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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

OCT 11 1994

Larry E. Wolf
EXECUTIVE SECRETARY

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September 27, 1994

(Water Problems Committee--Action)
To: Board of Directors (Finance & Insurance Committee--Action)
From: General Manager
Subject: Authorization for General Manager to Execute an Agreement and
to Purchase Options from the 1995 State Drought Water Bank as
Insurance Against Water Shortages

Report

Anticipating low water supply conditions in 1995, the State, acting through the Department of Water Resources (DWR), is re-establishing the State Drought Water Bank (Water Bank). In past years, drought water banks were not formed until March or April. The State is forming the Water Bank early to allow the participants to secure water purchase options and reduce the cost of the program.

The water supply conditions in 1995 for Metropolitan are expected to provide for meeting demands. However, in order to provide insurance against unusually high water demands or unexpectedly low water supplies, Metropolitan may require as much as 100,000 acre-feet of water from the Water Bank. Unofficial estimates from DWR staff indicate that the State Water Project (SWP) initial delivery approval on December 1, 1994, will be between 20 to 35 percent of entitlement (30 percent SWP supplies would meet full demands). It is estimated that \$1.5 million could be required to secure options to purchase up to 100,000 acre-feet from the Water Bank.

It is also important for Metropolitan to participate in the Water Bank to ensure that Water Bank contract language is drafted consistent with Metropolitan's interests in the 1995 Drought Water Bank and future years when water banks are in operation.

Interested parties have begun working with DWR to draft 1995 Water Bank agreement language. Principles of the agreement are expected to be similar to prior agreements for the direct purchase of water, with the exception of additional provisions to acquire water purchase options. These water options are expected to be acquired by DWR in November and

December, 1994. Benefits of water purchase options are reduction in the water purchase price and increased water management flexibility to respond to changing supply conditions as the water year proceeds. Water purchased under this program is projected to cost about \$50 to \$60 per acre-foot at the seller's point of delivery. While the Water Bank is being established now, it will not be activated by the State until a later date. In the event that the Water Bank is not activated, it is expected that option water acquired for Metropolitan under this program would be transferred to Metropolitan under provisions of the SWP Supplemental Water Purchase Program now being developed with DWR.

In 1991, 1992, and 1994, the State carried out successful water bank programs. Metropolitan participated in the 1991 and 1992 programs. Early participation in the 1995 Water Bank will allow Metropolitan to acquire needed water supplies in a cost-effective manner.

Recommendations

It is recommended that the General Manager be authorized to execute an agreement, in a form acceptable to the Legal Department, to participate in the 1995 State Drought Water Bank (Water Bank); and that the General Manager be authorized to purchase up to \$1.5 million of options for water from the Water Bank as insurance against water shortages. Authorization for additional funding to exercise any water purchase options from the Water Bank will be brought to your Board for consideration.

John R. Wodraska
General Manager

By Debra C. Man
Debra C. Man
Chief of Planning and
Resources

Concur:



John R. Wodraska
General Manager

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