

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

June 29, 1993

To: Board of Directors (Special Committee on Financial Policy--Information)
(Finance and Insurance Committee--Information)
(Water Problems Committee--Information)

From: General Manager

Subject: Status of Financial Structure Study

Report

Since the inception of the Financial Structure Study, staff has been working with the Special Committee on Financial Policy (Committee) and member agency managers to develop a water rate structure and additional revenue sources that will provide for stable and equitable water rates while retaining water operating flexibility and resource management incentives. As of this date, the Committee has met five times and reviewed four of the water rate structures and three of the additional revenue sources selected for consideration. Attached is a chart of the status of the evaluation of the water rate structures and additional revenue sources that were chosen for analysis.

The four water rate structures reviewed to date are base-extra, commodity-demand, inclining block (no net gain/marginal cost), and zone of benefits. The Committee has reviewed and determined that base-extra, commodity-demand, and zone of benefits are not viable options for Metropolitan. Three other rate structures, pre-order/demand, basic/seasonal storage, and winter/summer are still to be reviewed.

Additional revenue sources are also being considered as part of the study. These include a peaking charge, readiness-to-serve charge, capacity charge, standby charge, increased property taxes, and incremental cost pricing annexation fee. There appears to be member agency support, in concept, for a capacity charge and peaking charge. The specific level of these potential charges remains to be determined however.

Staff has also met with the member agency managers regarding the Financial Structure Study. A working team of member agency managers/staff has been formed to review and analyze the rate structures and additional revenue sources.

This team had its first meeting in June where it gave its preference on how it would like to see a peaking charge and readiness-to-serve charge structured. Staff is currently analyzing data based on these preferences for presentation to the team and the Committee at their meetings in July.

The Financial Structure Study is midway to completion. Staff will present the remaining water rate structure alternatives and additional revenue sources to the Committee in July and August. From these alternatives, the Committee will be asked to determine those alternatives that are viable for further refinement. These refined alternatives will be presented for review to the Committee in October and will be presented to the Board for consideration in December. It is staff and the Committee's objective to recommend a structure that is sufficiently flexible to accommodate future strategic decisions.

Board Committee Assignments

This letter is referred for information to:

The Special Committee on Financial Policy pursuant to its authority to study and make recommendations with regard to alternative rate structures and revenue sources;

The Finance and Insurance Committee pursuant to its authority to determine revenues to be obtained through sales of water, water standby or availability of service charges, and the levying of taxes; and

The Water Problems Committee pursuant to its authority to study, revise, and make recommendations with regard to the selling prices of water and conditions governing sales and exchanges of water.

Recommendation

For information only.


for General Manager

NT:bvf

Attachment

STATUS OF RATE STRUCTURE ANALYSIS

Revenue Sources/ Rate Structure	Review Status			Nature of Revenue*
	Complete	Carry	Reject	
Base-Extra	X		X	V
Commodity-Demand	X		X	V
Inclining Block (No Net Gain/Marginal Cost)	X	X		V
Pre-Order Demand				V
Zone of Benefits	X		X	V
Basic/Seasonal				V
Winter/Summer				V
Peaking Charge				F/V
Ready-to-serve Charge				F/V
Capacity Charge				F
Standby Charge				F
Increased Property Taxes				V
Incremental Cost Pricing Annexation Fee				V

* F = Fixed

V = Variable