

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

December 17, 1991

To: Board of Directors (Finance and Insurance Committee--Action)
(Water Problems Committee--Action)

From: General Manager

Subject: Acquisition and Allocation of Water from the Potential
Governor's 1992 California Drought Emergency Water Bank

Report

Negotiations are under way regarding the establishment of the Governor's 1992 California Drought Emergency Water Bank. The initial 1991 Water Bank succeeded in addressing defined critical needs of all participants in the urban and agriculture sectors, as well as providing related water for environmental needs.

Water Supply

Hydrology for Water Year 1992, although only two months old, indicates a continuation of the drought for a sixth year, with the Sacramento River Basin showing precipitation at 68 percent of normal and runoff at only 45 percent of normal. Projected Metropolitan supplies from the State Water Project (SWP) and the Colorado River are expected to meet member agency demands under a continued Phase V of the Incremental Interruptible Conservation Plan (IICP). The balance is achieved, in part, because in 1992 we will again be able to divert a full Colorado River Aqueduct. However, in the event total Colorado River diversions in the Lower Basin exceed 7.5 million acre-feet, Metropolitan may be required to repay that overage by the year 1995.

It is recognized that demands were far below normal in 1991 due not only to the excellent cooperation of the public in conserving water, but also to a relatively cool summer which lowered water demands. Warm weather conditions and other factors could result in Metropolitan's demands exceeding the pending supplies.

Potential 1992 DWR Water Bank

It is likely that the structure of a 1992 Department of Water Resources (DWR) Water Bank would be one of individual contractors such as Metropolitan requesting water and paying full costs to the DWR before contracts with sellers are finalized.

Financing a 1992 Water Bank within Metropolitan

Bank water is distinct from normal Metropolitan supplies, therefore, it is recommended that Metropolitan develop a 1992 Water Bank (Metropolitan Bank) within its own service area. Metropolitan would pursue acquisition of DWR bank water in response to requests from individual member agencies. DWR bank water would be obtained only for those Metropolitan member agencies who request the water. The proposed Metropolitan Bank rate would be the rate charged by DWR at the Harvey O. Banks Delta Pumping Plant plus the appropriate noninterruptible Metropolitan water rate. Although uncertain now, the probable Metropolitan Bank rate would be approximately \$450 per acre-foot. Under this proposal, member agencies requesting Metropolitan Bank water would be obligated to purchase their full request.

Metropolitan staff was central to the development of the 1991 Water Bank and was its largest customer, purchasing 215,000 acre-feet (AF), followed by the Kern County Water Agency and the City of San Francisco (a non-SWP contractor) with approximately 50,000 AF each. Metropolitan staff feels a 1992 Water Bank is the most efficient way to meet the contingency of added water demands of water agencies. Given the uncertainties at this time, it is requested that Metropolitan member agencies establish firm requests for 1992 Metropolitan Bank water by March of 1992.

Metropolitan purchased 215,000 AF of Bank water in 1991, of which approximately 27,000 AF was sold to individual members at cost, and the remainder provided under the IICP with costs paid accordingly. Due to the current restrictive financial situation, this procedure seems inappropriate in 1992 unless a drought rate surcharge is imposed to recover the extra cost of Bank water. While such an option may be appropriate later on, it is recommended that we proceed with the Metropolitan Bank as discussed above at this time.

Board Committee Assignments

This letter is referred for action to:

The Finance and Insurance Committee because of its jurisdiction to study and advise in matters concerning the disposition of funds, pursuant to Administrative Code Section 2441(c); and

The Water Problems Committee because of its authority to study, advise and make recommendations with regard to policies, sources and means of importing water required by Metropolitan, under Administrative Code Section 2461(a).

Recommendations

FINANCE AND INSURANCE COMMITTEE FOR ACTION.

It is recommended that the General Manager be authorized to enter into agreements, in form approved by the General Counsel, with member agencies for funding of a 1992 Water Bank, if the Governor decides to create such a Bank.

WATER PROBLEMS COMMITTEE FOR ACTION.

It is recommended that the General Manager be authorized to execute agreements, in form approved by the General Counsel, with the Department of Water Resources to obtain Bank water in the amount that Metropolitan's member agencies request.


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