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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

[Signature]
EXECUTIVE SECRETARY

December 20, 1994

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

From: General Manager

Subject: Transmittal of Final Nexus Study Supporting the New Demand Charge

Report

The new rate structure approved by your Board at its December 1993 meeting and which will be implemented in July 1995, consists of the current noninterruptible water rate structure with seasonal storage service, a readiness-to-serve charge, a new demand charge, a treated water peaking charge, and a connection maintenance charge. The attached Nexus Study addresses only the new demand charge. The new demand charge is intended to recover the capital costs associated with accommodating new demands on Metropolitan.

The new demand charge will be levied by Metropolitan pursuant to its authority over water rates and charges under the Metropolitan Water District Act and the California Government Code. The new demand charge was structured by Metropolitan with the intent of permitting member agencies and their subagencies, at their option, to establish mechanisms such as connection fees to collect the new demand charges. Through these mechanisms, Metropolitan's new demand charge would provide a means for water users responsible for growth in demands at the member agency or subagency level to pay the costs of Metropolitan facilities required to serve growth.

The Nexus Study establishes the nexus (connection) between the new demand charge and the costs for new facilities to service new demands on Metropolitan's system. In doing so, it documents the allocation of a portion of Metropolitan's Capital Improvement Program costs to projections of new demands.

The new demand charge will be imposed as a per acre-foot charge on increased water demand on Metropolitan's distribution system. Fundamentally, the charge is equal to

Metropolitan's costs of meeting new demands divided by the projected regional increase in demand.

A series of drafts of the Nexus Study were distributed at Board meetings in July, September, and November and concurrently provided to general managers of all member agencies. Staff has been working with our member agencies and has addressed many of the implementing issues by incorporating member agency comments in this final Nexus Study.

The most significant change from the third draft is determining the new demand charge base. This change was made to more fairly represent a member agency's average imported water use. A member agency's base is the larger of (1) the three-year average of imported water purchases for fiscal years 1989-90 through 1991-92, excluding one time drought storage agreements; (2) the four-year average of imported water purchases for fiscal years 1989-90 through 1992-93, excluding one time drought storage agreements and long-term seasonal storage service deliveries attributable to May or June 1993; or (3) the readiness-to-serve allocation for fiscal year 1995-96.

The Nexus Study is organized as follows. Section 2, which follows introductory Section 1, summarizes water demands on Metropolitan and shows how the new demand base is determined. The new demand charge base is the same as described in the Resolution Giving Notice of Intention to Impose New Demand Charge. Section 3 describes the Capital Improvement Program used to calculate the new demand charge. The Capital Improvement Program, excluding treatment projects, is based on the Integrated Resources Plan preferred resource mix and totals \$5.4 billion over the 25-year planning horizon. New demands are estimated to be responsible for 33 percent or \$1.78 billion of these costs. Section 3 also describes how project costs are allocated to existing and future users. Calculation of the new demand charge is shown in Section 4, along with projected new demand charge revenue by member agency. To provide guidance to member agencies that wish to develop connections fees, Appendix A illustrates two different approaches member agencies and subagencies could take to implement capacity charges at the local level. Appendix B presents an allocation of water quality and treatment projects between existing and new demands. This information will help Metropolitan and its member agencies determine whether costs of additional treatment facilities warrant a separate

charge. Currently, water quality treatment projects are excluded from the new demand charge because the costs are included in Metropolitan's treatment surcharge.

Both the General Counsel and outside legal counsel have reviewed the drafts and this final version of the Nexus Study. They concluded that "[a]ny member agency with authority to impose fees on new development would be able to use those fees to recover that portion of the proposed new demand charge that will result from new development within the member agency's service area." A summary of the legal review of this Nexus Study is given in Appendix C.

Recommendation

It is recommended that the Board accept the Nexus Study as attached to this Board letter for use by member agencies in implementing appropriate rates and charges. It is additionally recommended that the Board find that the proposed Nexus Study is a planning and feasibility study which is exempt from the provisions of the California Environmental Quality Act.

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General Manager

Submitted by:

Debra C. Man

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Concur:

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Attachment