

“Water Surplus and Drought Management Plan (WSDM)” means Metropolitan’s policy and procedures for managing supplies and drought conditions as adopted by the Board from time to time.

**Attachment 2
Purchase Order for System Water
RATES AND CHARGES**

	Effective January 1, 2015	Effective January 1, 2016
Tier 1 Supply Rate (\$/AF)	\$158	\$156
Tier 2 Supply Rate (\$/AF)	\$290	\$290
System Access Rate (\$/AF)	\$257	\$259
System Power Rate (\$/AF)	\$126	\$138
Water Stewardship Rate (\$/AF)	\$41	\$41
Full Service Untreated Rate (\$/AF):		
Tier 1	\$582	\$594
Tier 2	\$714	\$728
Treatment Surcharge (\$/AF)	\$341	\$348
Full Service Treated Rate (\$/AF):		
Tier 1	\$923	\$942
Tier 2	\$1,055	\$1,076
Readiness-to-Serve Charge (\$ millions)	\$158	\$153
Capacity Charge (\$/cfs)	\$11,100	\$10,900