

**Special Board Meeting on Revenue
and Rates**

**METROPOLITAN
WATER DISTRICT
OF SOUTHERN CALIFORNIA**

SPECIAL BOARD MEETING AGENDA

- **Recommended Revenue Program**
- **RTS Implementation**
- **New Demand Charge (NDC)**
- **Financial Sensitivity**
- **Water Management Program Benefits**
- **Outline the Next Steps**

RECOMMENDED REVENUE PROGRAM

FINANCIAL STRUCTURE PROCESS

- **18 Month consensus-driven effort**
- **Guided by Board-adopted objectives**
- **Review and input from:**
 - **Special Committee on Financial Policy**
 - **Member Agency Workgroup**
 - **Financial/Rate Experts**
 - **Blue Ribbon Committee**
 - **Strategic Assembly Participants**

FINANCIAL STRUCTURE STUDY OBJECTIVES

- **Generate Needed Revenue**
- **Provide Revenue Stability**
- **Incorporate Provisions for Growth to Pay its Fair Share**
- **Maintain Financial Ratings**
- **Minimize Rate Shock**
- **Be Simple to Administer, Easy to Implement**
- **Provide Equity in Rates for Classes of Service**
- **Provide System Operating Flexibility**
- **Provide Regional Resources Management Incentives**
- **Lend Itself to a Shortage Allocation Plan**
- **Encourage Water Conservation**

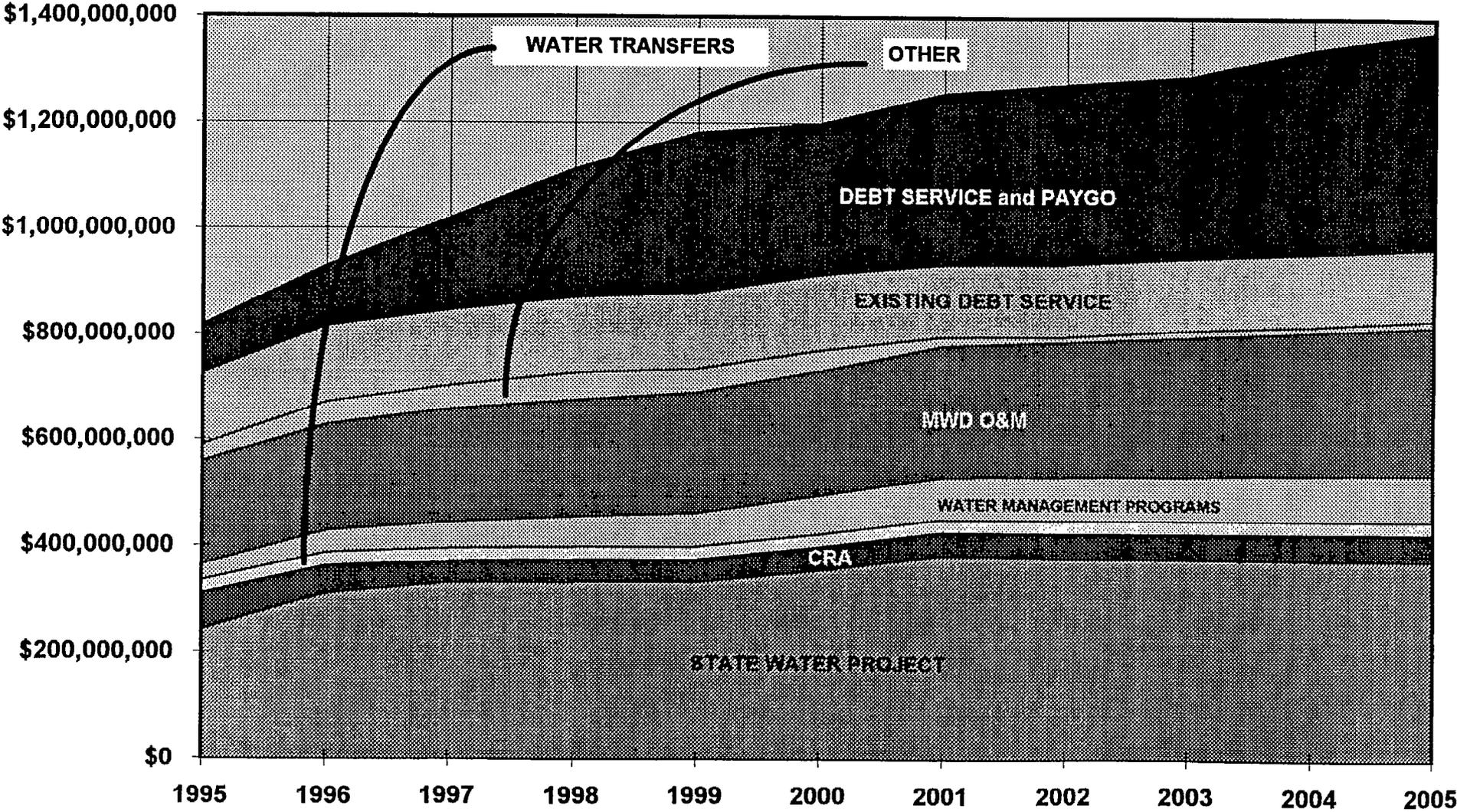
FOUR DIRECTIVES

- **Complete a nexus study with legal review for the new demand charge by mid-1994**
- **Analyze and refine seasonal storage pricing for short-term and long-term storage water**
- **Prepare a sensitivity analysis to evaluate MWD's financial strength**
- **Prepare an analysis to incorporate new charges to retain water management incentives**

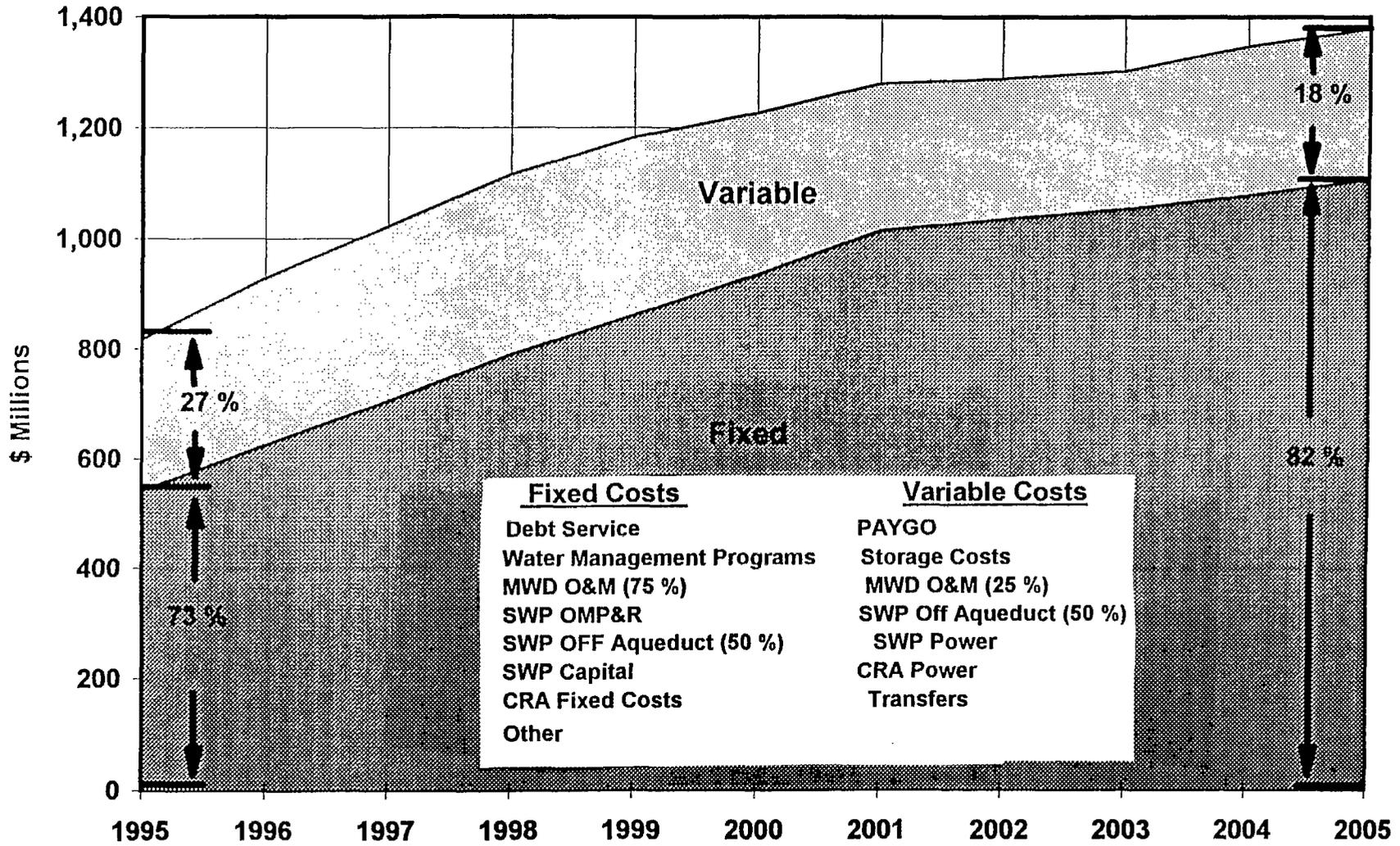
ADOPTED RATE STRUCTURE

- **READINESS-TO-SERVE CHARGE (RTS)**
 - CIP debt service for existing customer base
- **STANDBY CHARGE**
 - Local option for collection of RTS
- **NEW DEMAND CHARGE**
 - CIP debt service for new demands
- **CONNECTION MAINTENANCE CHARGE**
 - O&M needed to maintain and operate connections
- **TREATED WATER PEAKING CHARGE**
 - Capital and O&M costs associated with meeting peak week demands
- **SEASONAL STORAGE SERVICE**
 - Variable O&M; SWP and CRA variable costs; debt service
- **NONINTERRUPTIBLE WATER RATE**
 - Debt service not covered by new charges; O&M; water management programs; change in reserves; PAYGO; SWP costs; CRA
- **TREATMENT SURCHARGE**
 - Cost of treatment (O&M and Capital)

Metropolitan's Projected Cost Structure

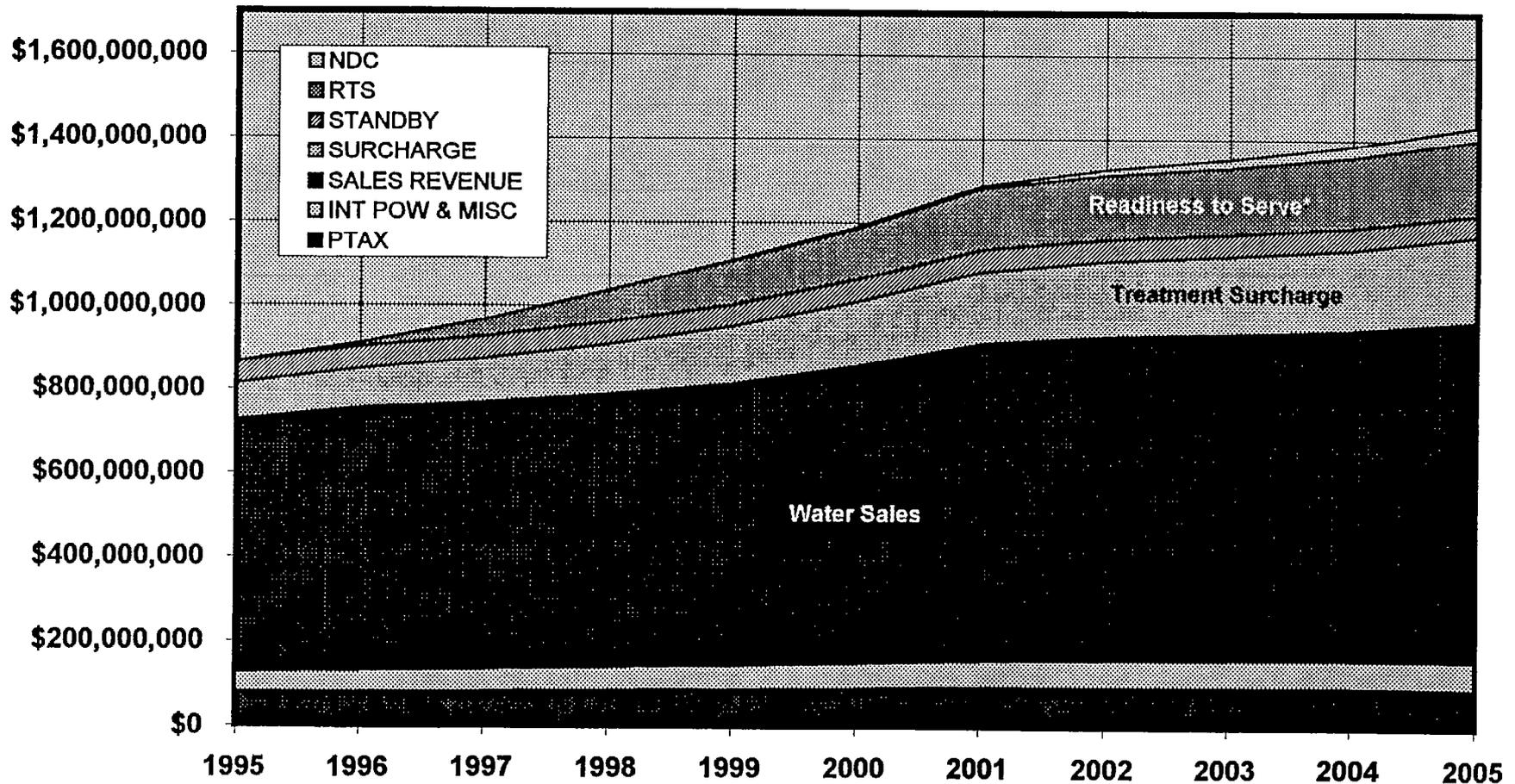


Metropolitan's Future Costs



02/27/05

Metropolitan's Projected Revenues



* Includes CMC Revenues

IMPLEMENTING STEPS

| Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct |
|--|--|--|--|---|---|---|-----|-----|-----|-----|
| 1994 | 1995 | | | | | | | | | |
| <p>▲ Dec. 6 Special Board Meeting on Financial Structure</p> <p>▲ Dec. 12 Final Revenue Requirements Letter GM's Recommended Water Rates (Pending)</p> | <p>▲ Jan. 9-10 GM's Recommended Water Rates Resolution of Intent to Impose 1995-96 Ready to Serve Charge</p> | <p>▲ Feb. 13 Public Hearings on Proposed 1995-96 Water Rates and Charges</p> | <p>▲ March 1 Agencies Notify MWD of opt In/out of Standby Charge</p> | <p>▲ March 13-14 Board Adopts 1995-96 Water Rates and Charges</p> | <p>▲ April 11 Public Hearing for Standby Charge</p> | <p>▲ May 8-9 Board Adopts Resolution to Impose 1995-96 Standby Charge</p> | | | | |

RTS IMPLEMENTATION

RTS IMPLEMENTING IMPROVEMENTS

- **Retain standby option**
- **Account for long-term storage water at time of use**
- **Provide flexibility in RTS payment**
- **Cap RTS sales at NDC base**
- **Pool purchases by groundwater basin**

LEGAL AUTHORITY FOR NEW CHARGES

- **Water Rate (MWD Act Section 134)**
 - **RTS,NDC, Treated Water Peaking Charge, Connection Maintenance Charge**
- **Capital Facilities Fee (Government Code Section 54999)**
 - **RTS,NDC**
- **Availability of Service Charge (MWD Act Section 134.5)**
 - **RTS (including standby charges),NDC**

PRIORITY OF AUTHORITIES

For RTS and NDC

- 1. Water Rate**
- 2. Capital Facilities Fee**
- 3. Availability of Service Charge**

NEW DEMAND CHARGE

NDC ISSUES

- **Treatment In or Out**
- **Rationing in Base**
- **Loss of Local Supply**
- **Impact on Storage Operations**

NEXUS STUDY

Results:

- Existing customer base has an average demand for Metropolitan water equal to 2.2 million acre feet
- Total CIP over the 25 year planning period is \$7.2 billion
- \$5.4 billion of CIP is for distribution and storage projects
- 33% of distribution and storage expenditures are to meet new demands
- Estimated revenues over the 25 year planning period total \$1.1 billion
- "Full Cost" of facilities is \$1,625/AF

NEXUS STUDY

Recommendations:

- **The initial charge for New Demands should be set at \$1,000/acre-foot**
- **The New Demand Charge should be set on an annual basis, increasing to full cost**
- **Evaluate the feasibility of a New Demand Charge for treated water**

FINANCIAL SENSITIVITY

FINANCIAL SENSITIVITY ANALYSIS

Results:

- Overall rates are most sensitive to the level of water sales
- Each 100,000 acre-feet of sales results in a change in the average cost of water equal to about \$20/acre-foot
- The 50% RTS floor has little impact on relative cost shares
- The proposed rate structure has minimal impact on cost shares over the next five years
- Growing agencies pay more relative to non-growth agencies as demands grow
- Agencies that reduce demands on Metropolitan pay a fixed share of debt service through the RTS
- The impact of a low sales year is mitigated by the RTS
- Every \$1,000,000 decrease in the CIP financed with debt results in a \$.05/acre-foot decrease in the cost of water
- Every \$1,000,000 decrease in annual operating cost results in a \$.05/acre-foot decrease in the cost of water

WATER MANAGEMENT PROGRAM BENEFITS

FOUR DIRECTIVES

- **Complete a nexus study with legal review for the new demand charge by mid-1994**
- **Analyze and refine seasonal storage pricing for short-term and long-term storage water**
- **Prepare a sensitivity analysis to evaluate MWD's financial strength**
- **Prepare an analysis to incorporate new charges to retain water management incentives**

REVIEW OF SEASONAL STORAGE AND WATER MANAGEMENT PROGRAMS

Major Tasks:

- 1. Analyze connection between incentives and regional benefits.**
- 2. Evaluate opportunities for program refinements.**
- 3. Coordinate seasonal storage and water management programs.**

REVIEW OF SEASONAL STORAGE AND WATER MANGEMENT PROGRAMS

| | | |
|----------------|--|---|
| Step 1. | Analyze the reasonableness of current incentives and opportunities for program refinement | December 1994 |
| Step 2. | Final refinement of programs based on: <ul style="list-style-type: none"> • Preferred Resource Mix • New Rate Structure • Long-Term Drought Management Plan | January 1995 January 1995 September 1995 |
| Step 3. | Board Action for Program Refinement | September 1995 |

REVIEW OF SEASONAL STORAGE PROGRAM

Analysis Results:

- 1. Storage has significant value in terms of emergency, seasonal, and drought protection:**
- 2. Existing incentive level is within the range of estimated benefits. Within this range of benefits, this incentive level may be adjusted according to implementation of new rate structure, the preferred IRP, and long-term drought management plan. Range of benefits are based on:**
 - a) Meeting the preferred IRP resource targets;**
 - b) Optimal operations and coordination of storage replenishment and deliveries;**
 - c) Melded seasonal and drought protection benefits under the Seasonal Storage Program;**
 - d) Downsizing and deferral of Capital Improvement Program projects;**
- 3. There is a need to simplify program administration and implementation.**

REVIEW OF THE SEASONAL STORAGE PROGRAM

Opportunities for Refinement:

- 1. For FY95-96, the existing program and incentive level should be continued;**
- 2. IRP Workgroup should develop appropriate measures to simplify implementation and assure benefits, such that Board action can be taken in September 1995.**
- 3. Contract groundwater storage programs (similar to Semitropic) should be implemented in conjunction with the Seasonal Storage Program;**
- 4. The long-term drought management plan should account for storage deliveries. The drought management plan should be developed for three phases of system operations.**

Phase 1: Pre-Domenigoni Valley Reservoir (DVR)

Phase 2: Initial fill of DVR

Phase 3. Following initial fill of DVR

REVIEW OF WATER MANAGEMENT PROGRAMS

Analysis Results:

- 1. Water management programs currently include:**
 - (a) Local Projects Program (LPP)**
 - (b) Groundwater Recovery Program (GRP)**
 - (c) Conservation Credits Program (CCP)**
- 2. The regional benefits of developing new supply yield through the GRP, LPP, and CCP are the same. The estimation of regional benefits are based on:**
 - (a) A wide range of estimated project costs, \$250/AF to \$850/AF**
 - (b) Costs of alternative resources;**
 - (c) Deferral of major capital improvement projects;**
- 3. Existing incentive levels for the LPP and CCP are within the range of estimated benefits;**
- 4. Maximum incentive for the GRP is at the higher end of the range of estimated benefits.**

REVIEW OF WATER MANAGEMENT PROGRAMS

Opportunities for Refinement:

1. The GRP and LPP should be consolidated into a single Local Resources Program,

a) Incentives

- **Principle:** The region should invest in a project according to its business merits and cost effectiveness.
- **Strategy:** The incentive level should be determined on a project-by-project basis with an upper limit, in a manner similar to the existing GRP

The incentive level for each project should be based on the difference between the estimated unit cost of that project and Metropolitan's projected firm water rate.

REVIEW OF WATER MANAGEMENT PROGRAMS

Opportunities for Refinement:

1. The GRP and LPP should be consolidated into a single Local Resources Program,

b) Upper Limit:

- **Principle :** Metropolitan should not invest more than the regional benefit of the projects.
- **Strategy:** The upper limit for incentives should be no greater than the maximum regional benefit;
- **Principle:** Incentives should be sufficient to encourage the implementation of projects.
- **Strategy:** The upper limit should be based on the appropriate regional benefit for the desired level of resource development. This upper limit can be determined based on the difference of the actual unit cost of projects that cumulatively meet the IRP resource targets and Metropolitan's projected firm water rate;

REVIEW OF WATER MANAGEMENT PROGRAMS

Opportunities for Refinement:

1. The GRP and LPP should be consolidated into a single Local Resources Program,

b) Upper Limit (cont...):

- **Principle: The region should encourage the implementation of the most cost effective projects in order to avoid unnecessarily higher water costs for consumers.**
- **Strategy: Metropolitan should provide financial incentives to implement feasible projects with supply yields up to the preferred ("least cost") IRP resource targets. Feasible projects are the most cost-effective projects required to meet the IRP targets.**

c) Proactive Program Evaluation

- **The incentives should be adjusted for prospective projects every three years.**
- 2. Measures beyond financial incentives are needed to implement full Best Management Practices.**
- 3. The long-term drought management plan should account for LPP and GRP deliveries and conservation credits.**