

WEST BASIN MUNICIPAL WATER DISTRICT

OCTOBER 8, 2003 - Water Resources  
McDonald, Little

OCTOBER 27, 2003 - Board Meeting

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ACTION CALENDAR

C. MARVIN BREWER DESALTER OPTIONSSUMMARY:

At the September Board meeting, the Board asked that the options for moving forward with the C. Marvin Brewer Desalter (Desalter) be brought back to the Water Resources Committee for potential action. The options were initially summarized in a July Board memorandum.

West Basin started operating the Desalter in July of 1993. To date West Basin has spent \$2.3 million in capital improvements for the Desalter. The U. S. Bureau of Reclamation contributed \$1 million of the \$2.3 million spent on capital improvements. In addition, West Basin has paid almost \$0.9 million to the County Sanitation Districts of Los Angeles County (CSDLAC) for connection to the sewer for brine disposal.

West Basin contracts with California Water Service Company (CWSC) - Dominguez Division (CWSC) to operate and maintain the Desalter. West Basin sells the water produced by the Desalter to CWSC at 95% of Metropolitan Water District (MWD) wholesale rate. West Basin also receives a rebate of up to \$250 per acre-foot from MWD through their Groundwater Recovery Program. Under the terms of the program, MWD pays West Basin for costs to produce the desalinated water that are above the MWD wholesale rate. The agreement with MWD expires in June 2013. The Desalter is located on a site owned by CWSC. West Basin pays a nominal rent of \$1,000 per month. The two existing Wells are owned by CWSC. A summary of historical annual expenditures and revenues for the Desalter is shown in Exhibit "A".

As reported previously, the casing on one of the existing Wells is cracked and essentially cannot be repaired. The Desalter is currently offline because it cannot run with just one Well operating. Staff looked at several options with regard to moving forward with the Desalter. Staff initially presented four alternatives. The two alternatives that were discussed at the September Board meeting are described below.

Alternative 1 - Construct a new Well and renegotiate the price to CWSC to the MWD wholesale price

This option would include constructing a new Well as in Alternative 2. West Basin would pay for construction of the Well. The agreement with CWSC would be amended so that CWSC would pay the MWD wholesale rate for water produced by the Desalter. After construction, operations would continue as before with CWSC providing the O&M services to West Basin. The product water would continue to be served to CWSC. Projected revenues and expenses for this Alternative are shown in Exhibit "B". Although it would cost about \$650,000 to construct a new well and abandon the two existing wells, West Basin would essentially break even under this scenario because the additional expenses are offset by the additional revenues.

Staff believes that construction of a new Well would enhance the value of the Project and that it would need to be constructed prior to selling the Desalter in any case. Staff's analysis shows that the District could break even if the price charged to CWSC can be raised to the MWD rate for non-interruptible water. Staff has initiated preliminary discussions with CWSC to increase the price of desalinated water to the MWD non-interruptible rate. CWSC has indicated a willingness to re-negotiate the price, drill a new well, and bring the Desalter back on-line.

Continuing to produce water from the Desalter makes sense from a water resource management perspective. Even with a Colorado River Quantification Settlement Agreement that was recently approved by all parties, recent projections by MWD show that there may not be enough water to fill their Colorado River Aqueduct. This highlights the need for more local supplies in the future, not less. The Desalter is part of West Basin's portfolio of local supplies, which includes five qualities of recycled water and conservation. It makes water resource management sense to produce as much local resources as economically feasible.

The Water Resources Committee recommended discussing a financial partnership with WRD over 90-day period; issues that would be addressed include:

- What new procedures would be needed for approving future capital and O&M expenses?
- Who would pay the annual costs for operating and maintaining the Desalter?
- How would the annual revenues for the Desalter be split?
- Would there be a new contractual relationship between WRD, CWSC, Metropolitan Water District, and West Basin?
- Will West Basin retain its right to pump outside of the adjudication?
- What level of financial participation would be acceptable to all parties?

#### Alternative 2 - Sell the Desalter to Water Replenishment District (WRD)

Under this option, West Basin would sell the Desalter to WRD. The price of the Desalter would be decided by the Board. The details as to how the purchases of water should be handled would have to be negotiated. WRD would be responsible for all O&M costs. West Basin would also transfer capacity in CSDLAC's sewer, seek to transfer the pumping exemption, and pass through the MWD GRP rebate.

The advantage to West Basin in selling the Desalter would be to remove its expenses from our operating budget. The sale price of the Desalter would go to a designated fund to retire the associated debt or some other Board approved use. The advantage to WRD in buying the Desalter is that they would operate both brackish water desalters in the Torrance area.

During negotiations for increased recycled water service to the West Coast Barrier, West Basin submitted a sale price of about \$1.4 million for the Desalter to the negotiating Ad Hoc Committee. The price was based on the remaining book value of the Desalter minus \$1 million USBR grant funds received, plus connection fees paid to the CSDLAC that would transferred over to WRD as part of the sale, plus credit for funds set aside for

membrane replacement. The sale price can be calculated a number of ways. Different methodologies will result in different prices for the Desalter.

In August, the WRD Board passed a resolution recommending that a third party consultant be hired to evaluate the net present value of the Desalter with costs shared jointly by West Basin and WRD, and an offer to purchase be made after the analysis. In September, staff received a letter from WRD proposing to jointly hire an independent third-party consultant with West Basin to perform a cost-benefit analysis of the Desalter. The letter stated that WRD will make an offer on the plant following completion of the analysis.

Assuming WRD continues to operate the Desalter after it purchases it, this option would have similar water resource management benefits as Option 1.

FISCAL IMPACTS:

Unknown at this time.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Water Resources Committee on October 8, 2003. The Committee recommended proceeding with Alternative 1 and that the Board considers an additional recommendation for staff to work on the potential financial partnership with WRD over the next 90 days. This item was agendized to the October 27, 2003 Board meeting for consideration.

RECOMMENDED MOTION:

That the Board considers:

1. Authorizing the General Manager to proceed with Alternative 1 as outlined in this memorandum; and
2. Directs staff to work with WRD on a financial partnership on the Brewer Desalter Project over the next 90 days.

LIST OF EXHIBITS:

Exhibit "A" - Brewer Desalter Historical Revenues and Expenses  
Exhibit "B" - Alternative 1 Projected Revenues and Expenses