

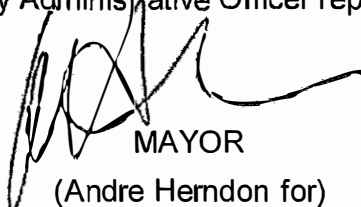
0150-12024-0000

TRANSMITTAL

TO Martin L. Adams, General Manager Los Angeles Department of Water and Power	DATE 03/04/2022	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT All	

**LOS ANGELES DEPARTMENT OF WATER AND POWER AGREEMENT (WR-20-1004)
WITH AIR PRODUCTS AND CHEMICALS, INC. REGARDING ADVANCED TREATED
RECYCLED WATER SERVICE AT THE AIR PRODUCTS WILMINGTON PLANT
INDUSTRIAL WATER SYSTEM**

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


MAYOR
(Andre Herndon for)

MWS:IR:10220070

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 24, 2022

CAO File No. 0150-12024-0000

Council File No.

Council District:

To: The Mayor



From: Matthew W. Szabo, City Administrative Officer

Reference: Communication from the Department of Water and Power dated November 17, 2021; referred by the Mayor for report on January 14, 2022

Subject: **LOS ANGELES DEPARTMENT OF WATER AND POWER AGREEMENT (WR-20-1004) WITH AIR PRODUCTS AND CHEMICALS, INC. REGARDING ADVANCED TREATED RECYCLED WATER SERVICE TO THE AIR PRODUCTS WILMINGTON PLANT INDUSTRIAL WATER SYSTEM**

RECOMMENDATION

That the Mayor:

1. Approve the proposed Resolution authorizing the Air Products and Chemicals, Inc. Agreement for a 10 year term, with two automatic ten year renewal extensions, for a total up to 30 years between the Los Angeles Department of Water and Power and Air Products and Chemicals, Inc. for Advanced Treated Recycled Water Service.
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 an initial Ten Year Agreement with Air Products and Chemicals, Inc. (Air Products) with two additional automatic ten year renewal extensions for Advanced Treated Recycled Water (ATRW) service. Approval of this Agreement will offset the use of 3,000 acre-feet per year (AFY) of potable water currently being used for operational purposes, with advanced treated recycled water so the potable water can be redirected to City residents. In exchange, LADWP will reimburse Air Products up to \$2,850,000 million for capital costs as a result of completing on-site retrofits required to convert the Plant's cooling towers to utilize ATRW. In addition Air Products will pay a higher fixed rate for the ATRW service, than the current rates in the Ordinance Rate for recycled water. 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

The City of Los Angeles Department of Public Works Bureau of Sanitation and Environment (LASAN) expanded their Advanced Water and Purification Facility (AWPF) at the Terminal Island Water Reclamation Plant (TIWRP) in 2016, due to a regulatory requirement to cease discharge from the TIWRP to the Los Angeles Harbor by 2024. The AWPF now produces 12 million gallons per day (MGD) of treated high-quality recycled 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 being produced. LADWP targeted several industrial and irrigation customers in the Harbor area to use the recycled water and they include; Water Replenishment District of Southern California (WRD), Ultramar (Valero), and Air Products. LADWP executed an agreement with WRD on December 2018 to take in between 7.5 to 9.5 MGD of ATRW, and in February 2021, LADWP executed an agreement with Valero to take in 1.2 MGD of ATRW. The proposed agreement with Air Products is the last agreement remaining to be executed to ensure compliance and to achieve 100 percent reuse of all the available wastewater supply from TIWRP.

LADWP executed an agreement in 2016 with Air Products to design and prepare cost estimates to determine the feasibility of retrofitting their facilities to convert boiler feedwater and cooling towers to accept ATRW. Air Products completed their analysis in July 2017, and presented three alternative options for LADWP's consideration. LADWP has selected Option 1 as the most feasible due to reliability and cost efficiency. LADWP has been in negotiations over the past three years to develop the ATRW Service Agreement and in May 2021, received conditional preliminary approval by the State Water Resources Control Board, Division of Drinking Water (Division) to design a potable water backup connection for the Air Products Facility located at 700 Henry Boulevard in Wilmington, CA. The purpose of the potable back up connection would enable LADWP to provide a consistent, reliable ATRW service to the Air Products Facility during times of shut down at the TIWRP.

Proposed Agreement

The Agreement between the LADWP and Air Products is for an initial ten years, and contains an automatic renewal provision every ten years, for a total of up to thirty years, unless one year prior to the ten year expiration, either party elects to terminate the Agreement. LADWP will provide Air Products with reliable ATRW from the TIWRP, and during shut down times, and ATRW will provide potable water as necessary. As part of the Agreement, LADWP has elected to provide a financial incentive to Air Products to complete the on-site retrofits, and will provide reimbursement up to \$2.85 million. This cost estimate includes the cost for permitting, engineering, construction, and

contingencies. Air Products will be responsible for the Operations and Maintenance (O&M) of the on-site retrofits, and LADWP will be responsible for the O&M for the water meter and water pipeline in the public right of way. Air Products has agreed to pay a higher fixed rate for the use of reliable ATRW service. Should Air Products elect to discontinue the use of ATRW prior to the end of an initial three-year period, Section 3 of the Agreement requires Air Products to reimburse the amounts paid by LADWP pro-rated over three years on a sliding scale.

The ATRW rates being charged to Air Products will be higher than the Ordinance Rate as the production costs are higher for ATRW. Under the standard Ordinance Rate, most other recycled water customers in the City pay \$2.095 per hundred cubic feet (HCF). The LADWP report transmitted to the Mayor's Office dated November 3, 2021, indicated the all-in commodity rate, including the Base Rate and General Provisions is currently at \$6.858 per HCF for ATRW. Staff have advised this rate has increased in 2022 and the current all-in commodity rate is now \$7.165 per HCF. The anticipated revenue from this Agreement is \$115 million for the first ten years, \$155 million for the second ten years, and \$208 million for the last ten years for a cumulative total of \$478 million. Should Air Products pay the standard recycled rate of \$2.095 per HCF, the total revenue over a ten year period is estimated at \$35 million. With this ATRW service, the revenue is increased by \$80 million for the same period.

LADWP indicates ATRW service will commence approximately 24 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 2021-2022.

FISCAL IMPACT STATEMENT

There is no General Fund impact. Approval of the proposed Resolution authorizes a one-time reimbursement expenditure up to \$2,850,000 million for ATRW service at the Air Products Plant, and \$115 million in anticipated revenue for the Water Revenue Fund for the initial 10 year term. This fiscal impact does not assume anticipated revenue from contract extension. The proposed action complies with the City Financial Policies.

MWS:IR:10220070

Attachments