

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

December 15, 1992

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

From: General Manager

Subject: Recommended Water Rates to Become Effective July 1, 1993

Report

Administrative Code Section 4304 (c) requires that the General Manager present to the Water Problems Committee recommendations for water rates for the next fiscal year based on the Finance and Insurance Committee's determination of required water revenues. By letter dated October 19, 1992, as revised November 20, 1992 and December 2, 1992, the General Manager presented his determination of the revenues to be derived from water sales during 1993-94 to the Finance and Insurance Committee for consideration. The Finance and Insurance Committee approved the General Manager's determination at its December 8, 1992 meeting and forwarded that determination to the Water Problems Committee.

The water revenue requirement for 1993-94 was determined to be \$765.1 million with the availability of \$50 million to be collected from a firm revenue source. With the use of \$88.8 million from the Water Rate Stabilization Fund to pay a portion of the projected 1993-94 costs, the net water revenue to be obtained from sales should not be less than \$676.3 million. The water rates recommended in this letter are sufficient to produce the required water revenue if sales reach 2.058 million acre-feet during 1993-94.

Water Demand and Supply

The sales projection of 2.058 million acre-feet is based on a forecast of regional water demands less local water production, imports from the Los Angeles Aqueduct, water conservation, and wastewater reclamation. The resulting sales forecast for Metropolitan is estimated at the 50 percent exceedence level, meaning that this is an average or mid-range projection. The water supply includes a full Colorado River Aqueduct of 1,250,000 acre-feet; a state project supply of 400,000 to 500,000 acre-feet plus dedicated MWD storage of 200,000 acre-feet in San Luis Reservoir;

and 100,000 to 200,000 acre-feet of Central Valley agricultural transfers, as necessary. If sales are lower or higher than 2.058 million acre-feet during 1993-94, reserve balances will be affected. Table 1 shows the effect on reserve balances of various levels of sales during 1993-94.

Water Rate Alternatives

In setting FY 93-94 rates, a choice must be made concerning the rate differential between non-interruptible service and seasonal storage service. In cost and revenue projections contained in earlier letters and reports, staff has maintained the existing differential of \$101 per acre-foot in order to create the least impact on the basic water rate. However, a number of member agencies have requested that the differential between seasonal storage and basic service be increased beyond the current level, to provide a stronger incentive for groundwater managers to invest in new recharge and production facilities. Last year, your Board increased the differential by \$9, from \$92 to \$101 per acre-foot. Some local managers are requesting a similar increase this year, from \$101 to \$110 per acre-foot. Accordingly, two alternate rate schedules are presented below for your Board's consideration, each capable of producing the sales revenue determined to be necessary by the Finance and Insurance Committee:

-Alternate A would maintain the current differential of \$101 per acre-foot. Seasonal storage service would be increased by \$57 from \$168 to \$225 per acre-foot, while non-interruptible untreated service would also be increased by \$57, from \$269 to \$326 per acre-foot.

-Alternate B would increase the differential to \$110 per acre-foot. Seasonal storage service would be increased by \$50 from \$168 to \$218 per acre-foot, while non-interruptible untreated water would be increased by \$59, from \$269 to \$328 per acre-foot.

Table 2 compares the rate schedule for FY 93-94 under Alternatives A and B. Table 3 compares FY 92-93 with FY 93-94 rates under Alternate A, while Table 4 compares FY 92-93 with FY 93-94 rates under Alternative B.

From a financial standpoint, either alternative will meet the District's revenue needs. From a resources management standpoint, Alternative B would be the preferred choice.

Groundwater represents a potential source of additional water production in the event of continuing drought, or shortages caused by environmental law and administrative decisions. State project operating restrictions proposed by SWRCB Decision 1630 and the federal Endangered Species Act appear at this time to justify the increased economic incentive for groundwater investment under Alternative B.

Treatment Surcharge

Due to increasing capital and O&M costs of water treatment associated mainly with the expansions of the Jensen, Skinner, and Mills Filtration Plants, it will be necessary to increase the surcharge for water treatment by \$14 per acre-foot, from \$53 per acre-foot to \$67 per acre-foot. This assumes a treatment surcharge of \$45 per acre-foot for seasonal storage water. The projected increase in the treatment surcharge is consistent with the Board's policy that all costs pertaining to the treatment of water be recovered through the treatment surcharge.

Reclaimed and Emergency Rates

The reclaimed water rate will increase from \$84 per acre-foot to \$113 per acre-foot on April 1, 1993 as approved by your Board at its December 1992 meeting. The emergency water rate will continue to be triple the untreated noninterruptible rate.

Board Committee Assignments

This letter was referred to:

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).

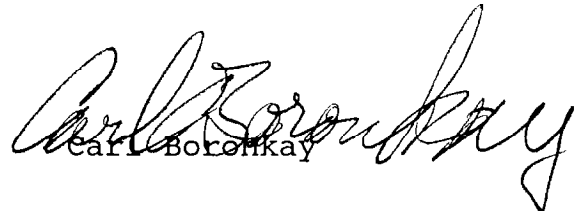
The Water Problems Committee for action pursuant to its authority to determine the selling prices of water under Administrative Code Section 2481 (c).

Recommendation

That the Water Problems Committee set a time for a meeting of the Committee at which interested parties may present their views regarding the General Manager's recommendation that the water rates for fiscal year 1993-94 be set by the Board according to Alternative B as follows:

<u>Class of Service</u>	<u>Rates in Dollars per Acre-Foot</u>
Noninterruptible	
Untreated	328
Treated	395
Emergency Water	
Untreated	984
Treated	1,051
Reclaimed Water	113 *
Seasonal Storage	
Untreated	218
Treated	263

* Rate approved on December 8, 1992, to be effective April 1, 1993.



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Attachments

TABLE 1

IMPACT OF VARIOUS SALES PROJECTIONS
ON RESERVE BALANCES
FISCAL YEAR 1993-94

<u>Sales in MAF</u>	<u>Adjustment *</u> <u>in Reserves</u>
1.7 MAF	(\$117.7 M)
1.8 MAF	(\$ 84.8 M)
1.9 MAF	(\$ 51.9 M)
2.058 MAF (1)	-0-
2.1 MAF	\$ 13.9 M
2.2 MAF	\$ 46.6 M
2.3 MAF	\$ 79.7 M

* Assumes noninterruptible untreated rate increase of \$59 per acre-foot. The seasonal storage rate is calculated using a differential of \$110 per acre-foot from the noninterruptible untreated rate.

(1) Sales assumption used in this letter.

TABLE 2

ALTERNATIVE WATER RATES FOR 1993-94

	Alternative A \$101/AF Seasonal <u>Storage Differential</u>	Alternative B \$110/AF Seasonal <u>Storage Differential</u>
Noninterruptible		
Untreated	326	328
Treated	392	395
Emergency Water		
Untreated	978	984
Treated	1,044	1,051
Reclaimed Water	113 *	113 *
Seasonal Storage		
Untreated	225	218
Treated	273	263

* Rate approved on December 8, 1992, to be effective April 1, 1993.

TABLE 3

COMPARISON OF WATER RATES
 UNDER ALTERNATIVE A
 1992-93 VS. 1993-94
 (Rates in \$ Per Acre-Foot)

	<u>Current</u>	<u>Alternative A</u>	<u>Difference</u>
Noninterruptible			
Untreated	269	326	57
Treated	322	392	70
Emergency Water			
Untreated	807	978	171
Treated	860	1,044	184
Reclaimed Water	84	113 *	29
Seasonal Storage			
Untreated	168	225	57
Treated	203	273	70

* Rate approved on December 8, 1992, to be effective April 1, 1993.

TABLE 4

COMPARISON OF WATER RATES
 UNDER ALTERNATIVE B
 1992-93 VS. 1993-94
 (Rates in \$ Per Acre-Foot)

	<u>Current</u>	<u>Alternative B</u>	<u>Difference</u>
Noninterruptible			
Untreated	269	328	59
Treated	322	395	73
Emergency Water			
Untreated	807	984	177
Treated	860	1,051	191
Reclaimed Water	84	113 *	29
Seasonal Storage			
Untreated	168	218	50
Treated	203	263	60

* Rate approved on December 8, 1992, to be effective April 1, 1993.