



AgWater News

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Your Agricultural Water Team

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The Southern California Agricultural Water Team AgWater News is published three times yearly by the California Avocado Commission at 38 Discovery, Suite 150, Irvine, CA 92618-3105 and distributed to approximately 6,000 growers.

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The Southern California Agricultural Water Team (SCAWT) was created by the California Avocado Commission (CAC) to address issues relating to the reliability, affordability, and quality of water supplies used by the region's growers. These issues, by necessity, often involve the Metropolitan Water District of Southern California, the state's largest treated water wholesaler. Over 70 percent of the state's avocado groves are situated within Metropolitan's 5,200 square mile service area which covers portions of Ventura, Los Angeles, Orange, Riverside, San Bernardino and San Diego counties. Metropolitan imports water from the State Water Project and the Colorado River.

CAC's involvement in water issues dates back to the early 1990s. That's when CAC's RadarScan Issues Management Program detected dramatically escalating water rates and the discontinuation of the agricultural water program at Metropolitan. In response, SCAWT was formed, with the primary mission of "ensuring that California avocado growers have reliable and affordable water supplies" and "preserving and enhancing recognition of the environmental, societal, and economic value of agriculture to Southern California so that pricing and reliability of water service reflect those unique and important values." From the start, SCAWT's goals have been to:

- *Encourage programs that provide affordable, acceptable quality water to agricultural users*
- *Convince regional / local water agencies to establish an equitable basis for agricultural water rates that reflect the values and benefits received from the agriculture sector; and*
- *Work to separate agriculture from other classes of service and establish a basis for pricing independent from other rate-setting actions.*

SCAWT's activities focus on more than just the Metropolitan Water District. Metropolitan has 26 member agencies that together sell over 130,000 acre-feet of water to agricultural customers each year. In some cases, Metropolitan's member agency is a municipal water district or county water authority that, in turn, sells water to a local retailer. For this reason, water and its associated costs may flow through as many as three agencies before reaching the consumer. When necessary, SCAWT works at the sub-agency and local level to resolve pricing and quality issues and ensure that growers are favorably positioned. SCAWT also works on water issues facing growers who reside in San Luis Obispo and Santa Barbara counties, outside of Metropolitan's service area.

The efforts of SCAWT, under the leadership of Chairman Don Reeder, have delivered over \$200 million in savings to California avocado growers since its creation in 1992. Examples of SCAWT's success include establishment of the Interim Agricultural Water Program (IAWP) at Metropolitan, saving growers more than \$28 million; involvement in the Cachuma Project Contract Renewal in Santa Barbara, netting avoided costs of more than \$17 million over 20 years; convincing Metropolitan to extend the IAWP and eventually delete the sunset clause in the program; and working to repeal the Readiness-to-Serve charge for agricultural customers. Partly because of the importance of agricultural deliveries and SCAWT's solid working relationship with Metropolitan, that agency purchased option water in the early part of this year when drought seemed imminent. The team will continue to work on favorable and equitable pricing and will do all that is possible to avoid supply interruptions to agricultural water users.



Welcome to the first issue of the Southern California Agricultural Water Team Newsletter. Given that long name, our goals are actually brief and to the point - to keep our growers current on water supply and water pricing issues and to provide a vehicle for enlisting your help as it may be needed.

Inaugural Issue

Our intention is to communicate - and that means information flowing in both directions. We need you to tell us what is important to you for inclusion in future issues.

This newsletter is a companion piece to our new website, www.scawt.com, where you will find up-to-the-minute information regarding water supplies and actions taken by the various water boards on pricing.

If your operation is within the service area of the Metropolitan Water District of Southern California, you need to be aware of decisions made by that agency as well as you local water board. In some cases the water passes through three agencies before it gets to you. All make decisions regarding availability and all make decisions on pricing.

In San Luis Obispo and Santa Barbara counties the situation is similar, but not influenced by Metropolitan.

By way of example, in Metropolitan's service area, we want you to be aware that for years Metropolitan has annually notified its member agencies that water delivered under the Agricultural Water Program (which is priced lower than water for other industries and home use) may be reduced or eliminated in the following year. The reason for this notification is that Metropolitan's Code prevents that agency from reducing or elimi-

nating agricultural water deliveries without having made an official notification to that effect in advance.

Metropolitan (and other agencies) today are running their agencies with less secure water supplies than ever before. Without knowing what next winter's rain season will bring, and with reservoir storage adequate for only a few years of demand when full and perilously close to shortages after only a few years of substandard rainfall, the districts must protect themselves.

Agricultural deliveries can serve as a type of reservoir. Should all ag water deliveries be curtailed in any one year, Metropolitan would have about 130,000 acre-feet of water available for full-service deliveries. Conversely, when supplies are plentiful, the sale of ag water, even at its lower rate, provides an income stream to these agencies that they would not otherwise have.

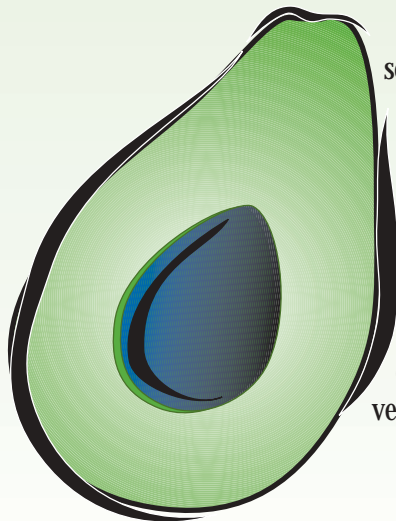
The point of all this is that some may have become complacent about that annual ag water notice. The SCAWT works continually to keep that water flowing and to keep the cost of water down. Nevertheless, the water supply picture has changed dramatically since Metropolitan began making those notices years ago as a matter of routine.

The purpose of this newsletter and the website is to help you understand the myriad issues involved in water deliveries so you can make the best business decisions.

We also encourage your help and your suggestions for making it as valuable to you as possible. The newsletter will be published three times yearly, so the content will necessarily be broad in scope and not necessarily immediate. That is the purpose of the website, which will be updated as frequently as necessary with news, agency activities and actions in Sacramento that may impact our growers.



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Don Reeder, 61, chairman of the Southern California Agricultural Water Team, has advised the board of directors that he will reduce his role with the team to devote more time to an ever-increasing workload at Somis Pacific Agricultural Management.

Saluting Don Reeder



Reeder, President of Somis Pacific, has chaired the SCAWT for nearly 15 years. He has been with Somis for nearly 20 years and was involved in his own agricultural management firm prior to that.

“I was working with the ag water team back around its beginnings when a farmer walked up to me and said we’d never get anything from Metropolitan Water District,” Reeder said. “I knew Met had a history of being ag friendly and I thought we could make that relationship continue to work.”

Since Reeder’s involvement, Metropolitan has reinstated a favorable agricultural water rate, refined its rules for ag water use and sought to shore up water supplies to prevent shortages. “I remind that farmer from time to time of that,” Reeder said. “Now, we need to

find someone who has the time and interest to continue working with Metropolitan and other water agencies. Until then I’ll hang around as time permits.”

Reeder is a graduate of Cal Poly San Luis Obispo in Farm Management, a degree that has since been renamed as Agricultural Business Management. His firm, Somis Pacific, manages about 3500 acres in Ventura County where they specialize in citrus, avocado and other permanent crops. He has also served as President of the Ventura County Farm Bureau, chairman of the Sespe Water board in Ventura County, and remains on the board of that private water company as well as serving on the boards of the California Avocado Commission and the Hass Avocado Board.

He said he was originally encouraged to get involved in the politics of agricultural water by Chuck Bandy, the water team’s original chairman, and Avi Crane, a former executive director of the team.

Reeder has been married for 38 years and lives in Ventura. He has two adult children: A daughter who lives in Tracy and a son who works for Somis Pacific.



Five-Year Water Rate Outlook

During Metropolitan Water District’s budgeting process, staff generally publishes a projection of rate increases for the near future. This chart shows those projections through 2008. The Board of Directors must vote on rate changes each year, so the chart is speculative based on Metropolitan’s staff’s calculations. Metropolitan has also just released its long-range financial forecast. We will be analyzing that and posting our findings on the website at www.scawt.com.

Rates and Charges Effective January 1:

	2004	2005	2006	2007	2008
Tier 1 Supply Rate (\$/AF)	73	73	73	73	87
Tier 2 Supply Rate (\$/AF)	154	154	154	154	168
System Access Rate (\$/AF)	163	163	163	165	166
Water Stewardship Rate (\$/AF)	30	30	30	30	40
System Power Rate (\$/AF)	60	61	64	73	76
Untreated Full Service Volumetric Cost					
Tier 1 Supply Rate (\$/AF)	326	327	330	341	369
Tier 2 Supply Rate (\$/AF)	407	408	411	422	450
Replenishment Service Untreated (\$/AF)	233	234	237	248	276
Agriculture Water Service Untreated (\$/AF)	236	237	240	251	279
Treatment Surcharge (\$/AF)	92	101	113	133	136
Treated Full Service Volumetric Cost					
Tier 1 (\$/AF)	418	428	443	474	505
Tier 2 (\$/AF)	499	509	524	555	586
Replenishment Service Treated (\$/AF)	300	312	327	352	382
Agriculture Water Service Treated (\$/AF)	304	315	330	355	385
Readiness-To-Serve Charge (in \$ millions)	80	85	85	85	85
Capacity Charge (\$cfs)	6,100	6,800	7,500	8,200	8,900

[Assumes 2.2 million acre-feet of sales]



Understanding Metropolitan's Ag Water Program

Metropolitan Water District's Interim Agricultural Water Program dates back to the first deliveries of Colorado River water through the district's newly built Colorado River Aqueduct in the early 1940s.

The residents of Metropolitan's service area obligated themselves in the 1930s to pay a whopping 50 cents per \$100 of assessed valuation on real property to finance the construction of the aqueduct. Imagine if that tax rate existed today!

In any case, when the water began flowing in 1942 there was virtually no demand. Agricultural users stepped up to the plate and began taking deliveries and providing the district with some commodity-based income before the urban areas needed the water.

Fast forward to the 1960s and beyond and Metropolitan's board had established a discount for agricultural water users. More recently the district has altered the way it bills its member agencies for water. Ag water is still sold at a lower rate than water for municipal and industrial (M&I) users, but it is technically not a discount - it is simply a different, and lower, rate.

In exchange for the lower rate, ag water users accept the risk that in any year deliveries could be reduced by as much as 30 percent before M&I users are asked to cut their water use. The reductions could go deeper, but after the first 30 percent M&I begins to take reductions as well. Reducing ag deliveries requires a one-year notification to that effect. (See related story.)

The program is covered in Metropolitan's Code, Division 4, chapter 9.

The delivery of ag water once was unlimited. Today, the districts deliveries are capped 155,190 acre-feet for agricultural

use in any one year. That total is divided among 12 of Metropolitan's 26 member agencies with the San Diego County Water Authority distributing the greatest amount - 100,459 acre-feet a year. This allocation of ag water is based on historic use.

Metropolitan also has the responsibility of auditing the use of this water from time to time to ensure that it is being used for its intended purpose. The district's regulations require that member agencies participating in the program pass the reduced price on to the next level (be it an end user or the next level of retailer). There is no such requirement that an agency other than a Metropolitan member agency pass the lowered price along although there are no cases where a second-tier wholesaler is retaining the differential. The district's code advises that a member agency "shall use its best efforts to assure that its subagencies pass the entire discount through to the

Interim Agricultural Water Program users."

Ag water users in Metropolitan's service area need to understand that the sale of ag water at reduced prices is at the discretion of the district's board and, with adequate notice, could change at any time. Should the ag water program ever disappear and growers begin using full-price M&I water, some would argue that the water supply is then as firm as anyone else's. Others might argue - especially during a drought emergency - that the State Water Code would allow the elimination of deliveries to agricultural users without regard to the price they are willing to pay for the water.

All this leads to only one conclusion: Don't take your water supply for granted in Southern California.

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QSA APPROVED; SHORT-TERM IMPACTS UNKNOWN.

Weather is Focus of Water Supply

The recently approved Quantification Settlement Agreement (QSA) allows California to keep receiving surplus water from the Colorado River for the next 13 years. In exchange, California must gradually reduce its pumping from the Colorado -- mainly through a sale of Imperial water to San Diego County. The impact of the QSA in the near term remains to be seen. Metropolitan, the Coachella Valley Water District and the San Diego County Water Authority approved this agreement at the end of September. The Imperial Irrigation District approved it in early October. This is a landmark pact and is fully discussed on the website at www.scawt.com. Its impacts over the long haul will be generally positive for the coastal plain and especially for San Diego County. The short-term impacts will depend on the availability of surplus water from the Colorado. As discussed below, such surpluses are uncertain over the next five years.



Rainfall in the Los Angeles Basin has been normal this year. San Diego is a little ahead of normal. Areas that drain to the California State Water Project are slightly above normal and the Colorado River is slightly under normal. None of this sounds too foreboding except that this "normalness" is following three years of dry weather. That means that not all reservoirs around the state and on the Colorado River are as full as they should be at this time of year. The Colorado has been especially impacted because, following several years of dry weather, the rainfall that does show up tends to be drawn into drier-than-normal aquifers rather than running to the river. Even normal rainfall in the Colorado River Basin this year would have resulted in below normal runoff to the river. Added to that problem are that the river's two largest reservoirs -- Lake Mead and Lake Powell -- have been drawn down over the past three years, and are delivering more water than was replenished by nature. This indicates that surplus water made available by the Secretary of Interior from time to time may not be available next year, even though the QSA has been resolved. It is this surplus water that has allowed California to use more than 5.2 million acre-feet a year from the river in the recent past even while its basic entitlement is only 4.4 million acre-feet. A continuation of dry weather on the Colorado River would not only eliminate surplus deliveries but could lead to shortages in the basic entitlement water as well.

Metropolitan has gone to great lengths to present itself as being able to reliably meet demand for the next 20 years. Their success with several programs that must fall into place to achieve that reliability remains to be seen. Nonetheless, a continuation of dry weather -- and the measurements begin this month for the following year -- could result in shortages in 2004 in Metropolitan's service area.



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