



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-3

January 26, 1993

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

From: General Manager

Subject: Purchase of Core-Water Supplies

Report

In December 1991, recognizing the growing uncertainty of Southern California's water supply reliability and the desire to avoid the economic costs of mandatory rationing, your Board adopted a water transfer policy that stated, "To meet its public water supply and reliability goals in the future, Metropolitan will vigorously pursue the development of water transfers..." (See attachment). Subsequently, in October 1992, your Board adopted a Water Supply and Reliability Goal that stated, "Metropolitan will provide a reliable supply of water to its member agencies. Even under adverse hydrological conditions, there will be no more than a 20 percent supply reduction in any single year."

Consistent with your Board's water transfer policy and supply and reliability goal, staff is currently negotiating water transfer agreements to provide three types of water supplies: Core, Option, and Spot. Core-water agreements will provide an annual, firm source of water through long-term contracts. Option-water agreements will provide Metropolitan an option to purchase water for a relatively small option payment, and then exercise that option and make a larger payment when additional water supplies are provided. Spot-water purchases provide Metropolitan the flexibility to opportunistically purchase water at the market price such as through the Governor's Water Bank (Bank) during times of supply shortages, or for augmenting storage.

Staff analysis of demand and supply projections for Metropolitan's service area indicate that it would be prudent to initially secure a block of core water from Central Valley water transfers totaling approximately 100,000 acre-feet. It is estimated that at least for the near-term, this quantity of core water will be needed to meet your Board's water supply and reliability goal. Of the three types of water supply transfer programs identified, core water affords the least expensive average unit cost and is by far the type most often offered by transferors.

The price paid for core-water purchases is expected to range up to the price paid for Bank water in 1991, about \$175 per

acre-foot. While the purchase price for core water may be lower than the cost of 1991 Bank water, recent legislation and proposed regulatory decisions are expected to increase the cost of water transfers. For example, federal transfer legislation (H.R. 429) requires that non-Central Valley Project transferees pay \$25 per acre-foot for all water purchased. State Water Resource Control Board Interim Draft Decision 1630 would establish fees for all water diverted upstream of or exported from the Sacramento-San Joaquin Delta. In addition, in some cases, additional costs, such as for groundwater pumps and surface distribution systems may be required to complete a transaction. Considering the above costs, it is estimated that the total cost of acquiring 100,000 acre-feet of core water could range up to \$20 million annually.

Based on preliminary proposals received from potential transferors, a typical core-water agreement is expected to be for relatively small amounts of water, with the average size of a single transaction less than 5,000 acre-feet per year. Thus, a 100,000 acre-feet core-water program will require numerous agreements with individual transferors. All transfer agreements and attendant environmental documentation will be presented to your Board for approval. Any agreements for the acquisition of core water would strictly adhere to your Board's Water Transfer Policy Statement.

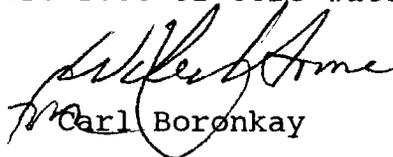
The proposed action is not subject to the provisions of the California Environmental Quality Act (CEQA) in that it is not a "project" as defined by CEQA and its implementing guidelines.

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

That your Board authorize the General Manager to negotiate agreements consistent with this letter and your Board's Water Transfer Policy Statement and any necessary wheeling agreements to acquire up to 100,000 acre-feet of core water.


Carl Boronkay

WDE:kmk

Attachment

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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-5
(Revised)

December 9, 1991

To: Board of Directors (Executive Committee--Action)
From: General Manager
Subject: Revision in Water Transfer Policy Statement

Report

As requested at the December 9, 1991 meeting of the Water Problems Committee, attached is a revised version of the proposed Water Transfer Policy Statement. The only change is that the word "reasonably" has been replaced with the word "appropriately" in Item 6), which addresses the possible community impacts of water transfers.

Recommendation

That your Board adopt the attached Water Transfer Policy Statement to guide future water supply acquisition activities.



Carl Boronkay

THQ:ajs

Attachment

TQCHANGE

WATER TRANSFER POLICY STATEMENT

of the

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

The Metropolitan Water District of Southern California (Metropolitan) is responsible for the imported water supply that serves the \$400 billion regional economy of Southern California and helps assure the quality of life for more than 15 million people. During recent decades, the policy environment in which Metropolitan seeks to achieve its objectives has changed markedly, and the strategies employed to secure reliable water service for the region must adjust accordingly.

Over the past quarter century, the urban economy of California, north and south, has grown at about twice the average rate of growth of the national economy, and the underlying economic factors supporting this growth are expected to continue in the future. Despite the implementation of aggressive conservation, additional supplemental water supplies will be essential for the continued health of the Southern California regional economy. At the same time, the availability of water from traditional supply sources has diminished, significantly. As a result, additional sources of supplemental water supply for Metropolitan's service area must be sought in part from other existing water uses, primarily agriculture, which uses more than 80 percent of the developed water supplies in California.

Along with water conservation, reclamation and reuse, and infrastructure improvements especially in the Sacramento-San Joaquin Delta, water transfers from agricultural uses to urban uses will be a critical element of comprehensive plans by Metropolitan to restore and maintain water supply reliability. As defined here, water transfers are interpreted broadly to include the acquisition of short- and long-term supplies, agreements with water districts and individuals, and initiatives involving water management actions and market transactions to purchase water, water rights, or land to increase Metropolitan's water supplies.

To meet its public water supply objectives in the future, Metropolitan will vigorously pursue the development of water transfers with regard to the following considerations:

- 1) Water transfers, including water marketing, will be developed only on a voluntary basis with willing partners;
- 2) A full-range of water transfer options will be pursued, including arrangements with appropriate state and federal agencies, public and private water districts, and individual water users;
- 3) Water transfers will be designed to protect and, where feasible, enhance environmental resources;
- 4) Water transfers will be designed to avoid contributing to or creating a condition of long-term groundwater overdraft;
- 5) Efforts will continue to develop water transfers in cooperation with the agricultural community, which seek to avoid unreasonable operational and financial impacts; and
- 6) Strategies will be developed to appropriately address community impacts of water transfers.

TQ:rj

TQTRANS