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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

JUL 12 1994

Karen E. Deff
 EXECUTIVE SECRETARY

June 22, 1994

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

From: General Manager

Subject: Transmittal of Draft Nexus Report Supporting New Demand Charge

Report

A new rate structure has been developed by Metropolitan to provide for stable water rates while securing revenues, retaining operating flexibility and resource management incentives, and distributing costs in an equitable manner. This new rate structure was approved by your Board at its December, 1993 meeting. The new rate structure consists of the current noninterruptible water rate structure with seasonal storage service, a readiness-to-serve charge to collect fixed costs associated with debt service for capital facilities needed to meet reliability goals, a new demand charge, a treated water peaking charge, and a connection maintenance charge.

The attached draft nexus report only addresses the new demand charge. The new demand charge is intended to recover the costs associated with accommodating new demands on Metropolitan.

The new demand charge will be implemented in fiscal year 1995-96. Member Agencies and Subagencies may establish mechanisms, including a connection fee, to collect funds to pay anticipated new demand charges outside of their water rates. Under California law, a nexus study relating the developer fee and the facilities supported by the fee is required for local agencies that intend to impose fees on new development. Although Metropolitan is not required by law to prepare such a study, your Board has directed staff to prepare the Nexus Study to provide documentation supporting the allocation and calculation of the new demand charge that Member Agencies and Subagencies may need in preparation of their own nexus studies supporting connection fees to be assessed on new development.

The attached draft nexus report demonstrates the relationship between the charge, the method of collection, and the capital facilities to be funded from the revenues derived through the charge. Initially, the new demand charge is projected to be \$1,000 per acre-foot (AF) which is lower than

the full present value of the anticipated cost of the new capital facilities. The new demand charge is expected to increase over five years to more closely reflect the full cost of new capacity to serve new demands. As shown in the draft nexus report, with the current Intermediate Mix capital improvement program, the full cost is approximately \$2,550 per AF. The charge will be calculated and reviewed annually to reflect any changes in the capital projects and programs designed to accommodate new demands.

The New Demand Charge and the Nexus Study are designed to provide Member Agencies a wide range of flexibility as they pass on the charge. In this manner the resulting impacts on the final consumer will reflect local requirements. But, Metropolitan is committed to working with our Member Agencies and to provide support as they determine the most appropriate way to implement this charge.

A second draft of this report will be produced in September and will incorporate feedback from our Member Agencies and the experience Metropolitan acquires as Member Agencies begin to implement mechanisms to recover the charge. The third and final version of this first nexus report will be revised to reflect the Capital Improvement Program resulting from the next phase of the Integrated Resource Plan and is scheduled for completion in January 1995.

Board Committee Assignments

This letter is referred for information to:

The Finance and Insurance Committee because of its authority to determine revenues to be obtained through sales of water, water standby or availability of service charges, and the levying of taxes, pursuant to Administrative Code Section 2441(e); and

The Water Problems Committee because of its authority to study, revise, and make recommendations with regard to selling prices of water and conditions governing sales and exchanges of water pursuant to Administrative Code Section 2481(c).

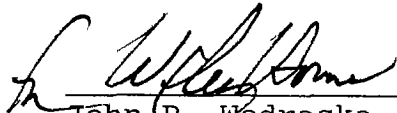
Recommendation

For information only.

John R. Wodraska
General Manager

By Debra C. Man
Debra C. Man
Chief of Planning & Resources

Concur:



John R. Wodraska
General Manager

PLJ:esa

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Attachment