



AgWater News

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MWD Takes Additional Steps to Implement Ag Water Cuts

On October 22, 2007, the Metropolitan Water District of Southern California (MWD) officially notified its member agencies of its intention to implement a 30% reduction in deliveries of 2008 agricultural water supplies under its Interim Agricultural Water Program (IAWP). The action comes in response to record low rainfall in Southern California, continued drought conditions throughout the southwestern United States, and a recent federal court ruling to protect the endangered delta smelt. The court's ruling may result in significant reductions of State Water Project deliveries to Southern California in 2008 and beyond.

IAWP Program

The IAWP was established in 1994 and provides for the delivery of "surplus water" for agricultural purposes at a discounted rate. In exchange, participating agricultural water users agree to an initial 30 percent reduction in demand during periods of shortage prior to any reductions in deliveries to customers of "firm," non-interruptible supplies. MWD generally defines agricultural purposes as "growing or raising agricultural, horticultural or floricultural products for the purposes of commerce, trade, or industry." It applies to both the growing of crops and raising of livestock and fowl for human consumption.

MWD has the right to discontinue surplus water service, in whole or in part, upon one year's written notice to the purchasers or users of the water. MWD's Board of Directors annually initiates the necessary actions to implement cuts should it become necessary. Following such notification, MWD's General Manager has the discretion to reduce IAWP deliveries up to 30 percent prior to imposing any mandatory urban water allocation. Under the terms of the program, IAWP customers are not allowed to offset a reduction in discounted IAWP water with "firm" water purchases.

Baseline for Reduction

Because a reduction in IAWP deliveries is typically called during an extended dry period,

a dry year usage pattern is used to determine monthly IAWP usage targets. After discussions with its member agencies as well as the California Avocado Commission (CAC), MWD established fiscal year 2003/04 IAWP water deliveries as the baseline for the planned reduction period. The selection of fiscal year 2003/04 as the base year resulted in an additional 20,000 acre-feet of agricultural supplies for 2008. This baseline will remain in place for the period in which the IAWP reduction is in effect. Member agency monthly IAWP usage targets will be set at 70 percent of the corresponding monthly baseline use. The expected yield of the 2008 IAWP reduction is approximately 45 thousand acre-feet (TAF) or 30 percent of the roughly 150 TAF that was certified for that fiscal year. Below are the IAWP allocation targets by member agency amounts based on the fiscal year 2003/04 IAWP deliveries:

Agency	FY 2003-2004 IAWP Deliveries	70% Allocation
Calleguas	7,156	5,010
Inland Empire	49	35
Eastern	6,761	4,733
Fullerton	8	6
Las Virgenes	179	125
MWDOC	5,785	4,049
SDCWA	100,451	70,316
Three Valleys	83	58
Western	32,347	22,643
Total	152,819	106,975

Implementing the Program

In June 2007, MWD requested updated IAWP reduction plans from its member agencies to obtain more detailed information on how each agency would meet the 30 percent objective. These reduction plans provide specific methodologies for implementing, monitoring and verifying IAWP water reductions that reflect agency operations and administrative procedures. MWD received the preliminary plans in October. A committee of MWD staff and member agency representatives is

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currently reviewing the proposed plans. Final reduction plans from member agencies are due by December 1, 2007.

MWD will monitor reduction performance on a monthly basis, but assess penalties at six-month intervals. At the end of each six-month period, MWD 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 usage targets during the first six months (under-use) of the reduction period will be able to carry forward that amount 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 reductions continue into calendar year 2009, credits would revert to zero on January 1, 2009.

At its October 2007 meeting, the MWD Board amended its administrative code to move up the deadline for member agencies to submit

IAWP certifications from the current six months to three months during the reduction period. This will allow MWD and the member agencies to improve performance monitoring, as well as establish credits and penalties as applicable. MWD will also conduct spot checks to verify that proposed actions are actually being implemented. The CAC will continue to update readers on any additional changes to the program.

Penalties for Noncompliance

To encourage performance by IAWP participants, MWD will impose financial penalties and restrict usage for member agencies that do not reduce their use of water below usage targets established for that agency. Deliveries exceeding IAWP usage targets for the six-month period will be subject to a fee equal to twice the bundled Tier 2 Full Service rate less the applicable IAWP rate. In other words, the unit cost of IAWP deliveries exceeding usage targets will be twice MWD's applicable Tier 2 water rate.

IAWP Penalty Rates				
	IAWP Rates	Tier 2 Full Service Rates	IAWP Penalty Fee	Total IAWP Overuse Cost
Untreated Water	\$261/AF	\$449/AF	\$637/AF = [(2x\$449/AF) - \$261/AF]	\$898/AF = (\$261/AF + \$637/AF)
Treated Water	\$394/AF	\$606/AF	\$818/AF = [(2x\$606/AF) - \$394/AF]	\$1212/AF = (\$394/AF + \$818/AF)

Furthermore, the maximum annual amount of IAWP water a member agency can purchase will be permanently reduced by the extent to which usage targets are not met.

The CAC will continue to work with Metropolitan, its member agencies and local water retailers to ensure that the disruptions to growers from these cutbacks are as minimal as possible. For updates on the implementation of the reduction in deliveries, please visit the Southern California Agricultural Water Team website at www.scawt.com.

Challenging Water Year Ahead

2008 is shaping up to be a challenging year for Southern California water managers. Start with record-low local rainfall, then add quickly evaporating Sierra snow pack and continued Southwestern drought conditions to the equation. Add in a federal court decision that could reduce State Water Project (SWP) deliveries by up to 30% and it's clear that the Metropolitan Water District (MWD), the region's supplemental water supplier, has its hands full.

Even without the restrictions imposed by the court, the 2007 hydrologic conditions have had a significant impact on key storage facilities statewide. MWD anticipates an initial allocation of only 30% of its current SWP contract amount when the Department of Water Resources announces its initial SWP allocation in December. While SWP allocations normally increase through the winter and spring – for example, the initial 2003 allocation

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A bleached “bathtub ring,” the result of a six-year drought that has dramatically dropped the level of Lake Mead behind Hoover Dam. Lake Mead has seen a water elevation drop of 103 feet since September 1998.

was only 20% while the final allocation was 90% - the restrictions imposed by the federal court could critically limit this year’s final allocation even if the SWP watershed experiences above average rainfall.

With Lake Mead and Lake Powell both at just under 50 percent of their capacities, however, MWD will not have access to “surplus” supplies as it did during the last drought ending in 1992.

Circumstances in the Colorado River Basin continue to offer little good news as this watershed enters its ninth year of drought. Vast storage capacity on the Colorado system ensures 2008 MWD base supplies – 550,000 acre-feet from the Colorado River plus water transfers from the Imperial and Palo Verde Irrigation Districts, or approximately 650,000 acre-feet in 2008. With Lake Mead and Lake Powell both at just under 50 percent of their capacities, however, MWD will not have access to “surplus” supplies as it did during the last drought ending in 1992. These historically low levels have caused the Bureau of Reclamation to estimate that it would take five or more years of normal or above-normal precipitation to return total storage on the river to normal levels.

Since the last drought, MWD and its member agencies have taken a number of steps to

make the region’s water supply more reliable. Efforts include increased local conservation and water recycling, improvements in the reliability of imported supplies, increased regional storage, and increased conjunctive-use groundwater programs.

In 1999, the MWD Board also adopted its Water Surplus and Drought Management Plan (WSDM). The WSDM Plan is a strategy that defines specific actions under both surplus and shortage conditions “to ensure that shortage allocation of Metropolitan’s imported water supplies is not required.” Under critically dry conditions and a corresponding 30% SWP allocation, MWD estimates it would need over 1 million acre-feet of WSDM Actions to meet estimated “firm,” non-interruptible demands of 2.4 million acre-feet in 2008. MWD plans to meet such a shortfall through a combination of extraordinary conservation measures, spot market water transfers, cuts in replenishment and agricultural deliveries, maximization of groundwater production, and withdrawals from surface storage and dry-year groundwater programs. MWD also intends to use emergency reserves stored in its own and local DWR reservoirs as “backstop” supplies, if necessary.

While the WSDM Plan’s objective is to avoid shortages, it does include provisions for implementing an allocation plan in the event MWD is unable to meet all demands for firm water. MWD will unveil its draft allocation plan for 2008 in November. The draft plan will

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focus on limiting regional economic impacts, while recognizing the imported water needs and resource development of each of the member agencies. Among the critical outstanding issues is the need to develop a schedule defining the percentage reduction in firm water deliveries and corresponding reduction in Interim Agricultural Water Program deliveries for each stage of a drought. The California Avocado Commission will work with member agency managers and Metropolitan board members and staff to ensure that any reduction

schedule developed is fair and equitable to all MWD customers.

MWD's first WSDM update on 2008 water supply conditions is scheduled for December after the initial SWP allocation and will continue monthly through the summer. The Southern California Agricultural Water Team will continue to update growers as the water year develops. For further information, please visit our website at www.scawt.com.

Next Year's Goal is Clear-Maintain the IAWP

Note from the Chairman



Ken Roth

Meeting Southern California's water demands in the coming year will prove to be challenging, indeed. During these uncertain times, some within the region are seeking to eliminate the Metropolitan Water District's Interim Agricultural Water Program (IAWP). This program, however, has clearly benefited both Metropolitan and the agriculture community since 1994, and growers can rest assured that the California Avocado Commission, through its Southern California Agricultural Water Team, will work tirelessly to ensure that the IAWP continues.

During these uncertain times, some within the region are seeking to eliminate the Metropolitan Water District's Interim Agricultural Water Program (IAWP).

Southern California's agriculture industry and Metropolitan have been strong, reliable partners for nearly 50 years. In 1958, Metropolitan first established the precursor to the IAWP by separately pricing the sale of surplus, interruptible water supplies for agricultural purposes so as to generate additional revenues, and at the same time to solidify its rights to Colorado River water.

The success of this partnership can clearly be measured by the resulting 200,000+ jobs and \$17.5 billion contribution that the production of agricultural products provides the economy within Metropolitan's service area. Even with a relatively small portion of the region's land

and water dedicated to agriculture, San Diego, Riverside, and Ventura counties all ranked among the top ten agricultural counties in California based on the market value of agricultural products sold, and among the top thirty agricultural counties in the nation.

Under the IAWP, Metropolitan sells surplus water to agriculture at a discount and, in return, farmers and growers agreed to be the first water users subject to water supply interruptions during times of drought. Since 1994, Metropolitan has sold roughly 1.4 MAF of agricultural water supplies realizing \$415 million in revenues, \$200 million of which has been received in the last five years alone. Without this revenue stream, municipal and industrial rates would need to be increased substantially to cover fixed costs.

This is not the first time the agricultural rate has been threatened. Working closely with member agency managers and Metropolitan board members and staff, the California Avocado Commission has succeeded in fending off these attempts and will again lead the fight to preserve this critical program.

We urge Metropolitan to continue implementing the IAWP as envisioned, and to build on the successful partnership that has served Metropolitan, Southern California, and the agriculture community so well for nearly 50 years.

*Ken Roth
Chairman, Southern California
Agricultural Water Team*

Proposition 218 Threatens Agricultural Water Rates

Proposition 218, known as the “Right to Vote on Taxes Act,” was enacted in November 1996 and, according to its proponents, was intended to protect taxpayers by limiting the ability of local governments to increase taxes without taxpayer consent. However, language in the proposition specifying that fees and charges for property-related services should not exceed the proportional cost of service could pose a threat to tiered and agricultural water rates. Several local agencies have used this “cost of service” requirement to justify elimination of tiered water rates.

Under Proposition 218, local agencies must meet specific requirements in order to increase fees or charges. One of these requirements is that the amount of a fee or charge should not exceed the proportional cost of the service attributed to the individual parcel of land. It has been argued that tiered water rates are inconsistent with this requirement, because tiered rates have typically been associated with water conservation rather than an actual increase in cost of service with higher consumption levels. For many local districts, water service costs are the same regardless of usage volume.

Unlike other property related fees and charges under Prop 218, water rates are not subject to voter approval. Water providers are required to meet the substantive and procedural requirements of Prop 218, but they are only required to notify property owners of rate increases, not to obtain their consent. In order to block a proposed rate increase, a majority protest is required. AB 1260, which was signed by the Governor on October 5, 2007, states that one written protest per parcel will be counted in calculating a majority protest to a rate increase.

While the issue of how tiered rates based upon type of use is to be treated under the cost of service requirement has not been adequately addressed by any court, it is generally accepted that if those rates deviate from the cost of service requirements, they are in violation of Prop 218. Concern among some agencies about this issue has prompted Irvine Ranch Water District and the Santa Ana Watershed Project Authority to propose a bill that would clarify Prop 218 requirements to allow for conservation based rate structures. It is not clear what impact, if any, such a bill would have on agricultural water rates. This proposal is still in the early stages- the bill has not yet been drafted and the Association of California Water Agencies has not yet decided whether to sponsor it.

The California Avocado Commission has been closely following judicial clarifications and additional legislation

related to Proposition 218. The following courses of action are recommended for growers facing increased fees and charges or changes to existing rate structures:

- **Grassroots efforts:** Proposed rate increases can be blocked if a majority of those affected oppose it. Local growers can rally troops by getting the word out to other growers and solicit the involvement of the California Avocado Commission at the earliest stages. The Commission can act as a central source of information and can provide a downloadable protest for which affected growers could print and send to their district.

- **Administrative mandamus:** Instigation of the administrative mandamus process would force the district through court order to establish its compliance under Proposition 218. Individuals affected would have the ability through legal counsel to petition the court for a writ of administrative mandamus requesting that an Order be issued requiring that the district provide objective proof of compliance. This course of action is a more aggressive approach and would require the assistance of legal counsel. An administrative mandamus action is similar to filing an appeal and legal costs associated with this option could be substantial. Growers considering legal action should consult with counsel on expected costs and perform a cost/benefit analysis before determining whether to proceed.

For further updates, please visit the Southern California Agricultural Water Team website at www.scawt.com.



New Pressures Threaten to Raise MWD Rates Further

Faced with potential reductions in water supply and the record dry conditions locally, the Metropolitan Water District (MWD) has announced that it could increase rates by up to 10 percent in 2009 as part of its drought-management plan.

Back in April, MWD's Board of Directors adopted a \$30 per acre-foot rate increase for 2008. That increase was driven by power costs, operations and maintenance costs associated with labor contracts, increases in chemicals for treatment, and the district's capital improvement program.

The new pressures stem from a federal court ruling this summer that is expected to slash water deliveries from the Sacramento-San Joaquin Delta by about a third—part of an effort to save the endangered delta smelt.

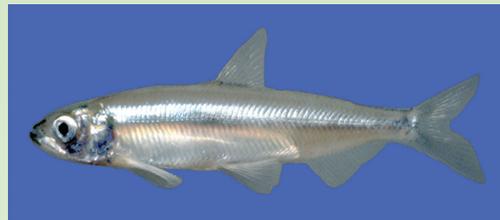
As a result, the MWD will have to import costlier water supplies through transfers from places like the Central Valley, ultimately raising customer rates.

“Rates are going to go up,” stated MWD General Manager Jeff Kightlinger. “It used to be we only had to go to those expensive sources to replace water 25% to 30% of the time. Now we’re doing that 70% of the time.”

In addition, MWD is stepping up efforts to help contain the spread of quagga mussels, a highly invasive mollusk that has severely affected water infrastructure in the Great Lakes and has caused billions of dollars of damage by clogging pipes, water pumps, and other water systems primarily on the Atlantic coast.

MWD's Board recently appropriated \$5.9 million to design and build chlorination facilities at crucial district reservoirs, including Diamond Valley Lake in southwest Riverside County, and to design isolation barriers along the 242-mile Colorado River Aqueduct.

MWD officials said other factors could worsen the water crunch over the next few months. Besides the tiny delta smelt, the fate of chinook salmon that migrate through the delta could soon lead to another court decision, which would further restrict supplies.



The delta smelt is a small, nearly translucent fish species endemic to the west coast's largest estuary, the San Francisco Bay and Sacramento-San Joaquin Delta.

Bob Muir, a spokesman for the region's water wholesaler, said the talks were “very preliminary” and any increases would not be determined until spring. Muir said reserves are being drawn down to secure water for 2008.

As it has done in the past, CAC will actively monitor these discussions and advocate on behalf of growers to make sure that Metropolitan water rates don't disproportionately burden Metropolitan's agricultural customers. For further updates, please visit the Southern California Agricultural Water Team website at www.scawt.com.