

- **Executive Committee**

July 26, 1999

Subject

Development of a Request for Proposals (RFP) for Dry-Year Water Transfers

Description

During recent years, Metropolitan has implemented a wide range of projects to improve water supply reliability for the Southern California region under the policy guidance of the Integrated Resources Plan, approved by the Board in January 1996. These investments included conservation, recycling, and groundwater and surface storage. Together with supplies from the State Water Project (SWP) and Colorado River Aqueduct, Metropolitan estimates that it will be able to meet all demands for imported water for the next ten years even under the most severe drought conditions. However, regulatory uncertainty could undermine this high level reliability in both the near-term and long-term. For example, the recent draft Department of Interior position regarding environmental water under the Central Valley Project Improvement Act could significantly increase risk for SWP supplies from the Bay-Delta. Similarly, the delta smelt crisis experienced this spring underscores the existing strains on the system which could also disrupt supplies from the SWP.

Metropolitan's first priority to mitigate these possible SWP supply impacts should be to continue to work through the CALFED process to obtain regulatory assurances that protect currently available supplies. However, in the near-term, it seems prudent to explore developing dry-year water transfers as insurance, especially considering the fill of Eastside Reservoir will begin shortly. It is recommended that Metropolitan develop an RFP for near-term dry-year transfers on an option basis to assure that supply reliability is maintained. Option transfers are those in which the buyer pays the seller an option to call on the transfer water and then pays the seller a call price, when the water is actually used. An option transfer gives the seller some security in the event the water is never called, but also minimizes the cost to the buyer who may consequently not need the water.

The RFP would seek proposals that could provide 100,000 acre-feet of supply annually during the near-term. Staff will bring back to the Board the actual RFP for consideration, which will specify the exact terms and conditions for the dry-year water transfer. It is the intent that the RFP will allow for fair competition between willing sellers, both public and private.

Policy

Resources Procurement; State Water Project; Integrated Resources Plan

Fiscal Impact

The consequences of not being able to fill Eastside Reservoir over the next five years could be significant if disruptions in SWP supply occur as a result of the regulatory uncertainty. Option transfers may prove to be an effective insurance strategy as costs are generally cheaper than purchasing a firm water supply in which significant costs are paid year in and year out, regardless if the water is actually needed. In addition, these types of transfers will not commit Metropolitan to long-term fixed investments.

General Manager

Date