



December 9, 2009

Attention: Administrative and Finance Committee

Update 2009 and 2010 Transitional Special Agricultural Water Rate Program Report for Calendar Year 2010. (Action)

Purpose

To approve an updated 2009 and 2010 Transitional Special Agricultural Water Rate (SAWR) Program Report that includes updated information on rates and cutback levels for calendar year 2010.

Staff recommendation

Adopt Ordinance No. 2009___an Ordinance of the Board of Directors of the San Diego County Water Authority amending Ordinance No. 2008-08 regarding the Special Agricultural Water Rate.

Alternative:

Do not adopt Ordinance No. 2009___an Ordinance of the Board of Directors of the San Diego County Water Authority amending Ordinance No. 2008-08 regarding the Special Agricultural Water Rate.

Fiscal impact

No fiscal impact associated with approval of the calendar year 2010 Transitional SAWR Program Report. The program was approved by the Board in October 2008.

Background

The Transitional SAWR was adopted by the Board in October 2008 and is in place for calendar years 2009 and 2010. In December 2008, the Board adopted administrative procedures for the Transitional SAWR, which contained calendar year 2009 rate information and projections on cutback levels. The Program Report now requires updating to reflect rates and cutback levels effective in calendar year 2010. No revisions to the Transitional SAWR program are necessary at this time. A draft of the program report was sent in September 2009 to the member agencies participating in the agricultural discount programs.

A separate Board report on this month's Administrative and Finance Committee agenda discusses the status of developing options following termination of the Transitional SAWR program in December 2010.

Previous Board Action: On October 23, 2008, the Board approved a Two-year Transitional Special Agriculture Water Rate program for customers opting out of the MWD Interim Agricultural Water Program.

On December 18, 2008, the Board adopted Ordinance No. 2008-08 an ordinance of the Water Authority Board confirming the special agricultural water rate and establishing procedures for

administration of the special agricultural water rate program consistent with the phase out of the Metropolitan's interim agricultural water program.

Discussion

Major revisions to the attached updated Program Report for calendar year 2010 are as follows:

Question	Revision
5	Update agricultural rates and discounts to reflect calendar year 2010 rates adopted by the Board in June 2009
6	Update information on cutback levels to Interim Agricultural Water Program (IAWP) and SAWR customers in calendar year 2010 (SAWR cutback level approved by Board in April 2009)
9	Address derivation of member agencies' SAWR calendar year 2010 allocation baseline, taking into account customer participation in calendar year 2010
11	Address derivation of the revised M&I allocation baseline, taking into account customers opting out of IAWP and Transitional SAWR in calendar year 2010
21	Update Transitional SAWR penalty rates based on Metropolitan Water District's adopted rates for calendar year 2010

Prepared by: Dana Frieauf, Principal Water Resource Specialist

Reviewed by: Ken Weinberg, Director of Water Resources

Approved by: Sandra L. Kerl, Deputy General Manager

Attachment: Ordinance No. 2009 ____

ORDINANCE NO. 2009-__

**AN ORDINANCE OF THE BOARD OF DIRECTORS
OF THE SAN DIEGO COUNTY WATER AUTHORITY
AMENDING ORDINANCE NO. 2008-08 REGARDING
THE SPECIAL AGRICULTURAL WATER RATE**

The Board of Directors of the San Diego County Water Authority does ordain as follows:

1. The transitional special agricultural water rate program as described in the Report (Transitional SAWR) adopted by Ordinance No. 2008-08 is amended and shall be implemented for calendar year 2010 according to the San Diego County Water Authority Updated 2010 Two-Year Transitional Special Agricultural Water Rate Program Report attached to this ordinance (“Report”). General Manager is authorized and directed to administer the Transitional SAWR as described in the Report. The General Manager is authorized to impose and collect penalties with respect to member agencies participating in the Transitional SAWR that fail to comply with supply reduction requirements.
2. The Transitional SAWR water supply charge for calendar year 2010 is established as provided in the Report.
3. The rates and charges established by Ordinance No. 2008-03 or any subsequent ordinance setting rates and charges shall apply to member agencies participating in the Transitional SAWR, except to the extent inconsistent with this ordinance.
4. This ordinance shall be effective upon adoption.
5. The Clerk of the Board shall publish this ordinance or a summary prepared by the General Counsel pursuant to Section 1.00.040 of the Administrative Code.

PASSED, APPROVED AND ADOPTED, this 17th day of December, 2009.

AYES:

NOES:

ABSTAIN:

ABSENT:

Claude A. (Bud) Lewis,
Chair

ATTEST:

Thomas V. Wornham,
Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Ordinance No. 2009-__ was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore,
Clerk of the Board

San Diego County Water Authority Updated 2009 and 2010 Transitional Special Agricultural Water Rate Program Report

December 9, 2009

The following describes the phase-out of Metropolitan Water District's (MWD's) Interim Agricultural Water Program (IAWP) and administration of the Water Authority's two-year transitional Special Agricultural Water Rate (Transitional SAWR). This Updated Program Report replaces the November 7, 2009, Program Report, which was approved by the Board as a supplement to the December 10, 2008, Board Memorandum to the Administrative and Finance Committee.

1. *How is the IAWP being phased out and when can customers choose to exit the program?*

On October 14, 2008, the MWD Board approved changes to the IAWP that will phase-out the program over the next four calendar years resulting in termination of the IAWP on December 31, 2012. The MWD Board action also included an opt-out provision that allowed retail customers the opportunity to exit the program starting January 2009, and each January thereafter, until the program ends on December 31, 2012. Opt-out notifications received in a given calendar year will be effective beginning January 1 of the following calendar year.

2. *What is the current SAWR and what is the two-year Transitional SAWR program that was recently approved by the Water Authority Board?*

In addition to the discount from MWD, IAWP participants receive a financial discount through the Water Authority's Special Agricultural Water Rate (SAWR). The SAWR is comprised of two discounts: 1) exemption from the Water Authority's supply charge and 2) IAWP deliveries are not included in the calculation of member agencies' proportional share of the Water Authority's fixed Storage Charge. In return, Water Authority regional supplies (IID transfer, canal lining projects, and dry-year supplemental supplies) are not available to IAWP participants and only a portion of supplies from the Emergency Storage Project (ESP) and future carryover storage project are available.

On October 23, 2008, the Water Authority Board adopted a two-year Transitional SAWR available to those customers opting-out of the IAWP in 2009 and 2010. The discounts are consistent with the current program and supply cutback requirements are tied to MWD's Municipal & Industrial (M&I) cutback levels. Customers choosing this program will experience cutbacks in excess of the Water Authority's M&I reduction, but less than cutbacks under the IAWP. Only those customers in IAWP as of January 1, 2009, can sign-up for the Transitional SAWR. If a customer chooses to participate in the Transitional SAWR, they are not locked into the two-year program, but can opt-out at the beginning of 2010.

3. *What happens at the end of the two-year Transitional SAWR program?*

By the end of the two-year transitional SAWR program (December 31, 2010), the Water Authority Board will have made a determination on whether to eliminate the discounts to agricultural water users, continue with the Transitional SAWR program, or offer a new program. A Workgroup, comprised of Board members appointed by the Board Chair, is developing the options for Board consideration.

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4. What options are currently available to IAWP/SAWR customers in calendar year 2010?

The following options are available to IAWP/SAWR customers starting in calendar year 2010:

- i. Remain in the current IAWP/SAWR discount program;
- ii. Exit the IAWP/SAWR program but enroll in the Transitional SAWR program; or
- iii. Exit the IAWP/SAWR and become a full service M&I customer.
- iv. Exit the Transitional SAWR program and become a full service M&I customer.

5. What rate would the member agency pay in calendar year 2010 under each of the options? What discounts are being received?

Table 1 below provides the Water Authority estimated total unit cost for the three classes of service.

Table 1
Estimated Total Unit Cost for Class of Service

Class of Service Option	Water Authority Estimated Total Unit Cost (2010)	
	Treated	Untreated
IAWP/SAWR	\$712/AF	\$513/AF
Transitional SAWR	\$796/AF	\$581/AF
Full Service M&I (opt-out of IAWP/SAWR and Transitional SAWR)	\$905/AF	\$690/AF

A breakdown of the total unit cost is as follows:

- * IAWP/SAWR: The MWD IAWP rate (\$615/AF treated, \$416/AF untreated), Water Authority Customer Service Charge (\$30/AF) and Transportation Rate (\$67/AF).
- * Transitional SAWR: The MWD M&I Full Service Rate (\$484/AF Tier 1), Water Authority melded treatment rate (\$215/AF), Customer Service Charge (\$30/AF), and Transportation Rate (\$67/AF).
- * Full Service M&I: The Water Authority melded supply rate (\$532/AF), melded treatment rate (\$215/AF), Customer Service Charge (\$30/AF), Storage Charge (\$61/AF), and Transportation Rate (\$67/AF).

Table 2 below lists the associated discounts provided to the member agencies for agricultural deliveries.

Table 2
Discounts to the Member Agencies for Agricultural Deliveries

Class of Service Option	Agricultural Discount (2010)	
	Treated	Untreated
IAWP/SAWR	\$193/AF	\$177/AF
Transitional SAWR ¹	\$109/AF	\$109/AF

¹ Untreated and treated water deliveries under the Transitional SAWR receive the same discount, because treated water customers pay the Water Authority's melded treatment rate and no longer pay the IAWP discounted treatment rate.

A breakdown of the agricultural discounts received by Water Authority member agencies is shown as follows:

- * IAWP/SAWR discounts¹: The MWD IAWP (\$86/AF treated, \$68/AF untreated), Water Authority supply discount (\$46/AF treated, \$48/AF untreated), and Storage Charge exemption (\$61/AF).

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- * Transitional SAWR discounts¹: The Water Authority supply discount (\$48/AF) and Storage Charge exemption (\$61/AF).

¹ This storage discount is a function of the method by which each member agency's storage charge is calculated under the Water Authority's rate structure. Because the Storage Charge is allocated based on member agencies' proportional share of historic deliveries, except interruptible agricultural deliveries, each member agencies' actual credit will differ.

6. For each of the options, what will be the potential level of cutback in 2010?

Table 3 summarizes the potential cutback levels for each option in 2010. Table 4 below provides the MWD cutback levels over the phase-out of the IAWP.

Table 3
Potential Cutback Levels in 2010

Option – Class of Service	Water Supply Reduction Requirement	Water Authority Storage Usage Requirement
IAWP/SAWR	<ul style="list-style-type: none"> - The IAWP reduction will be 25% in the first six months of CY 2010. The cutback in the second half of CY 2010 is unknown at this time. MWD will determine in April 2010 the M&I cutback level for FY 2011, which will determine the IAWP reduction for remaining CY 2010. (See Table 4 below.) - No access to Water Authority regional supplies. 	<ul style="list-style-type: none"> - Reduced access to regional storage in emergency situations. - Participants would be required to take a greater cutback than M&I, established at twice that of the regional reduction. - No access to regional drought storage supplies.
Transitional SAWR	<ul style="list-style-type: none"> - Reduction directly linked to MWD's M&I cutbacks. The cutback will be 13.3% in the first six months of CY 2010. The cutback in the second half of CY 2010 is unknown at this time. MWD will determine in April 2010 the M&I cutback level for FY 2011. - No access to Water Authority regional supplies. 	<ul style="list-style-type: none"> - Reduced access to regional storage in emergency situations. - Participants would be required to take a greater cutback than M&I, established at twice that of the regional reduction. - No access to regional drought storage supplies.
Full Service M&I (opt-out of IAWP/SAWR and Transitional SAWR)	<ul style="list-style-type: none"> - The regional cutback level will be 8% in the first six months of CY 2010. The cutback in the second half of CY 2010 is unknown at this time. MWD will determine in April 2010 the M&I cutback level for FY 2011. - Potential MWD M&I cutback reduced or fully mitigated by Water Authority regional supplies. 	<ul style="list-style-type: none"> - Full access to regional storage during emergencies and supplies from future carry-over project.

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Table 4
Metropolitan Water District IAWP Cutback Levels Reduced over Four Years

Regional Shortage Level	Regional Shortage Percentage	IAWP Reduction Percentage				
		2008	2009	2010	2011	2012
	Voluntary	Up to 30%		Up to 24%	Up to 18%	Up to 11%
1	5%	30%	30%	24%	18%	11%
2	10%	30%	30%	25%	20%	15%
3	15%	40%	40%	34%	28%	21%
4	20%	50%	50%	43%	35%	28%
5	25%	75%	75%	63%	50%	38%
6	30%	90%	90%	75%	60%	45%
7	35%	100%	100%	84%	68%	51%
8	40%	100%	100%	85%	70%	55%
9	45%	100%	100%	86%	73%	59%
10	50%	100%	100%	88%	75%	63%

7. What is the deadline for member agencies to notify the Water Authority of the IAWP and Transitional SAWR customers' decisions regarding the three classes of service options? What information should I provide?

Member agencies are required to submit information to the Water Authority pertaining to the three customer options by **November 16, 2009**. Below is a list of the data and documentation required to be submitted to the Water Authority:

- i. Total number of participants (accounts), and their associated total aggregated acre-feet of demand based on fiscal year 2007 usage, that have chosen to:
 - a. Remain in the current IAWP/SAWR discount program;
 - b. Exit the IAWP/SAWR program but enter the Transitional SAWR program;
 - c. Exit the IAWP/SAWR and become a full service M&I customer.
 - d. Exit the Transitional SAWR program and become a full service M&I customer
- ii. Revised member agency Agricultural Reduction Plan for calendar year 2010.

The information is required to satisfy MWD's request for information and adjust the member agencies' Tier 1 Limit and base period M&I allocation. Information must be received by November 16, 2009, for the Water Authority to notify MWD how many of the retail IAWP customers are opting out in 2010. If the information is not received, MWD will be notified that none of the agency's customers are opting out of IAWP.

Base Periods and Tier 1 Annual Limit

8. How will a member agency's IAWP base year be adjusted as its customers exit the IAWP during the four-year phase out?

The Water Authority Board adopted fiscal year 2007 as the base year for determining its member agencies' IAWP allocations. As a member agency's customers exit the IAWP, its IAWP base year shall be reduced. The updated base period shall be calculated as the difference between the member agency's original cumulative fiscal year 2007 IAWP demand

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and the fiscal year 2007 IAWP demand associated with those customers opting-out of the program.

9. *How will a member agency's calendar year 2010 Transitional SAWR base be determined as its customers enter or exit the program?*

A member agency's calendar year 2010 Transitional SAWR base will be determined by adjusting its original calendar year 2009 Transitional SAWR base to account for customers enrolling and exiting the program for calendar year 2010. Consistent with the calendar year 2010 IAWP base period calculation, fiscal year 2007 customer demands will be used to update an agency's Transitional SAWR base.

10. *Will a member agency's Allocation Base Period M&I Demand be increased as its customers exit the IAWP and enter the Transitional SAWR program?*

No. Customers in the Transitional SAWR program are considered agriculture for the purpose of the Water Authority's allocation methodology. As such, they are subject to a higher cutback level than customers paying the full M&I rate.

11. *Will a member agency's Allocation Base Period M&I Demand be increased as its customers exit the IAWP and Transitional SAWR program?*

Yes. Agencies' base period M&I demands will be adjusted to reflect the increase in M&I deliveries from customers opting-out of the programs. Member agencies will provide the actual aggregated acre-feet of demand for customers opting out of the IAWP and Transitional SAWR programs based on fiscal year 2007 usage. These demands will be used to update agencies' base period M&I demands for the purpose of calculating revised M&I allocation percentages. Taking into account the program opt-outs for calendar year 2010, the member agencies' base will be adjusted and resulting M&I allocation percentage revised for the remainder of fiscal year 2010.

12. *How will a member agency's Tier 1 Annual Limit be adjusted as its customers exit the IAWP?*

In 2002, the Water Authority Board adopted a methodology to allocate the region's Tier 1 supply limit to its member agencies. This method used member agencies' non-coincidental maximum year firm demands (non-IAWP demands) between fiscal year 1991 through fiscal year 2002. These maximum firm demands were used to determine individual agency's proportional share of the region's Tier 1 limit set by MWD. Consistent with the Board approved methodology, an agency's original non-coincidental maximum year firm demand will be adjusted to account for the demand opting out of the IAWP (using fiscal year 2007 demands for accounts opting out). The adjusted maximum year firm demand will be used to recalculate each agency's proportional share of the Water Authority's updated Tier 1 limit. MWD has established the Water Authority's maximum annual Tier 1 limit increase at 86,516AF.

13. *Will a member agency's Tier 1 Annual Limit be increased when customers opt-out of IAWP, but enroll in the Transitional SAWR?*

Yes. MWD considers Transitional SAWR customers to be firm M&I demands and therefore agencies' Tier 1 limits will be increased using the methodology described in Question 12.

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Additional Details on Water Authority Stand-Alone Two-Year Transitional SAWR

14. Who is eligible to participate in the Transitional SAWR? Can a non-IAWP customer enter the Transitional SAWR?

Customers participating in the IAWP as of January 1, 2009, are eligible to enter the Transitional SAWR during the two-year transitional period. The Transitional SAWR is not available to non-IAWP customers or customers that opted-out of IAWP in 2009 to become M&I customers. Consistent with the current IAWP eligibility requirements, the property receiving the Transitional SAWR must be one planted acre or greater that is used for commercial agricultural purposes. (Please see Metropolitan Administrative Code Section 4106.)

15. Will member agencies be required to re-certify their IAWP/SAWR and Transitional SAWR customers to determine eligibility?

During calendar year 2010, the Water Authority will not require, but requests, member agencies consider re-certifying those customers that have remained in the IAWP/SAWR. In addition, if customers are identified as not meeting the IAWP eligibility requirements, they are restricted from enrolling in the Transitional SAWR. It is preferable to have them purchase water at the M&I rate and be subject to M&I cutbacks.

16. How will the Transitional SAWR program be administered, and will the Water Authority perform audits? Will member agencies continue to provide monthly certifications? How will the credit/discount be reflected on the bills?

Water Authority staff will assume administrative responsibility for the Transitional SAWR program. To minimize staff time associated with administering the program, the Transitional SAWR shall mirror existing IAWP guidelines. Member agencies will be required to complete two separate monthly certification forms for total customer credits under the IAWP/SAWR and Transitional SAWR. The current IAWP certification form will be used to report monthly Transitional SAWR participation. In addition, Water Authority staff will conduct annual Transitional SAWR certification audits and member agency site visits. Consistent with the current billing process, member agencies' monthly invoices will continue to include IAWP/SAWR and Transitional SAWR credits associated with the approved certified volumes.

17. Can an IAWP customer opt-out in year two of MWD's IAWP phase out and still be able to participate in the Transitional SAWR program, or was it a one-time offer for IAWP customers opting-out in calendar year 2009?

IAWP participants that choose to opt-out of MWD's program for calendar year 2010 can still enroll in the Transitional SAWR program.

18. Metropolitan only gives a credit on imported water delivered to IAWP customers. Does the Transitional SAWR operate the same way?

Yes. Member agencies can only certify for Transitional SAWR credit on imported MWD supplies and the Water Authority will use the same methodology to calculate MWD supplies as used under the IAWP.

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19. If a property participating in the SAWR changes ownership in 2010, does the discount and cutback remain?

Member agencies shall individually determine if the cutback obligation is tied to a property. Consistent with IAWP, member agencies are still responsible for meeting the required reduction established using the SAWR volume enrolled in the program.

20. Is a customer participating in Transitional SAWR going to be subject to cutbacks after the transitional program ends?

No. The Transitional SAWR cutback obligation sunsets at the end of the transitional program (December 31, 2010).

21. What penalties for non-performance will agencies incur under the Transitional SAWR program?

Customers that have opted-out of the IAWP and chosen to participate in the Transitional SAWR program will be considered M&I customers by MWD. As such, supply allocations for member agencies participating in the Transitional SAWR will be linked to MWD's M&I cutbacks, as well as the MWD penalty rate for agencies exceeding their allocation. When the Water Authority exceeds its M&I allocation from MWD, SAWR agencies that have exceeded their allocation will pay MWD's M&I penalty rate. The penalty rate for treated and untreated exceedence is based on MWD's Tier 2 untreated rate. Table 5 below contains a summary of the applicable penalty rate that will be charged member agencies in addition to the base water rate.

Table 5
Summary of the Applicable Penalty Rate in 2010

Use Up to and Including:	Penalty Rate Calculation	Penalty Rate
100% < Use ≤ 115%	2 x Tier 2 (untreated) = 2 x (\$594/AF)	\$1,188/AF
Use > 115%	4 x Tier 2 (untreated) = 4 x (\$594/AF)	\$2,376/AF

22. How will penalties be assessed?

Transitional SAWR penalties shall be assessed on an annual basis or at the end of the program, whichever comes first. The Transitional SAWR allocation period is currently fiscal year 2010. Potential penalties would be assessed at the end of fiscal year 2010 and be based on member agency performance over that period.

23. Are member agencies still required to prepare an annual Agricultural Reduction Plan if they have opted out of the IAWP and are participating in the Transitional SAWR?

Yes. Member agencies that have customers in the Transitional SAWR program in 2010 will be required to prepare an updated plan by **January 4, 2009**.

24. Does a member agency have to offer the Transitional SAWR program to customers opting out of the IAWP?

Pricing programs to retail customers are the choice and responsibility of the member agency.