

REVISED INTERIM AGRICULTURAL WATER PROGRAM (IAWP)

Approved by the Metropolitan Water District on October 14, 2008

October 14, 2008 Board Meeting

8-5

Subject

Approve 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 action item proposes revisions to the IAWP consistent with the September Board Information Item 9-2 -- Proposed Changes to the Interim Agricultural Water Program. Details on the proposed revisions are included in Attachment 1.

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 have 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 recommends 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 Phaseout 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 1 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 phaseout 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.

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

California Environmental Quality Act (CEQA)

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

Option #1

Adopt the CEQA determination and approve changes to the Interim Agricultural Water Program.

Fiscal Impact: The impact to Metropolitan's water sales revenues will depend upon the future water use of current IAWP participants once the revisions take effect. Metropolitan's conservation program costs will likely increase as agricultural incentives are developed. These incentives should help reduce agricultural water use and thus reduce Metropolitan's future supply acquisition costs.

Business Analysis: This option would provide the rate certainty and reliability desired by many agricultural water users while addressing the concerns with the program expressed by non-participating member agencies.

Option #2

Do not approve changes to the Interim Agricultural Water Program.

Fiscal Impact: Unknown

Business Analysis: This option would continue the program in its current form. As IAWP cutbacks continue, some program participants may go out of business due to restricted access to water under the current program guidelines. The issue of the ongoing delivery of water at a discount while Metropolitan is pulling down storage reserves and purchasing dry-year transfer supplies to maintain reliability would remain.

Staff Recommendation

Option #1


 Brian G. Thomas
 Chief Financial Officer

9/22/2008
 Date


 Jeffrey Kightlinger
 General Manager

9/27/2008
 Date

Attachment 1 – Proposed Interim Agricultural Water Program Revisions

BLA #6300