



*San Diego County
Water Authority*

**Overview of 2010 Board action on
Revised Special Agricultural Water Rate
Program, Changed Conditions Since
Adoption, and Alternative Actions in
Response to Requests to sustain Current
Program**

**Administrative and Finance Committee
April 26, 2012**

Agricultural Classes of Service

Customers pay reduced water rate commensurate with reduced level of service

1. Metropolitan Water District's Interim Agricultural Water Program (IAWP) *(Terminates Dec 31, 2012)*
2. Water Authority's Transitional Special Agricultural Water Rate (TSAWR) *(Terminates Dec 31, 2012)*
3. Water Authority's Special Agricultural Water Rate (SAWR) *(Begins Jan 1, 2013)*

Estimated Rate Differential - Cost Benefit to Agricultural Customers

	MWD IAWP (CY 2012)	TSAWR (CY 2012)	Revised SAWR (CY 2013)
IAWP Discount ¹	\$23/AF	--	--
SDCWA Supply Rate Differential ¹	\$78/AF	\$78/AF	\$0/AF
Estimated SDCWA Storage Charge Exemption	\$133/AF	\$133/AF	\$159/AF <u>ESTIMATE</u>
Total Estimated Rate Differential:	\$234/AF	\$211/AF	\$159/AF <u>ESTIMATE</u>

¹Untreated

Customer Level of Reliability During Shortages

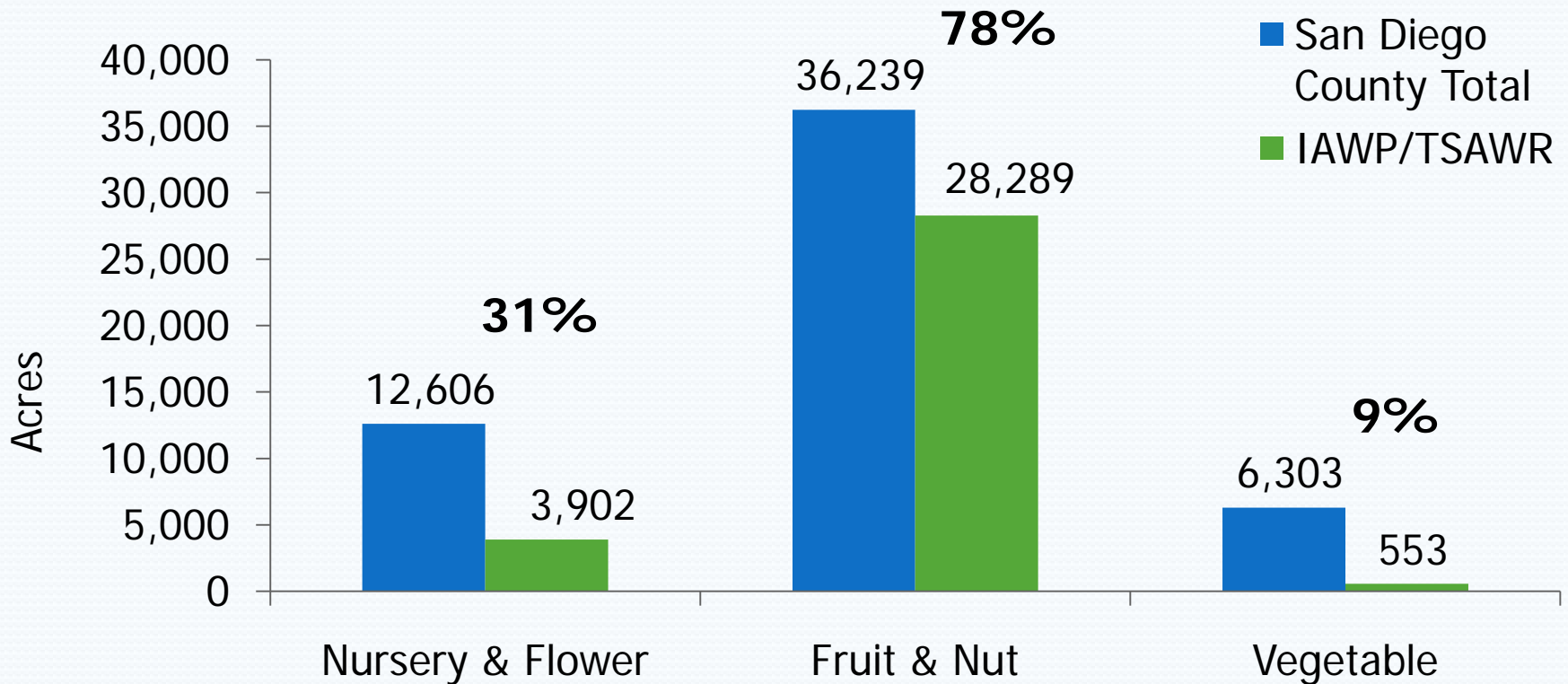
	IAWP (ends Dec 2012)	TSAWR (ends Dec 2012)	Revised SAWR (begins Jan 2013)
Supply Cutback	Prior to Phase-out: 30% to 100% MWD cutback based on Regional Shortage Level	<ul style="list-style-type: none"> • MWD cutback level • Receive no SDCWA supplies 	<ul style="list-style-type: none"> • Same level of reliability as M&I customers
Limited Storage Supplies	<ul style="list-style-type: none"> • ESP Emergency: cutback at twice level of M&I • No deliveries from CSP 	<ul style="list-style-type: none"> • ESP Emergency: cutback at twice level of M&I • No deliveries from CSP 	<ul style="list-style-type: none"> • ESP Emergency: cutback at twice level of M&I • No deliveries from CSP

ESP: Emergency Storage Program
 CSP: Carryover Storage Program

Request for Continuation of TSAWR

- Received letters requesting continuation of TSAWR
 - Agricultural member agencies (Fallbrook PUD, Rainbow MWD, Valley Center MWD, and Yuima MWD), Farm Bureau of San Diego County and California Avocado Commission
 - Concerns raised regarding viability of agricultural industry based on high cost of water
 - Request Water Authority expand dialogue to look more broadly at agricultural benefits based on changed conditions
- A&F Committee directed staff to provide follow-up in April
 - Overview SAWR Workgroup efforts and recommendations
 - Information on changed conditions since adoption of revised SAWR in March 2010

Estimated Percent Acres in IAWP and TSAWR to Total Acres Within San Diego County (2010) (Top Three Valued Crops by Major Categories)



Source: San Diego County 2010 Crop Report and Water Authority Member Agencies

SAWR Board Workgroup Efforts

Comprehensive Approach

- Formed to consider options after TSAWR terminates
- Held 10 meetings between July 2009 and March 2010
 - Included meetings with agricultural industry
- Established goals for potential new SAWR
 - Benefit both M&I and agricultural customers
 - Water management benefit for M&I
 - Offer stable/predictable program for farmers
- Conducted thorough analysis of options based on goals

Analysis: SAWR Supply Rate Differential

- Assumptions

- Five-year period with cutbacks in 2014 and 2015
- M&I cutbacks 10% and Agricultural cutbacks 30%
- Sensitivity analysis at various rate differentials

Estimated Unit Expense of Program Supplies based on Potential Rate Differential						
Rate Differential	\$20/AF	\$30/AF	\$40/AF	\$64/AF*	\$80/AF	\$100/AF
Unit Expense	\$1,040	\$1,169	\$1,298	\$1,590	\$1,813	\$2,071

*5-year average discount of existing program (2009)

- Estimated total transfer costs: \$750/AF - \$950/AF during five year period
 - Transfers more cost-effective alternative to securing dry-year supplies

Analysis: SAWR Storage Charge Exemption

- ESP event – 2-month analysis (2015)
- SAWR cutback at twice the level of regional M&I cutback
- Storage supplies “freed-up” from SAWR greater cutback allocated to commercial and industrial (C&I) customers
 - Achieve higher level of service

Classes of Service	Level of Service	Cutback Level
M&I	75%	25%
SAWR	50%	50%
C&I	87%	13%

- Beneficial to have shortage management option within region

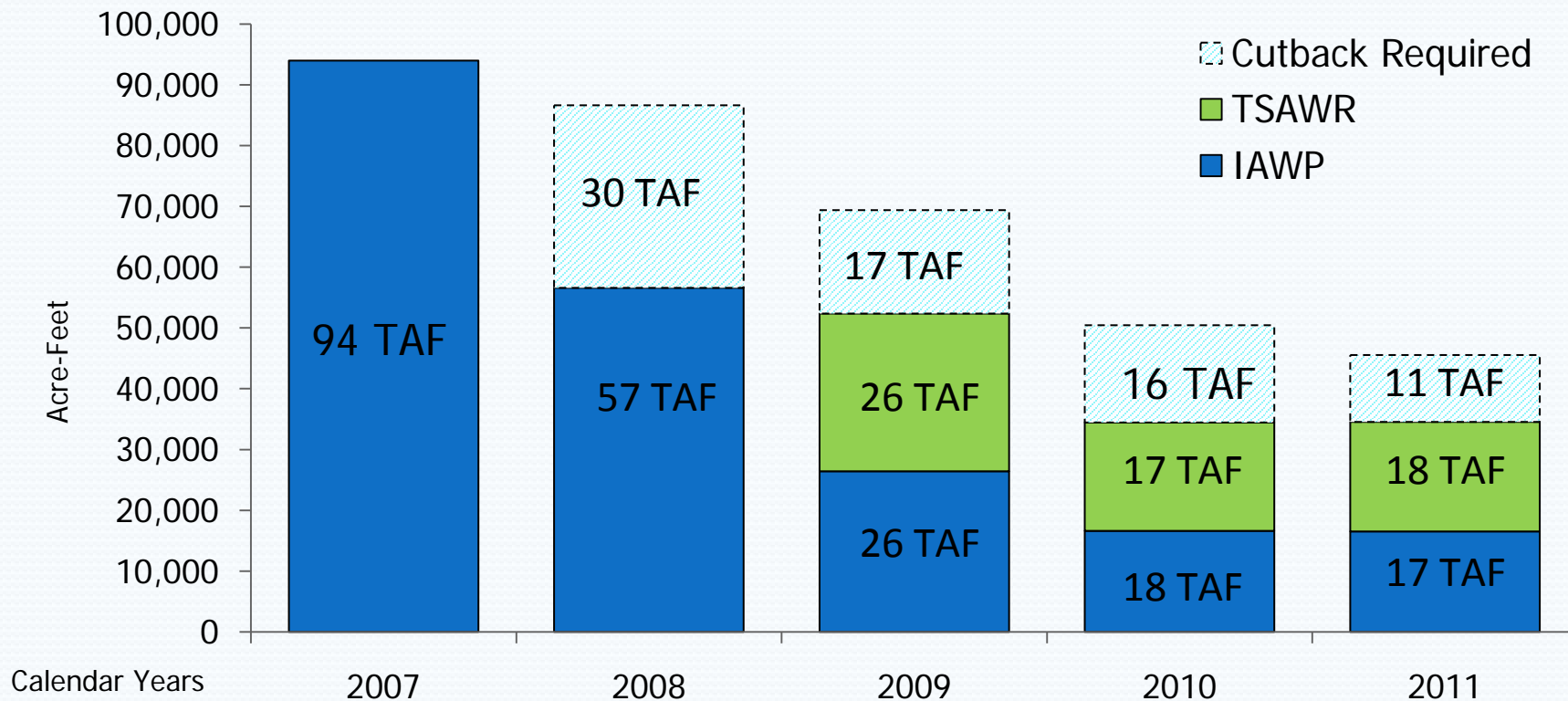
March 2010 – Board Approved Workgroup Recommendations on Revised SAWR

- Discontinue supply rate differential
 - Does not provide cost-competitive M&I water management benefit compared with other options (i.e., dry-year transfers)
- Maintain storage charge exemption
 - Reliability benefit makes this “insurance program” cost effective to M&I customers
- Revised program effective January 1, 2013
 - Would be reflected in Water Authority’s 2013 water rates

Changed Conditions Highlighted by Agricultural Community

- Rate shock due to termination of MWDs IAWP
- Blocked access to approximately \$2 million in funds in 2010 from MWD's Agricultural Conservation Program
 - Not available due to MWD rate integrity policy that eliminates access to funds due to rate litigation
- Greater public policy emphasis on climate benefits associated with tree crops that offset carbon emissions
- Results of 2011 Water Authority public opinion survey supporting local agricultural

Agricultural Program Deliveries: 63% Decline



IAWP Phase-out and TSAWR program began January 1, 2009

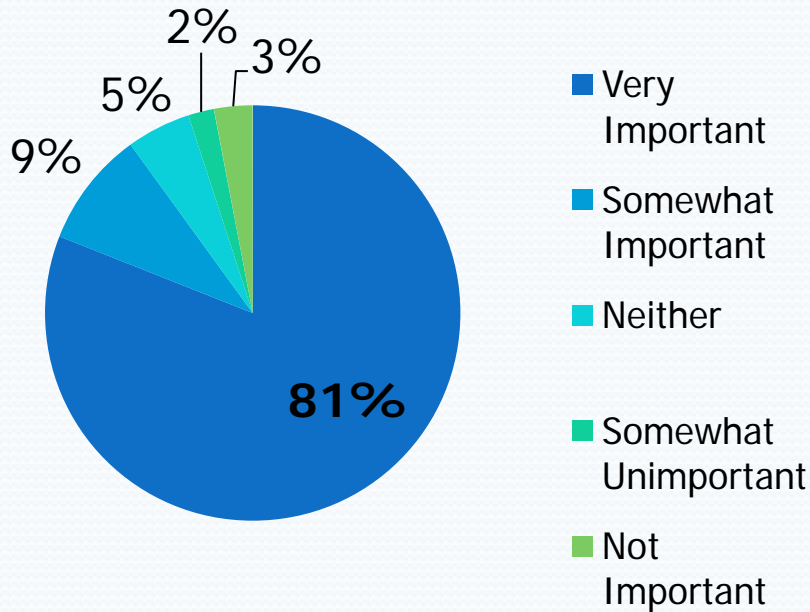
Class of Service	Cutback Levels (Calendar Year)				
	2007	2008	2009	2010	2011 ²
IAWP	0	30%	30%	25%	20%
TSAWR	0	0	13% ¹	13%	13%

¹TSAWR cutbacks scheduled on fiscal year basis. 13% cutback level began July 1, 2009

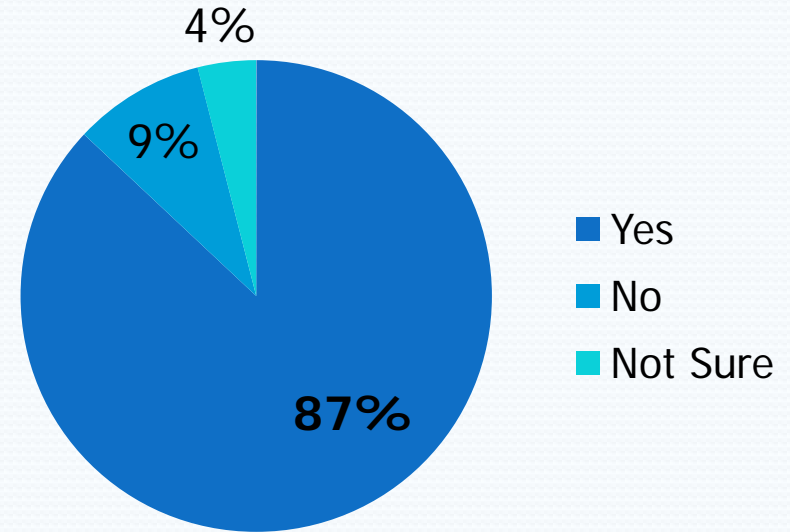
²Cutback terminated for both classes of service in April 2011.

Water Authority 2011 Public Opinion Survey

Importance of Local Farmers and Agricultural to San Diego Economy



Maintain Reduced Water Rates for Farmers and Agriculture



Changes in Total Agricultural Acres and Value (Source: San Diego County Crop Report)

Top Three Valued Crops by Major Categories	2008	2010	Change
Nursery & Flower			
Acres	10,670	12,606	18.1%
Value	\$1,042,703,756	\$1,107,558,336	6.2%
Fruit & Nut			
Acres	43,624	36,239	-16.9%
Value	\$239,810,088	\$261,399,642	9.0%
Vegetable			
Acres	7,228	6,303	-13%
Value	\$163,027,398	\$169,803,464	4%

Note: The Crop Report reflects gross values and does not represent net return to farmers nor multiplier effect on surrounding community

Avocado Acres and Value

Comparison between San Diego and Ventura Counties (Source: County Crop Reports)

	2008	2010	Change
San Diego County			
Acres	26,549	19,133	-28%
Value	\$144,694,905	\$147,051,864	2%
Ventura County			
Acres	17,608	18,916	7%
Value	\$63,376,000	\$148,343,000	134%

Estimated Cost Impact to M&I Customers

Estimated increase in regional storage unit cost, due to exempting agricultural deliveries from storage charge allocation:

TSAWR (CY 2012)	Revised SAWR (CY 2013)
\$15/AF	\$13/AF

Estimated unit cost associated with providing supply rate differential:

TSAWR (CY 2012)	Revised SAWR (CY 2013)	Continuation TSAWR (CY 2013)
\$9/AF	\$0/AF	\$10/AF - \$12/AF ¹

¹Equates to approximate 1 to 2 percent increase in the “all-in” M&I untreated rate. Range is provided because proposed CY 2013 rates had not been established.

Consistent with Cost-of-Service Principles and Proposition 26

- Consistent with cost-of-service principles
 - TSAWR reasonably allocates costs according to level of service received
- Proposition 26
 - Program adopted prior to enactment of Prop. 26 and no amendments to program are being proposed except extension of prior sunset date
 - Program based on cost-of-service principles

Provide Direction to Staff in Response to the Request to Sustain TSAWR

Alternative actions being provided for Board consideration:

1. Affirm the March 2010 Board action to implement the revised SAWR starting Jan 1, 2013
2. Extend the current TSAWR program for a specific time period (i.e. one year)
3. Reconvene workgroup to evaluate the Water Authority's SAWR