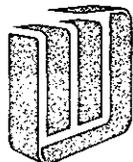


APPROVED
by the Board of Directors of
The Metropolitan Water District
of Southern California
at its meeting held

39420

JAN 14 1992

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

[Signature]
EXECUTIVE SECRETARY

December 30, 1991

To: Board of Directors (Water Problems Committee--Action)
(Finance and Insurance Committee--Information)

From: General Manager

Subject: Accounting for Disincentive Charges Under the Incremental
Interruption and Conservation Program (IICP)

Report

In Stages II through VI of the IICP a disincentive charge of twice the non-interruptible water rate is applied to a member agency that does not meet its obligation to maintain water deliveries below the scheduled firm quantity. The overuse penalties do not apply to the discretionary pool.

Currently, disincentive charges are levied against an agency in any month in which the agency's water usage exceeds its IICP target. However, agencies are allowed to offset overuse in one month by extra conservation in a succeeding month. This is done through an annual reconciliation process. The reconciliation process occurs at the end of each IICP water year (October 1 through September 30) or immediately following the Board's determination that Stage II through Stage VI are no longer in effect, whichever is earlier.

The monthly assessment of disincentive charges represents a considerable administrative burden for both Metropolitan and our member agencies. Further, when we are making deliveries to the discretionary pool and our one-time storage accounts as well as meeting member agencies' firm allocations, immediate determination of overuse of firm water is not possible. Recognizing this, your Board in November 1991 authorized a consolidation in monthly disincentive charges under the IICP for the months of October, November, and December until a reconciliation of firm water use is completed in January 1992.

We have been meeting with the member agencies and there is a consensus that continuing with a quarterly assessment of disincentive charges, rather than the previously used monthly, would simplify accounting under the IICP and still discourage the overuse of water compared to firm allocations. This recommendation would mean that

minor overuse in one month could be immediately offset in a subsequent or previous month in the quarter. The proposed accounting quarters would be:

1st Quarter - October, November, December

2nd Quarter - January, February, March

3rd Quarter - April, May, June

4th Quarter - July, August, September

About a month would be needed to calculate firm water use and make adjustments to firm targets so that penalty assessments, if any, would appear on the second month's bill after the end of each quarter.

We are working with the member agencies to provide them with up-to-date information on the status of their firm allocations and any adjustments. This and their own tracking of their water use means that there would be no surprises regarding overuse penalties at the end of each of the proposed quarters.

Board Committee Assignment

This letter is referred to:

The Water Problems Committee for action because of its authority to study, advise, and make recommendations for the sale and delivery of water for various uses pursuant to Section 2480 of Metropolitan's Administrative Code; and,

The Finance and Insurance Committee for information because of its jurisdiction over matters affecting revenues from the sale of water.

Recommendation

WATER PROBLEMS COMMITTEE FOR ACTION

It is recommended that the Board authorize quarterly assessments of disincentive charges under the Incremental Interruption and Conservation Program substantially along the terms outlined in this letter.


Carl Boronkay