**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

October 27, 1992

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

From: General Manager

Subject: Recommended Reclaimed Water Rate to Become Effective
 January 1, 1993

Report

Your Board adopted a reclaimed water rate of \$84 per acre-foot (AF) in 1983. The reclaimed water rate was set at \$60 less than the untreated noninterruptible rate, which was 58 percent of that rate. The reclaimed water rate has not changed in the past nine years and now represents only 31 percent of the untreated noninterruptible rate.

The reclaimed water rate directly affects only the first two projects in the Local Projects Program (LPP). These two projects, the South Laguna Reclamation Project and the Las Virgenes Reclamation Project, were approved by your Board prior to 1986 when Metropolitan adopted its current revised LPP. Under the LPP then in place, Metropolitan entered into agreements that provided capital funding in exchange for the yield of the projects. Metropolitan contributed \$2.555 million to the South Laguna Reclamation Project for an entitlement to 42,950 acre-feet of reclaimed water to be produced over 52 years and \$7.343 million to the Las Virgenes Reclamation Project for an entitlement to 54,000 acre-feet of reclaimed water to be produced over 23 years. In turn, Metropolitan sells the reclaimed water produced by these projects back to the South Coast Water District (SCWD) (through Coastal Municipal Water District), and Las Virgenes Municipal Water District (LVMWD) at the reclaimed water rate of \$84/AF. Thus, the reclaimed water rate provides a means by which agencies partially repay Metropolitan for its initial investment. To date, SCWD has paid Metropolitan about \$450,000 and LVMWD has paid about \$1,500,000.

In June 1986, SCWD and LVMWD requested that Metropolitan maintain a reclaimed water rate equivalent to 42 percent of the untreated noninterruptible water rate (i.e., 42 percent of \$197 = \$84). Since then the rate for

all other classes of water service has increased between 36 to 50 percent. In that light, it seems appropriate to increase the reclaimed water rate at this time to more accurately reflect Metropolitan's costs and to provide additional revenue to Metropolitan. Nonetheless, it is prudent to retain a substantial price differential to encourage the use of reclaimed water. It is therefore proposed that effective January 1993, the reclaimed water rate be increased to \$113/AF, which is 42 percent of the untreated noninterruptible water rate for fiscal year 1992-93. Future increases in the reclaimed water rate will be proposed as the untreated noninterruptible water rate changes. It is staff's intention to recommend increases in the reclaimed rate until it reaches \$200/AF.

In response to this proposal to increase the reclaimed water rate and to avoid future uncertainties due to reclaimed rate increases, SCWD and LVMWD have started discussions to "buy out" their existing obligations and terminate the agreements. Staff may come to your Board at a later date for authorization to accept negotiated buyout proposals.

As earlier stated, it is proposed that the reclaimed water rate be increased to \$113/AF. In order for your Board to consider the recommendation, it is necessary first to set a time at the Water Problems Committee's December meeting during which interested parties may present their views, and to give adequate notice to the public.

Board Committee Assignments

This letter is referred to:

The Water Problems Committee for action pursuant to its authority to determine the selling prices of water under Administrative Code Section 2481(c).

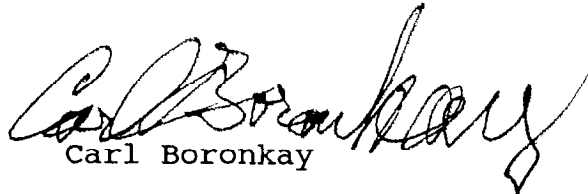
The Finance and Insurance Committee for information pursuant to its authority to determine revenues to be obtained through sales of water under Administrative Code Section 2441(e).

Recommendations

**WATER PROBLEMS COMMITTEE FOR ACTION AND FINANCE AND
INSURANCE COMMITTEE FOR INFORMATION.**

That at its November meeting, the Water Problems Committee set a time during the December meeting when

interested parties may present their views regarding the General Manager's recommendation that the reclaimed water rate for the balance of fiscal year 1992-93 be set by the Board at \$113 per acre-foot, and instruct the Executive Secretary to give notice to the public of the proposed change in rate.


Carl Boronkay

RM:bvf