

Interim Agricultural Water Program Reduction Guidelines

Summary

Over the past several years, the southwest has experienced continued dry conditions and demands for imported water are near all-time record highs. In addition, the Metropolitan Water District's (Metropolitan) Colorado River supply is at about half of the recent historical supply as agricultural to urban Colorado River water transfers are being ramped-up. In 2007, Metropolitan has exercised a number of additional actions within its broad portfolio of resources, such as withdrawals from Central Valley storage programs and the reduction and suspension of groundwater replenishment deliveries, to maintain reliable deliveries of "firm" supply. The 2003/04 water year began as a dry year and Metropolitan and its member agencies began preparing a plan to reduce Interim Agricultural Water Program (IAWP) deliveries in the coming year in the event that a reduction became necessary. Even though Southern California experienced record rainfall at the beginning of the 2004/05 water year, it was prudent to complete the plan and procedures for such a curtailment. As the 2006/07 water year has proven to be Southern California's driest year of record since 1877 and a recent Federal ruling on State Water Project (SWP) operations may result in a significant reduction in Southern California's SWP deliveries in 2008 and beyond, it makes sense to revisit and update this plan and Reduction Guidelines to account for these latest conditions.

This paper provides an outline of how a reduction in IAWP deliveries could be developed, initiated, implemented, and validated. It is based on experiences from the last reduction in agricultural water deliveries in 1991, workshops and informal discussions with member agency and retail agency staff, and discussions with agricultural water users and their representatives. The goal is to use this information as the framework for detailed guidelines and implementation procedures to be developed by the member agencies as IAWP reduction plans. The request for updated IAWP reduction plans from the member agencies was made in June 2007 to obtain more detailed information on how each agency would implement, administer and measure the cutback in IAWP deliveries to meet the objectives of the IAWP reduction.

Background on the Interim Agricultural Water Program

The potential water management benefits of interrupting agricultural water deliveries prior to urban deliveries was recognized in the "Interruptible Program" established by Metropolitan in 1981. On the heels of the 1992 drought, Metropolitan converted the "Interruptible Program" into a more rigorous IAWP in May 1994. The IAWP provides for the delivery of surplus water for agricultural purposes at a discounted rate. Under the IAWP, water is delivered at a discounted rate in exchange for up to a 30 percent reduction in demand by participating agricultural water users at Metropolitan's call during periods of shortage. This reduction enables Metropolitan to better conserve limited supplies during such shortages.

The IAWP was initially set up as a demonstration program with a sunset/renewal period of three years. In exchange for the IAWP water discount, Metropolitan can reduce IAWP water deliveries up to 30 percent prior to implementing any mandatory allocations under its drought management plan. The three-year demonstration period ended June 1997, after which time Metropolitan continued the IAWP for an additional five years. A bundled rate for treated and untreated agricultural water was incorporated into Metropolitan's rate structure in January 2003. IAWP parameters set forth in Section 4106 and Chapter 9 of Metropolitan's Administrative Code, and administrative procedures developed under the program's demonstration period and refined under the five-year extension, now continue.

Program Features

Metropolitan's Administrative Code generally defines agricultural purposes under the IAWP as water used for growing or raising agricultural, horticultural or floricultural products for the purposes of commerce, trade, or industry, or for use by educational or correctional institutions, on parcels where greater than one acre is used exclusively for the aforementioned purposes. It applies to both the growing of crops and raising of livestock and

fowl for human consumption or market. It also applies to the feeding of fowl or livestock for the purpose of obtaining their products for human consumption or market.

The IAWP limits the maximum amount of discounted agricultural water available to a member agency on an annual basis each fiscal year. These limits, based on the agency’s average annual agricultural water use for the four-year period preceding the program’s 1994 implementation, are still in place, and are as follows:

Agency	Maximum Annual IAWP (AF)
Anaheim	115
Calleguas MWD	7,164
Inland Empire Utilities Agency	122
Eastern MWD	6,761
Fullerton	60
Las Virgenes MWD	207
MWDOC	7,657
SDCWA	100,459
Three Valleys MWD	106
Torrance	22
West Basin MWD	170
Western MWD	32,347
Total	155,190

In order to receive the IAWP discount, member agencies must certify to Metropolitan the amount of agricultural water used within their service area on a monthly basis. Such use is actually determined through certifications provided by the retail agency supplying agricultural water to the end user. Metropolitan, in turn, issues a discount for the amount of water certified to the member agency. Member agencies are required to pass the discount on to the retail agency, which then transfers the discount to the end user.

Metropolitan reviews IAWP performance on an annual basis. This review includes verifying water usage on a retail agency basis to ensure that IAWP certifications submitted during the year preceding the review are accurate, verifying that the IAWP discount is being transferred to end-users, and spot-checking agricultural parcels to ensure participation according to Metropolitan’s agricultural purposes definition. Based on this review, Metropolitan may adjust IAWP credits issued to an agency during the previous year.

The Metropolitan Water District Act allows Metropolitan to deliver or sell surplus water for any beneficial use that is not needed for domestic or municipal uses. Metropolitan 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. Following such notification, Metropolitan’s General Manager has the discretion to reduce IAWP deliveries up to 30 percent prior to imposing any mandatory urban water allocation under the Water Surplus and Drought Management (WSDM) Plan during the year for which notification is given. Metropolitan’s Administrative Code requires the General Manager to give written notice of Metropolitan’s intent to reduce or interrupt IAWP delivery as soon as practicable after such determination is made.

As part of the demonstration program, member agencies were required to submit a plan indicating how a 30 percent reduction would be met in their service areas. Metropolitan was to have received these plans by November 1994. In June 2007, Metropolitan requested that these member agency reduction plans be revised or updated to reflect prevailing conditions and current IAWP participation. These member agency reduction plans will be used to formulate methodologies and procedures for initiating, implementing and validating IAWP reductions.

Guidelines for Program Implementation

Notification and Timing of the Reduction

The timing for implementation of an IAWP reduction, based on a dry-year supply need, is described below. It should be emphasized that an IAWP reduction can be requested for reasons other than dry year supply, such as in the event of an emergency. In the case of an emergency or other unanticipated issue that can occur at any point of the year, Metropolitan will strive to provide as much notice as practical. However, due to the uncertain nature of certain emergencies (e.g., loss of a source of imported supply due to natural disaster or other factors), a request for an IAWP reduction may occur on very short notice.

One of the most important aspects of the reduction in IAWP deliveries, as a dry-year supply measure, is the timing of the reduction. Colorado River and SWP supplies are determined on a calendar year basis. The SWP allocation is typically not final until early May, and is often very uncertain until that point. However, because of the conditions leading into calendar year 2008, including supply uncertainty due to a record-dry 2007 and significant reductions in 2008 SWP supplies as a result of a Federal regulatory ruling to protect the threatened Delta smelt, an implementation timeline of January 1, 2008 is appropriate. Additionally, a lead-time between the time that Metropolitan issues a notice of a reduction in agricultural deliveries under the IAWP and when the reductions begin is necessary for the member agencies to communicate and implement plans with their retail agencies and/or IAWP participants. As a result, Metropolitan's notification protocol includes a 60-day period between the time when Metropolitan notifies agencies of the January 1, 2008 reduction and when the reduction actually occurs.

These factors are shown in the timeline below:

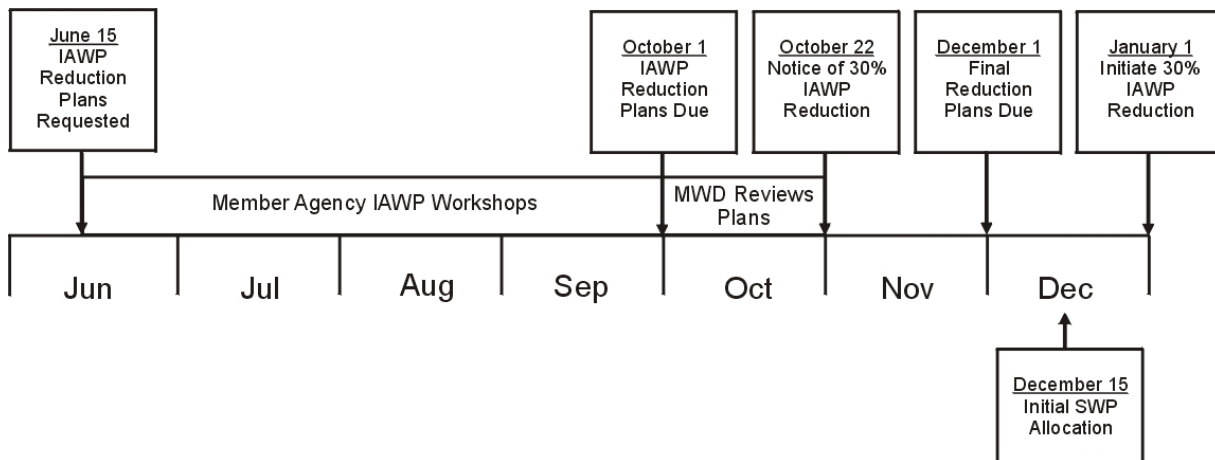


Figure 1: Timeline for IAWP Reduction Implementation

In addition to the timeline shown above, staff provides monthly water supply reports to Metropolitan's Board of Directors between January and May. These reports inform the Board on changes in the outlook for imported supplies and provide timely updates on the water supply outlook to Metropolitan's member agencies.

Establishing a Baseline

Since a reduction in IAWP deliveries would typically be called after an extended dry period, a dry year usage pattern for determining monthly IAWP usage targets for the upcoming reduction period should be based on IAWP water usage in a prior dry year. After discussion with the member agencies, Metropolitan has established fiscal year 2003/04 IAWP water deliveries as a Baseline for the planned reduction period. This Baseline will remain in place for the period in which the IAWP reduction is in effect, and for droughts continuing into successive years.

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Member agency monthly IAWP usage targets will be set at 70 percent of the corresponding monthly Baseline use. 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 usage targets during the first six months (under-use) of the reduction period will be able to carry forward the under-use 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 reduction continue into calendar year 2009, credits would revert to zero on January 1, 2009.

Should a call be made for an IAWP reduction due to an emergency, the six-month period would begin on the starting date for IAWP reduction, to be determined at the time of the emergency.

The following tables illustrate the member agency Baselines and the monthly usage target, which is 70 percent of the monthly Baseline.

Monthly IAWP Baselines and Usage Targets by Agency, acre-feet

Agency		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
SDCWA	Baseline	5,547.5	3,130.7	5,644.0	7,031.8	11,789.4	9,940.0	11,353.7	12,307.4	11,128.1	11,075.1	5,912.9	5,590.0	100,450.6
	Usage Target	3,883.3	2,191.5	3,950.8	4,922.3	8,252.6	6,958.0	7,947.6	8,615.2	7,789.7	7,752.6	4,139.0	3,913.0	70,315.6
Western	Baseline	2,148.9	1,184.4	1,906.6	1,921.0	3,350.3	3,209.6	4,305.8	4,007.7	3,876.3	3,450.2	1,446.4	1,539.8	32,347.0
	Usage Target	1,504.2	829.1	1,334.6	1,344.7	2,345.2	2,246.7	3,014.1	2,805.4	2,713.4	2,415.1	1,012.5	1,077.9	22,642.9
Calleguas	Baseline	161.0	268.7	357.3	672.9	1,119.2	889.5	798.0	796.7	603.4	675.4	458.5	355.7	7,156.3
	Usage Target	112.7	188.1	250.1	471.0	783.4	622.7	558.6	557.7	422.4	472.8	321.0	249.0	5,009.5
Eastern	Baseline	266.3	120.8	159.2	401.9	720.1	918.4	1,288.3	1,515.5	644.2	306.5	195.1	224.7	6,761.0
	Usage Target	186.4	84.6	111.4	281.3	504.1	642.9	901.8	1,060.9	450.9	214.6	136.6	157.3	4,732.8
MWDOC	Baseline	80.6	83.2	889.7	3,780.8	123.6	96.1	64.6	108.7	130.0	173.9	154.4	99.0	5,784.6
	Usage Target	56.4	58.2	622.8	2,646.6	86.5	67.3	45.2	76.1	91.0	121.7	108.1	69.3	4,049.2
Las Virgenes	Baseline	3.8	5.3	10.6	13.8	19.0	18.2	16.4	21.3	19.0	37.1	6.0	8.6	179.1
	Usage Target	2.7	3.7	7.4	9.7	13.3	12.7	11.5	14.9	13.3	26.0	4.2	6.0	125.4
Three Valleys	Baseline	3.8	2.4	5.9	6.2	8.4	9.4	9.3	9.3	11.3	8.5	3.7	4.6	82.8
	Usage Target	2.7	1.7	4.1	4.3	5.9	6.6	6.5	6.5	7.9	6.0	2.6	3.2	58.0
IEUA	Baseline	0.4	0.1	1.4	0.1	5.6	6.0	10.8	5.3	12.7	3.4	0.7	2.8	49.3
	Usage Target	0.3	0.1	1.0	0.1	3.9	4.2	7.6	3.7	8.9	2.4	0.5	2.0	34.7
Fullerton	Baseline	0.1	0.1	0.5	0.3	1.7	0.8	1.4	0.6	1.5	0.4	0.5	0.2	8.1
	Usage Target	0.1	0.1	0.4	0.2	1.2	0.6	1.0	0.4	1.1	0.3	0.4	0.1	5.9

Total	152,818.8
70%	106,974.0

It should be noted that Baselines for Anaheim, Torrance and West Basin MWD are not shown, as these agencies are not currently certifying water use under the IAWP and were not doing so in fiscal year 2003/04.

The following graphs, based on examples of IAWP water use in 2008 for the San Diego County Water Authority and the Western Municipal Water District, Metropolitan’s two largest IAWP water users, illustrate the accumulation of debits and credits during a reduction period. In the first example graph, a net debit accumulated by SDCWA in the first half of the year can be offset by an IAWP credit accumulating later in the year. In the second example graph, credits accumulated by Western at the beginning of the year offset debits occurring later in the year, which could result in a net carryover credit to the second half of the year.

IAWP Monthly Usage Target Example San Diego CWA

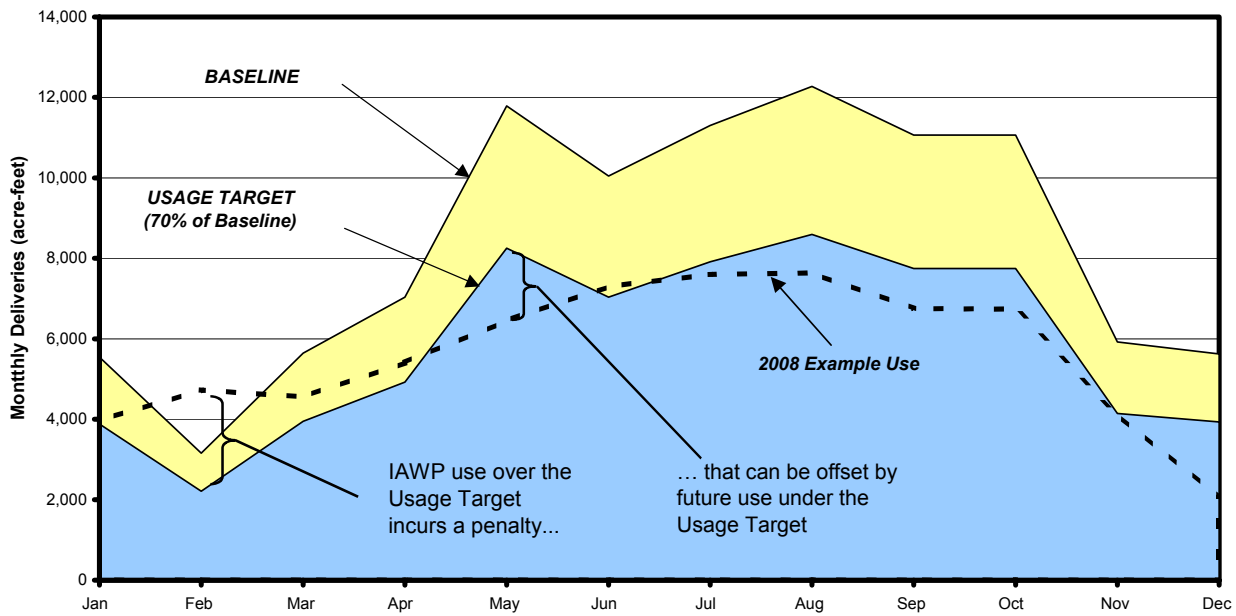


Figure 2: SDCWA Monthly IAWP Usage Targets, With an Example 2008 Use Pattern Shown

IAWP Monthly Usage Target Example Western MWD

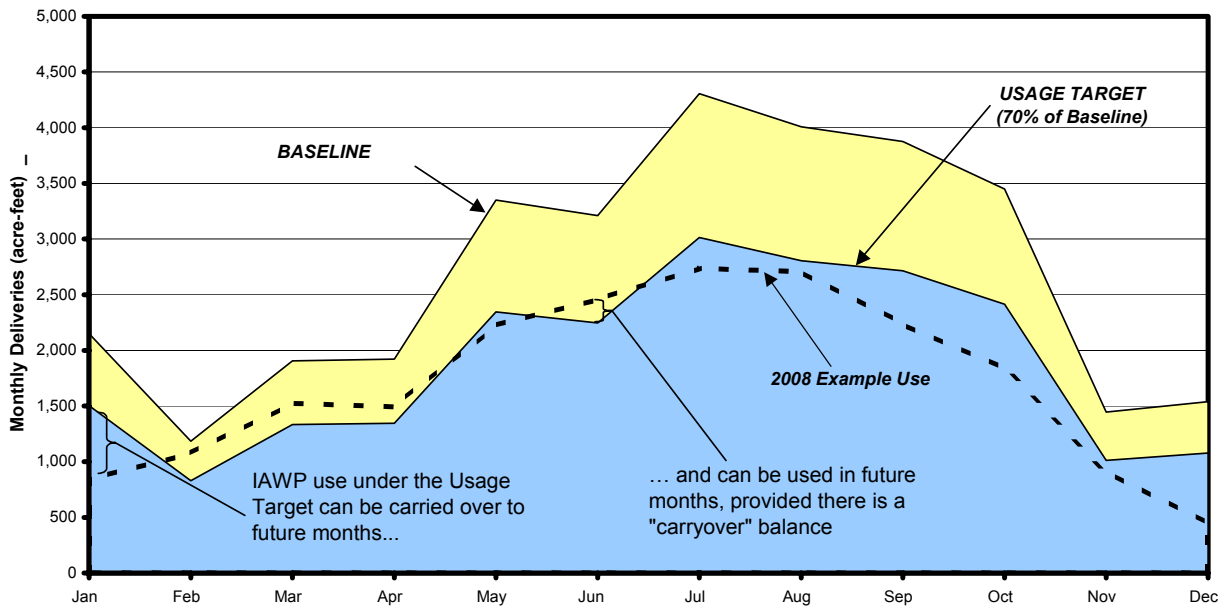


Figure 3: Western MWD Monthly IAWP Usage Targets, With an Example 2008 Use Pattern Shown

Implementing the Program

The cornerstone of implementing the IAWP reduction is the development of detailed IAWP reduction plans by the participating Member Agencies. The reduction plans, requested by Metropolitan in a letter dated June 15, 2007, will provide specific methodologies for implementing, monitoring and verifying IAWP water reductions that reflect agency operations and administrative procedures. It is anticipated that these reduction plans will fulfill several purposes:

- Provide detailed information about each agency's water resources, agricultural water use and demand patterns
- Define specific strategies that will be employed by the member agency, retail agencies and IAWP participants to implement a 30 percent IAWP reduction, in accordance with these guidelines and other documentation resulting from workshops with participating member agencies, and retail agencies (e.g., a list of Frequently Asked Questions)
- Assist Metropolitan staff in administering the IAWP reduction

The expected yield of the 2008 IAWP reduction, using fiscal year 2003/04 as a baseline for IAWP use, is about 46 thousand acre-feet (TAF), which is 30 percent of the 153 TAF that was certified for that fiscal year, should IAWP demand be similar to what was experienced in fiscal year 2003/04.

Verification of Usage

The IAWP provides a discount to participants to maintain the ability of Metropolitan to reduce usage as a water management action, if necessary. The goal of a water use reduction will be compromised if "firm" water is used to offset the reduction in discounted IAWP water. The need for verifying reductions in usage must be balanced by a verification strategy that is not administratively complex and provides for the development of methodologies by each member agency and its participants. With this in mind, a methodology to verify the reduction of usage by IAWP water users will include the following:

1. Monitor a reduction in usage through limits placed on the amount of water that can be certified at a discount under the IAWP.
2. Review proposed reduction plans of participating member agencies that outline how reductions in use by IAWP participants will be implemented, monitored and verified. A committee of Metropolitan staff and member agency representatives will review proposals.
3. Reduce the deadline for member agencies to submit IAWP certifications from the current six months to three months during the reduction period. This will allow Metropolitan and the member agencies to improve performance monitoring, as well as establish credits and penalties, as applicable.
4. Conduct spot checks to verify that proposed actions are actually being implemented.

Based on past discussions regarding the IAWP, participants have an interest in proving that actual reductions in usage have occurred, because a financial benefit has been derived over the years due to this program. By demonstrating their ability to reduce usage, participants in the program can demonstrate the value of the IAWP as a water management program that provides regional benefit.

Penalties for Noncompliance

In order to help ensure performance and participation by IAWP participants, Metropolitan 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 Metropolitan's applicable Tier 2 water rate. Furthermore, the maximum annual amount of IAWP water a member agency can purchase will be permanently decreased by the extent to which usage targets are not met.

Financial Impact

The following water rates and fees apply to IAWP water for the calendar year beginning January 1, 2008.

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

As shown above, an agency that used more water than the monthly usage targets for the six-month period will pay \$898/AF for untreated water, and \$1,212/AF for treated water, for every acre-foot used over the monthly usage targets.

Conclusion and Recommendation

The development of procedures to implement curtailments of IAWP deliveries as a dry-year supply measure or for emergency purposes is important in order to prepare for January 1, 2008 reductions due to record dry conditions in 2007 and imminent reductions in 2008 SWP supplies. The current reduction process includes notification by October 22, 2007 of a January 1, 2008 IAWP reduction for dry-year needs. Additionally, there are circumstances that could dictate an immediate call for an IAWP reduction, such as a loss of a source of imported supply due to natural disaster, further regulatory restrictions on imported supplies, or other factors. In preparation of 2008 IAWP reductions, Metropolitan staff will continue to work with its member agencies to develop and review IAWP reduction plans that provide detailed information describing how IAWP water use will be curtailed during the reduction period. These reduction plans, requested to be submitted to Metropolitan by October 1, 2007, will continue to be developed and finalized with the member agencies, retail agencies and agricultural customers prior to the IAWP reduction period to ensure that the objectives of the IAWP can be achieved.

Interim Agricultural Water Program Reduction Frequently Asked Questions (FAQ)

1. Why do Member Agencies have to submit an Interim Agricultural Water Program (IAWP) Reduction Plan?

The IAWP, upon its adoption by the Metropolitan Water District's (Metropolitan's) Board of Directors (Board) in 1994, required Metropolitan's Member Agencies to submit a reduction plan indicating how agencies would meet the requirement for a 30 percent reduction in IAWP deliveries. These plans have not been updated since 1994. As a result of drier than normal hydrologic conditions, regulatory restrictions, and other threats to imported supplies, Metropolitan is implementing water shortage actions outlined in its Water Surplus and Drought Management (WSDM) plan, which include a 30 percent reduction in IAWP deliveries. Updated reduction plans based on present day conditions are necessary to implement this reduction. Reduction plans should be submitted by October 1, 2007.

2. Are agricultural water customers who have been paying full service rates for agricultural water, rather than participating in the IAWP, required to cut back?

Water delivered to Member Agencies at Metropolitan's full service rate prior to the reduction period will not be subject to the IAWP reduction regardless of its end use. However, it will be subject to any Drought Allocation Plan Metropolitan puts in place for municipal and industrial (M & I) demand.

3. What is a Baseline and what is its purpose when implementing an IAWP reduction?

A Baseline provides a basis for IAWP usage targets established for Member Agencies during a reduction period. It reflects an agency's monthly IAWP water demand over the 12-month period in which an IAWP reduction is planned, and should be representative of the amount of IAWP water the Member Agency would use during a dry year. Many of the agencies participating in the IAWP have agreed that FY 2003/04 is representative of dry-year demands. As a result, the initial Baseline upon which all reductions will be measured will be based on Member Agencies' IAWP demands during that year.

4. Will there be any adjustments to this Baseline?

While adjustments to a Member Agency's Baseline are not anticipated, should an agency find that circumstances have changed sufficiently since FY 2003/04, and demands for IAWP water would differ because of a loss of local supply or other similar circumstance, Metropolitan will work with the Member Agency to develop an appropriate Baseline. The Baseline is intended to represent the actual demands that would occur before a curtailment. However, no adjustments to the Baseline will be considered that increase the Member Agency Baseline above the maximum annual IAWP amount as described in Metropolitan's Administrative Code. Any methodology for a Baseline adjustment must be described in detail as part of the reduction plan, including the rationale behind the proposal, to be submitted as part of the reduction plan that is due October 1, 2007.

5. Is Metropolitan requesting reduction plans from retail purveyors and agricultural customers?

As usage targets will be measured at the Member Agency level, Metropolitan is asking Member Agencies to develop plans that reflect agricultural water use practices throughout their service areas. A workable reduction plan should account for agricultural water use operations at the retail agency/end-user level, and contain appropriate metrics for verifying IAWP water reduction. Usage targets can be applied at a retail agency or customer level at the Member Agency's discretion. However, the total amount of IAWP water certified by a Member Agency on behalf of its agencies during the reduction period must meet the usage target, or be subject to penalties.

6. Can an agency substitute full service water for IAWP water?

No. A Member Agency must show an actual reduction in the amount of IAWP water delivered to a customer, and cannot make up IAWP water reductions with full service water. As a result, the amount of water delivered for agricultural use should decrease in accordance with the reduction plan developed by an agency, without a

corresponding increase in full service deliveries. The objective is to reduce the amount of imported supplies being used for agricultural purposes, not simply shifting demands to full service water.

7. Can local resources be used to offset reduced IAWP deliveries?

Shifting of local resources from M & I uses to agricultural purposes will decrease water available for M & I supplies, and could result in an increase in full service demand on Metropolitan during the reduction period or in the future. As a result, Metropolitan does not support the shifting of local resources from M & I uses to make up for agricultural use reductions. Should a Member Agency choose to use local resources in place of imported IAWP deliveries, its reduction plan must clearly specify how M & I demands will be met and a 30 percent IAWP cutback achieved without increasing imported water demands. Additionally, the Member Agency must specify how planned usage will be verified (e.g., through local production records, etc.) to ensure that firm imported supplies were not used for the IAWP reduction.

It should be noted that if local resources are used to meet all or part of the IAWP reduction, this could negatively impact a Member Agency's M & I Baseline under a Drought Allocation Plan. However, if local water is already a component of a customer's agricultural water supply, the customer may continue using it for this purpose. Furthermore, local sources that would not normally supply M & I demands may be considered for IAWP purposes.

8. Can newly developed local resources that have not previously been used for M & I demand be used as agricultural water?

Yes, as long as these local resources and their use in place of imported IAWP deliveries can be substantiated in detail as part of the Member Agency's IAWP reduction plan. Additionally, planned usage needs to be verified (e.g. through local production records, etc.) to ensure that firm imported supplies were not used to make up for any IAWP reduction.

9. Can M & I conservation be used to offset reduced IAWP deliveries?

No.

10. What type of information should Reduction Plans include?

In a letter to Member Agency managers dated June 15, 2007, Metropolitan outlined types of information that reduction plans should contain, and it is suggested that reference be made to this letter. Such information will allow Metropolitan to more readily understand an agency's agricultural water use practices and issues. Metropolitan expects that reduction plans will identify specific actions that will be put in place to meet usage targets and metrics for verifying IAWP water reductions. Plans should state where in the service areas reductions would occur, actions being implemented to enable less water use, and specific methodologies for tracking and validating reduction.

11. How will a reduction be measured and verified?

In establishing a 70 percent usage target, Metropolitan is expecting to see an actual reduction in IAWP water delivered to its Member Agencies. To a large extent, successfully implementing a reduction will depend on the effectiveness of the reduction plan. As a result, Metropolitan will work closely with its Member Agencies and their retail agencies (if applicable) in developing and reviewing such plans. Once the reduction is underway, Metropolitan will conduct regular field visits with Member Agencies, retail agencies and customers to verify implementation of specific actions outlined in the reduction plan. Member Agencies will be required to provide appropriate documentation to demonstrate that a reduction is occurring. This may include review of meter records for various agricultural water customers and status reports from agencies on the progress of the IAWP reduction.

Again, Metropolitan is expecting to see an actual reduction in the amount of imported water delivered to IAWP customers. At the end of the reduction period, Metropolitan will report to its Board on the implementation of the

IAWP reductions, and the water supply impacts associated with these reductions. It is anticipated that verifiable reductions will be included in this report.

12. How will the IAWP reduction be administered?

The reduction will be administered over a 12-month calendar year period with penalties assessed midway and at the end of the reduction period. Penalties occurring and paid for IAWP water use in the first six months of the reduction period may be rescinded by under-use in the second six months of the reduction period, with the agency receiving a credit for the underuse. Furthermore, underuse during the first six months of the reduction period may offset overuse in the second six months of the reduction period. Should a reduction be required in the following calendar year, underuse credit from the previous year will revert to zero, and any penalties assessed in the second year will be based on overuse occurring in this period. In other words, there will be no rollover of underuse credits from the first 12-month reduction period to a subsequent reduction period. However, any **overuse** from the previous year will reduce the Member Agency's Baseline in the following year.

13. How will IAWP water be certified during the reduction?

Metropolitan has reduced the time available for agencies to submit certifications from six to three months. In other words, agencies have three months following the end of the month in which the water is being certified to submit a certification. For example, an agency using IAWP water in January could certify that water as an IAWP delivery through the end of April. Should the Member Agency miss the three-month deadline for certifications, the Member Agency will be assessed a \$10,000 penalty for each month that a certification, or multiple certifications for the same month, are turned in after the three-month deadline.

With the exception of the three-month deadline for IAWP certifications, agencies will follow the same certification procedures in place prior to the reduction (e.g. retail agencies will certify IAWP through Member Agencies using forms developed for this purpose). Both the retail agency and Member Agency will sign the form. IAWP water certified by a Member Agency will be tracked relative to the Member Agency's usage targets, and Metropolitan will assess penalties as needed for usage as of the end of June 2008 and December 2008.

14. How long will the reduction remain in effect?

The reduction will be in effect as long as water supply conditions dictate. If water supply conditions worsen, the cutback could be increased by more than 30 percent.

15. How will the IAWP reduction be coordinated with any Drought Allocation Plan developed for full service deliveries?

A Drought Allocation Plan is currently under development by Metropolitan to address a potential reduction of full service deliveries. The Drought Allocation Plan will likely incorporate specific IAWP reduction requirements for each shortage stage defined in the plan, with greater levels of IAWP water reduction occurring as shortages become more severe. The WSDM Plan calls for a 30 percent reduction in IAWP deliveries prior to any allocation of full service water. Reduction requirements for full service and IAWP water will increase depending on the length and severity of a water shortage as outlined in Metropolitan's Drought Allocation Plan. Additionally, IAWP reductions are expected to increase significantly as full service deliveries are implemented, although the relative percentage reduction of IAWP deliveries with respect to the percentage reduction in full service deliveries is still under development with the Member Agencies.

16. What penalties exist for not meeting usage targets?

Metropolitan will impose financial penalties on agencies failing to meet usage targets. In addition to the applicable IAWP water rate for IAWP deliveries being purchased by a Member Agency, each acre-foot of IAWP water exceeding a Member Agency's usage target will be charged a fee of twice Metropolitan's bundled Tier 2 rate less the applicable IAWP water rate. In essence, the total unit cost of IAWP deliveries exceeding usage targets will be twice Metropolitan's bundled Tier 2 water rate. In 2008, agencies will pay \$1,212 per every acre-foot of treated IAWP water over the usage target, and \$898 per acre-foot for untreated IAWP water over the usage target. In addition, should the reduction continue in 2009, Metropolitan will reduce the Member Agency's

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Baseline by the extent that IAWP water use exceeded the usage target. The penalty fee will also be adjusted for future rate changes during the reduction period. Lastly, the Member Agency's maximum amount of annual IAWP deliveries outlined in Metropolitan's Administrative Code will be permanently reduced by the amount that IAWP water use exceeded the Member Agency's usage target.

17. What is the timeline for implementing the IAWP reduction?

The following targets have been established for initiating an IAWP water reduction:

- October 1, 2007: Member Agencies submit IAWP reduction plans to Metropolitan
- October 22, 2007: Metropolitan gives notice of an interruption
- October 31, 2007: Metropolitan completes its review of IAWP reduction plans
- December 1, 2007: Agencies provide final IAWP reduction plans to Metropolitan
- January 1, 2008: Metropolitan initiates IAWP water reductions

Implementation Considerations for Retail Agencies

Note: These considerations are the result of workshop discussions with participating Member and Retail Agencies. These are suggestions for administering the program consistently over the Metropolitan Water District service area. Additionally, even though these considerations may impact IAWP reduction planning by agencies, such as how reductions would be allocated/implemented at the end user level, Metropolitan ultimately is expecting a 30 percent reduction in IAWP deliveries from the established Baseline at the Member Agency level.

(a) Should IAWP customers who have entered the program since the Baseline year (FY 2003/2004) be subject to a reduction?

Yes. Depending on how a Member Agency structures its reduction plan, any IAWP customer who has participated in or entered the program after the Baseline year, but before December 31, 2006, should be subject to a reduction. In any case, Metropolitan maintains that a 30 percent reduction in IAWP use is expected at the Member Agency level, and that these considerations will not adjust the established Baseline.

(b) Can new IAWP customers enter the program once the cutback becomes effective?

Yes. Member Agencies and retail purveyors may allow new IAWP customers to enter the program at their discretion. However, Metropolitan still expects Member Agencies to meet their usage targets.

(c) Will agricultural water users who have participated in the IAWP in the past, but now pay a full service rate for agricultural water deliveries, be subject to a reduction?

Agricultural customers that have not participated in the IAWP after December 31, 2006, will be considered full service water users and not subject to the IAWP reduction. However, full service deliveries will be subject to any Drought Allocation implemented under Metropolitan's WSDM Plan.