0150-10526-0001

TRANSMITTAL

TO	DATE	COUNCIL FILE NO.
Martin L. Adams, General Manager	12/07/20	
FROM		COUNCIL DISTRICT
The Mayor		All

LOS ANGELES DEPARTMENT OF WATER AND POWER AGREEMENT (WR-19-1012) WITH ULTRAMAR INC. (SUBSIDIARY OF VALERO ENERGY CORPORATION) REGARDING ADVANCED TREATED RECYCLED WATER SERVICE AT THE VALERO WILMINGTON REFINERY

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.

(Ana Guerrero for)

MAYOR

RHL:IR:10210035

CAO 649-d

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: October 7, 2020

CAO File No. 0150-10526-0001
Council File No.
Council District:

To: The Mayor

From: Richard H. Llewellyn, Jr., City Administrative Officer

Reference: Communication from the Department of Water and Power dated June 15, 2020; referred by the Mayor for report on June 26, 2020

Subject: **LOS ANGELES DEPARTMENT OF WATER AND POWER AGREEMENT (WR-19-1012) WITH ULTRAMAR INC. (SUBSIDIARY OF VALERO ENERGY CORPORATION) REGARDING ADVANCED TREATED RECYCLED WATER SERVICE TO THE VALERO WILMINGTON REFINERY**

RECOMMENDATION

That the Mayor:

1. Approve the proposed Resolution authorizing the Ultramar Agreement (a subsidiary of Valero Energy Corporation) for a 10 year term, with two additional ten year options for extension between the Los Angeles Department of Water and Power and Ultramar Inc. for Advanced Treated Recycled Water Service at the Valero Wilmington Refinery.

2. Authorize the Chief Accounting Employee of the LADWP, upon proper certification, to direct and draw demands on the Water Revenue Fund, in accordance with the terms of the Agreement;

3. Return the proposed Resolution to the Department for further processing, including City Council consideration.

SUMMARY

The Los Angeles Department of Water and Power (LADWP) requests authority to enter into a Ten Year Agreement with Ultramar Inc. (a subsidiary of Valero Energy Corporation) with two additional ten year extension options for Advanced Treated Recycled Water (ATRW) service at the Valero Wilmington Refinery. Approval of this Agreement will offset the use of 1,000 acre-feet per year (AFY) of potable water currently being used for operational purposes which can be redirected to City residents. In exchange, LADWP will reimburse Ultramar up to $6 million for the capital costs of their on-site retrofits required to convert the Refinery's cooling towers to ATRW. In addition Ultramar Inc. (Ultramar) will pay a higher fixed rate for the first ten years, and should an extension be executed, the price will be adjusted in alignment with the then current Rate Ordinance.

In alignment with LA's Green New Deal, the Department is working to support the goal of increasing the local drinking water supply by promoting the use of recycled water for industrial and landscape purposes instead.

The Office of the City Attorney has reviewed and approved the Agreement and proposed Resolution as to form and legality. Lastly, City Council approval is required pursuant to Charter Section 373 for contracts longer than three years.

Background

In 2016, the City Council and the LADWP Board Commissioners (Board) approved a Reimbursement Agreement with Ultramar (Council File No. 16-0143) to develop a Feasibility Report, along with design plans, required to convert the Valero Refinery to utilize recycled water, including a cost estimate of work to be completed. LADWP's consultant, Worley Parsons completed their analysis in February 2017, and identified four alternative options to connect the four cooling towers on the site to the recycled water distribution main at a nearby location. LADWP has been in negotiations over the past two years to develop the ATRW Service Agreement. The first alternative was selected as the most feasible and cost efficient option, as the majority of the pipeline is above ground.

This Agreement is part of a larger initiative to expand usage of recycled water, as a result of the Los Angeles Bureau of Sanitation's (LASAN) expansion of their Advanced Water and Purification Facility at the Terminal Island Water Reclamation Plant (TIWRP). The TIWRP was expanded in 2016 and produces 12 million gallons per day of treated high-quality water, which can be used as a potable water replacement in industrial and environmental use by LADWP customers. LADWP was tasked with identifying customers to use the additional recycled water and is working in collaboration with three customers to use the ATRW from TIWRP at their facilities instead of potable water: Water Replenishment District of Southern California, Air Products and Chemicals, and Ultramar Inc.

Proposed Agreement

The Agreement between the LADWP and Ultramar is for ten years, and includes two ten year options for extension, for a total of up to thirty years. The anticipated revenue from this Agreement is $29.15 million for the first ten years, and $11.77 million under each ten year option for a cumulative total of $52.70 million. LADWP will provide Ultramar Inc. with ATRW from the TIWRP, for use in the cooling towers at their Wilmington facility. In addition, LADWP will provide backup supplies of potable water as necessary to ensure reliable supply to Ultramar.

As part of the Agreement, LADWP has elected to provide a financial incentive to Ultramar to complete the design and construction of the on-site retrofit, and will provide reimbursement up to $6 million for their retrofit costs, in exchange for a ten year commitment at a higher fixed rate for the use of ATRW service to recover the cost of the reimbursement. The prior scope of work and cost developed as part of the 2016 Reimbursement Agreement are incorporated into the current reimbursement amount. In the event, Ultramar elects to discontinue the use of ATRW prior to the initial ten year term, Section 3.1 of the Agreement requires Ultramar to reimburse the amounts paid by LADWP. Should the extension option be exercised, the cost of the ATRW shall be priced in accordance with the then current Rate Ordinance (Ordinance No. 1841230) accordingly. LADWP indicates ATRW service will commence approximately fifteen months after the agreement has been executed, and although LADWP will not manage the project, they will be actively involved to ensure proper oversight and compliance with the contractual terms.

The estimated annual funding for the reimbursement is already set aside within the Water Revenue Fund's Adopted Budget Fiscal Year 2020-2021.

FISCAL IMPACT STATEMENT

There is no General Fund impact. Approval of the proposed Resolution authorizes a one-time reimbursement expenditure up to $6 million for ATRW service at the Valero Wilmington Refinery, and $29.15 million in anticipated revenue for the Water Revenue Fund for the initial 10 year term. This fiscal impact does not assume anticipated revenue resulting from any contract extensions. The proposed action complies with the LADWP Financial Policies.

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Attachments