

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

August 30, 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 the Financial Structure Study

The goal of the Financial Structure Study (Study) is to develop a water rate structure and additional revenue sources that will provide stable and equitable water rates while retaining operating flexibility and water resource management incentives. Staff has been working closely with the Special Committee on Financial Policy and a working team of member agency managers to narrow the alternatives and focus on a financial structure for implementation in fiscal year 1994-95. In addition, the Blue Ribbon Subcommittee on Integrated Resources Plan, Rate Structure, and Long Term Revenue has been briefed on the Study. Attached is a table of the status of the evaluation process.

Since the last update to your Board in July, the pre-order/demand and winter/summer rate structures were removed from consideration. Our current basic/seasonal storage rate structure was retained for further analysis. Refinement as to how the alternative revenue sources would be applied and how much revenue they would generate is underway. The next step in the Study will be to develop a short list of approaches that combine a particular rate structure with one or more additional revenue sources. These refined alternatives will be presented for review by the Committee in October and will be presented to the Board for consideration in December.

A panel of national experts, specializing in water rate design and analysis, was convened in August to review Metropolitan's methodology and recommend any improvements in the process to assure that the resulting rate structure and revenues are reasonable, defensible, and legal. In general, the experts felt that staff was proceeding properly, and they offered some suggestions for further consideration. The experts were supportive of the alternative revenue sources being considered. The panel will be providing written comments on our methodologies and will assist staff in refining the alternatives.

August 30, 1993

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.



John R. Wodraska

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Attachment

Status of the Financial Structure Study

| <u>Rate Structures</u>                             | <u>Review Status</u> |              |               | <u>Fixed (F)<br/>or<br/>Variable (V)<br/>Revenues</u> |
|--|----------------------|--------------|---------------|---|
|  | <u>Complete</u>      | <u>Carry</u> | <u>Reject</u> |   |
| Base-Extra   | X                    |              | X             | V   |
| Commodity-Demand                                   | X                    |              | X             | V   |
| Inclining Block<br>(No Net Gain/<br>Marginal Cost) | X                    | X            |               | V   |
| Pre-Order Demand                                   | X                    |              | X             | V   |
| Zone of Benefits                                   | X                    |              | X             | V   |
| Basic/Seasonal                                     | X                    | X            |               | V   |
| Winter/Summer                                      | X                    |              | X             | V   |
| <u>Additional Revenues Sources</u>                 |                      |              |               |   |
| Peaking Charge                                     | X                    | X            |               | F/V   |
| Ready-to-serve Charge                              | X                    | X            |               | F/V   |
| Capacity Charge                                    | X                    | X            |               | F   |
| Standby Charge                                     |                      | X            |               | F   |
| Increased Property Taxes                           | X                    | X            |               | V   |
| Incremental Cost Pricing                           | X                    | X            |               | V   |
| Annexation Fee                                     |                      |              |               |   |

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