



STAFF REPORT

Meeting Type: City Council Work Session

Meeting Date: July 17, 2023

From: Jennifer Coker

Subject: Review of Renegotiated Portland Water Bureau Wholesale Water Agreement

DECISION TO BE MADE:

There is no decision to be made at this time. Adoption will be considered at a future meeting.

At this work session, staff will present the final draft of the new wholesale water purchase agreement with Portland Water Bureau that is currently undergoing legal review, and will solicit feedback from Council on new terms and any questions or concerns with adopting the agreement.

BACKGROUND / CONTEXT:

The Portland Water Bureau (PWB) in cooperation with its wholesale customers, is developing a new framework for the Regional Water Supply Agreement. The current agreement expires in June of 2026 for all wholesale customers except Sandy. Sandy's agreement expires in May of 2028; however, given the requirements for treatment of cryptosporidium in the bilateral compliance agreements both Portland and Sandy have signed with Oregon Health Authority, the agreement for Sandy receiving potable water from Portland will effectively end on September 30, 2027. Wholesale customers must provide notice of their intent to renew or let lapse the agreement five years in advance of the expiration date. Sandy will continue to remain a wholesale water customer of Portland as our existing developed water resources are insufficient to meet our peak season and projected demands, and Portland provides a key supplementary source of water for our growing community.

Several of the larger wholesale customers (Tualatin Valley Water District and City of Gresham) notified Portland of their intent not to renew their agreements, and to instead completely rely on newly developed water sources. Recognizing that the current agreement in its current format may not work for the remaining wholesale customers, PWB and the wholesale customers began revising the agreement based upon mutual trust and understanding of shared goals.

City of Sandy entered into a non-binding memorandum of understanding to memorialize the intent to revisit the agreement and outline the timeframe and process of doing so at the [December 6, 2021 Council Meeting](#). City of Sandy along with our consultant, Jeff Fuchs of Consor Engineering, have been

participating in monthly wholesale water agreement work sessions for the past 16 months, working with FCS Group, a financial consulting firm specializing in utility rate models, the Portland Water Bureau, and the wholesale water utility managers. The Portland Water Bureau and the Wholesalers now have a new draft agreement that is ready to present to the council in a work session to give an update on progress and to solicit feedback.

KEY CONSIDERATIONS / ANALYSIS:

Benefits to Sandy

Currently water provided by PWB to the wholesalers is unfiltered and disinfected with chlorine. When conditions such as drought, cryptosporidium positive sample results, wildfire or high turbidity in Bull Run make the water unsafe for human consumption, the PWB switches over the Columbia wellfield and provides groundwater for water supply until conditions clear up. Due to Sandy's location high up in the system, we are unable to reap the benefit of switching to groundwater, and thus frequently experience service interruptions, when the PWB Bull Run source is unavailable. These interruptions are not caused by PWB, but due to the location of Sandy's connection. With Sandy's connection point moving to the new Portland filtration plant, the PWB water will become a fully reliable source for Sandy, especially with the key connection for us to the Columbia Wellfield providing access to groundwater.

Overall Goals

The Wholesalers group met and agreed on the priority and ranking of goals for the new agreement. Overarching goals were that the wholesalers want to be treated fairly and equitably (the same as Portland retail customers), and to pay a fair share for the cost of water. Portland did not want to manage 19 different agreements with different terms and pushed for simplicity with up to only 4 cost pools.

Minimum Purchase

One of the major changes to the new agreement is the removal of the requirement for a minimum purchase of water each month. Many wholesalers (Sandy included) technically did not need water all year long, and felt the agreement required them to purchase water that was not needed. The new agreement has no minimum purchase. Sandy's currently minimum purchase is 500,000 gallons per day, and our long term strategy is to reduce this to a minimum in wet season months and rely fully on our own water sources.

Cost Pool Consolidation and Cost Sharing

The agreement currently has two cost pools, east side and west side. The model can take up to four pools; Sandy is suggesting adding a third cost pool to allow utilities the option of purchasing raw untreated water. In exchange for the simplicity of managing the new agreement, Portland agreed to assume 94% of the cost of the surplus system capacity from the departure of Gresham, Rockwood and TVWD, instead of placing the burden on the smaller pool of wholesale customers.

BUDGET IMPACT:

Portland continues to provide five-year rate projections, and water rates are projected to increase as the major expansion project of the filtration plant and pipelines start construction. Table 1 below was

provided to the council in a memo update April 26, 2023. Sandy’s Fiscal Year ‘24 wholesale water rate under the current agreement is \$0.909 per hundred cubic feet (CCF). Again, this is for purchasing disinfected unfiltered water, that is prone to service interruptions.

The draft future agreement recommends adopting two cost pools (East and West) with Portland accepting 94% of surplus capacity. This is the lowest cost scenario for Sandy and is shown in line 53 in the table below. Rates for Sandy purchasing filtered treated water from Portland, with connection to the Columbia wellfield with essentially uninterruptible service are \$1.769 per CCF in fiscal year 2027 and increase to \$4.031 per CCF in fiscal year 2032. This increase in rates is due to Sandy paying a proportional share for the construction of the filtration facility. Sandy’s rates from Portland continue to be some of the lowest of the wholesalers due to our proximity to the filtration plant and the terms of the agreement where we pay for infrastructure that serves us.

It is also important to note that the purchases water cost is not directly related to Sandy water utility fees. This purchased water is a line item in the water utility budget, and gets diluted with cost of producing water from our own sources.

Table 1: Sandy Projected Wholesale Water Rates under new agreement (line 53)

1 East-West Cost Pool – Wholesale Customer Rates (\$/ccf)

Line	Jurisdiction	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
31	Valley View						
32	One Cost Pool	\$3.197	\$4.075	\$4.549	\$6.929	\$7.040	\$7.190
33	East West - Portland Accepts 94% of Surplus Capacity	\$3.236	\$4.128	\$4.610	\$7.020	\$7.132	\$7.275
34	East West - Portland Accepts 0% of Surplus Capacity	\$4.544	\$5.769	\$6.364	\$9.682	\$9.687	\$9.737
35							
36	West Slope Water District						
37	One Cost Pool	\$2.662	\$3.354	\$3.734	\$5.599	\$5.697	\$5.829
38	East West - Portland Accepts 94% of Surplus Capacity	\$2.694	\$3.400	\$3.783	\$5.675	\$5.774	\$5.897
39	East West - Portland Accepts 0% of Surplus Capacity	\$3.787	\$4.749	\$5.219	\$7.805	\$7.818	\$7.872
40							
41	Raleigh Water District						
42	One Cost Pool	\$2.894	\$3.673	\$4.096	\$6.203	\$6.308	\$6.447
43	East West - Portland Accepts 94% of Surplus Capacity	\$2.929	\$3.722	\$4.150	\$6.287	\$6.391	\$6.522
44	East West - Portland Accepts 0% of Surplus Capacity	\$4.113	\$5.197	\$5.725	\$8.653	\$8.661	\$8.712
45							
46	City of Tualatin						
47	One Cost Pool	\$2.699	\$3.447	\$3.855	\$5.515	\$5.604	\$5.724
48	East West - Portland Accepts 94% of Surplus Capacity	\$2.730	\$3.494	\$3.906	\$5.591	\$5.678	\$5.787
49	East West - Portland Accepts 0% of Surplus Capacity	\$3.834	\$4.877	\$5.384	\$7.665	\$7.664	\$7.702
50							
51	City of Sandy						
52	One Cost Pool	\$2.051	\$2.542	\$2.818	\$4.132	\$4.217	\$4.326
53	East West - Portland Accepts 94% of Surplus Capacity	\$1.769	\$2.253	\$2.527	\$3.859	\$3.934	\$4.031
54	East West - Portland Accepts 0% of Surplus Capacity	\$2.561	\$3.218	\$3.551	\$5.348	\$5.364	\$5.411

As Sandy typically takes a very steady flow of water from Portland, and augments water with our own sources, our rates tend to be lower than other wholesalers that rely on Portland for all their water supply. Maintaining our lower rate will be dependent on continuing this strategy of reinvesting in the City’s own water sources and infrastructure to the degree that is economically beneficial for our rate payers.

Although there is a 20 year option on the agreement renewal, staff recommends a 30-year term as that includes lower water rates and provides the City with more certainty.

NEXT STEPS:

The draft agreement is currently in review with the City Attorney, and upon receiving comments, the wholesalers and PWB will enter into negotiating final details of the agreement. City of Sandy is also working in parallel for terms during the next few years; specifically we want to continue paying for unfiltered water under the existing agreement if our new infrastructure is not completed by September 2027. Once the agreement is finalized between the technical staff, there will be a joint communications plan to the region, followed by adoption of elected officials and utility boards.

LIST OF ATTACHMENTS / EXHIBITS:

- MOU with City of Portland
- DRAFT 30-year wholesale water agreement
- Presentation Slides