



## Water Purchase Agreements May Help Secure Rate Relief

**F**or growers who are dependent on municipal water delivery, the rising price of water is an ever present concern. About 60 percent of California's avocado growers are situated within the service area of the region's major wholesaler, Metropolitan Water District of Southern California (MWD). As part of its continuing discussions with the MWD regarding agricultural water pricing, the California Avocado Commission is exploring the possibility of multi-year, fixed volume, water purchase contracts that reach down to the farm level.

A fixed volume water purchase contract is a buyer-seller agreement in which the buyer's obligation to pay is unconditional whether or not the agreed-upon volume of water is delivered or taken. A water buyer and seller agree to a minimum volume of water that the buyer agrees to purchase whether that quantity is needed or not. In such cases, the seller receives a firm commitment for the purchase of that minimum volume, and the buyer receives a more favorable price. The minimum volume would be over an established period of time (e.g. monthly or annually). In the event the seller cannot supply the agreed-upon volume of water, the buyer would not be obligated pay for undelivered water.

In recent years, MWD's water sales have been below projections, in part because of successful efforts to get customers to conserve. This can be problematic for MWD, since

fixed costs represent a high percentage of their expenditures, and revenue from water sales is highly variable. Water purchase agreements could provide MWD with a predictable revenue stream, a point which may resonate with the water wholesaler's directors, who are concerned about the agency's bottom line. It may also provide those same directors—many of whom represent urban areas where there are no agricultural water customers—with a reason to support an affordable, agricultural water rate that would benefit the state's avocado growers.

The idea is presently at the conceptual stage and details are still being worked out. For example, an affordable agricultural water rate established by MWD would likely have to be extended through its member agencies to the local water retailer.

The commission will be meeting with MWD directors and staff in the upcoming weeks to discuss water purchase agreements and other innovative ideas that might yield savings for avocado growers. Watch for more information on this subject and give some thought to whether a water purchase agreement would have a place in your own farm management practices.

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