



Los Angeles  
Department of  
Water & Power

RESOLUTION NO. \_\_\_\_\_

**BOARD LETTER APPROVAL**

**JEFFERY L. PELTOLA**  
Chief Financial Officer

**MICHAEL S. WEBSTER**  
Executive Director – Power System  
Engineering and Technical Services

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Senior Assistant General Manager -  
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**MARCIE L. EDWARDS**  
General Manager

**DATE:** January 19, 2016

**SUBJECT:** Electric Service Agreement (DWP No. RCS140003), Agreement for Reimbursement of Design Costs for On-Site Improvements Required for Advanced Treated Recycled Water Service (WR-15-1060), and Customer Generation Interconnection Agreement with Ultramar Inc. (a Subsidiary of Valero Energy Corporation) (DWP NO. PD3463) (Agreements)

**SUMMARY**

LADWP requests approval of a resolution authorizing three separate agreements with Ultramar Inc., a subsidiary of Valero Energy Corporation (Valero). Valero operates two refineries in California with one facility located in Wilmington. Approval of the proposed resolution will authorize the following three agreements:

1. **Electric Service Agreement (ESA) RCS140003** provides Valero with a contract rate for electric service as provided for by the Electric Rate Ordinance and as modified by Supplemental Capacity Charge (SCC) discounts for maintaining a steady and consistent electrical load. Additionally, Valero may purchase LADWP excess energy at a rate of \$0.045 per kilowatt hour (kWh) for a term of five years.
2. **Customer Generation Interconnection Agreement (CGIA) PD3463** clarifies LADWP and Valero responsibilities whenever Valero's self-generation facilities are connected to the LADWP Power System with a term of five years.
3. **Reimbursement Agreement WR-15-1060** provides LADWP with authorization to finance up to \$1.0 million of Valero costs for Front End Engineering Design (FEED) and other costs associated with on-site improvements necessary to receive advanced treated recycled water service.



Execution of the ESA will provide financial benefits to Valero during periods when Valero has high load factors or periods of steady electrical load with consistent energy consumption. This reduces the overall capacity needs of the Power System and mitigates the need for more costly operation of unloaded generating units. LADWP can serve Valero's steady load at a lower cost than for intermittent loads, as a steady load enables a more efficient utilization of overall Power System capacity. LADWP estimates that Valero can realize savings of four percent or \$1.4 million annually based on current energy consumption, with further cost savings if Valero achieves higher load factors.

In addition, under the ESA, Valero, which is currently under the Customer Generation CG-3 and CG-3 [i] rate, may purchase LADWP Delivered Excess Generation in place of Valero's self-generated energy at a lower price, whenever the LADWP has such excess generation available.

The CGIA clarifies Valero's and LADWP's respective responsibilities whenever Valero's named self-generation facilities are connected to the LADWP's Power System. Further, it establishes detailed conditions under which Valero's and LADWP's personnel may safely operate and maintain the facilities named in the CGIA.

In conjunction with the ESA, LADWP has negotiated an agreement to reimburse Valero for design costs associated with on-site improvements required for Advanced Treated Recycled Water Service. This Agreement will finance up to \$1.0 million of Valero's costs for the design of the on-site retrofits required for the future use of recycled water. The design will include a cost estimate for constructing the on-site retrofits, which LADWP will use to determine the economic feasibility of converting the Wilmington Refinery to recycled water. If the conversion is deemed feasible, LADWP will finance the cost for on-site retrofits estimated to be \$5.0 million, with provisions in the service agreement that will provide for recovery of these initial costs through the sale of recycled water. If it is determined that recycled water service is infeasible, this cost outlay by LADWP would not be repaid by Valero.

City Council approval is required for both the ESA and the CGIA under Los Angeles City Charter Section 373 due to their five-year term.

## **RECOMMENDATION**

It is requested that the Board of Water and Power Commissioners (Board) adopt the attached Resolution authorizing execution of the Agreements with Valero.

## **ALTERNATIVES CONSIDERED**

The alternative would be to continue using only the current CGIA Valero and not provide other Agreements which, collectively, provide more financial incentives, improved water resource conservation, and updated operating and maintenance conditions. LADWP would not be able to further encourage Valero to operate at steady loads and to sell the LADWP's excess generation to a willing recipient. Furthermore, using the current CGIA



would limit the opportunities to enhance safety and reliability of the existing interconnection.

## **FINANCIAL INFORMATION**

The ESA and CGIA will continue until the fifth anniversary of their effective date, unless terminated earlier by expiration or cancellation of the Lease Agreement between Valero and Air Products for the facilities they share at Valero's site. There is no significant anticipated net fiscal impact related to the Board's approval of the ESA and CGIA.

The Agreement for Reimbursement of Design Costs for On-Site Improvements Required for Advanced Treated Recycled Water Service becomes effective upon execution by Valero and LADWP and continues until its third anniversary, unless terminated earlier.

The financing of Valero's on-site retrofits was included in LADWP's budget. The not-to-exceed \$1.0 million initial cost to LADWP for the on-site design costs proposed in this agreement is an at-risk cost for LADWP because LADWP may determine that it is not economically feasible to serve recycled water to the refinery and finance the required retrofits. If LADWP does agree to provide recycled water and finance the full costs for the on-site retrofits, including this initial design cost, it is anticipated that the payback period would be completed in no more than 10 years from the sale of recycled water at the potable water rate.

## **BACKGROUND**

Valero has had a CGIA in place since July 2009 and is currently receiving electric service in accordance with the applicable rate schedules, CG-3 and CG-3 [i], in the electric rate ordinances. The current CGIA calls for Valero to pay for electric service according to the terms of the electric rate ordinance. LADWP seeks to replace the current CGIA with both a new CGIA and ESA.

Under the proposed ESA, Valero will have the opportunity to receive benefits for maintaining a steady load based upon achieving a monthly minimum load factor as defined for High Season months (June through September) and for achievement of the minimum average load factor as defined for the Low Season months in the Agreement. LADWP estimates that Valero can realize savings of four percent or \$1.4 million annually based on current energy consumption, with further cost savings if Valero achieves higher load factors.

In addition, LADWP will provide Valero the opportunity to purchase LADWP Delivered Excess Generation, during conditions of availability, at a rate of \$0.045 per kilowatt hour (kWh). This will further encourage Valero to purchase LADWP Delivered energy in place of its self-generated energy.

In accordance with the terms of the proposed Agreement, during a Notification Event, if Valero's generation energy is less than the corresponding average energy produced by its on-site cogenerator, Valero may purchase LADWP Delivered Excess Generation at



favorable pricing. Conversely, if Valero's generation energy is not reduced to required levels during a Notification Event in accordance with the terms of the Agreement, Valero will pay for energy based upon the applicable rate schedules, which are currently CG-3 and CG-3 [i] in the electric rate ordinances.

In February 2012, the City of Los Angeles approved the expansion of the Advanced Water Purification Facility (AWPF) at the Terminal Island Water Reclamation Plant from 5,600 acre-feet per year (AFY) to 12,880 AFY by 2017, and LADWP was tasked with negotiating agreements with customers to use the additional 7,280 AFY. At the same time, LADWP was in discussions with three refineries and Air Products in the Harbor area to evaluate the use of Nitrified Title 22 recycled water. The AWPF produces a higher quality of recycled water than the Nitrified Title 22 recycled water and can be used in cooling towers and boilers more efficiently than Nitrified Title 22 recycled water. However, the total demand of the four industrial customers (9,300 AFY) was more than the added capacity of the AWPF, and LADWP evaluated which customers could be served from the expanded AWPF. LADWP determined that Valero, with a demand of approximately 1,000 AFY, could potentially be served from the expanded AWPF, and on June 11, 2013, LADWP informed Valero that a better quality of water could be made available in 2017.

LADWP is proposing to finance the on-site capital costs (including design) of converting the refinery to recycled water through the sale of recycled water to Valero at a higher rate (current potable) with a component of the rate dedicated to the financing charges. The Agreement for Reimbursement of Design Costs for On-Site Improvements Required for Advanced Treated Recycled Water Service would provide financing for the first portion of the on-site capital costs of retrofitting the refinery, namely, the detailed engineering required to determine preferred methods and costs for the proposed retrofit. Without this work, neither LADWP nor Valero may determine the financial feasibility and the most appropriate schedule for converting the refinery to recycled water use. LADWP believes that financing the on-site retrofits will better incentivize Valero to convert to use of recycled water than the alternative of Valero paying for the retrofits up-front. There is some urgency to accomplish this work because recycled water from the expanded treatment AWPF could be made available to Valero as early as 2017.

The Agreement for Reimbursement of Design Costs for On-Site Improvements Required for Advanced Treated Recycled Water Service also includes general nonbinding terms for a future advanced treated recycled water service agreement.

The City Administrative Officer (CAO) report is attached.

### **ENVIRONMENTAL DETERMINATION**

In accordance with the California Environmental Quality Act (CEQA), it has been determined that the Agreements with Valero are exempt pursuant to the General Exemption described in the CEQA Guidelines Section 15061(b)(3).

## **CITY ATTORNEY**

The Office of the City Attorney has reviewed and approved the Agreements with Valero and the Resolution as to form and legality.

## **ATTACHMENTS**

- Resolution
- Electric Service Agreement
- Agreement for Reimbursement of Design Costs for On-Site Improvements Required for Advanced Treated Recycled Water Service
- Customer Generation Interconnection Agreement
- CAO Report