

Agenda Report

September 30, 2002

To: City Council
Through: Municipal Services Committee
From: City Manager
Subject: City Council to Authorize the City Manager to Enter Into a Purchase Order Agreement with the Metropolitan Water District of Southern California to Purchase Water Supplies

RECOMMENDATION

It is recommended that the City Council authorize the City Manager to enter into a Purchase Order Agreement with the Metropolitan Water District of Southern California (MWD) to purchase water supplies.

BACKGROUND

In July 1988, the board of directors of MWD began a strategic planning process to determine if there was a better way of doing business with its member agencies. After extensive discussions with its member agencies and staff, the board of directors adopted a framework for a new rate structure that responds to a developing competitive water market. The proposed rate structure would allow member agencies to enter into voluntary contracts for future supplies, providing greater reliability without sacrificing quality and allowing for the development of new water resources. This new rate structure becomes effective January 1, 2003.

The new rate structure includes tiers of service, providing incentives for the local development of water resources. Member agencies will voluntarily enter into contracts, on a take or pay basis, with MWD for a fixed amount of water priced least expensively in the first tier (Tier 1). Prices reflect the costs for imported supplies, system access, water stewardship to fund conservation, recycling, and other environmental programs, water treatment, and power cost.

The more expensive second tier (Tier 2) is intended to be a supplementary water supply. The higher priced Tier 2 encourages competition at market rates for alternative water sources such as water transfers, reclamation, and conjunctive use.

MWD shall use reasonable efforts to deliver the water supplies when needed by the agency during the term of the Purchase Order Agreement. However, there shall be no default under the Purchase Order Agreement if MWD fails to deliver water to the agency in accordance with any such schedule of deliveries during the term of the agreement.

Under the new rate structure, MWD is offering two options.

OPTION 1

A member agency will commit to a ten-year term for purchases of water supplies no less than ten times 60% of the Initial Annual Base Demand (Base Demand) over the term of the Purchase Order Agreement. The Base Demand is defined as an agency's highest annual firm water purchase from fiscal year 1990 to 2002. For Pasadena Water and Power (PWP), the Base Demand is 23,533 acre-feet, and its annual minimum 60% commitment is 14,120 (60% x 23,533) acre-feet. For the past 10 years, ending June 30, 2002, PWP's annual average purchase from MWD was 18,840 acre-feet.

In consideration of PWP's commitment to purchase a minimum amount of water supplies, MWD agrees to sell water supplies at the Tier 1 rate for a volumetric amount up to 90% of the Base Demand annually. An agency's Base Demand will not be reduced, but possibly increased based on a ten-year rolling average calculation of the agency's annual purchases.

For PWP, the Tier 1 annual maximum is 21,180 acre-feet (90% of 23,533). The rate for Tier 1 water supplies is \$408 per acre-feet. The Tier 2 rate of \$489 per acre-feet applies for water purchases exceeding the Tier 1 annual maximum. All rates may be adjusted annually.

The new rate structure will also require that member agencies submit an annual reservation capacity representing the agency's anticipated maximum daily flow purchases from May 1 to September 30. The Capacity Reservation Charge is set at \$6,100 per cubic feet per second (CFS). Agencies that exceed the capacity reservation amount will be penalized with a Peaking Surcharge at 3 times the Capacity Reservation Charge or \$18,300/CFS. The Capacity Reservation Charge and the Peaking Surcharge are designed to encourage member agencies to shift demands and avoid placing large daily peaks on MWD's system.

OPTION 2

When a member agency elects not to enter into a Purchase Order Agreement with MWD, the Tier 1 rate applies to purchases for water supply not to exceed 60% of the Base Demand. For PWP, this amounts to 14,120 acre-feet. For purchases that exceed the 60%, the Tier 2 rate applies. With the exception of the amount of water that can be purchased at Tier 1 and 2 levels, all other rates and charges in OPTION 1 apply.

FINANCIAL COMPARISON

For the past three fiscal years ending June 30, 2002, PWP's average water purchase from MWD was 22,660 acre-feet, which represented 60.4% of the City's water demand. The projected average water demand for the City is 39,100. Based on these figures, the anticipated water purchase from MWD is 23,620 acre-feet (60.4% x 39,100).

OPTION 1

Tier 1 Water Supply @ \$408/Ac-Ft x 21,180.....	\$ 8,641,440
Tier 2 Water Supply @ \$489/Ac-Ft x 2,440 (23,620 – 21,180).....	\$ 1,193,160
Capacity Reservation Charge @\$6,100 CFS x 75 CFS	\$ 457,500
Total	\$10,292,100

OPTION 2

Tier 1 Water Supply @ \$408/Ac-Ft x 14,120.....	\$ 5,760,960
Tier 2 Water Supply @ \$489/Ac-Ft x 9,500 (23,620 – 14,120).....	\$ 4,645,500
Capacity Reservation Charge @\$6,100 CFS x 75 CFS	\$ 457,500
Total	\$10,863,960

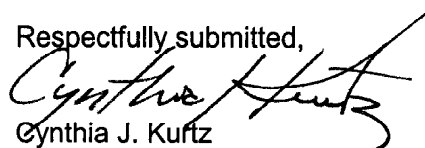
Committing to purchasing at least 60% of the Base Demand (OPTION 1) will allow PWP to purchase up to 90% at the lower Tier 1 rate. This is opposed to the Tier 1 rate applying to 60% of the Base Demand under OPTION 2. The net savings under OPTION 1 is \$571,860 annually.

Based on the savings, staff recommends to the City Council to adopt a resolution to authorize the City Manager to enter into a Purchase Order Agreement with Metropolitan Water District (MWD) to purchase water supplies.

FISCAL IMPACT


Sufficient funds are provided for in the Water Division's operating budget, line item for purchased water.

Respectfully submitted,



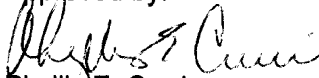
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