



CITY OF BEVERLY HILLS
PUBLIC WORKS SERVICES DEPARTMENT
MEMORANDUM

TO: PUBLIC WORKS COMMISSION

FROM: Michelle Tse, Senior Management Analyst *MT*

DATE: November 13, 2014

SUBJECT: Metropolitan Water District Long-Term Purchase Order

ATTACHMENT:

1. Purchase Order for System Water to be Provided by MWD
2. Purchase Order for System Water to be Provided by MWD Key Terms
3. Tier 1 Maximum and Commitment Options

At the August 13, 2014, Public Works Commission Meeting, Dr. Robert Wunderlich, the City of Beverly Hills' representative to the Metropolitan Water District (MWD), discussed MWD's Long-Term Purchase Order program. He indicated that the City's Purchase Order (PO) with MWD will expire at the end of 2014.

Attached are the two options for MWD members, which would establish both (1) the required purchase commitment and (2) the cut-off between water available at Tier 1 prices versus Tier 2 prices.

Staff is recommending to proceed with the long-term purchase order with terms outlined in Option 1, which is to purchase 8,920 acre-ft (averaged over the lifetime of the PO) and would allow the City to purchase up to 13,380 acre-ft at Tier 1 prices. For comparison, Option 2 would require a lower commitment (7,907 acre-ft), but also a lower availability of water at Tier 1 prices (11,860 acre-ft).

Dr. Wunderlich will be in attendance at the November meeting to further discuss this item with the Public Works Commission.

**Purchase Order for System Water to be Provided by the
Metropolitan Water District of Southern California
Key Terms**

Term:

- 10 years, effective January 1, 2015 through December 31, 2024

Base Period:

- For purposes of determining their Tier 1 maximum, member agencies can choose between the current Revised Base Firm Demand, which is the highest fiscal year sales during the 13-year period of FY 1990 through FY 2002, **OR** the highest year in the most recent 12-year period of FY 2003 through FY 2014. Both calculations include Interim Agricultural Water Program, Seasonal Storage Service—Long, Cyclic and Replenishment Program sales.
 - Member agencies executing Purchase Orders will have a Tier 1 Maximum based on 90% of the respective base period peak year they choose.
 - If a member agency opts to use the original 13-year period for their Purchase Order, their commitment will be 60% of the 2003 Initial Base Firm Demand (same as current Purchase Order).
 - If a member agency opts to use the more recent 12-year period for their Purchase Order, their commitment will be 60% of the highest year in the most recent 12-year period.
 - Member agencies who do not execute a Purchase Order will have their Tier 1 limit set at 60% of the Revised Base Firm Demand (same as current Purchase Order).
 - The calculation of the rolling average for purposes of resetting the Tier 1 maximum will exclude Water Supply Allocation Plan years and will use a 5-year period. Once the Tier 1 Maximum resets, this reset will not go down.

Tier 2 Applicability:

- Tier 2 should only be applied to a member agency if its cumulative sales for the term of the Purchase Order exceed its cumulative Tier 1 Maximum, consistent with the methodology currently utilized to satisfy the 60 percent Purchase Order commitment.
- Member agencies with Tier 2 obligations may choose:
 - To have the obligation calculated at the end of the 10-year term and pay any Tier 2 obligations at that time, based on the average of the difference between the Tier 1 and Tier 2 Supply Rates over the 10-year term.
 - To pay any Tier 2 obligations as they are incurred, with a true-up at the end of the 10-year period.
 - If, after Year 5, a Purchaser has accrued a Tier 2 obligation (purchases exceed the Tier 1 Maximum annualized * 5), the Purchaser will begin paying any future Tier 2 obligation annually. Any outstanding Tier 2 obligation owing from the initial 5-year period can be amortized over the next 5 calendar years or paid at termination of the Purchase Order.

Additional Aspects of the Purchase Orders:

- Purchase Orders are voluntary
- The commitment is cumulative over the term; agencies that do not meet the full amount of the commitment during the term will pay for the unmet commitment at the average of the Tier 1 Supply Rate in effect during the term. The Purchase Order will allow for an appeals process at the end of the term for agencies with an unmet 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. Local resource production includes any project type as approved by the Board under the Local Resources Program.

- The commitment will be adjusted to exclude Water Supply Allocation Plan years.
- Purchase Orders do not confer a contractual right to system supply to a member agency. The proposal does not accommodate the exchange or sale of purchase order quantities between member agencies.
- All member agency purchase orders will extend over the same 10-year period. Member agencies purchase orders will be effective January 1, 2015.
- The Tier 2 Supply Rate for Calendar Years 2015 and 2016, as already determined by the Board, will not change. Biennially, the Board reviews the proposed Tier 1 and Tier 2 Supply Rates as part of the biennial rate setting process.

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

PURCHASER: <hr/>	TERM 10 years: January 1, 2015 – December 31 2024
INITIAL BASE PERIOD DEMAND: acre-feet	EFFECTIVE DATE: January 1, 2015
INITIAL TIER 1 MAXIMUM—Annual Average: acre-feet	INITIAL TIER 1 MAXIMUM—Cumulative: acre-feet
PURCHASE ORDER COMMITMENT— Annual Average: acre-feet	PURCHASE ORDER COMMITMENT— Cumulative: 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 at the Tier 1 Supply Rate in an amount up to the Tier 1 Maximum—Cumulative. All System Water sold to Purchaser 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 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 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, 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 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.

COMMITMENT APPEAL:

If the 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. Local resource production includes any project type as approved by the Board under the Local Resources Program.

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 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 , as of December __, 2014.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

By: _____
Jeffrey Kightlinger
General Manager

By: _____
[Title] _____

APPROVED AS TO FORM AND CONTENT:

General Counsel

General Counsel

By: _____

By: _____

**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.

“Base Period Demand” means the greater of (i) the Initial Base Period Demand or (ii) the five-year rolling average of the Purchaser’s System Water purchases, measured on a fiscal year basis.

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

“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 water.

“Initial Base Period Demand” means the Purchaser’s highest annual Demand, as determined by Metropolitan, in:

- a). any fiscal year during the period from fiscal year 1989/90 through fiscal year 2001/02; or
- b). any fiscal year during the period from fiscal year 2002/03 through fiscal year 2013/14.

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

“Purchase Order Commitment” means:

- a). if the Purchaser elects option a). under the Initial Base Period Demand, then 60% of the Purchaser’s Initial Base Firm Demand as previously calculated by Metropolitan, which is the highest fiscal year firm Demand during the period from fiscal year 1989/90 through fiscal year 2001/02, times 10; or
- b). if the Purchaser elects option b). under the Initial 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 of 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 Initial Base Period Demand.

“Tier 1 Maximum—Cumulative” means an amount equal to the Tier 1 Maximum—Annual times 10.

“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 initial Tier 1 Rate 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 initial Tier 2 Rate 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

Tier 1 Maximum and Commitment Options

Member Agency	2003 IBFD	2014 Revised BFD	12-Year Peak (FY 2003-14)	Current Base (FY 1990-2002) Commitment with PO (60% 2003 IBFD)	Tier 1 Maximum with PO (90% 2014 Revised BFD)	Updated Base (FY 2003-2014) Commitment with PO (60% 12-Year Peak)	Tier 1 Maximum with PO (90% 12-Year Peak)	Tier 1 Maximum without PO (60% Revised BFD)
Anaheim	24,711	27,154	31,271	14,827	24,439	18,763	28,144	16,292
Beverly Hills	14,867	14,867	13,178	8,920	13,380	7,907	11,860	8,920
Burbank	18,152	18,640	15,817	10,891	16,776	9,490	14,235	11,184
Calleguas	115,334	122,498	131,364	69,200	110,248	78,819	118,228	73,499
Central Basin	80,401	119,617	119,237	48,241	107,655	71,542	107,313	71,770
Compton	5,620	5,620	3,695	3,372	5,058	2,217	3,325	3,372
Eastern	84,111	102,694	130,650	50,466	92,425	78,390	117,585	61,616
Foothill	12,219	13,081	14,831	7,331	11,773	8,899	13,348	7,849
Fullerton	12,554	12,554	17,795	7,532	11,299	10,677	16,015	7,532
Glendale	29,135	29,135	23,829	17,481	26,222	14,297	21,446	17,481
Inland Empire	66,391	103,648	97,157	39,835	93,283	58,294	87,441	62,189
Las Virgenes	22,851	22,999	27,065	13,710	20,699	16,239	24,358	13,799
Long Beach	43,857	57,560	47,565	26,314	51,804	28,539	42,809	34,536
Los Angeles	338,855	372,959	441,871	203,313	335,663	265,123	397,684	223,775
MWD/OC	247,694	311,769	357,372	148,616	280,592	214,423	321,635	187,061
Pasadena	23,533	23,533	25,517	14,120	21,180	15,310	22,965	14,120
San Diego CWA	557,095	655,903	637,487	334,257	590,313	382,492	573,738	393,542
San Fernando	1,050	1,049	902	630	944	541	812	629
San Marino	1,998	1,998	1,602	1,199	1,798	961	1,442	1,199
Santa Ana	13,476	21,797	22,007	8,086	19,617	13,204	19,807	13,078
Santa Monica	12,344	12,344	14,444	7,406	11,110	8,666	12,999	7,406
Three Valleys	78,222	83,248	89,653	46,933	74,923	53,792	80,687	49,949
Torrance	23,297	23,297	21,338	13,978	20,967	12,803	19,204	13,978
Upper San Gabriel	18,346	74,698	75,566	11,008	67,228	45,339	68,009	44,819
West Basin	174,304	175,024	150,464	104,583	157,522	90,278	135,417	105,014
Western MWD	65,299	94,567	117,537	39,179	85,110	70,522	105,784	56,740
TOTAL	2,085,713	2,502,253	2,629,212	1,251,428	2,252,028	1,577,527	2,366,291	1,501,352