

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

September 9, 2008 Board Meeting

X-X

Subject

Proposed Changes to the Interim Agricultural Water Program

Description

In June 2008, the Board authorized staff to initiate a review of the Interim Agricultural Water Program (IAWP) and bring recommendations on proposed changes to the program before the end of 2008. This information letter provides an update on the discussions that have occurred in this effort and proposes revisions to the IAWP (see Attachment 1). Board consideration and action on revisions to the IAWP is anticipated in October.

Background

The Metropolitan Water District has a long history of providing discounted rates for agricultural users, beginning in 1958 with a 25 percent discount from the basic rate. The primary justification for lower rates has been interruptibility, as water for agricultural uses was, and is, considered to be a surplus sale subject to interruption in service. The current program has been in place since 1994 and for the first time under the IAWP, Metropolitan called on participants to reduce their water use by 30 percent, effective January 1, 2008.

Early indications are that IAWP participants are complying with the reduction guidelines and have reduced their use in 2008 per Metropolitan's request. Participants have taken many different actions to manage with reduced imported water supplies for 2008. Major citrus and avocado growers, representing about 75 percent of the total IAWP use, have stumped or removed trees from their groves in order to effect the water use reduction.

The impact of the ecological crisis in the Sacramento-San Joaquin River Delta and the associated pumping restrictions has fundamentally changed the profile of Metropolitan's surplus water availability. Before the pumping restrictions, surplus deliveries were estimated to be available in seven out of ten years. Until a Delta solution is implemented, surplus deliveries may only be available in three out of ten years. As long as these conditions persist, Metropolitan will almost certainly be forced to call upon IAWP participants to reduce their use a majority of the time.

Many IAWP participants have provided feedback that certainty and supply availability are important factors in the viability of their agricultural operations. While the discount is an important part of certain growers' ongoing economic viability, continuous supply reductions may also be crippling. On the other hand, Metropolitan member agencies that do not participate in the program have questioned the ongoing delivery of water at a discount while Metropolitan is pulling down storage reserves and purchasing dry-year transfer supplies to maintain reliability.

Given these and other concerns, Metropolitan staff has held discussions with member agency managers (both IAWP participants and non-participants), retail agency managers, growers within the region, and agricultural advocacy groups in order to determine the best course of action to address all these concerns. Staff has developed the following proposed revisions to the IAWP summarized below in order to provide the rate certainty and reliability desired by many agricultural water users while addressing the concerns with the program expressed by some Board members.

Summary of Proposed Revisions to the Interim Agricultural Water Program

1. **Five-Year Phase-Out of the IAWP** – The IAWP would be completely phased out over a five-year period from 2008 to 2013. As of January 1, 2013 the IAWP would no longer exist.
 - a. The discount under the IAWP would be gradually reduced during the phase-out period.
 - b. The supply reduction provisions would be adjusted through the phase-out period. Required delivery cutbacks would also be adjusted as the discount diminishes through the phase-out period.
 - c. Each participating member agency would receive an adjustment to their baseline under Metropolitan's Water Supply Allocation Plan to reflect the reduction in their ability to purchase water through the IAWP.
2. **Immediate Opt-Out Opportunity** – This provision would allow current IAWP participants to exit the program as of January 1, 2009. Participants that opt-out would still be held accountable for performance against their reduction plans for calendar year 2008. The maximum annual IAWP delivery for each agency would be reduced by the total volume of opt-outs within their service area. Metropolitan's Administrative Code would be amended to reflect the lower maximum annual IAWP deliveries that result from these actions. Additional opt-outs would be allowed in each year of the phase-out period. Opt-out notifications received in a given calendar year would be effective beginning January 1st of the following calendar year.
3. **Tier 1 Limit Adjustment** - The annual Tier 1 limit of each participating member agency would be increased as their maximum annual IAWP delivery is reduced through the opt-out provision or the phase-out of the IAWP. In no case would a member agency's Tier 1 limit be higher than what it would have been had deliveries in the IAWP been included in the original calculation of Tier 1 limits.
4. **Water Supply Allocation Plan Baseline Adjustment** – Metropolitan's Water Supply Allocation Plan (WSAP) uses a period of calendar year 2004 through 2006 to establish the baseline imported water needs for each member agency. Deliveries under the IAWP are treated separately from this baseline. WSAP baselines for each member agency participating in the IAWP would be adjusted as their maximum annual IAWP delivery is reduced through the opt-out provision or the phase-out of the IAWP.
5. **Agricultural Conservation Incentives** – Agricultural customers paying Metropolitan's full service rates could be eligible for incentives through a new conservation program directed at agricultural users. Metropolitan staff would work with the member agencies, the agricultural community, and the Board to develop an agricultural conservation program to encourage the use of devices and activities that lead to greater water use efficiency in the agricultural sector. Staff would work to have the initial phase of new agricultural conservation incentives presented to the Board for consideration by June of 2009.
6. **Agricultural Water Use Reduction Contracts** – Metropolitan staff would work with the member agencies, agricultural land owners, and the Board to determine if a dry-year water use reduction contract makes sense for agricultural water users. A template for such a program would be developed for Board review by the end of 2009. As an example, Metropolitan could develop contracts with certain landowners or lessees modeled after the agreements that are part of the Land Management Agreements with growers in the Palo Verde Irrigation District. Under such a model, in exchange for not irrigating contract lands for an agreed time period, Metropolitan could provide structured payments based on the amount of land and water used to irrigate. During shortages, Metropolitan would call on those participating landowners or lessees to reduce water usage.

Timeframe

Time is of the essence for an immediate opt-out provision to be effective going into calendar year 2009. If an immediate opt-out provision is approved, it will take time for Metropolitan and the member agencies to notify IAWP participants of this option. Once notified, agricultural customers will need to evaluate whether they want to stay in the IAWP and meet the reduction requirements of the program for another year or opt out, effective January 1, 2009.

A three-month notification period should be sufficient from the point the Board chooses to approve an opt-out provision to the time Metropolitan requires notification of any opt-outs for calendar year 2009. This would require action by the Board by October of 2008, allowing a three-month opt-out notification period, ending on January 15, 2009.

Policy

Metropolitan Water District Administrative Code Section 4106: Interim Agricultural Water Program Purposes
Metropolitan Water District Administrative Code Section 4120: Purchase Order; Purchase Order Commitment
Metropolitan Water District Administrative Code Section 4122: Base Firm Demand; Initial Base Firm Demand
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 Section 4900: Interim Agricultural Water Program

Fiscal Impact

None

Brian G. Thomas *Date*
Chief Financial Officer

Jeffrey Kightlinger *Date*
General Manager

Attachment 1 – Proposed Interim Agricultural Water Program Revisions

BLA #6251



I N F O R M A T I O N

Date: 08/25/2008 BLA #: 6251 Filename: _____

BL Subject: Proposed Changes to the Interim Agricultural Water Program

Author: Deven Upadhyay/76686 Board Letter Coordinator: Mary Ben Rhouma/77755
Name / Extension Name / Extension

D E A D L I N E S

BOARD MEETING DATE:

PERT (A1) Deadline: _____

PERT Meeting Date: _____

ERT (B4) Deadline: _____

ERT Meeting Date: _____

Final Signature (B5) Deadline: _____

Dry Run Date: _____

P R O C E S S S T E P S

P E R T

| STEP #1 - AUTHOR WILL: | DATE COMPLETED |
|--|-----------------------|
| <input type="checkbox"/> Draft/prepare letter and attachments (if applicable) <i>*Start with NEW template!</i> | |
| <input type="checkbox"/> Reference policy (if applicable) | |
| <input type="checkbox"/> Initiate request for CEQA language by Environmental Planning Unit | |
| <input type="checkbox"/> Secure review by Section Manager and Legal liaison | |
| <input type="checkbox"/> Coordinate comments for update by BLC | |

| STEP #2 - BOARD LETTER COORDINATOR WILL: | |
|--|--|
| <input type="checkbox"/> Review and update material for format, grammar, etc. | |
| <input type="checkbox"/> Coordinate with Author all updates as needed | |
| <input type="checkbox"/> Save file to your "group/section's" drive using the proper naming convention | |
| <input type="checkbox"/> Provide copy for Group Manager's review – DEADLINE: Thursday at 11 a.m. Signature: | |

| STEP #3 - BOARD LETTER COORDINATOR WILL: | |
|---|--|
| <input type="checkbox"/> Review all letters to ensure compliance | |
| <input type="checkbox"/> Post to " A1 – Preliminary " DEADLINE: Monday at 11 a.m. | |

E R T

| STEP #4 - BOARD LETTER COORDINATOR WILL: | |
|--|--|
| <input type="checkbox"/> Forward PERT comments to author and appropriate section manager | |

| STEP #5 - AUTHOR WILL: | |
|---|--|
| <input type="checkbox"/> Incorporate PERT recommendations (if applicable) | |
| <input type="checkbox"/> Provide routing information for surnaming | |
| <input type="checkbox"/> Coordinate all comments secured through surnaming/postings | |

| STEP #6 - BOARD LETTER COORDINATOR WILL: | |
|--|--|
| <input type="checkbox"/> Initiate red folder w/white, pink, yellow routing | |
| <input type="checkbox"/> Post to " B1 – External Affairs " | |
| <input type="checkbox"/> Verify public folder response/approval <input type="checkbox"/> Update as appropriate | |
| <input type="checkbox"/> Post to " B2 – Legal " | |
| <input type="checkbox"/> Verify public folder response/approval <input type="checkbox"/> Update as appropriate | |
| <input type="checkbox"/> Post to " B2a – Audit " (as applicable) | |
| <input type="checkbox"/> Verify public folder response/approval <input type="checkbox"/> Update as appropriate | |
| <input type="checkbox"/> Post to " B3 – Publishing Services " only after receiving Legal approval | |
| <input type="checkbox"/> Verify public folder response/approval <input type="checkbox"/> Update as appropriate | |
| <input type="checkbox"/> Coordinate with the Author all updates as needed | |
| <input type="checkbox"/> Save file to your "group/section's" drive | |
| <input type="checkbox"/> Provide copy for Group Manager's review – DEADLINE: Thursday at 11 a.m. Signature: | |

| STEP #7 - BOARD LETTER COORDINATOR WILL: | |
|--|--|
| <input type="checkbox"/> Review all letters for compliance | |
| <input type="checkbox"/> Secure Group Manager's signature | |
| <input type="checkbox"/> Submit signed final to 12 th floor staff | |
| <input type="checkbox"/> Post to " B4 – CEO Exec. Review " – DEADLINE: Monday at 11 a.m. | |



I N F O R M A T I O N

Date: 08/25/2008 BLA #: 6251 Filename: _____

BL Subject: Proposed Changes to the Interim Agricultural Water Program

Author: Deven Upadhyay/76686 Board Letter Coordinator: Mary Ben Rhouma/77755
Name / Extension Name / Extension

P R O C E S S S T E P S (C o n t i n u e d)

F I N A L

| STEP #8 - BOARD LETTER COORDINATOR WILL: | | DATE COMPLETED |
|--|---|-----------------------|
| <input type="checkbox"/> | Forward ERT comments to author and appropriate section manager | |
| <input type="checkbox"/> | Provide assigned board letter numbers | |
| NOTE: IF NO CHANGES ARE MADE AT ERT TO THE POSTED VERSION -- JUMP TO STEP #11 | | |
| STEP #9 - AUTHOR WILL: | | |
| <input type="checkbox"/> | Address any comments/requests (if applicable) | |
| <input type="checkbox"/> | Coordinate updates with BLC | |
| STEP #10 - BOARD LETTER COORDINATOR WILL: | | |
| <input type="checkbox"/> | Provide final copy for Group Manager's review/signature DEADLINE: Thursday at 11 a.m. Signature: _____ | |
| STEP #11 - BOARD LETTER COORDINATOR WILL: | | |
| <input type="checkbox"/> | Final review for compliance (format, grammar, spell check, etc.) | |
| <input type="checkbox"/> | Post to " B5 – CEO Final " DEADLINE: Friday at 11 a.m. | |

Revised: 9/26/2008

B O A R D L E T T E R R O U T I N G S L I P
R e q u i r e d A p p r o v a l s

FOR CONTENT REVIEW:

| ROUTE TO | DATE SIGNED | COMMENTS |
|-----------------|--------------------|-----------------|
| 1. | | |
| 2. | | |
| 3. | | |
| 5. | | |
| 6. | | |
| 7. | | |
| 8. | | |
| 9. | | |
| 10. | | |
| 11. | | |
| 12. | | |

SUBMIT BOARD LETTERS FOR REVIEW TO THE OUTLOOK FOLDER IN THE FOLLOWING ORDER:

- External Affairs (Editorial)**
- Legal (Legal)**
- Publishing Services (Formatting)**
- Audit (if needed)**
- Group Manager**

Name

Signature

Proposed Interim Agricultural Water Program Revisions

A. Phase-Out Provisions:

1. The Interim Agricultural Water Program will be phased out over a period of five years, from 2008 to 2013. As of January 1, 2013 the IAWP will no longer exist.
2. Section 4901 of Metropolitan’s Administrative Code defines the annual maximum IAWP delivery for each member agency in the IAWP. Effective January 1st of each year in the phase-out period, Metropolitan’s Administrative Code will be revised to reflect lower maximum annual IAWP deliveries for each member agency. The 2008 IAWP reduction plan baselines will be recognized as the new annual maximum IAWP limits for the start of the phase-out process at the end of 2008. This will immediately reduce the cumulative maximum annual IAWP deliveries of all member agencies to 152,819 acre-feet from 155,190 acre-feet. Further reductions will occur based on the following:
 - i. Any overuse penalties incurred in 2008 will result in a reduction to an agency’s maximum annual IAWP delivery per the IAWP Reduction Guidelines.
 - ii. Section B of this document establishes opt-out provisions. Any opt-out volumes will be subtracted from an agency’s maximum annual IAWP deliveries.
3. Member agencies with 2008 IAWP reduction baselines of zero will be removed from the IAWP with no further adjustments.
4. The discount for IAWP deliveries will be reduced beginning on January 1, 2010. Further reductions to the discount will occur in each year of the phase-out period following 2010, as shown in Table 1. In 2013 the IAWP program and associated rates will no longer exist.

Table 1

| Calendar Year | Treated IAWP Discount | Untreated IAWP Discount |
|---------------|-----------------------|-------------------------|
| 2008 | \$114/AF | \$90/AF |
| 2009 | \$114/AF | \$90/AF |
| 2010 | \$86/AF | \$68/AF |
| 2011 | \$57/AF | \$45/AF |
| 2012 | \$29/AF | \$23/AF |
| 2013 | \$0/AF | \$0/AF |

5. The reduction provisions under the IAWP will be adjusted with each year of the phase-out period according to the schedule in Table 2. The shaded region represents the changes from the current reduction schedule identified in Metropolitan’s Water Supply Allocation Plan. As the IAWP discount diminishes over the phase-out period, the reduction requirement will also be reduced.

Table 2

| Regional Shortage Level | Regional Shortage Percentage | IAWP Reduction Percentage | | | | |
|-------------------------|------------------------------|---------------------------|------|-----------|-----------|-----------|
| | | 2008 | 2009 | 2010 | 2011 | 2012 |
| | Voluntary | Up To 30% | | Up To 24% | Up To 18% | Up To 11% |
| 1 | 5% | 30% | 30% | 24% | 18% | 11% |
| 2 | 10% | 30% | 30% | 25% | 20% | 15% |
| 3 | 15% | 40% | 40% | 34% | 28% | 21% |
| 4 | 20% | 50% | 50% | 43% | 35% | 28% |
| 5 | 25% | 75% | 75% | 63% | 50% | 38% |
| 6 | 30% | 90% | 90% | 75% | 60% | 45% |
| 7 | 35% | 100% | 100% | 84% | 68% | 51% |
| 8 | 40% | 100% | 100% | 85% | 70% | 55% |
| 9 | 45% | 100% | 100% | 86% | 73% | 59% |
| 10 | 50% | 100% | 100% | 88% | 75% | 63% |

6. After calendar year 2008, all IAWP reductions will be measured against each member agency’s maximum annual IAWP deliveries for the new calendar year.

B. Opt-Out Provisions:

1. IAWP participants will be able to opt-out of the program at the beginning of each new calendar year in the phase-out period.
2. Opt-out notifications received in a given calendar year will be effective beginning January 1st of the following calendar year.
3. Opting out of the program will remove a participant’s obligation for further IAWP reductions, effective January 1st of the following calendar year. IAWP reduction requirements will continue to be enforced through the end of the calendar year in which the opt-out notification is received.
4. Once a participant chooses to opt-out, they will no longer be eligible for Metropolitan’s IAWP discount. Opting out of the IAWP will allow a former participant to purchase water at Metropolitan’s full-service water rates with the same reliability and Water Supply Allocation Plan provisions as other full-service deliveries.
5. An opt-out notification period for calendar year 2009 will be in effect for the three-month period immediately following Board approval of the opt-out provision. Assuming Board approval on October 14, 2008, the opt-out notification deadline will be set at January 15, 2009. The opt-out notification deadline will be December 31st for all following years.
6. Opt-out notifications will come from Metropolitan’s participating member agencies. Metropolitan will not accept opt-out notifications from individual land-owners or sub-agencies.
7. Member agency opt-out notifications must include the following information:
 - i. Total number of IAWP participants (accounts) that have chosen to opt-out of the IAWP, by retail sub-agency

- ii. Total number of IAWP participants (accounts) that have chosen to continue to participate in the IAWP, by retail sub-agency
- iii. Total acre-foot volume to be opted out of the IAWP, which will be subtracted from the member agency's maximum annual IAWP delivery
- iv. Revised reduction plan for the following calendar year

C. Tier One Limit Provisions:

Each member agency that participates in Metropolitan's IAWP has signed a 10-year purchase order in which the member agency agrees to purchase a minimum quantity of firm deliveries from Metropolitan over the 10 year period from 2003 through 2012. In consideration of these agreements, the member agencies received higher annual Tier 1 limits, which allow them to buy more water at Metropolitan's lower Tier 1 supply rate. These Tier 1 limits were established using data that excluded deliveries made under the discounted IAWP. Furthermore, IAWP purchases do not count toward satisfying a member agency's minimum firm deliveries under the purchase order. The period of data used to establish the Tier 1 limits was FY 1989/90 through FY 2001/02.

1. As the annual maximum IAWP delivery for a given member agency is reduced, that member agency's annual Tier 1 limit will be increased.
2. Once a participating member agency's annual maximum IAWP delivery becomes zero, their Tier 1 limit will be increased by including IAWP deliveries in the data used to establish the Tier 1 limits. Table 3 shows the current member agency Tier 1 limits and how those limits will be increased once the IAWP program is completely phased-out.

Table 3

| Agency | 2008 IAWP Baseline (AF) | Current Tier 1 Annual Limit (AF) | Tier 1 Annual Limit Post-IAWP Phase-Out (AF) | Maximum Increase in Tier 1 Annual Limit (AF) |
|-------------------|-------------------------|----------------------------------|--|--|
| Anaheim | 0 | 22,240 | 22,240 | 0 |
| Calleguas MWD | 7,156 | 103,801 | 110,248 | 6,448 |
| Inland Empire UA | 90 | 59,752 | 59,792 | 40 |
| Eastern MWD | 6,761 | 75,700 | 81,784 | 6,085 |
| Fullerton | 0 | 11,298 | 11,298 | 0 |
| Las Virgenes | 207 | 20,565 | 20,699 | 133 |
| MWDOC | 5,785 | 222,924 | 228,130 | 5,206 |
| SDCWA | 100,451 | 501,386 | 587,901 | 86,516 |
| Three Valleys MWD | 83 | 70,400 | 70,474 | 74 |
| Torrance | 0 | 20,967 | 20,967 | 0 |
| West Basin MWD | 0 | 156,874 | 156,874 | 0 |
| Western MWD | 32,347 | 58,769 | 85,110 | 26,341 |
| Total | 152,880 | 1,324,676 | 1,455,517 | 130,843 |

- During the phase-out period participating member agencies may have their maximum annual IAWP delivery reduced due to opt-outs or penalties. In these situations, the member agency will receive an increase in their annual Tier 1 limit equivalent to their Maximum Increase in Tier 1 Annual Limit (shown in Table 3) multiplied by the percentage reduction from their 2008 IAWP reduction baseline. An example of this approach is shown in Table 4 using data for the San Diego County Water Authority:

Table 4

| | |
|---|------------|
| A. 2008 IAWP Baseline | 100,451 AF |
| B. 2009 Opt-Outs and Penalty Reduction (for example purposes) | 20,000 AF |
| C. New Maximum Annual IAWP Delivery (A - B) | 80,451 AF |
| D. Reduction From 2008 IAWP Baseline (1 - (C / A)) | 20% |
| E. Maximum Increase in Tier 1 Annual Limit (from Table 3) | 86,516 AF |
| F. Interim Increase in Tier 1 Annual Limit (D * E) | 17,303 AF |

- Purchase order agreements will not be amended to adjust a member agency’s minimum firm purchases based on the revisions to the IAWP.

D. Water Supply Allocation Plan Provisions:

Metropolitan’s Water Supply Allocation Plan (WSAP) uses a period of calendar year 2004 through 2006 to establish the baseline imported water needs for each member agency. Deliveries under the IAWP are treated separately from this baseline. WSAP baselines for each member agency participating in the IAWP will be adjusted as their maximum annual IAWP delivery is reduced through the opt-out provision or the phase-out of the IAWP.

1. As the IAWP phase-out progresses, member agency WSAP baselines will be adjusted to reflect the former IAWP deliveries that have shifted to full service deliveries due to opt-outs and overuse penalties.
2. The current period for establishing a baseline to allocate firm deliveries is calendar years 2004, 2005, and 2006. As long as this base period is in effect for WSAP purposes, member agencies will receive a credit to their WSAP baselines equivalent to the amount their maximum annual IAWP deliveries have been reduced below the 2008 IAWP baselines. Table 5 shows an example of how this approach could work for the San Diego County Water Authority:

Table 5

| | |
|--|------------|
| A. 2008 IAWP Baseline | 100,451 AF |
| B. 2009 Opt-Outs and Penalty Reduction (for example purposes) | 20,000 AF |
| C. New Maximum Annual IAWP Delivery (A - B) | 80,451 AF |
| D. Credit to Water Supply Allocation Plan Baseline (B) | 20,000 AF |

3. In the future, the period for measuring the WSAP baseline may change from the current period in use (calendar years 2004, 2005, and 2006). In that circumstance, adjustments will be made to the baselines of member agencies that have participated in the IAWP accounting for two factors:
 - i. The amount of IAWP deliveries that were made in the new WSAP baseline period. If no deliveries were made in the new WSAP baseline period, then no adjustments will be made.
 - ii. If IAWP deliveries were made in the new WSAP baseline period, then adjustments will be made to reflect the reduction in the maximum annual IAWP delivery that has occurred since the new WSAP baseline period.

E. Agricultural Water Use Reduction Contracts:

Metropolitan staff will work with the member agencies and agricultural land owners to assess the feasibility of dry-year water use reduction contracts for agricultural water users. A template for the format of these contracts will be developed by the end of 2009. As an example, Metropolitan could develop contracts with certain landowners or lessees modeled after the agreements that are part of the Land Management Agreement with the Palo Verde Irrigation District. Under such a contract, Metropolitan could provide structured payments based on the amount of land and water used to irrigate in exchange for a grower agreeing to not irrigate contract lands for a period of time. During shortages, Metropolitan would call on those participating landowners or lessees to reduce water usage. The following are potential characteristics of an agricultural water use reduction contract:

1. A contract would be between Metropolitan, the member agency, and the grower.

2. The agricultural water user would agree to reduce water use for one-year upon call from Metropolitan.
3. Metropolitan would only be able to make a limited number of reduction calls in a given period of time.
4. Metropolitan would agree to pay an up-front fee once the contract is signed. Metropolitan would pay an additional fee to the agricultural contractor if and when Metropolitan makes a reduction call. The contracts would also specify penalties for non-performance.
5. Metropolitan would standardize the per acre-foot payment terms across similar contracts with different agricultural contractors.

F. Agricultural Conservation Incentives:

Agricultural customers paying Metropolitan's full service rates will be eligible for incentives through a new conservation program focused on agricultural use. These incentives will also be available to IAWP participants that have submitted opt-out notifications. Metropolitan staff will work with the member agencies and the agricultural community to develop an agricultural conservation program to encourage the use of devices and activities that lead to greater water use efficiency in the agricultural sector. Staff will work to have an initial phase of new agricultural conservation incentives in place by June of 2009.