

## With stewardship, state water market will avoid Enron-like energy woes

**E**nron's Icarus-like fall from the financial firmament ought to illuminate powerful lessons for Californians who can remember back five years.

Those were the heady days of deregulation of the utility industry, and Enron was one of the key advocates. With the cooperation of the investor owned utilities, they forged ahead in the electric arena. But they weren't just focused on kilowatts. No, they were going after water as well.

Metropolitan Water District (MWD), the cooperative of fourteen cities and twelve regional water agencies that serves 17 million Southern Californians, was building a \$2 billion reservoir near Hemet with a billion dollar pipeline going into it. "Why?" the market mavens asked derisively. "Why spend billions on reservoirs and facilities when a water market can break the bureaucratic logjam and free up water during droughts?"

The promise of a wide-open "free market" system had its allure. Even MWD general



**Timothy Brick**

manager John Wodraska fell for it when he headed to Houston to be a major executive in Enron's new water venture, Azurix. Their pledges of economic efficiency and stable prices were attractive to a stressed Southern California water system.

But the water marketers had another tool that water agencies didn't -- campaign contributions. They generously spread their lucre in Sacramento to fertilize their grab for public resources. And it worked. Up to a point.

The same legislative luminaries who

crafted electric deregulation came straight at the eight hundred pound gorilla, the MWD. Fueled by narrow regionalism and inflated promises, these politicians poked and prodded at MWD. Each year they introduced an array of bills designed to hobble Southern California's water wholesaler.

But here the water grab bogged down. Enron viewed water as a mere commodity to be traded and sold, but to most Californians it is a treasure to be protected. They tried to convince Californians to rely on "what-if" transfers and paper futures. That didn't sell.

Buffeted politically and facing cutbacks on the Colorado River and uncertainty from the State Water Project, MWD initiated a strategic planning process in 1997 to consider the tough questions about how to best serve our region in the future.

Ultimately Southern California's water leaders reconfirmed a strategy that has been developing steadily for the last twenty years, a game plan of ensuring reliability by expanding the programs of

which we can be certain -- storage, conservation, recycling and better water management. That kind of resource management strategy collides squarely with the "water as a commodity" approach fostered by Enron and Azurix. Reliability requires an ongoing investment in facilities and programs that aren't needed every year.

If Enron and other privatizers could use MWD's aqueduct and distribution system without paying for the cushion of reliability provided by conservation programs and facilities like the \$3 billion Diamond Valley Lake complex, Southern California would suffer in times of drought.

Southern California water leaders did not miss that.

Through the strategic planning process, they reaffirmed MWD's role as the key regional water provider for Southern California.

In recent months the MWD board has

approved a rate structure that is the culmination of that process. The structure will enable Southern California to reap the benefits of market opportunities without the disruption seen in the electric industry. It will open up the southland's water system to outside suppliers while retaining the commitment to conservation, recycling and water management programs that have made our region the leader in the nation.

Purchase agreements will send clear signals to MWD member agencies about the value of local and imported resources and create a level playing field for future market transactions. A water stewardship charge will firm up Southern California's commitment to water resources management, an environmental priority that likely would suffer in an unfettered free market approach.

This charge will cover the costs of conservation, reclamation and groundwater programs that provide regional benefits to all of Southern California.

The private water marketers have not yet put together a significant transfer, but the ground rules are now in place for whatever contribution they can make.

Standing up to the Enron challenge has led to a reaffirmation of the cooperative approach that has served Southern California so well for the last seventy

years. By renewing our commitment to water stewardship and opening up Southern California's water system to market transactions, we can now face the future stronger and better prepared.

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