**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

FINAL

September 28, 1993

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

From: General Manager

Subject: Financial Structure Study Alternatives

The goal of the Financial Structure Study is to develop recommendations for changes or modifications to Metropolitan's water rate structure and additional revenue sources to achieve the Board's broad objectives established in the February 23, 1993 board letter and summarized in Attachment 1. These objectives include issues of growth paying its fair share, enhanced operating flexibility, and water resource management incentives. Staff has been working with the Special Committee on Financial Policy and a Working Team of Member Agency Managers and/or their assistants to refine options for full Board consideration in December 1993 and implementation in fiscal year 1994-95.

A set of eleven revenue alternatives has been developed for consideration by the Special Committee and the Working Team. Attachment 2 describes the revenue methods and Table 1 lists the revenues generated by each alternative. These alternatives assume that Metropolitan continues with the current basic and seasonal storage rate structure. The seasonal storage rate structure will be further analyzed after completion of the Financial Structure Study.

The first alternative represents no change in Metropolitan's methods of collecting the revenue requirements. The other ten methods offer a variety of alternative revenue methods with resulting effects in the base rate and treatment surcharge for fiscal year 1994-95.

The alternatives are permutations of the following six charges:

- Taxes--Maintain the current level or increase to the maximum allowed under the Metropolitan Act.
- Standby Charge--Maintain the standby charge at its present level or eliminate the standby charge and incorporate the foregone revenue into the

Readiness-to-Serve charge. Counsel has indicated that Metropolitan cannot have both a standby charge and a Readiness-to-Serve charge.

- Treated Peaking Charge--Provide a treated water peaking charge to reflect the cost of peaking on Metropolitan's system. These revenues would help offset required increases in the treatment surcharge.
- Connection Maintenance Charge--Implement a charge per connection to cover maintenance costs. This revenue would be used to reduce necessary increases in the water rate.
- Readiness-to-Serve Charge--Implement this charge to substitute for a standby charge and to recover enough revenue to eliminate a water base rate increase.
- Capacity Acquisition (or growth) Charge--Provide a charge to generate revenues to fund the costs associated with the portion of the capital improvement program designed to accommodate new users. This charge is recommended for all alternatives to address the objective of growth paying its fair share. But, the amount generated through such a charge is unknown at this time, since it is dependent on new growth.

It is estimated that a base rate increase of \$27 per acre-foot (AF) and a treatment surcharge increase of \$10 per AF would be necessary in fiscal year 1994-95, if no new additional revenue alternatives were implemented. If revenue alternatives such as a treated peaking charge, connection maintenance charge, readiness-to-serve charge, and a capacity acquisition charge were in place (Alternative K), then water rate increases would be avoided, although payments to Metropolitan will still be increased by about 8 percent. The specific impacts of these charges on each member agency is currently being determined.

~~It is envisioned that the Special Committee will narrow these eleven alternatives to about four or five scenarios at their October 5 meeting.~~ At the October 5 meeting of the Special Committee, the Member Agency Workgroup draft recommendations for rate and revenue options were presented. The key options supported by this informal group are described in Attachment 3. Because there is no consensus on the inclusion of a standby charge, the workgroup suggests two options: 1) Alternative A assumes the standby charge will be dropped in favor of a Readiness-to-Serve charge immediately;

and 2) Alternative B maintains the standby charge and a connection maintenance charge until fiscal year 1997/98 at which time a Readiness-to-Serve charge is implemented instead.

As a result of the discussion at the Special Committee meeting, staff was directed to consider the following alternatives:

- . Member Agency Alternative A;
- . Member Agency Alternative B;
- . An alternative which includes the standby charge with a treated peaking charge, connection maintenance charge, and a capacity acquisition charge (Alternative H);
- . A version of Alternative K that includes increased taxes, no standby charge, a treated peaking charge, a connection maintenance charge, a Readiness-to-Serve charge, and a capacity acquisition charge; and
- . A version of Alternative K with an alternative method which staff is developing for calculating the Readiness-to-Serve charge.

Staff will be meeting with the Member Agency Managers on October 12, following your Board meeting, to work out the differences between the workgroup proposals and staff's alternatives.

A green draft Board letter with the recommended scenarios will be submitted to your Board in November. Chart 1 shows a schedule of the Financial Structure Study Work Plan.

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;

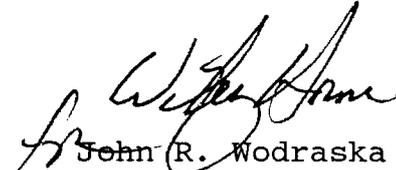
The Finance and Insurance Committee pursuant to its authority to determine revenues to be obtained through sales of water, water standby or availability of service charges, and the levying of taxes; and

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

JMB:vb

Attachment

ATTACHMENT 1

Financial Structure Study Objectives

The following set of objectives were adopted for the Financial Structure Study. These objectives are not listed in order of importance.

- Reliably generate needed revenue requirements. The water rate should generate total revenue requirements less receipts from interest, power recovery, taxes, and other revenue including revenue from parcel charges or service charges.
- Provide revenue stability from year to year. The water rate structure must provide a substantial base amount of assured revenue each year.
- Incorporate in revenue requirement determinations provisions for growth to pay its fair share. The water revenue determinations should recognize the additional costs of growth on Metropolitan's system.
- Maintain Metropolitan's and member agencies' strong financial ratings. The water rate structure should not negatively impact the borrowing capability of Metropolitan and its member agencies.
- Minimize rate shock. The water rate structure and reserves should be set up so that the amount of change in water rates each year follows a relatively even progression.
- Simple to administer, easy to implement. It should take a minimum amount of administration to calculate and bill water deliveries. The transition from the current rate structure to the new rate structure should take a minimum amount of effort.
- Provide equity in rates for classes of service to member public agencies. The water rate structure should provide equal rates for the same class of service to all agencies.
- Provide system operating flexibility. The rate structure should encourage efficient use of the

distribution system so that peaking on Metropolitan is discouraged and the capture of available water is maximized.

- Provide regional water resource management incentives.
The water rate structure should stimulate member and local agencies to increase the use of regional water resources particularly during droughts.
- Lend itself to a conservation plan if necessary.
The water rate structure should be easily convertible to a conservation plan and not conflict in any way with that plan.
- Encourage water conservation. Rates should be structured in such a way that they encourage the conservation of water.

ATTACHMENT 2

DEFINITION OF REVENUE ALTERNATIVES

Water Revenue - Base - Amount of money projected to be received from water sales net of treatment surcharge revenue.

Treatment Surcharge Revenue - Amount of money projected to be received from the water treatment surcharge.

Taxes - Amount of money projected to be received from ad valorem property taxes.

Interest - Revenues received from investments.

Standby Charge - Revenues received from a charge placed on an individual parcel of land in Metropolitan's service area, calculated per acre or per parcel, if less than one acre.

Power & Miscellaneous - Revenues received by the generation and sale of hydropower and other sources such as lease income and sales of surplus property.

Treated Peaking - Revenues received from a charge placed on peak week treated flow in the summer (May through September) in excess of annual average week treated flow by agency. Seasonal deliveries are not included in the flows. The

charge is based on the cost of facilities needed to meet the peak.

In equation form:

$$\frac{\text{Summer Peak Week Flow} - \text{Annual Average Week Flow}}{\text{CFS of Peaking}} =$$

$$\text{CFS of Peaking} * \text{Rate/CFS} = \text{Treated Peaking Revenues}$$

Connection Maintenance Charge - Revenues received from a charge placed on a connection to pay for the costs of operating and maintaining that connection, irrespective of the size and use of the connection. In equation form:

$$\frac{\text{Total O\&M Costs to Maintain Connections}}{\text{Number of Connections}} = \text{Charge per Connection}$$

Readiness-to-Serve Charge - Revenues received from a charge placed on historical water usage less seasonal storage service (SSS) deliveries. The revenues generated would be allocated to a portion of the revenue debt service that is needed to provide for the existing user's reliability. The water usage would be calculated by averaging the total water sales by agency less SSS for the four years beginning fiscal year 1989-90. Short-Term

Seasonal Storage would ultimately be included in the water usage. In equation form:

$$(FY\ 1989-90\ Sales\ less\ SSS + FY\ 1990-91\ Sales\ less\ SSS + FY\ 1991-92\ Sales\ less\ SSS + FY\ 1992-93\ Sales\ less\ SSS) / 4 = Annual\ Average\ Water\ Deliveries$$
$$\frac{RTS\ Revenue\ Requirements}{Annual\ Average\ Water\ Deliveries} = RTS\ per\ AF$$
$$RTS\ Per\ AF * Agency's\ Annual\ Average\ Water\ Deliveries = Agency's\ Total\ RTS\ Charge$$

The charge is levied by agency based on the average prior four year water sales.

Capacity Acquisition Charge - Revenues received from a charge placed on water usage above historical water usage. The revenues generated would be used to pay for the growth portion of the CIP. The water usage for the base comparison would be calculated by averaging the total water sales less SSS for the four years beginning fiscal year 1989-90. A rolling historic four year average would be compared to the base amount. Any volume of water from the rolling average that is above the base amount would pay a Capacity Acquisition Charge. Short-Term Seasonal Storage would ultimately be included in the water usage. The amount to be charged for each acre-foot of water used above the highest historic four year average (base amount)

would equal the dollar amount to develop an extra foot of water for household consumption. This amount in equation form:

$$\text{(FY 1989-90 Sales less SSS + FY 1990-91 Sales less SSS + FY 1991-92 Sales less SSS + FY 1992-93 Sales less SSS)}/4 = \text{Annual Average Water Deliveries in AF}$$
$$\text{((FY 1990-91 Sales less SSS + FY 1991-92 Sales less SSS + FY 1992-93 Sales less SSS + FY 1993-94)}/4 - \text{Base Annual Average Water Deliveries}) * \text{CAC/AF} = \text{CAC Revenues}$$

Once an agency exceeds its highest historic four year average, then that new four year average becomes its base.

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September 30, 1993

Wayne T. McMurray
Chairman, Financial Planning Subcommittee
Metropolitan Water District
of Southern California
1111 Sunset Boulevard
Los Angeles, CA 90027

Dear Mr. McMurray:

**SUBJECT: Member Agency Workgroup Draft Recommendations
For Rate and Revenue Options**

This letter summarizes key issues identified by the informal member agency workgroup and provides options for further consideration and review by the Subcommittee and staff.

Key Issues:

1. **Firm Revenue/Revenue Diversity:** We support efforts to move towards greater revenue diversity and believe that this will achieve the two-fold objective of contributing towards the financial stability of Met, while providing for greater equity among member agencies through the allocation of the specific costs for the capital improvement program, operations and water management programs among beneficiaries. We also believe Met staff has significantly understated the amount of firm revenue currently being collected. Based upon a "minimum drought sales" concept (i.e. even in the most severe near-term shortage situations, Met will have 1.4 maf in firm sales), about 40-50% of Met's revenue is firm, rather than 20% as frequently reported by staff. Therefore, less of a shift to firm revenue sources is required to meet Met's revenue stability objectives.
2. **Peaking:** All member agencies clearly understand the need to control peaking because of its direct relationship to current and future capital improvement costs. However, a "peaking charge" as an on-going firm revenue source is inappropriate because, as proposed, it would continue to be assessed even after the undesirable peaking behavior had been changed. In addition, Met staff has not established an

operational peaking target (i.e. perhaps peak hour should not exceed 120% of peak week, as an example) whereby extraordinary capital improvements related to peaking above that level become necessary.

The consensus of the workgroup is that a revenue-neutral peaking management program should be established which:

- a. Defines an operational peaking target, and
- b. Assesses a unit peaking charge against those agencies exceeding the target, with revenue collected being exclusively used to assist the violating agencies to build regulatory storage and/or change operational schedules who commit to meet the target within an established timeframe. Charges collected from those agencies that continued to peak and did not participate in program would be deposited in Met's rate stabilization fund.

Such an approach could avoid unneeded capital improvements by more cost effectively solving the issue at the member agency level. In addition, as peaking targets are met, this management program would phase down and could be terminated or placed on standby.

3. **Standby Charges:** This is the most controversial issue among the workgroup. Some agencies support the standby charge because of its' current status as a stable, reliable revenue source that provides the only method to assess undeveloped land. Others oppose the charge because of its perceived unfairness to developed areas, and its competition with local standby charges. All agree that there is a potential legislative risk of continuing the Met standby charge into perpetuity, and that it someday may be lost as a viable firm revenue option. Finally, all agree that if the standby charge was eliminated, that it must be immediately replaced with a fixed revenue source of an equivalent or greater magnitude. Replacement options could include a Readiness-to-Serve charge including a Connection Maintenance component, combined with an increase in property taxes to Met's currently authorized maximum.
4. **Reevaluation of the CIP:** Although the rate and revenue options presented on the attached tables assume that these requirements must be reevaluated through: a reasonable deferral or downsizing of capital projects combined with increased implementation of local resource development, "bridge" financing techniques and reconsideration of very conservative pay-as-you-go policies, or combinations of the above. Therefore, although forecasts

provided on the attached tables show the revenue requirements established by Met staff, inclusion of these figures is by no means a buy-in to the amounts shown. This issue must be effectively resolved through such efforts as the Integrated Resource Plan, and a harder look at financing policies.

Specific Rate and Revenue Options:

The attached tables provide a summary of two rate and revenue options which meet the revenue requirements outlined by the staff and indicate a potential structure for the next six years. Because there is no consensus on the inclusion of a standby charge, Alternate "A" offers a rate and revenue mix which assumes the standby charge will be dropped in favor of a Readiness-to-Serve charge immediately, while Alternate "B" maintains the standby charge and a connection maintenance charge until 1997/98, at which time a Readiness-to-Serve charge is implemented as the alternative to these two charges. In addition, a hybrid alternative which phases down the standby fee while concurrently phasing in the Readiness-to-Serve charge could also be considered, if feasible.

A brief description of the recommended rates and revenue sources under both options is as follows:

1. **Basic/Seasonal Rates:** Identical to the current rate structure, except that there would be two seasonal rates. One seasonal rate for summer to winter short term "shift" deliveries which is based on the savings to Met of curtailing seasonal peaking while providing the necessary incentive to assure the construction and maintenance of groundwater extraction facilities, and a second seasonal rate for long term carry-over storage which recognizes the benefits to the Met service area in terms of groundwater conjunctive use for drought protection.
2. **Standby Charge:** Raises \$50 million in firm revenue under the currently established format (Alternate "B" proposal only).
3. **Property Taxes:** Taxes should be increased to the full \$105 million that Met has authority to levy. This would be implemented immediately upon termination of the standby charge in both scenarios.
4. **Capacity Acquisition Charge:** Based upon increases in annual acre-foot water use, including seasonal storage deliveries and excluding LPP deliveries, compared to a four or five year rolling average beginning in fiscal year 1988-89 or 1989-90. Once the agency exceeds its initial base-period amount, it would pay the fee, and the higher average becomes the new base. The member agency payments for each growth increment would be paid over a period of five years. This is a variable revenue source that assesses new growth.

Mr. Wayne McMurray
September 30, 1993
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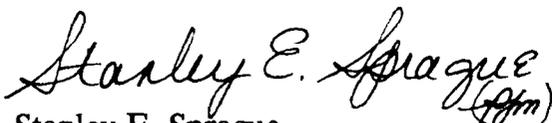
5. **Readiness-to-Serve Charge:** Would only be implemented in the absence of a standby charge, and would be based upon total annual acre foot water sales, including seasonal storage, over a four year rolling average beginning in fiscal year 1989-90.

Under the Alternate "A" proposal, the Readiness-to-Serve charge would include a connection maintenance charge component (see below), which when added together would raise \$50 million in revenue for CIP reliability improvements and connection maintenance. This would replace the standby charge under both options.

6. **Connection Maintenance Charge:** This charge is to recover a portion of Met's costs for maintaining turnouts, and would be \$50/CFS/month of connected capacity, with a \$5000/month per turnout maximum (100 CFS). Under the Alternate "B" proposal, this charge would be implemented while the stand-by charge was still in place, and would then be combined with the Readiness-to-Serve charge when it replaced the standby charge.
7. **Peaking Management Program:** This would not be a revenue source but rather a revenue neutral program which would assess member agencies exceeding Met's peaking requirements, then use that revenue to assist those agencies in changing operations to meet peaking needs. The program would be developed and implemented in approximately three years, which would provide enough lead time for agencies to change their operations voluntarily prior to being assessed.

The undersigned agency, as a member of the workgroup, acknowledges that these are staff proposed options and that by signing the attached letter **no official endorsement** from the Board of Directors of the agency (particularly on the standby charge) is intended. In addition, this letter does not represent a specific endorsement of either option by individual members of the workgroup, rather, these are offered as a set of narrowed and refined options for further consideration by the staff and Financial Planning Committee.

Sincerely,



Stanley E. Sprague
General Manager

PJ/pjm

Metropolitan Financial Structure Study
Alternate "A" - Metropolitan Member Agencies Work Group - September 30, 1993
(Variation of Met Staff Proposal F)

Element (1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Basic/Seasonal Service	\$701 m \$353/af	\$734 m \$358/af	\$827 m \$396/af	\$910 m \$394/af	\$984 m \$422/af	\$1161 m \$491/af
Readiness-to-serve Charge	\$50 m	\$60 m	\$70 m	\$80 m	\$95 m	\$115 m
Capacity Acquisition Charge	\$0	\$5 m	\$10 m	\$15 m	\$20 m	\$25 m
Standby Charge	\$0	\$0	\$0	\$0	\$0	\$0
Property Taxes	\$105 m					
Peaking Management Program	\$0	\$0	\$0	\$0	\$0	\$0
Miscellaneous	\$44 m	\$46 m	\$48 m	\$50 m	\$52 m	\$54 m
Total Revenue Requirement	\$900 m	\$950 m	\$1060 m	\$ 1160 m	\$1256 m	\$1460 m
Fixed vs Variable (2)	56%F 44%V (22%F 78%V)	53%F 47%V (22%F 78%V)	52%F 48%V (21%F 79%V)	52%F 48%V (20%F 80%V)	52%F 48%V (20%F 80%V)	51%F 49%V (19%F 81%V)
"Effective" Water Rate (3)	\$378/af	\$387/af	\$429/af	\$429/af	\$462/af	\$539/af

- (1) For the Basic/Seasonal, Readiness-to-Serve and Capacity Acquisition Charges, separate rates are needed for untreated water and for the treatment surcharge.
- (2) Using the Minimum Drought Sales concept (only the sales made above the expected minimum drought supply are variable). In parentheses, using all water sales revenue as variable. See attached chart.
- (3) Basic/Seasonal Service plus Teadiness-to-serve Charge divided by estimated sales (Met 1993-94 Budget documents).

Metropolitan Financial Structure Study
Alternate "B" - Metropolitan Member Agencies Work Group - September 30, 1993
(Variation of Met Staff Proposals B & F)

Element (1)	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Basic/Seasonal Service	\$705 m	\$748 m	\$851 m	\$940 m	\$1009 m	\$1186 m
	\$355/af	\$365/af	\$407/af	\$407/af	\$432/af	\$501/af
Readiness-to-serve Charge	\$0	\$0	\$0	\$50 m	\$70 m	\$90 m
Capacity Acquisition Charge	\$0	\$5 m	\$10 m	\$15 m	\$20 m	\$25 m
Connection Maintenance Charge	\$10 m	\$10 m	\$10 m	\$0 (3)	\$0 (3)	\$0 (3)
Standby Charge	\$50 m	\$50 m	\$50	\$0	\$0	\$0
Property Taxes	\$91 m	\$91 m	\$91 m	\$105 m	\$105 m	\$105 m
Peaking Management Program	\$0	\$0	\$0	\$0 m	\$0 m	\$0 m
Miscellaneous	\$44 m	\$46 m	\$48 m	\$50 m	\$52 m	\$54 m
Total Revenue Requirement	\$900 m	\$950 m	\$1060 m	\$ 1160 m	\$1256 m	\$1460 m
Fixed vs Variable (2)	56%F 44%V (22%F 78%V)	52%F 48%V (21%F 79%V)	51%F 49%V (19%F 81%V)	50%F 50%V (18%F 82%V)	51%F 49%V (18%F 82%V)	50%F 50%V (17%F 83%V)
"Effective" Water Rate (4)	\$360/af	\$370/af	\$412/af	\$429/af	\$462/af	\$539/af

- (1) For the Basic/Seasonal, Readiness-to-Serve and Capacity Acquisition Charges, separate rates are needed for untreated water and for the treatment surcharge.
- (2) Using the Minimum Drought Sales concept (only the sales made above the expected minimum drought supply are variable). In parentheses, using all water sales revenue as variable. See attached chart.
- (3) Becomes part of the Readiness-to-serve Charge.
- (4) Basic/Seasonal Service plus Connection Maintenance Charge plus Readiness-to-serve Charge divided by estimated sales (Met 1993-94 Budget documents).

Metropolitan Financial Structure Study
Proposal of Metropolitan Member Agencies Work Group - September 30, 1993
(Responding to Met Staff Alternatives, of September 24, 1993)

Element (1)	How Applied
Basic/Seasonal Service	<ul style="list-style-type: none"> ■ All remaining revenue requirements allocated to this element ■ Seasonal "shift" discount based on the savings to Metropolitan of curtailing seasonal peaking, while providing incentive to insure the construction/maintenance of groundwater extraction facilities ■ Additional long-term seasonal discount based upon avoided transfer water costs, and include an annualized drought-year call
Readiness-to-serve Charge	<ul style="list-style-type: none"> ■ Includes element of \$50/cfs/month for connected meter capacity, not to exceed \$5000/month/meter. ■ Balance based upon just-past four-year total volume, excluding long-term replenishment and reclaimed water ■ Cost allocation limited to no more than 10% of total revenue requirement
Capacity Acquisition Charge	<ul style="list-style-type: none"> ■ Growth fee based upon increase in just-past four-year average total volume, excluding reclaimed water, over previously established plateau ■ Calculated retrospectively, paid in sixty monthly installments ■ Initial growth fee not to exceed \$1,000/acre-foot ■ Growth fee ultimately adjusted to reflect an appropriate share of Metropolitan's capital costs to serve growth
Connection Maintenance Charge	<ul style="list-style-type: none"> ■ Based upon \$50/cfs/month for connected meter capacity, not to exceed \$5000/month/meter.
Peaking Management Program	<ul style="list-style-type: none"> ■ Define goal, e.g. instantaneous peak divided by weekly peak not to exceed 1.2, May to September flows only and excluding special replenishment programs ■ Calculated retrospectively for each connection, but disincentive charge based upon summation of factors from all agency connections ■ Actual implementation of disincentive charge to begin three years after details of the program are announced ■ Disincentive charge to be at a moderate level ■ Disincentive charges collected to be placed in the Water Treatment Rate Stabilization Fund, i.e. the Peaking Management Program is non-revenue producing. ■ Program to include provision for financial assistance, to the extent of disincentive charges paid, from the WTRS Fund to member agency when approved peak-moderating facilities or operating practices are put in place.

(1) For the Basic/Seasonal, Readiness-to-Serve and Capacity Acquisition Charges, separate rates are needed for untreated water and for the treatment surcharge.

Department of Water and Power the City of Los Angeles

TOM BRADLEY
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October 4, 1993

Mr. Wayne T. McMurray
 Chairman, Financial Planning Subcommittee
 Metropolitan Water District
 of Southern California
 1111 Sunset Boulevard
 Los Angeles, CA 90027

Dear Mr. McMurray:

Recommendations for Rate and Revenue Options

Members of my staff and I have participated in the informal Member Agency Workgroup (Workgroup) to identify key issues regarding Metropolitan Water District of Southern California's (MWD) rates, and to identify options for further consideration and review by your Subcommittee and staff. We are in general concurrence with the recommendations of the other agencies that participated in this effort. However, there is one key issue in which we cannot support the Workgroup. As a representative of the City of Los Angeles, and in view of last year's action by the Los Angeles City Council opposing any further extension of the current standby charge, I cannot support continued study of any alternative that extends that charge.

Following are discussions of the key issues and specific recommendations in which we are in agreement with the other agencies.

Key Issues

1. Firm Revenue/Revenue Diversity: We support efforts to move toward greater revenue diversity and believe that this will achieve the two-fold objective of contributing toward the financial stability of MWD while providing for greater equity among member agencies through the allocation of specific costs for the Capital Improvement Program, Operations and Water Management Programs among their beneficiaries. We also believe MWD staff has significantly understated the amount of firm revenue

Water and Power Conservation . . . a way of life

Mr. Wayne T. McMurray

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October 4, 1993

currently being collected. Based upon a "minimum drought sales" concept (i.e., even in the most severe near-term shortage situations, MWD will have 1.4 million acre-feet [maf] in firm sales), about 40-50 percent of MWD's revenue is firm, rather than 20 percent as frequently reported by MWD staff. Therefore, less of a shift to firm revenue sources is required to meet MWD's revenue stability objectives.

2. Peaking: All member agencies clearly understand the need to control peaking because of its direct relationship to current and future capital improvement costs. However, a "peaking charge" as an ongoing firm revenue source is inappropriate because, as proposed, it would continue to be assessed even after the undesirable peaking behavior had been changed. In addition, MWD staff has not established an operational peaking target (i.e., perhaps peak hour should not exceed 120 percent of peak week, as an example) whereby extraordinary capital improvements related to peaking above that level become necessary.

The consensus of the Workgroup is that a revenue-neutral peaking management program should be established which:

- A. Defines an operational peaking target; and
- B. Assesses a unit peaking charge against those agencies exceeding the target with revenue collected being used exclusively to assist the violating agencies in building regulatory storage and/or changing operational schedules provided they commit to meet the target within an established time frame. Charges collected from those agencies that continued to peak and did not participate in the program would be deposited in MWD's rate stabilization fund.

Such an approach could avoid unneeded capital improvements by more cost-effectively solving this issue at the member agency level. In addition, as peaking targets are met, this management program would phase down and could be terminated or placed on standby.

3. Reevaluation of the Capital Improvement Program (CIP): The required rate and revenue options must be established based upon a thorough reevaluation of the CIP Program. Such reevaluation should fully consider a reasonable deferral or downsizing of capital projects

Mr. Wayne T. McMurray

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October 4, 1993

combined with increased implementation of local resource development, "bridge" financing techniques, and reconsideration of the current pay-as-you-go policies. This issue must be effectively resolved through such efforts as the Integrated Resource Plan and a harder look at financing policies.

Specific Rate and Revenue Options

We recommend that the following rate and revenue options be thoroughly evaluated and considered for inclusion in MWD's final rate and revenue structure:

1. Basic/Seasonal Rates: Identical to the current rate structure, except that there would be two seasonal rates. One seasonal rate for summer to winter short-term "shift" deliveries which is based on the savings to MWD of curtailing seasonal peaking while providing the necessary incentive to assure the construction and maintenance of groundwater extraction facilities; and a second seasonal rate for long-term carry-over storage which recognizes benefits to the MWD service area in terms of groundwater conjunctive use for drought protection. These actual rates should be established to collect the difference between MWD's overall revenue requirements and the projected revenue from firm revenue sources.
2. Capacity Acquisition Charge: Based upon increases in annual acre-foot water use, including seasonal storage deliveries and excluding Local Projects Program (LPP) deliveries, compared to a four- or five-year rolling average beginning in fiscal year 1988-89 or 1989-90. Once the agency exceeds its initial base-period amount, it would pay the fee and the higher average becomes the new base. The member agency payments for each growth increment would be paid over a period of five years. The charge should ultimately be determined based upon an appropriate share of MWD's capital costs to serve growth; however, initially it should not exceed \$1000 per acre.
3. Readiness-to-Serve Charge: Would be based on total annual acre-foot water sales, including seasonal storage, over a four-year rolling average beginning in fiscal year 1989-90 to raise \$50 million in revenue for CIP reliability improvements and connection maintenance. This charge could include a connection maintenance component to recover a portion of MWD's costs for maintaining turnouts based on a charge of \$50/cubic feet per second (CFS)/month of connected capacity with a \$5000/month/turnout maximum (100 CFS).

Mr. Wayne T. McMurray

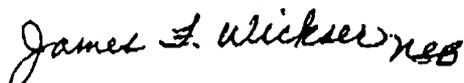
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October 4, 1993

4. Peaking Management Program: This would not be a revenue source, but rather a revenue-neutral program which would assess member agencies exceeding MWD's peaking requirements and then use that revenue to assist those agencies in changing operations to reduce peaking needs. The program should be developed within a year and then implemented in approximately three years, which would provide enough lead time for agencies to change their operations voluntarily prior to being assessed.

These recommendations do not imply endorsement by the City of Los Angeles or its Directors, but are offered as a set of narrowed and refined options for further consideration by the staff and the Financial Planning Committee.

Sincerely,



JAMES F. WICKSER
Assistant General Manager - Water

c: Mr. Ronald F. Deaton, Chief Legislative Analyst
City of Los Angeles

MWD Los Angeles Directors

Mr. Alf W. Brandt
Ms. Carolyn Green
Mr. David Y. Handelman
Mr. Kenneth T. Lombard
Mr. William G. Luddy
Ms. Katherine W. Moret
Mr. Christopher Pak
Mr. George Wein

TABLE 1
1994-95 REVENUE ALTERNATIVES
(In \$Millions)

	A	B	C	D	E	F	G	H	I	J	K
Water Revenue - Base	631	614	585	625	616	585	677	610	597	601	581
Treatment Surcharge Revenue	84	85	85	75	85	85	75	75	75	85	75
Taxes	91	91	91	91	105	91	105	91	105	105	91
Standby Charge	50	50	-	50	50	-	-	50	50	50	-
Interest	22	22	22	22	22	22	22	22	22	22	22
Power & Misc.	22	22	22	22	22	22	22	22	22	22	22
Treated Peaking Charge	-	-	-	15	-	-	-	15	15	-	15
Connection Maint. Charge	-	15	-	-	-	15	-	15	15	15	15
Readiness-to-Serve Charge *	-	-	94	-	-	79	-	-	-	-	79
Capacity Acquisition Charge **	-	0	0	0	0	0	0	0	0	0	0
Total	900	900	900	900	900	900	900	900	900	900	900
Rate Effects:											
Base Rate Increase	+\$27	+\$18	0	+\$27	+\$19	0	+\$50	+\$18	+\$6	+\$9	0
Treatment Surcharge Increase	+\$10	+\$10	+\$10	0	+\$10	+\$10	+\$10	0	0	+\$10	0

* Allocated on 4-year average water purchases from MWD (excluding seasonal storage). Short-term seasonal storage would ultimately be included.

** Adopted in all alternatives except alternative A. Allocated on 4-year average water purchases from MWD (excluding seasonal storage). Short-term seasonal storage would ultimately be included. Charge would not be collected until FY 1995-96.

CHART 1 FINANCIAL STRUCTURE WORK PLAN

TASKS	1992				1993												1994						
	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	
<i>Set Objectives</i>																							
<i>Review Past Efforts</i>																							
<i>Develop Assumptions</i>																							
<i>Develop Alternatives & Estimate Effects</i>																							
<i>Further Refine Selected Alternatives</i>																							
<i>Select Recommended Alternatives</i>																							
<i>Board Consideration</i>																							
<i>Develop Implementation Plan</i>																							
<i>Implement</i>																							

SPECIAL COMMITTEE CONSIDERATION BOARD ACTION
 GREEN DRAFT