

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

December 18, 1992

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

*From:* General Manager

*Subject:* Purchase of Additional 1993 Water Supplies

Report

With a possible historic seventh year of drought and increasing regulatory uncertainty regarding State Water Project (SWP) supplies, it is imperative that Metropolitan seek to acquire additional purchased water supplies for 1993. After six years of extraordinary drought conditions, precipitation in the SWP watershed during the 1992-93 water year has been approximately normal through mid-December. However, the recent draft interim water rights decision by the State Water Resources Control Board (Decision 1630) raises considerable uncertainty regarding SWP supplies during 1993. Because of the possible implications of Decision 1630, the Department of Water Resources (DWR) recently indicated to the State Water Contractors that additional allocations of SWP water beyond the 10 percent allocated on December 1, 1992 were unlikely until late February when more information will be available regarding both the water year and the potential impacts of the draft decision.

To help assure adequate supplies during 1993 and avoid the economic costs of mandatory rationing, Metropolitan should develop additional supplies through voluntary water transfer agreements with willing sellers. At the present time, it is recommended that your Board authorize the General Manager to develop options or purchase agreements for an additional 100,000 acre-feet (AF) of water. As the year develops, further purchases may be necessary. Such purchased water would be acquired either through a 1993 Drought Emergency Water Bank or through other voluntary water transfer agreements as deemed appropriate by the General Manager.

The cost of these additional supplies will depend upon market conditions. During 1991, the melded rate for water from the State water bank was \$175 per acre-foot (after accounting for delta losses), while during 1992 bank water is available at a price of only \$72 per acre-foot. Based on the

1991 price of water, 100,000 AF of additional supplies would cost \$17.5 million. Fees and other costs depending upon the source of supply could increase required expenses above this amount, but total costs are not expected to exceed \$20 million. Sufficient funds for such water purchases have been included in the revenue requirements for 1993-94 approved by the Finance and Insurance Committee at its December 1992 meeting. If water transfer expenditures are incurred before July 1, 1993 that exceed amounts included for purchased water in the 1992-93 budget, financing is available from the rate stabilization fund. Energy costs to pump purchased water into Metropolitan's service area would be in addition to these amounts, but are already included in the approved revenue requirements.

To develop additional 1993 supplies, staff will pursue, as appropriate, options contracts and water purchase contracts, depending upon which form of contract offers Metropolitan the most attractive economic terms. Under a purchase contract, Metropolitan would agree to take delivery of water during 1993. Under an options contract, Metropolitan would pay an option fee to the seller in exchange for the right to purchase water at our discretion by a specified date and for a specified price. If SWP water supplies later in the year are adequate, the seller would retain the option fee, but Metropolitan would avoid unnecessary water transfer expenses. If supplies are inadequate, Metropolitan would exercise its option and pay the remainder of the full purchase price and any other applicable fees.

This action by your Board is exempt from the California Environmental Quality Act (CEQA). If supplies are acquired through the state water bank, DWR would be responsible for all necessary environmental documentation, as was the case in the 1991 and 1992 water banks. If supplies are developed through other transactions, it is anticipated that agreements would be developed pursuant to Section 1729 of the Water Code under which certain one-year temporary water transfer agreements are exempt from the procedural requirements of CEQA. If individual transactions require additional action under CEQA, they will be brought before your Board before they are finalized.

As the water year and regulatory events in California unfold during 1993, staff will keep your Board apprised of water supply developments and the need for additional water purchases.

Board and Committee Assignments

This letter is referred for action to 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, pursuant to Administrative Code Section 2461(e).

Recommendation

**WATER PROBLEMS COMMITTEE FOR ACTION.**

That your Board authorize the General Manager to execute agreements to acquire up to 100,000 acre-feet of additional water supplies at a total cost not to exceed \$20,000,000 from a 1993 Water Bank or other willing sellers, as well as necessary wheeling agreements, all in a form approved by the General Counsel.

  
Carl Boronkay

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