

**WEST BASIN MUNICIPAL WATER DISTRICT**

**OCTOBER 21, 2002 – Finance Committee**  
 Smith, Dear  
**OCTOBER 28, 2002 – Board Meeting**  
 Prepared by: Fernando Paludi  
 Submitted by: Paul Shoenberger  
 Approved by: Darryl G. Miller

ACTION CALENDAR

MWD WATER PURCHASE ORDER

SUMMARY:

The Metropolitan Water District (MWD) is offering its member agencies a Purchase Order (PO) for imported water supply as part of its new rate structure effective January 1, 2003. The PO commits the member agency to purchase an amount of firm imported water from MWD within ten years. In return, the member agency is allowed to purchase more water annually at the lower Tier 1 rate than would otherwise be the case without a PO. The total purchase commitment and the allowable maximum of purchases at the Tier 1 rate are determined from an agency’s Initial Base Demand – the highest annual firm demand on MWD by that agency since fiscal year 1989-90.

The key terms of a PO between the District and MWD are as follows:

Initial Base Demand	174,304 AF
Initial Tier 1 Annual Maximum	156,874 AF (90% x 174,304 AF)
PO Commitment	1,045,825 AF (60% x 174,304 AF x 10)
Tier 1 Annual Max without PO	104,583 AF (60% x 174,304 AF)

The following are brief comments concerning the risk the District may face from signing or not signing the PO, framed in terms of a few key questions:

Can the District afford not to sign a PO?

Without a PO, the District would pay 20% more for every acre-foot (AF) of firm imported water purchases above 104,583 AF annually. In FY 2002-03, the District purchased roughly 138,400 AF.

Can the District meet the Purchase Order Commitment of 1,045,825 AF over 10 years?

Several issues must be considered when projecting the District’s demand for firm water from MWD over the PO term, including: projected growth in retail water demands, planned expansion of the District’s recycled water program, and planned development of ocean-water desalination. Increased recycled water use is expected to result in a decrease in firm imported water purchases over the next few years. However, growth in retail demands will ultimately drive imported water demands higher. Ocean-water desalination, projected to be on-line during the second half of the PO term, will provide an additional offset to imported water.

The net result of these projected trends and events is shown graphically in Exhibit “B” in terms of imported water purchases through 2013. This graph demonstrates that despite the addition of more recycled water and even ocean-water desalination to the District’s resource mix, West Basin’s average annual demand for imported water over the next ten years is expected to remain above 104,583 AF, ensuring that the PO commitment will be met by the end of the term.

Does the PO limit the District's flexibility in seeking alternatives to MWD supplies?

The "cushion" resulting from the difference in the District's projected demands and the PO commitment on an average annual basis, represents the flexibility the District will enjoy, even under a PO. It is anticipated that the District's continued development of recycled water, and ocean-water desalination will still leave a small measure of flexibility for other alternatives should they prove economically viable to pursue.

In summary, the District needs to enter into a PO with MWD to avoid higher annual water costs for purchases above 104,583 AF annually, based on projected demands for firm imported water over the next ten years.

FISCAL IMPACTS:

Without a PO, District water costs would be approximately 20% higher for every acre-foot purchased from MWD above 104,583 AF annually (total additional cost estimated at \$2.64 million based on 137,200 AF of firm sales budgeted for FY 2002-03). Actual costs could be higher depending on actual firm imported purchases from MWD.

ENVIRONMENTAL COMPLIANCE:

None.

COMMITTEE STATUS:

This item was reviewed by the Finance Committee on October 21, 2002 and was recommended for approval at the October 28, 2002 Board meeting.

RECOMMENDED MOTION:

Authorize the General Manager to execute the attached Purchase Order for Imported Water Supply Provided by the Metropolitan Water District of Southern California.

LIST OF EXHIBITS:

- Exhibit "A" – Purchase Order for Imported Water
- Graph of Projected Imported Water Demand