



● **Board of Directors**  
***Business and Finance Committee***

March 10, 2009 Board Meeting

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9-4

**Subject**

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Update on the 2009/10 budget and proposed rates and charges

**Description**

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At the Board Workshop on February 24, 2009, the board members provided a number of comments regarding the timing and magnitude of the water rate increase for 2009/10. Four general themes are captured in this letter:

- a. **Timing of rate increase.** Many of the board members suggested that staff review effective dates earlier than January 1, 2010, in an effort to generate more revenue sooner, and at lower rates.
- b. **Delta surcharge.** To capture the impacts of regulations on Metropolitan's ability to receive water from the State Water Project due to pumping restrictions associated with endangered species in the Delta, board members suggested that staff include a separate component of the rate increase to capture those impacts.
- c. **Multi-year forecast.** Board members expressed a desire to see not only the rate increase necessary for the 2009/10 fiscal year, but projections for three to five years beyond that.
- d. **Sales levels.** It is increasingly likely that Metropolitan will be required to implement its Water Supply Allocation Plan in the upcoming year. Given the decision to implement the plan and the necessity to adopt the budget and rates and charges in April 2009, it was agreed that the decisions should be complementary and based on the same level of sales. In an effort to model these lower sales, it is assumed that sales would be equal to 1.9 million acre-feet in 2009/10 and 2010/11, with sales in the subsequent three fiscal years rising to 2 million acre-feet.

This board letter addresses these issues and presents some options and sensitivity analyses for the Board's consideration and background as the Board prepares for its upcoming actions on the rates, Water Supply Allocation Plan and budget in April 2009. The three options developed for this letter show the effect of timing on rate increases for 2009/10 and beyond. In addition, costs and revenues are adjusted to reflect the impact of lower sales volumes. The three options are as follows:

- Option 1 – Volumetric rate (base rate and Delta Surcharge) increases occur on January 1 of each year. Metropolitan's revenues cover full cost-of-service in 2010/11.
- Option 2 – Volumetric rate (base rate and Delta Surcharge) increases occur on September 1, 2009, followed by additional increases on July 1 of each year thereafter starting with July 1, 2010. Metropolitan's revenues cover full cost-of-service in 2010/11.
- Option 3 – Volumetric rate (base rate and Delta Surcharge) increases occur on September 1, 2009, and September 1, 2010. Future rate increases would occur on January 1 of subsequent years starting in 2012.

As suggested at the workshop, each of the rate options includes a Delta Surcharge of \$61 per acre-foot. This surcharge reflects the impact on Metropolitan's water rates of lower supplies from the State Water Project due to pumping restrictions associated with U. S. Fish & Wildlife's recent biological opinion on Delta smelt and other actions to protect endangered fish species, as well as the ongoing drought conditions. This surcharge would remain in effect until a long-term solution for the Delta was achieved. It is expected that the surcharge would be phased out as interim Delta improvements lead to improved water supplies from the State Water Project.

In addition to the Delta Surcharge, Metropolitan's other rates and charges would also need to increase in 2009/10 to cover ongoing costs and increased costs associated with debt service and the State Water Project. Depending

on the effective date, the increase in these other rates and charges would range from about 9 percent to 24 percent, if sales were 1.9 million acre-feet in 2009/10.

The estimated increases, along with the Delta Surcharge for the next five years (assuming the lower sales volumes described on page 1), are shown in Table 1. As can be seen in Table 1, a “base rate” increase of 23.5 percent, plus a \$61 per acre-foot Delta Surcharge would be required if water sales were 1.9 million acre-feet, and the rate increase went into effect on January 1, 2010. Lower rate increases of 9.1 percent, plus a \$61 per acre-foot Delta Surcharge are required if the rate increase goes into effect in September 2009.

**Table 1. Annual Rate Increases by Effective Date**

<b>Calendar Year</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Option 1. January rate increases	23.5%	5.4%	4.1%	3.9%	3.9%
Option 2. September/July rate increases	9.1%	16.2%	3.8%	3.5%	3.4%
Option 3. September rate increases	9.1%	18.4%	3.9%	3.8%	3.9%
Delta Surcharge	\$61/AF	\$61/AF	\$61/AF *	\$61/AF *	\$61/AF *

\* As interim Delta improvements take place, the Delta Surcharge would be reduced to reflect increased deliveries.

Debt service coverage ratios for each of the scenarios are shown in Table 2. As seen in Table 2, debt service coverage ranges from about 1.4 to 1.5 in 2009/10, with the ratio rising to about 2 in all three options.

**Table 2. Revenue Bond Debt Service Coverage**

<b>Fiscal Year Ending</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Option 1. January rate increases	1.39	1.93	2.07	2.02	2.03
Option 2. September/July rate increases	1.51	1.90	2.07	2.00	1.99
Option 3. September rate increases	1.51	1.82	2.07	2.02	2.02

Each of these scenarios is based on the same sales assumptions of 1.9 million acre-feet in 2009/10 and 2010/11, with sales of 2 million acre-feet in the outer years (reflecting success on some of the near-term Delta actions). More favorable water supply conditions would result in lower water rate increases in the future. However, as suggested at the board workshop, staff is evaluating different indexes that could be used to appropriately set minimum increases that would reflect inflationary increases to avoid the need to have similarly large rate increases in the future.

Appendix 1 in the Detailed Report ([Attachment 1](#)) contains more details about the various assumptions, impacts on reserves, and cost management actions included in the sensitivity analyses. As this is an information letter, additional analysis and options will be considered pursuant to the Committee’s direction.

**Policy**

Metropolitan Water District Administrative Code Section 4304: Apportionment of Revenues and Setting of Water Rates and Charges to Raise Firm Revenues

**Fiscal Impact**

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Each of the scenarios implies different impacts on the member agencies and different levels of revenue in 2009/10. The revenue impacts range from an increase of \$99 million under Option 1 to an increase of \$132 million in revenues under Option 3. As this is an information letter, additional analysis and options will be considered pursuant to Committee direction.

  
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Brian G. Thomas  
Chief Financial Officer

3/4/2009  
Date

  
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Jeffrey Kightlinger  
General Manager

3/4/2009  
Date

**Attachment 1 – Detailed Report**

BLA #6645

## **Attachment 1**

### **Detailed Report**

**Water Sales**

In light of the Governor's recent drought emergency declaration and the U.S. Fish and Wildlife Service's December 2008 regulations that restrict operations of the State Water Project and Central Valley Project to manage and protect the Delta smelt, it is likely that Metropolitan will see lower sales in 2009/10 than in 2008/09. The proposed 2009/10 budget, as presented to the Board in January 2009, reflected projected sales of 2.1 million acre-feet and associated total expenditures of \$1.516 billion, not including debt-financed capital expenditures. Given the Governor's call for a 20 percent conservation effort in California, sales at the 1.9 million acre-foot level in 2009/10 is a reasonable estimate on which to base rates for the coming few years. This would approximate a 10 percent to 20 percent reduction in wholesale demands.

**Expenditures and Budget**

Reduced supplies from the Bay-Delta will reduce Metropolitan's 2009/10 expenditures in a number of areas:

**Water Supply Program Costs:** The 2009/10 budget proposed in January included almost \$141 million for Water Supply Program expenditures. This included \$54 million for Drought Water Bank purchases across calendar years 2009 and 2010. Total purchases from the 2009 Drought Water Bank were projected to be 200,000 acre-feet. Recent events have reduced the expectation of supplies Metropolitan will get from the 2009 Drought Water Bank to approximately 50,000 acre-feet. Overall, Water Supply Program costs may be lower than were projected two months ago due to reduced expectations of supply from the 2009 Drought Water Bank, although additional transfers are being pursued outside of the Drought Water Bank in order to make up for this impact. Rate options detailed in this letter include Water Supply Program costs of \$113 million, reflecting lower transfer amounts. This is about \$28 million lower than the budget presented in January.

**Water Treatment Costs:** The 2009/10 budget proposed in January included almost \$37 million for variable water treatment costs. This reflects the cost of power, chemicals, and sludge removal at each of Metropolitan's treatment facilities. These costs were reflected in Metropolitan's Departmental O&M budget of \$349 million. Rate options detailed in this letter include variable water treatment costs of \$33 million or about \$4 million lower than the 2009/10 budget proposed in January due to lower water sales. Metropolitan's Departmental O&M budget would be reduced to \$345 million to reflect these lower variable treatment costs.

**State Water Contract Costs:** The 2009/10 budget proposed in January included about \$118 million in variable power costs to move a total of 1.17 million acre-feet of water from the Bay-Delta and programs south of the Bay-Delta through the State Water Project into Metropolitan's service area. The rate options included in this letter include supplies delivered on the State Water Project system of about 850,000 acre-feet. These lower deliveries result in variable power costs of \$89 million, about \$29 million lower than the 2009/10 budget proposed in January.

In total, the items listed above reduce Metropolitan's 2009/10 budget expenditures by about \$60 million. Other changes, including reductions in operating programs and equipment will be made, but are still under discussion and have not been incorporated into the rate options included in this letter. Ultimately, changes in these remaining expenditure items will not have a material impact on the rate increases in any of the options.

**Financial Modeling Drivers**

In addition to the changes in expenditure estimates noted above, the following assumptions and model drivers are common to each of the three options presented in this letter:

### Pay-As-You-Go Funding of the Capital Program

Pay-As-You-Go (PAYG) funding of the Capital Improvement Program in 2009/10 is limited to \$40 million under all three options. Metropolitan staff has reviewed all capital projects and determined that of the projects that should be funded in 2009/10, all but about \$40 million will be funded from bond proceeds. These smaller projects are more appropriately funded from the revenue stream (e.g., it is not appropriate to fund a five-year IT project with long-term bonds). Metropolitan expects to restore PAYG funding levels to \$95 million by 2010/11 and higher in subsequent years in order to more closely follow projected Replacement and Refurbishment (R&R) expenditures and to comply with the Board's previously adopted policies. PAYG funding has been limited last year and this year in an effort to preserve Water Rate Stabilization funds and mitigate rate increases. But, PAYG funding is also important because revenues used to fund PAYG are an important component of Metropolitan's debt service coverage ratio. The debt service coverage ratio is one of the more important financial indicators of financial strength and liquidity. In the future, if Metropolitan achieves the Board's target of 2.0 for revenue bond coverage, additional PAYG funding will be possible.

### Water Sales Assumptions

While sales of 2.1 million acre-feet may still be possible over the course of fiscal year 2009/10, it is increasingly likely that sales will be less than the original forecast of 2.1 million acre-feet due to the supply constraints associated with the Bay-Delta. The options in this letter have been based on a reduced water sales level of 1.9 million acre-feet in the 2009/10 fiscal year. Actual sales may be higher or lower, but 1.9 million acre-feet appear to more closely match Metropolitan's expected supplies in the coming year. Actual operations in calendar year 2009 may differ from this assumption; however, Metropolitan's rates will ultimately need to reflect this fundamental shift in water sales levels.

Each rate option assumes that water sales continue to stay at 1.9 million acre-feet in 2010/11. Sales are then expected to increase to 2 million acre-feet in 2011/12 and beyond as a result of improved supplies coming from the Bay-Delta. These improved supplies could result from the successful implementation of operable barriers in the Bay-Delta that could improve water supply conveyance, while reducing impact to protected fish species.

### Full Cost-of-Service

Each rate option requires additional draws from reserves in 2009/10. Option 1 and Option 2 cover Metropolitan's cost-of-service in 2010/11. Option 3 covers Metropolitan's cost-of-service in 2011/12, one year later than the other options.

### Minimum Rate Stabilization Reserves

The minimum rate stabilization reserve level is calculated based on the current reserve policy. While the Business and Finance Committee has discussed alternative reserve policy considerations, the rate options in this letter assume that the current reserve policy continues. In each rate option minimum reserve levels are reached by fiscal year 2013/14 in order to smooth out the effects of rate increases. The magnitude of rate increases required to return rate stabilization reserves to minimum objectives more quickly may not be feasible. If water sales are higher than projected in this analysis, then rate stabilization reserves would be higher than projected.

### Delta Surcharge

Each rate option includes a Delta Surcharge, which would apply to every acre-foot sold or wheeled through Metropolitan's system. The Delta Surcharge accounts for the significant impact recent endangered species-related pumping restrictions have had on the overall reliability of water supply from the State Water Project system. Preliminary analysis indicates that average SWP deliveries will be about 35 to 40 percent lower than before these Delta restrictions were in place. The range of projected average

impacts is wide due to uncertainty of regulatory decisions in the future. The estimate of reduced SWP deliveries may vary as new data is developed, but it is reasonably conservative given the unknown impacts of upcoming regulatory decisions related to salmon species.

Fixed SWP costs (not including off-aqueduct power costs) are projected to be \$310 million in 2009/10. As an estimate of the impact of the restrictions, a factor of 37.5 percent was applied to the fixed costs to determine the reduced "value" of the SWP due to the pumping restrictions. Therefore, the Delta Surcharge would need to recover around \$116 million of the fixed SWP costs, based on a 37.5 percent average reduction in SWP deliveries. Under the assumption of 1.9 million acre-feet of sales, the recommended Delta Surcharge is \$61 per acre-foot, and would remain in effect until endangered species-related Delta pumping restrictions no longer prevent delivery of supplies equivalent to the average conditions detailed in the 2005 State Water Project Reliability Report (the last State Water Project reliability report released before endangered species-related pumping restrictions took effect). The Delta Surcharge would be proportionally reduced in the future as facility improvements or regulatory regimes lead to restored supplies from the Delta.

#### Fixed Charges

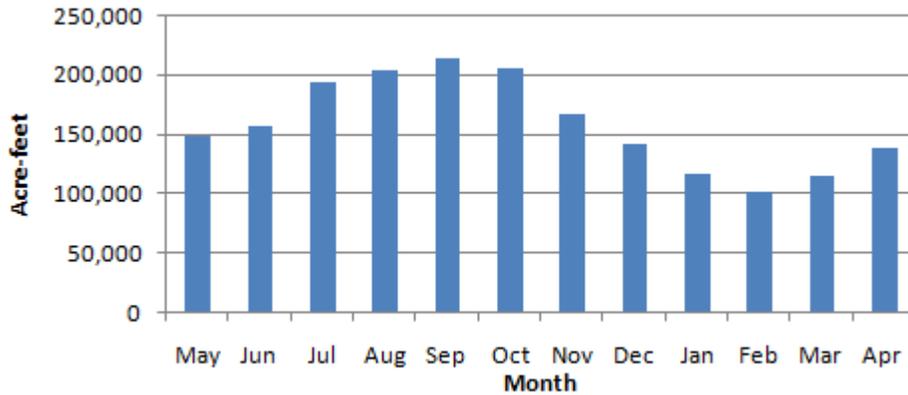
Increases to the Readiness-to-Serve Charge and Capacity Charge are effective on January 1 of each year. This is based on existing policy of setting fixed charges for the calendar year.

#### Monthly Water Sales Pattern

The rate options discussed below are based on a monthly pattern of water sales based on the last five years. Metropolitan's billing cycle results in a two-month delay between the month in which sales occur and the collection of revenue for those water sales. For a given fiscal year, Metropolitan's revenues are actually generated based on water sales that occur in the 12-month period from May through April. Sales in these months, given the two-month delay in revenue collections, result in revenues collected in the fiscal year running from July through June.

Since the mid-1990s, Metropolitan's rate increases (if an increase was adopted) have been effective in January of each year. Figure 1 shows the monthly sales pattern expected in cash year 2009/10 given an annual sales level of 1.9 million acre-feet. A rate increase effective in January would apply to the four-month period from January through April 2010, generating additional revenue on about 472,000 acre-feet in water sales in the 2009/10 fiscal year (on a cash basis). A rate increase effective in September would apply to the eight-month period from September through April in 2009/10, generating revenue on about 1.2 million acre-feet in water sales, more than 700,000 acre-feet than an increase in January.

**Figure 1. Monthly Water Sales Pattern**



Metropolitan’s current rates and charges have been in place since January 1, 2009. These current rates and charges will generate an estimated \$1.087 billion in 2009/10 given sales of 1.9 million acre-feet. Without an increase to these rates and charges, Metropolitan would have an estimated remaining revenue need of \$216 million in 2009/10.

**Impact of Change in Effective Date**

To help evaluate the impact of different effective dates, given the change in water sales and costs described above, staff has evaluated three different options.

**Option 1 – Rate increases on January 1 of each year:** Under this option, base rates and charges would need to increase by 23.5 percent on January 1, 2010 plus a \$61 per acre-foot Delta Surcharge. Option 1 would generate an additional \$99 million in 2009/10, which does not fully make up the projected revenue shortfall in the 2009/10 fiscal year, but, along with the increase on January 1, 2011, will result in full cost-of-service recovery. It is anticipated that \$117 million of Metropolitan’s Water Rate Stabilization Funds would be utilized during 2009/10 to meet expenditures. Reserve levels may end the year at \$103 million, which is \$132 million below the Board’s minimum objectives. Due to the low level of reserves, the risk of higher rate increases in future years may be increased if even more adverse conditions occur.

**Figure 2. Option 1 - Rate Stabilization Reserves**

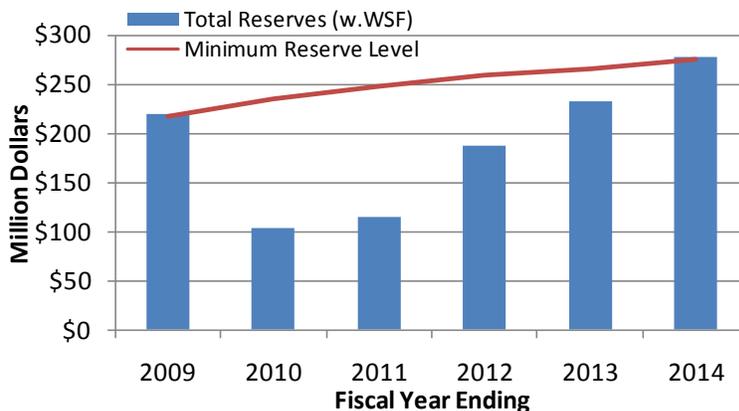


Table 3 shows additional increases that would be necessary in future years. The combined increase in volumetric rates and fixed charges is expected to be 5.4 percent in 2011, and about 4 percent from 2012 through 2014. Revenue bond coverage would drop to 1.39 in 2009/10, but would return to 1.93 by 2010/11.

**Table 3. Option 1 – Rate Increases and Revenue Bond Debt Service Coverage**

<b>Fiscal Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Base Rate Increase	14.3%	23.5%	5.4%	4.1%	3.9%	3.9%
Delta Surcharge	-	\$61/AF	\$61/AF	\$61/AF *	\$61/AF *	\$61/AF *
Revenue Bond Coverage	1.54	1.39	1.93	2.07	2.02	2.03

\* As interim Delta improvements take place, the Delta Surcharge would be reduced to reflect increased deliveries.

The detailed breakdown of the rates and charges that would result from Option 1 is included in Appendix 1, “Estimated Rates and Charges.”

**Option 2 – September 1, 2009 followed by July 1, 2010:** This option presents rate increases on September 1, 2009, followed by volumetric rate increases on July 1 of each year. Moving future rate increases up to July 1 results in a collection of revenues from a given rate increase that more closely matches expenditures under a July to June fiscal year.

Under this option, volumetric base rates would increase by 7.9 percent on September 1, 2009 plus a \$61 per acre-foot Delta Surcharge. The RTS and Capacity Charges would increase by about \$12 million on January 1, 2010. Overall, the total increase in base rates and charges in 2009/10 would be 9.1 percent plus a \$61 per acre-foot Delta Surcharge. Option 2 would generate an additional \$132 million in 2009/10, which does not fully make up the projected revenue shortfall. It is anticipated that \$84 million of Metropolitan’s Water Rate Stabilization Funds would be utilized during 2009/10 to meet expenditures. As shown in Figure 3, reserve levels may end the year at \$136 million, which is \$99 million below the Board’s minimum objectives. Due to the low level of reserves the risk of higher rate increases in future years may be increased if adverse conditions occur.

**Figure 3. Option 2 – Rate Stabilization Reserves**

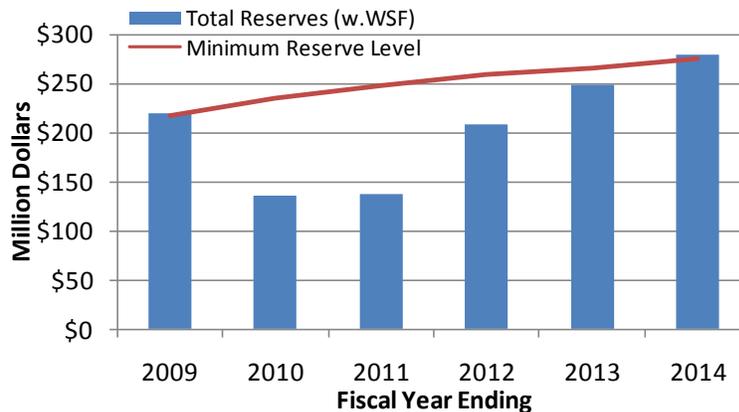


Table 4 shows additional increases that would be necessary in future years. The combined increase in volumetric rates and fixed charges is expected to be 16.2 percent in 2011, and 3.8 percent to 3.5 percent from 2012 through 2014. Revenue bond coverage would stay flat at about 1.51 in 2009/10, but would return to 1.90 by 2010/11.

**Table 4. Option 2 - Rate Increases and Revenue Bond Debt Service Coverage**

<b>Fiscal Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Base Rate Increase	14.3%	9.1%	16.2%	3.8%	3.5%	3.4%
Delta Surcharge	-	\$61/AF	\$61/AF	\$61/AF *	\$61/AF *	\$61/AF *
Revenue Bond Coverage	1.54	1.51	1.90	2.07	2.00	1.99

\* As interim Delta improvements take place, the Delta Surcharge would be reduced to reflect increased deliveries.

Option 2 shows that implementing a rate increase earlier in the year can help reduce the magnitude of the rate increase, improve revenue bond coverage, and reduce draws from rate stabilization reserves. The detailed breakdown of the rates and charges that would result from Option 2 is included in Appendix 1.

**Option 3 – September 1, 2009, followed by September 1, 2010:** This option presents rate increases on September 1, 2009, and September 1, 2010. Additional rate increases would revert back to January 1 effective dates, starting in 2012.

Under this option, volumetric base rates would increase by 7.9 percent on September 1, 2009 plus a \$61 per acre-foot Delta Surcharge. Including fixed charges, the overall base rate increase in 2009/10 would be 9.1 percent plus the \$61 per acre-foot Delta Surcharge. Option 3 would generate an additional \$132 million in 2009/10, which does not fully make up the projected revenue shortfall. It is anticipated that \$84 million of Metropolitan’s Water Rate Stabilization Funds would be utilized during 2009/10 to meet expenditures. As shown in Figure 4, reserve levels may end the year at \$136 million, which is \$99 million below the Board’s minimum objectives. Due to the low level of reserves, the risk of higher rate increases in future years may be increased if adverse conditions occur.

**Figure 4. Option 3 – Rate Stabilization Reserves**

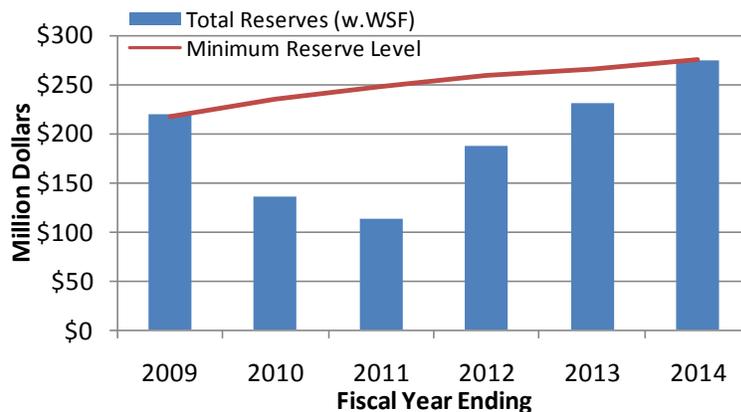


Table 5 shows additional increases that would be necessary in future years. The combined increase in volumetric rates and fixed charges is expected to be 18.4 percent in 2010/11, and just below 4 percent

from 2011/12 through 2013/14. Revenue bond coverage would stay flat at about 1.51 in 2009/10, but would return to 1.82 by 2010/11.

**Table 5. Option 3 - Rate Increases and Revenue Bond Coverage**

<b>Fiscal Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Base Rate Increase	14.3%	9.1%	18.4%	3.9%	3.8%	3.9%
Delta Surcharge	-	\$61/AF	\$61/AF	\$61/AF *	\$61/AF *	\$61/AF *
Revenue Bond Coverage	1.54	1.51	1.82	2.07	2.02	2.02

\* As interim Delta improvements take place, the Delta Surcharge would be reduced to reflect increased deliveries.

Option 3, similar to Option 2, shows implementing a rate increase earlier in the year can help reduce the magnitude of the rate increase, improve revenue bond coverage, and reduce draws from rate stabilization reserves. Option 3 is significantly different from Option 2 because rate increases in future years would return to a January 1 implementation date. Option 2 sets additional rate increases on July 1 of each year. Even with this difference, both Option 2 and Option 3 are able to maintain similar revenue bond coverage over time while achieving the Board's minimum reserve level target by the end of 2013/14. Option 3, however, takes one year longer to recover Metropolitan's cost-of-service in 2011/12. The detailed breakdown of the rates and charges that would result from Option 3 is included in Appendix 1.

#### **Rate Increases Beyond 2011**

Under each option described above, the projected rate increases beyond 2011 reflect inflationary increases. While near-term rate increases will need to be large, long-term rate increases may return to inflationary levels without significant new cost or supply impacts. Some board members have asked staff to investigate an appropriate index that could be used to set a minimum for future annual rate increases. This inflationary adjustment in Metropolitan's rates could help avoid a pattern of little or no rate increases followed by brief periods of large rate increases, similar to the current situation. Staff will develop an inflationary adjustment for future rate projections and rate recommendations for board consideration within the next two months.

## **Appendix 1**

### **Estimated Rates and Charges**

**Table 1. Option 1: Estimated Rates and Charges**

	Effective January 1, 2009	Effective January 1, 2010	Effective January 1, 2011
Tier 1 Supply Rate (\$/AF)	\$109	\$130	\$141
Tier 2 Supply Rate (\$/AF)	\$250	\$300	\$309
Water Supply Surcharge (\$/AF)	\$25	\$25	\$25
Delta Surcharge (\$/AF)	\$0	\$61	\$61
System Access Rate (\$/AF)	\$143	\$166	\$169
Water Stewardship Rate (\$/AF)	\$25	\$44	\$53
System Power Rate (\$/AF)	\$110	\$127	\$133
Full Service Untreated Volumetric Cost (\$/AF)			
Tier 1	\$412	\$553	\$582
Tier 2	\$528	\$698	\$725
Replenishment Water Rate Untreated (\$/AF)	\$294	\$435	\$464
Interim Agricultural Water Program Untreated (\$/AF)	\$322	\$485	\$537
Treatment Surcharge (\$/AF)	\$167	\$232	\$246
Full Service Treated Volumetric Cost (\$/AF)			
Tier 1	\$579	\$785	\$828
Tier 2	\$695	\$930	\$971
Treated Replenishment Water Rate (\$/AF)	\$436	\$642	\$685
Treated Interim Agricultural Water Program (\$/AF)	\$465	\$699	\$771
Readiness-to-Serve Charge (\$M)	\$92	\$116	\$124
Capacity Charge (\$/cfs)	\$6,800	\$7,700	\$7,700

**Table 2. Option 2: Estimated Rates and Charges**

	Effective January 1, 2009	Effective September 1, 2009	Effective July 1, 2010
Tier 1 Supply Rate (\$/AF)	\$109	\$111	\$140
Tier 2 Supply Rate (\$/AF)	\$250	\$300	\$309
Water Supply Surcharge (\$/AF)	\$25	\$25	\$25
Delta Surcharge (\$/AF)	\$0	\$61	\$61
System Access Rate (\$/AF)	\$143	\$143	\$159
Water Stewardship Rate (\$/AF)	\$25	\$39	\$53
System Power Rate (\$/AF)	\$110	\$113	\$132
Full Service Untreated Volumetric Cost (\$/AF)			
Tier 1	\$412	\$492	\$570
Tier 2	\$528	\$656	\$714
Replenishment Water Rate Untreated (\$/AF)	\$294	\$374	\$452
Interim Agricultural Water Program Untreated (\$/AF)	\$322	\$402	\$502
Treatment Surcharge (\$/AF)	\$167	\$207	\$245
Full Service Treated Volumetric Cost (\$/AF)			
Tier 1	\$579	\$699	\$815
Tier 2	\$695	\$863	\$959
Treated Replenishment Water Rate (\$/AF)	\$436	\$556	\$672
Treated Interim Agricultural Water Program (\$/AF)	\$465	\$585	\$729
Readiness-to-Serve Charge (\$M)	\$92	\$104 *	\$123 **
Capacity Charge (\$/cfs)	\$6,800	\$6900 *	\$7700 **

\* Effective January 1, 2010

\*\* Effective January 1, 2011

**Table 3. Option 3: Estimated Rates and Charges**

	Effective January 1, 2009	Effective September 1, 2009	Effective September 1, 2010
Tier 1 Supply Rate (\$/AF)	\$109	\$111	\$144
Tier 2 Supply Rate (\$/AF)	\$250	\$300	\$309
Water Supply Surcharge (\$/AF)	\$25	\$25	\$25
Delta Surcharge (\$/AF)	\$0	\$61	\$61
System Access Rate (\$/AF)	\$143	\$143	\$163
Water Stewardship Rate (\$/AF)	\$25	\$39	\$54
System Power Rate (\$/AF)	\$110	\$113	\$134
Full Service Untreated Volumetric Cost (\$/AF)			
Tier 1	\$412	\$492	\$581
Tier 2	\$528	\$656	\$721
Replenishment Water Rate Untreated (\$/AF)	\$294	\$374	\$463
Interim Agricultural Water Program Untreated (\$/AF)	\$322	\$402	\$513
Treatment Surcharge (\$/AF)	\$167	\$207	\$249
Full Service Treated Volumetric Cost (\$/AF)			
Tier 1	\$579	\$699	\$830
Tier 2	\$695	\$863	\$970
Treated Replenishment Water Rate (\$/AF)	\$436	\$556	\$687
Treated Interim Agricultural Water Program (\$/AF)	\$465	\$585	\$744
Readiness-to-Serve Charge (\$M)	\$92	\$104 *	\$126 **
Capacity Charge (\$/cfs)	\$6,800	\$6900 *	\$7800 **

\* Effective January 1, 2010

\*\* Effective January 1, 2011