



Los Angeles
Department of
Water & Power

RESOLUTION NO. _____

BOARD LETTER APPROVAL

RICHARD F. HARASICK
Senior Assistant General Manager
Water System

MARTIN L. ADAMS
General Manager and Chief Engineer

DATE: November 18, 2020

SUBJECT: Agreement No. WR-19-1012 with Ultramar, Subsidiary of Valero Energy Corporation, Regarding Advanced Treated Recycled Water Service for the Valero Wilmington Refinery

SUMMARY

Agreement No. WR-19-1012 (Agreement) is an advanced treated recycled water (ATRW) service agreement with Ultramar, which will offset approximately 1,000 acre-feet per year (AFY) of potable water demand at the Valero Wilmington Refinery (Refinery). This Agreement also authorizes LADWP to reimburse Ultramar up to \$6 million (budgeted) for the capital costs of their on-site retrofits required to convert the Refinery's cooling towers to ATRW. The term of the Agreement is for 10 years.

City Council approval is required under City Charter Section 373.

RECOMMENDATION

It is recommended that the Board of Water and Power Commissioners (Board) adopt the attached Resolution authorizing the execution of the Agreement.

ALTERNATIVES CONSIDERED

An alternative to this proposal is to have Ultramar pay for their capital on-site retrofits required to convert the Refinery to ATRW in exchange for a lower rate for the ATRW. LADWP believes that reimbursing Ultramar's on-site retrofits will incentivize Ultramar conversion to use ATRW at the Refinery sooner than the alternative of Ultramar paying for the retrofits. LADWP is responsible for executing contracts with new customers to use all of the ATRW produced by the Terminal Island Water Reclamation Plant (TIWRP) by the end of 2020 in order for the City to comply with a regulatory requirement to cease

discharge from TIWRP to the Los Angeles Harbor; therefore, the preferred alternative is for LADWP to reimburse Ultramar for the on-site capital costs to convert the Refinery to ATRW use and for LADWP to recover the costs through the sale of ATRW to Ultramar.

In accordance with the Mayor's Executive Directive No. 4, the City Administrative Officer's (CAO) Report was approved on October 7, 2020.

FINANCIAL INFORMATION

The term of the Agreement is for 10 years after the Refinery commences ATRW service, which is estimated to be 15 months after the Agreement is executed. The term will be extended in two increments of 10 years unless one party serves notice to the other party one year prior to expiration of the Agreement.

LADWP will be responsible for reimbursing Ultramar for the completion of the design-build construction of the on-site retrofits to serve ATRW to the Refinery's cooling towers. The total cost for the on-site retrofits is estimated at \$5 million and not to exceed \$6 million (budgeted). LADWP will provide reimbursement to Ultramar for up to \$6 million for the Refinery's onsite retrofits, and in exchange the Refinery will use ATRW for 10 years and will pay a higher fixed rate for the use of ATRW, which is set for 95 percent of the all-in commodity rate for potable water. The higher rate for ATRW will allow LADWP to recoup its cost within the 10-year term of the Agreement. In the event Ultramar terminates operations of the Refinery or discontinues the use of ATRW at the Refinery prior to the end of the initial 10 year term, Ultramar will pay LADWP the reimbursed amount paid by LADWP pro rata amortized over 10 years.

BACKGROUND

The Los Angeles Department of Public Works Bureau of Sanitation (LASAN) has a regulatory requirement to cease discharge from the TIWRP to the Los Angeles Harbor by end of 2020, with the exception of brine and incidental discharge. To comply with that regulation, LASAN expanded their Advanced Water Purification Facility (AWPF) at TIWRP to treat the full capacity of the plant, 12 million gallon per day (mgd), to produce ATRW for use by LADWP customers. The average available ATRW from TIWRP is between 10 and 11 mgd. For the City to comply with the regulation, LADWP must execute ATRW service agreements with customers to use the average ATRW production from TIWRP. LADWP has targeted three customers to use the 11 mgd ATRW from TIWRP: Water Replenishment District of Southern California (WRD), Air Products and Chemicals (Air Products), and Ultramar. In December 2018, LADWP executed a 30-year ATRW service agreement with WRD to take between 7.5 and 9.5 mgd of ATRW. LADWP has also executed agreements with Air Products and Ultramar to determine the feasibility of converting their facilities to use ATRW.

A prior Agreement No. WR-15-1060 between LADWP and Ultramar was executed on

April 14, 2016, for a term of 3 years. Under that agreement, LADWP reimbursed Ultramar a total of \$415,090, of the \$1 million authorized, to complete the preliminary design of the facilities required to convert and deliver ATRW to the Refinery's cooling towers, including a cost estimate and schedule to complete the construction. Results of that effort confirmed the feasibility of converting the Refinery to ATRW, and LADWP began negotiating the proposed ATRW service agreement with Ultramar.

The Scope of work, cost estimate, and schedule for implementation of the conversion developed under prior Agreement No. WR-15-1060 has been incorporated in the proposed Agreement. In addition to the terms of service described in the Financial Information section above, the Agreement identifies target ranges for key water quality parameters, which if the ATRW does not meet, Ultramar may use their existing potable water service, instead of ATRW. Some of the target water quality ranges are more stringent than the permit limits for the ATRW produced by TIWRP. However, based on historical data of the ATRW water quality from TIWRP, the ATRW will meet the more stringent water quality target ranges over 90 percent of the time. The Agreement also requires continuous monitoring and quarterly reporting of data by LADWP to Ultramar for seven water quality parameters and notification to Ultramar if any of the seven are outside of the specified limits.

In accordance with the Mayor's Executive Directive No. 4, the City Administrative Officer's Report was approved on October 7, 2020.

ENVIRONMENTAL DETERMINATION

Determine item is exempt pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15301. In accordance with this section, the agreement for the construction of advanced treated recycled water service at the Valero Wilmington Refinery is categorically exempt pursuant to Class 1(b) as described in CEQA Guidelines Section 15301. This exemption applies to the minor alteration of existing facilities used to provide public utility services

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the Resolution and Agreement as to form and legality.

ATTACHMENTS

- Resolution
- Agreement
- CAO Report