

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% reduction in IAWP deliveries. Last year Metropolitan requested Member Agencies to update Reduction Plans for the first time since 1994, and Member Agencies provided updated Reduction Plans prior to January 1, 2008, when the 2008 IAWP reduction began. Changes to Metropolitan's Administrative Code (Code), adopted in October 2007 now require Member Agencies to update Reduction Plans annually, regardless of water supply conditions. Updated Reduction Plans should reflect changes in Member Agency operations and agricultural water demand, as well as any IAWP changes approved by Metropolitan's Board during the past calendar year. Additionally, Reduction Plans for Calendar Year (CY) 2009 shall describe a Member Agency's plan to implement deeper IAWP water cuts, should deeper cuts be necessary under a water supply allocation (WSA).

2. What changes has Metropolitan made to the IAWP in the past year?

In October 2008, Metropolitan's Board approved changes to the IAWP that include phasing out the discount currently available for IAWP water by 2013. These revisions, described in detail in the Board Letter 8-5 "Approve Changes to the Interim Agricultural Water Program" (attached), include opt-out opportunities for IAWP customers who wish to withdraw from the program. As shown in the attached Board Letter, Metropolitan will reduce the discount available for IAWP water each year by about \$28/acre-foot (AF) and \$22/AF, for treated and untreated water, respectively. By January 1, 2013, the IAWP discount will no longer be available. Concurrently, Metropolitan will also decrease the required percentage reduction in IAWP deliveries each year. By January 1, 2013, Metropolitan will no longer call for a reduction in IAWP deliveries because the program will no longer be available from Metropolitan, although agricultural and full service water users may still be subject to a reduction under a regional WSA.

3. When can a customer opt-out of the IAWP?

Beginning January 1, 2009, an IAWP customer can exit the program. Additional opt-outs will be allowed in each year of the phase-out period. Opt-out notifications received in a given calendar year will be effective as of January 1 of the following calendar year, with the exception opt-out notifications for CY 2009. Member Agencies with customers planning to opt-out of the IAWP in CY 2009, must notify Metropolitan of the opt-out in writing by January 15, 2009. These customers will no longer receive Metropolitan's IAWP discount for agricultural water, and such water will not be subject to IAWP interruptions.

4. Will opting out of the program limit the amount of water a customer could purchase for agricultural purposes?

A customer can continue to purchase water for agricultural purposes after opting-out of the program. Metropolitan would consider such purchases full service deliveries, which could be subject to reductions of full service water under a WSA.

5. Will a financial penalty apply to opt-out water?

IAWP water converted to full service water through the opt-out process will be billed to Member Agencies at Metropolitan's applicable Tier 1 or Tier 2 rate. Customers opting out of the IAWP will purchase this water at the appropriate rate established in the rate structure of their retail water agency. Such deliveries will be considered a firm demand on Metropolitan and subject to any WSA implemented by Metropolitan. As a full service delivery, the opt-out water would be subject to rates and penalties imposed on overuse of M & I water under a WSA.

6. How will the planned phase-out impact Tier 1 Annual Limits

Phasing-out the IAWP will directly impact the amount of Tier 1 water that a Member Agency can purchase in a given year. As Member Agencies' IAWP Baselines decrease, they will see an increase in their Tier 1 limit. The methodology for determining this increase, both during and following the phase out period, is discussed in detail in the attached Board Letter.

7. Will opt-outs impact M & I water allocated under a Water Supply Allocation Plan?

In February 2008, Metropolitan's Board of Directors approved a Water Supply Allocation Plan (WSAP). The WSAP establishes CY 2004, 2005 and 2006 as the Base Period for the WSA, for the purpose of determining a Member Agency's full service water requirement. Metropolitan will adjust Member Agency Base Period allocations to reflect IAWP deliveries that have shifted to full service deliveries due to opt-outs and overuse penalties. Metropolitan will credit the Base Period of each Member Agency by an amount equivalent to the decrease of their IAWP Baseline as a result of opt-outs and overuse penalties. Table 1 shows an example of how this approach could work for the San Diego County Water Authority:

| Table 1 | |
|--|--------------|
| IAWP Baseline Adjustment and WSAP Base Period Credit | |
| A. 2008 IAWP Baseline | 100,450.6 AF |
| B. 2009 Opt-Outs and Penalty Reduction (for example purposes) | 49,231.7 AF |
| C. New Maximum Annual IAWP Delivery (A - B) | 51,218.9 AF |
| D. Credit to Water Supply Allocation Plan Base Period (B) | 49,231.7 AF |

8. What Baseline will Metropolitan use to implement the 2009 IAWP Reduction?

A Baseline reflects the Member 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. Prior to the CY 2008 reduction, Member Agencies participating in the IAWP agreed that FY 2003/04 represented dry year demands, and established IAWP water use during FY 2003/04 as a Baseline for the CY 2008 reduction. Recent Board approved changes to the IAWP limit a Member Agency's maximum annual IAWP delivery to the CY 2008 Baseline, and establishes the maximum annual IAWP delivery as a Baseline. As a result, the initial Baseline for the CY 2009 IAWP reduction will be the Member Agency's CY 2008 Baseline.

9. Will there be any adjustments to this Baseline?

Yes. A Member Agency's Baseline will be reduced to reflect the usage of IAWP customers who have decided to opt out of the program. In addition, the Baseline will be further reduced by the amount of an agency's IAWP purchases that exceeded its usage target during CY 2008. No Baseline adjustments will be considered that increase the Member Agency Baseline above the maximum annual IAWP amount as described in Metropolitan's Administrative Code, and the attached Board Letter.

10. How will a Water Supply Allocation impact an IAWP reduction in CY 2009?

A WSA could result in reductions of IAWP water beyond 30% for CY 2009. Metropolitan's WSAP provides for an allocation of full service water based on the level of water supply shortage experienced in the region. Increasing shortage levels for full service water could correspond to even greater reductions in IAWP water use, as shown in Table 2. In 2009, a Level 3 shortage (15% regional supply shortage) will increase reductions in IAWP water deliveries from 30% to 40%. Successively higher supply shortages will trigger even greater IAWP reductions. No IAWP water will be available in CY 2009 if regional supply shortages of 35% or greater occur.

As indicated in FAQ #2, Metropolitan plans to phase-out the IAWP discount and reduction percentage by CY 2013. Beginning in CY 2010, Metropolitan will incrementally reduce the IAWP discount each year through CY 2012, when agricultural water rates converge with full service rates. Concurrently, IAWP reduction requirements at various levels of shortage will also decrease. A complete phase-out of the IAWP discount will occur by January 2013, and Member Agencies will no longer be required to reduce IAWP water use, because they are purchasing water at Metropolitan’s full service rate. Table 2 shows required IAWP reductions through CY 2012 at increasing regional shortage levels.

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

11. 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 update plans describing how usage targets established for their agency will be met. The plans should reflect Metropolitan’s planned phase-out of the IAWP, and the possibility of deeper cuts as part of a WSA. A workable Reduction Plan should identify specific actions to be taken at the retail agency/end-user level to reduce agricultural water usage, 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.

12. Can a Member Agency substitute full service water for IAWP water?

Member Agencies 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.

Customers that are permanently exiting the IAWP will not be subject to the IAWP reduction, and will pay the applicable full service rate for this water, once their request to opt-out becomes effective. As described earlier in this document, IAWP water shifted to firm use as a result of opt-outs will increase a Member Agency’s Base Period supplies, Tier 1 limit, and be subject to allocations put in place under a WSA.

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

Shifting of local resources from municipal and industrial (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% 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.

The use of local resources to meet all or part of the IAWP reduction may negatively impact the availability of water to a Member Agency under an allocation. Member Agencies using local resources to offset a required IAWP reduction may risk depletion and subsequent loss of the resource. Metropolitan's WSAP adjusts a Member Agency allocation to reflect losses of local supply. However, if the loss has resulted from increased use of the resource for IAWP purposes, a Member Agency will not be eligible to receive an adjustment for loss of local supply that might have otherwise been available.

14. 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.

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

No. However, agricultural customers paying Metropolitan's full service rates could be eligible for incentives through a future conservation program that will focus 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.

16. What type of information should updated Reduction Plans include?

Last year, each Member Agency submitted a Reduction Plan that described its strategy for meeting its reduction targets. These plans included specific actions that an agency would undertake such as fallowing fields, stumping trees, implementing water efficiency measures, communication strategies to promote reduction compliance, and tracking and verification methodologies. Metropolitan requests each Member Agency to review the efficacy of these actions and investigate opportunities for additional water savings. In addition, Reduction Plans should include a Member Agency's strategy for meeting deeper IAWP water cuts, should such cuts be necessary under a WSA. An updated plan, indicating how the agency plans to meet the 2009 IAWP reduction is due by January 30, 2009.

17. How will a reduction be measured and verified?

Metropolitan is expecting to see an actual reduction in IAWP water delivered to its Member Agencies, commensurate with the regional shortage level in place at the time of delivery. 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.

18. How will the 30% IAWP reduction be administered?

The 30% reduction will be administered over a 12-month calendar year period with penalties assessed midway and at the end of the reduction period. Penalties incurred and paid for IAWP water over-use in the first six months of the reduction period may be rescinded by underuse 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.

19. How will an IAWP reduction be administered under a water supply allocation?

A WSA would also be administered over a 12-month period, but is not expected to begin until midway through the calendar year, if needed. An allocation beginning July 2009 would remain in effect through June 2010, and deeper IAWP reductions would also remain in place during this period, if applicable. As a result, IAWP cuts will extend an additional 6 months, potentially at a deeper percentage.

Metropolitan will calculate usage targets for higher reduction levels in the same manner as it did for a 30% IAWP reduction, i.e., usage targets will be based on the Member Agency's Baseline determined for the 30% IAWP reduction. Once a reduction is called, Metropolitan will adjust usage targets in according to IAWP reductions called for by the WSAP. Performance will be measured against an adjusted usage target beginning in the month Metropolitan declares a shortage, and continuing throughout the allocation period in accordance with the WSAP. Metropolitan will not retroactively reduce usage targets for months prior to the time when a regional shortage is declared. However, usage targets might be further reduced at higher levels of shortage. Table 3 illustrates an example of the application of revised usage targets if deeper cuts are called as part of a WSA.

| Table 3 | | | | | | | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---|---------|---------|---------|---------|---------|----------|
| Calendar Year 2009 IAWP Reduction | | | | | | | | | | | | | |
| Application of Usage Targets (example) | | | | | | | | | | | | | |
| Cutback | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total |
| 30% | 3,883.3 | 2,191.4 | 3,950.8 | 4,922.3 | 8,252.6 | 6,958.0 | | | | | | | 30,158.4 |
| 50% | | | | | | | 5,676.9 | 6,153.7 | 5,564.1 | 5,537.6 | 2,956.5 | 2,795.0 | 28,683.6 |
| Actual | 2,500.0 | 1,500.0 | 2,500.0 | 6,000.0 | 9,300.0 | 7,500.0 | 7,500.0 | 7,500.0 | 5,000.0 | 5,000.0 | 3,300.0 | 3,000.0 | 60,600.0 |
| 1 st six months underuse = 858.4 | | | | | | | 2 nd six months overuse = 2,616.2 | | | | | | |
| CY 2009 overuse = 1,757.8 | | | | | | | | | | | | | |
| IAWP underuse occurs in 1 st six months of CY 2009. IAWP overuse in 2 nd six months of CY 2009 = 2,616.2 AF. Carryover underuse from 1 st six month period reduces overuse to 1,757.8 AF. | | | | | | | | | | | | | |
| Calendar Year 2010 IAWP Reduction | | | | | | | | | | | | | |
| Application of Usage Targets (example) | | | | | | | | | | | | | |
| Cutback | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total |
| 30% | | | | | | | 7,947.6 | 8,615.2 | 7,789.7 | 7,752.6 | 4,139.0 | 3,913.0 | 40,157.1 |
| 50% | 2,773.8 | 1,565.4 | 2,822.0 | 3,515.9 | 5,894.7 | 4,970.0 | | | | | | | 21,541.8 |
| Actual | 2,500.0 | 2,000.0 | 2,500.0 | 2,500.0 | 6,500.0 | 6,500.0 | 8,000.0 | 9,000.0 | 5,500.0 | 6,000.0 | 4,000.0 | 4,000.0 | 59,000.0 |
| 1 st six months overuse = 958.2 | | | | | | | 2 nd six months underuse = 3,657.1 | | | | | | |
| CY 2010 underuse = 2,698.9 | | | | | | | | | | | | | |
| IAWP overuse occurs in 1 st six months of CY 2010. IAWP underuse in 2 nd six months of CY 2010 = 3,657.1 AF. Overuse from 1 st six month period is reduced by underuse in the 2 nd six months, such that overuse penalties are reversed. | | | | | | | | | | | | | |

20. Can a Member Agency carryover IAWP underuse credits during a WSA?

The same considerations that apply to IAWP overuse and underuse during a 30 % IAWP reduction will apply during a WSA. That is, credits can be carried over within a calendar year but not from one calendar year to the next. Application of IAWP credit and debit are discussed in greater detail in FAQ #18, above.

21. What penalties exist for not meeting usage targets during a 30% IAWP Reduction?

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. Table 4 shows the CY 2009 rates for IAWP water, and the \$/AF cost of overuse water.

| Table 4 | | | | |
|--|-----------|--------------------------|---|---------------------------------------|
| Cost of IAWP Water During a 30% Reduction in CY 2009 | | | | |
| TYPE | IAWP Rate | Tier 2 Full Service Rate | IAWP Penalty Fee | Total IAWP Overuse Cost |
| Untreated Water | \$322/AF | \$528/AF | \$734/AF = ((2 x \$528/AF) - \$322/AF) | \$1,056/AF = (\$322/AF + \$734/AF) |
| Treated Water | \$465/AF | \$695/AF | \$925/AF = ((2 x \$695/AF) - \$465/AF) | \$1,390/AF = (\$465/AF+\$925/AF) |

In 2009, agencies will pay \$1,390 per every acre-foot of treated IAWP water over the usage target and \$1,056 per acre-foot for untreated IAWP water over the usage target. In addition, should the reduction continue into 2010, Metropolitan will reduce the Member Agency's 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.

22. What penalties exist for not meeting IAWP usage targets during a WSA.

During a WSA, Metropolitan will rely on penalties to incentivize Member Agencies to reduce consumption of both IAWP water and full service water. Penalties for IAWP overuse during a WSA will be the same as penalties applied during a 30% IAWP Reduction, i.e., IAWP water overuse 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, as shown in Table 4.

23. 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 during a reduction in IAWP deliveries. 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, Metropolitan will assess the Member Agency 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 2009 and December 2009.

24. 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%, and the increased reduction will remain in effect for 12 months.

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

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

- **November 4, 2008:** Metropolitan notifies Agencies of a 30% reduction in 2009
- **December 5, 2008:** Metropolitan prepares a final draft Reduction Guidelines and FAQ for CY 2009
- **January 15, 2009:** Member Agencies provide Metropolitan with final opt-out notifications
- **January 30, 2009:** Member Agencies provide Metropolitan with updated 2009 Reduction Plans
- **February 2009:** Metropolitan calculates 2009 Baseline and Usage Targets
- **February 2009:** Metropolitan prepares final Reduction Guidelines and Usage Targets

26. Will the Annual Assessment Process change?

Yes. Currently, the IAWP monthly usage is assessed on a fiscal year basis and supporting documentation is due by December 31 following the fiscal year in which the water was certified. Metropolitan is proposing that for CY 2009 and beyond, the assessments will be done on a calendar year basis and supporting documentation will be turned in by June 30 following the calendar year in which the water was used. Metropolitan will complete all assessments by December 31, following the year in which the water was used. Table 5 shows the schedule for Assessments from FY 2007-08 and beyond:

| Table 5 | | |
|--|--|-----------------------------------|
| IAWP Assessment Completion Schedule | | |
| Assessment Year | Supporting Documentation Due Date | Assessment Completion Date |
| FY 07-08 | December 31, 2008 | December 31, 2009 |
| CY 2008 | June 30, 2009 | December 31, 2009 |
| CY 2009 | June 30, 2010 | December 31, 2010 |
| CY 2010 | June 30, 2011 | December 31, 2011 |
| CY 2011 | June 30, 2012 | December 31, 2012 |
| CY 2012 | June 30, 2013 | December 31, 2013 |

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% 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 (FY2003-2004) 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% 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?

No. Allowing new customers into the program is inconsistent with plans in place to phase-out the IAWP.

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 reductions resulting from the implementation of a Water Supply Allocation.