

Long Range Finance Plan 2010 Update

Rate Issues

October 4, 2010

Agenda

- Rate issues
 - Treated Water Peaking Charge
 - Growth Charge
 - Purchase Order
- Moving Forward

LRFP Rate Structure Workgroup

- Prior LRFP Rates Workgroup presentations are posted on MWD website
- Meetings during 2007-2008 used a structured process:
 - Background
 - Analysis
 - Impacts
 - Options-decisions
- Inform Board
- Unanimous consent not required; alternative views and perspectives adequately described and presented

Outstanding Rates Issues

- Treated Water Fixed Cost Recovery
 - Several workshops discussed the options regarding fixed costs and cost recovery
 - Possible outcomes:
 - “do nothing”
 - Recommend set of options or one option to the Board

Outstanding Rates Issues (cont'd)

- Growth-related Infrastructure cost recovery
 - Workshops on options, identification and ranking of criteria
 - White Paper discussing options and criteria
 - Possible outcomes:
 - “do nothing”
 - Recommend set of options or one option to the Board
- Purchase Order commitment

Treatment Cost Recovery

Water Treatment Plant Usage and Peaking

Calendar Year 2008 through Sep.27, 2010

Facility	Design Capacity (cfs)	Average Demand (cfs)	Peak Day average flow (cfs)	Capacity Factor	Peaking Factor
Diemer	803	421	779	52%	1.85
Jensen	1163	327	1,136	28%	3.47
Mills	505	106	283	21%	2.67
Skinner	930	291	840	31%	2.89
Weymouth	803	367	680	46%	1.85
Total	4,204				

Treatment Cost Drivers

- Major Treatment Capital Investments (e.g. ozone retrofit)
- Rising O&M costs
 - Chemicals
 - Electric Power

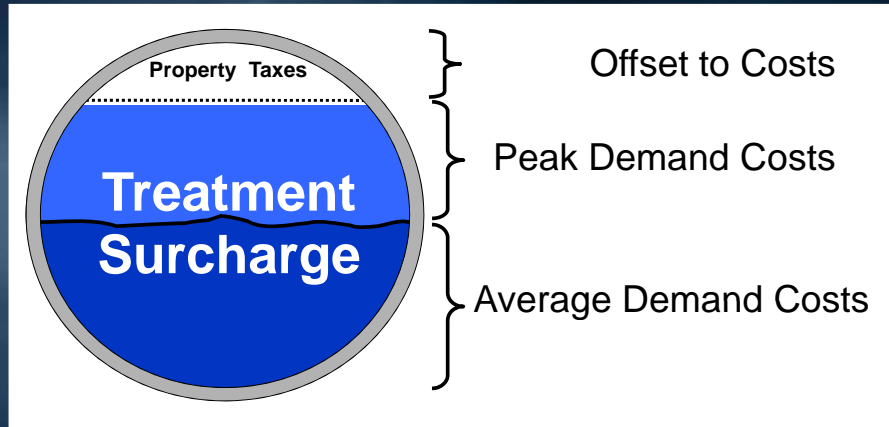
Treatment Peaks and Rate Equity

- Infrastructure must be designed to meet peak demand.
- Relying on MWD for peaking/standby capacity drives capital costs higher.
- Current rate structure recovers peaking costs uniformly through a volumetric charge paid by all member agencies.

Features of the Current Treatment Surcharge in 2011

- Uniform rate
- \$217/AF Full Service, \$205 /AF Agricultural, \$192/AF Replenishment
- Constant charge throughout the year (peaking cost impact not assessed)
- Treatment cost classifications*
 - Fixed Demand \$66.2M
 - Fixed Commodity \$153.2M
 - Variable Commodity \$31.5M

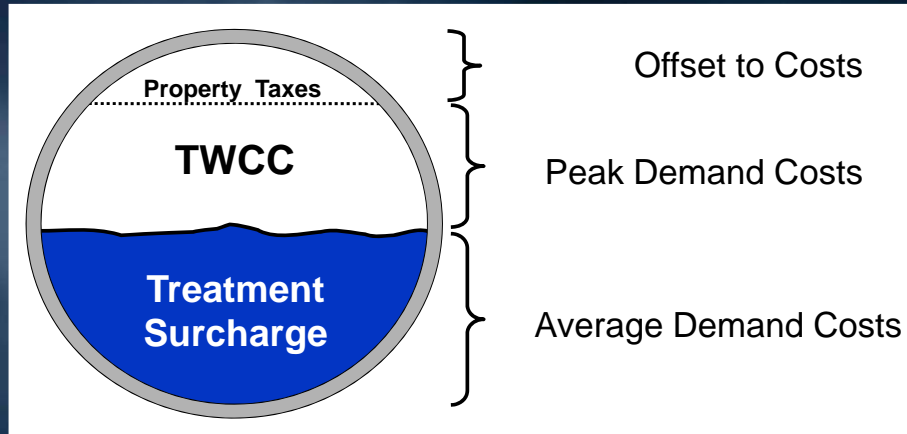
Recovery of Treatment Costs



Treated Water Cost Recovery Considerations

- Infrastructure must be built to accommodate peak demand.
- Higher peaks result in higher costs.
- These costs are currently shared by all users uniformly.
- Each user contributes differently to system peaks.
- A peaking/standby charge could impact monthly and seasonal bills.
- Equity principle implies that each member agency should pay costs of service.
- Charges should encourage more efficient use of system treatment resources.

Option 1: Treated Water Capacity Charge



TWCC Design

- Review historical usage patterns for each user.
- Determine three-year summer season peak day use.
- Calculate costs related to serving peak/standby demand.
- Develop a fixed capacity charge that will recover peaking/standby costs.
- Estimate the impact of new charges on member agencies.
- Phase in new charges as appropriate.

TWCC Design

- Revenue neutral for Metropolitan – does not result in additional revenues
- Based on a three-year trailing maximum peak day treated flow
- Calculated with a one-year lag to allow for certifications
- Volumetric Treatment Surcharge adjusted for reduced revenue requirement

TWCC Advantages/Disadvantages

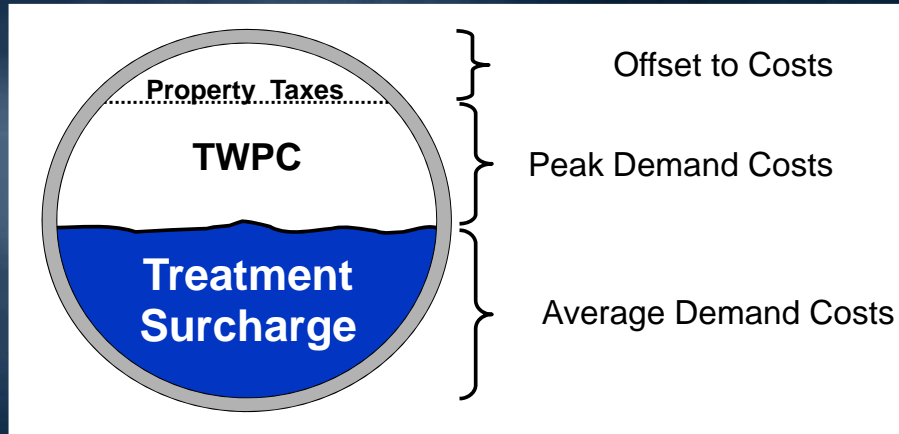
Advantages

- Patterned after the existing capacity charge.
- Better revenue stability to Metropolitan and cost predictability to Member Agencies.
- More equitably allocates costs of service.
- Sends a strong signal to manage peaks.
- No change to bundled/unbundled rate structure

Disadvantages

- Total treatment charge not influenced as strongly by short-term changes in demand.
- Substantial rate impacts on some member agencies.
- Agency concerns regarding 3-year look back.

Option 2: Treated Water Peaking Charge



CFO Group

October 4, 2010 17 17

Treated Water Peaking Charge Design

- Calculate costs related to serving peak/standby demand.
- Establish baseline for each Member Agency and calculate over-baseline amounts.
- Calculate system-wide volume rates for both average demand usage and peaking charge for peak demand usage.
- Estimate the impact of new charges on member agencies.
- Phase in new charges as appropriate.

CFO Group

October 4, 2010 18

TWPC Design

- Revenue neutral for Metropolitan – does not result in additional revenues
- Baseline calculation includes Basic, Agricultural, and CUP sales
 - Does not include Replenishment or Supplemental Storage Program
 - Based on three-year trailing average winter use
- Calculated with a one-year lag to allow for certifications
- Over Baseline calculated for May through September timeframe

Peaking Charge Advantages and Disadvantages

Advantages

- Sends a signal to manage summer peaks
- Only applies to the extent that members exceed baseline
- More equitably allocates costs of service

Disadvantages

- Substantial rate impacts on some member agencies
- More volatility to revenues
- Seasonality to Treatment Surcharge
- Affects some bundled rate structures

Treated Water Fixed Cost Recovery

MWD rate principles	Existing structure	Peaking Charge	TWCC
Fairness (equitable)	0	+	+
Provide stable revenues adequate to cover costs	0	0	+
Provides certainty and predictability	0	0	+
Provides a level economic playing field	0	+	+
Reasonably simple, understandable rate structure	+	+	+

Rating Key

0 Meets requirements

+ Exceeds requirements

- Does not meet requirements

CFO Group

October 4, 2010

21

Treated Water Fixed Cost Recovery (cont'd)

Other possible rate principles	Existing structure	Peaking Charge	TWCC
Treatment system reliability	0	+	+
Efficiency	-	+	+
Environmental stewardship	0	+	+
Defensibility	0	+	+
Consistent with industry practice and guidelines	0	0	0

Rating Key

0 Meets requirements

+ Exceeds requirements

- Does not meet requirements

CFO Group


October 4, 2010

22

Issues

- How to most appropriately allocate and recover fixed costs of treatment facilities
 - Volumetric recovery of all costs subsidizes intermittent use of capacity, particularly during summer season
 - Capacity of treatment plants “standing by” is not recovered through a fixed charge, like the RTS

Growth Cost Recovery



Why Consider a Growth Charge?

From October 16, 2001 Board Letter p.3

“Addressing New Demands. The Proposal addresses the impact of new demands on the cost of water supply through the tiered rate structure. Agencies that have increasing demands on Metropolitan would pay more, since they would purchase a greater share of the water sold at the higher Tier 2 rate. **In addition, the Proposal provides that a mechanism to recover costs for Metropolitan’s infrastructure associated with increasing system demands will be developed and in place by 2006.”** (Emphasis added)

CFO Group October 4, 2010 25

Background

- 1993 – Board approved rate structure including New Demand Charge (NDC)
 - NDC authorized in FY1995-96
 - Assessed if the Agency’s current four-year water sales average exceeded an established baseline
 - The first Member Agency to pay would have done so due solely to reduction in it’s groundwater supplies; not due to an increase in total demand

CFO Group October 4, 2010 26

Growth Charge evaluation criteria

Encourages Local Stewardship	Local agencies meet needs with local resources and infrastructure to the greatest extent possible
Local Agency Choice	Each agency has a choice in how it recovers the cost of growth-related infrastructure
Rate Equity and Price Signal	Allocate a proportionate share of additional costs to those agencies requiring additional system capacity
Metropolitan Administrative Burden	No excess burden on Metropolitan Staff
Member Agency Administrative Burden	No excess burden on Member Agency Staff
Legal Authority	Metropolitan should have the legal authority to assess the growth-related cost recovery mechanism
Cost of the Fee	Cost should not be less economical to the Member Agencies than if the Member Agency constructed the facilities needed to provide additional capacity itself
Ease of Update	Simple, predictable and not overly complicated to update
Public Understanding	Easily understood by Member Agencies, retail agencies and the public

Growth Charge evaluation criteria (cont'd)

Revenue Stability	Should not create more instability in Metropolitan's revenue stream and should help produce predictable rates for Member Agencies
Consistent with Metropolitan Philosophy	Consistent with prior principles, such as being a regional provider and encouraging projects that have regional benefits

Issues

- What is growth?
 - CIP drivers are Supply & Delivery Reliability, Infrastructure Reliability, Water Quality, Cost/Efficiency/Productivity, Stewardship,
- What is the nexus?
- How to collect?

Growth Related Cost Recovery Options

1. Status Quo
2. Negotiated Contracts
3. New Water Demands
4. Connection Fee Assessed at the Member Agency
5. Connection Fee Assessed at the Retail Level



Evaluation of Options

CRITERION	Status Quo	Negotiated Contracts	New Water Demands	Connection Fee Assessed at the Member Agency	Connection Fee Assessed at the Retail Level
Encourages Local Stewardship	+	+	+	--	--
Local Agency Choice	--	+	--	+	--
Rate Equity and Price Signal	--	+	+	+	+
Metropolitan Administrative Burden	+	--	+	--	--
Member Agency Administrative Burden	+	--	+	+	--
Ease of Update	+	--	+	+	+
Legal Authority	+	?	?	?	--
Public Understanding	+	?	--	+	+
Consistent with Metropolitan Philosophy	+	--	+	+	+
Revenue Stability	+	+	--	--	--

CFO Group

October 4, 2010

31

Purchase Order Commitment

- Commitment to cover Metropolitan's fixed costs while protecting regional reliability for all
 - Voluntary
 - Offered price incentives to member agencies by increasing the volume of water purchased at the lower-priced Tier 1 supply rate
 - Level of financial commitment to Metropolitan
 - Not tied to reliability

CFO Group

October 4, 2010

32

Purchase Order Commitment

- Existing purchase order expires Dec. 2012
 - Ten year term 2003-2012
 - Initial Base Demand is maximum firm demand, FY89/90 through FY01/02
 - PO commitment is 10 years x 60% x IBD
 - Base Firm Demand = Max (IBD, Ten-Year Rolling Average Firm Demands)
 - Tier 1 limit is 90% of BFD with PO, or 60% without
 - 1.95 MAF total member agency Tier 1 limit

Purchase Order Structure

- PO Commitments provided that member agencies are to inform Metropolitan by Dec.31, 2010 if they want to submit a new purchase order
- Current process to address

Purchase Order Structure

- If no PO Commitment, how does Metropolitan structure the Tier 1 limit?
 - Current Tier 2 price is based on the cost of transfers
 - In 2009, 84 TAF of Tier 2 sales
- If retain Purchase Orders, what should the structure be?
 - Status Quo
 - Limit aligned with WSAP 2004-2006 adjusted average retail demand
 - Recovery of Metropolitan's fixed costs in Tier 1

Discussion