

- **Board of Directors**  
**Water Planning and Stewardship Committee**

October 9, 2007 Board Meeting

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8-4

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**Subject**

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Amend Administrative Code to implement Metropolitan's Interim Agricultural Water Program Reduction Guidelines to facilitate a 30 percent reduction in IAWP deliveries beginning January 1, 2008

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**Description**

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The purpose of this letter is to (1) inform the Board of measures Metropolitan is taking to implement a 30 percent reduction in Interim Agricultural Water Program (IAWP) deliveries during Calendar Year (CY) 2008; (2) recommend changes to Metropolitan's Administrative Code to implement the IAWP Reduction Guidelines (Guidelines) ([Attachment 1](#)); and (3) recommend fees and charges supporting the Guidelines, including a penalty fee for IAWP deliveries exceeding reduction targets established for Member Agencies. These Guidelines have been prepared to assist both Metropolitan and Member Agencies in preparing for a reduction of IAWP deliveries in accordance with Administrative Code Section 4905, under which Metropolitan's General Manager has authority to reduce IAWP deliveries up to 30 percent during a supply shortage.

The IAWP, established in 1994, provides for the delivery of surplus water for agricultural purposes at a discounted rate. In exchange for the discount, the General Manager may reduce IAWP deliveries up to 30 percent prior to imposing mandatory allocations under the Water Surplus and Drought Management (WSDM) Plan. Record dry hydrologic conditions and reduced supplies of Colorado River and State Water Project resources have prompted staff to prepare for a reduction in IAWP deliveries beginning January 1, 2008. Metropolitan will follow a notification protocol outlined in the Guidelines ([Attachment 1](#)). In accordance with this protocol, Metropolitan will formally notify Member Agencies of the reduction by October 22, 2007, at least sixty days prior to the date when the reduction will commence.

Notification follows a number of activities that staff and Member Agencies have completed to prepare for the IAWP reduction. These activities include:

- June 2007: Staff requested that Member Agencies provide written reduction plans (Reduction Plans) outlining how a 30 percent reduction would be met. In many cases, these plans had not been updated since the IAWP was first adopted in 1994;
- July 2007: Staff conducted a workshop with IAWP stakeholders to identify and discuss issues relating to the reduction;
- September 2007: Staff and Member Agencies developed baselines representative of IAWP water use in a dry year as a basis for establishing a 30 percent reduction target; and
- September 2007: Staff developed and distributed materials to Member Agencies, including Guidelines ([Attachment 1](#)) and a set of Frequently Asked Questions (FAQ) ([Attachment 2](#)) addressing specific issues raised by IAWP stakeholders at the July 2007 workshop.

Information included in the Guidelines ([Attachment 1](#)) and FAQ ([Attachment 2](#)) reflects consensus reached by IAWP stakeholders during the workshop and in subsequent discussions between Member Agency representatives and Metropolitan staff. The outcome of these communications has resulted in the following decisions for administering the IAWP during the reduction period and recommendations for changing the Administrative Code, as needed, to implement these decisions. In addition, required changes to the Administrative Code are included in strikethrough and underline format as [Attachment 3](#).

1. Reduction Period: Metropolitan anticipates that the reduction will remain in place throughout CY 2008. However, Metropolitan may suspend the reduction in the event that hydrologic and water supply conditions change and become wetter than anticipated. Continued dry hydrology and reduced water supply could require Metropolitan to extend the reduction into CY 2009.
2. Baseline: Member Agency reduction targets will be based on 70 percent of IAWP use during fiscal year 2003/04. Metropolitan will rely on methodologies outlined in the Reduction Plans developed by participating Member Agencies to ensure Member Agencies are meeting reduction targets. Section 4905 of the Administrative Code gives the General Manager discretion to reduce IAWP deliveries during a supply shortage within the WSDM framework. Furthermore, the Metropolitan Water District Act classifies agricultural water as surplus water and Metropolitan may discontinue IAWP deliveries as needed to meet municipal and industrial (M&I) demands.
3. Certification Timing: During the reduction period, Member Agencies have a three-month period from the beginning of the month the IAWP delivery occurred in which to certify the water as IAWP water. Agencies will be charged a penalty of \$10,000 for each month that a certification is not provided beyond the three-month period. It is recommended that Administrative Code Section 4507 (Billing and Payment for Water Deliveries) be amended to provide for this requirement.
4. Debits and Credits: Metropolitan will monitor reduction performance on a monthly basis, but assess penalties at six-month intervals. At the end of each six-month period, Metropolitan will assess financial penalties for IAWP water over-use (debits) or issue credits for IAWP water under-use. Member Agencies demonstrating IAWP use below their reduction targets (under-use) during the first six months of the reduction period will be able to carry forward the under-use as a credit into the second six-month period. Should the agency incur a debit in the second six-month period, its over-use would be reduced by credits carried forward from the first six months. However, should the IAWP reduction continue into CY 2009, credits would revert to zero on January 1, 2009.
5. Penalties: Debits occurring at the end of a six-month period will be assessed a penalty equivalent to the difference between twice Metropolitan's bundled Tier 2 water rate and the applicable IAWP rate. In addition, the Member Agency's baseline will be reduced by the amount of over-use should the IAWP reductions continue into subsequent years. Additionally, the maximum amount of IAWP water that a Member Agency may purchase in any year, pursuant to Administrative Code Section 4901, will be permanently reduced by the amount of IAWP debits incurred during the reduction period. It is recommended that Administrative Code Section 4401 (Rates) be amended and Section 4907 (Penalty for Non-Compliance During an Interim Agricultural Water Program Reduction Period) be added to the Administrative Code to provide for this requirement.
6. Reduction Plan Update: In order to efficiently implement future IAWP reductions, Metropolitan is requiring Member Agencies to update their Reduction Plans on an annual basis, prior to June 30. It is recommended that Administrative Code Section 4904 (Member Public Agency Plan to Meet Mandatory Cuts to Interim Agricultural Water Program) be amended to provide for this requirement.

## **Policy**

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Metropolitan Water District Administrative Code Section 4401: Rates

Metropolitan Water District Administrative Code Section 4507: Billing and Payment for Water Deliveries

Metropolitan Water District Administrative Code Division IV, Chapter 9: Interim Agricultural Water Program Service Regulations

Metropolitan Water District Act Section 132: Sale of Surplus Water

## **California Environmental Quality Act (CEQA)**

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CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves other government fiscal activities, which

do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

**Board Options**

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**Option #1**

Adopt the CEQA determination and

- a. Approve amendments to Metropolitan’s Administrative Code as described in this letter and as shown in **Attachment 3**, and
- b. Approve the penalty fees and charges described in this letter and the IAWP Reduction Guidelines and FAQ as shown in **Attachment 1** and **Attachment 2**, respectively.

**Fiscal Impact:** Potential for small amount of revenues due to payment of penalty fees by agencies that use more than their reduction target. Overall impact of reduction actions is expected to be neutral as lost revenues from reduced IAWP sales would be offset by full service sales for municipal and industrial uses.

**Business Analysis:** A 30 percent reduction in IAWP deliveries during CY 2008 will provide up to approximately 45,000 acre-feet of additional water for M&I uses during CY 2008. This option will enable Metropolitan to implement the IAWP Reduction Guidelines needed to administer a 30 percent reduction in IAWP deliveries during CY 2008.

**Option #2**

Do not amend the Administrative Code as shown in **Attachment 3** or adopt the penalty fees and charges described in this letter and in **Attachment 1** and **Attachment 2**. The General Manager retains the authorization to reduce IAWP deliveries by up to 30 percent.

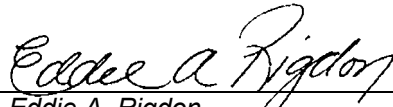
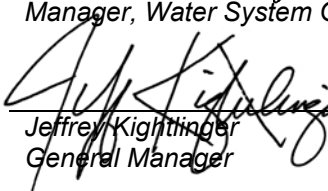
**Fiscal Impact:** Penalty fees would not be collected from agencies that use more than their reduction target. Overall impact of reduction actions is expected to be neutral as lost revenues from reduced IAWP sales would be offset by full service sales for municipal and industrial uses.

**Business Analysis:** Implementation of the IAWP reduction and realization of supply benefits will likely be more challenging since there could be less incentive for IAWP participants to reduce usage without a penalty fee. Additionally, it will be more difficult to track and verify reduced IAWP use if Member Agency certifications are submitted within the existing six-month period allowed by the Administrative Code instead of the three-month period recommended in Option #1.

**Staff Recommendation**

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Option #1

	9/25/2007
Eddie A. Rigdon Manager, Water System Operations	Date
	9/26/2007
Jeffrey Kightlinger General Manager	Date

**Attachment 1 – Interim Agricultural Water Program Reduction Guidelines**

**Attachment 2 – Interim Agricultural Water Program Reduction Frequently Asked Questions**

**Attachment 3 – Administrative Code Changes**