



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

April 14, 2009 Board Meeting

Revised 8-3

Subject

Adopt (1) recommended water rates and charges; and (2) resolutions to impose charges, for fiscal year 2009/10

Description

SUMMARY

This letter recommends approval of a 19.7 percent increase in overall rates and charges and, further, that the Board implement this increase by approving: (1) the recommended rates and charges as discussed in this letter; (2) the resolution to impose the Readiness-to-Serve Charge effective January 1, 2010; and (3) the resolution to impose the Capacity Charge effective January 1, 2010.

Metropolitan is facing one of the most challenging time periods in its history. Water supply challenges and the current economic downturn, combined with the fact that Metropolitan has not collected sufficient revenues to cover its costs in three of the past four years, will necessitate significant rate increases over the next two fiscal years. In an effort to spread rate increases, Metropolitan has been withdrawing from reserves to fund necessary expenditures over the past four years. At the same time, the largest court-ordered supply cutback in the history of the State Water Project (SWP) occurred in 2008. With the Delta smelt Biological Opinion issued by the U.S. Fish and Wildlife service on December 15, 2008, significant cutbacks are expected to continue into the future. This reduction of more than one-third of Metropolitan's SWP supplies has triggered additional expenditures for development and acquisition of new supplies and heightened conservation efforts. In light of past under-collections, projected water supply and water infrastructure cost increases, and reductions to future water sales, staff has estimated that Metropolitan needs to raise rates approximately 40 percent cumulatively over the next two years. These cutbacks in SWP supplies mean Metropolitan will need to allocate supplies in fiscal year 2009/10 and possibly beyond.

Given these severe conditions and the prospect of painful rate increases over the next two years, the Board and member agencies have participated in unprecedented review of Metropolitan's budget and rates over the past three months, including board workshops on January 6, February 24, and March 24, 2009, Business and Finance Committee meetings held on January 9, February 12, and March 9, 2009, and input at the monthly Member Agency Managers' Meetings throughout this process. In addition, the Business and Finance Committee held a public hearing on rates and charges at its meeting on March 9, 2009. Public comments are included in Attachment 1 for the Board's consideration.

The rate options in this letter reflect input from this process, including:

- a. **Delta Surcharge.** Member agencies and board members suggested that Metropolitan's rates include a specific element to reflect the impact of the Delta pumping restrictions on Metropolitan's finances. This supply component would be included in water sold by Metropolitan. The derivation of the Delta Surcharge is detailed below.
- b. **Timing.** At the suggestion of board members, staff has developed an option to increase rates in September 2009, rather than the usual scheduled increase on January 1, 2010 for the Board's consideration. Raising rates earlier than Metropolitan's normal practice helps reduce the magnitude of the increases in fiscal year 2009/10.

- c. **Sales volumes.** Both rate options reflect the reality of lower sales volumes due to cutbacks and the implementation of Metropolitan’s Water Supply Allocation Plan. Rate options discussed in this letter have been developed based on water sales of 1.9 million acre-feet in 2009/10, consistent with the budget proposed in Board Letter 8-2.
- d. **Lower costs.** As more fully described in Board Letter 8-2, Metropolitan’s budget has been reduced by about \$50 million, including lower chemical costs associated with treatment, reduced power costs, and lower operating and maintenance costs. Actions to reduce operating costs include reducing 33 positions, cutting outside service costs, and eliminating any contingency allowance within the budget. While negotiations with bargaining units are ongoing, the budget does not include any across the board salary increases.
- e. **Capital funding.** In an effort to mitigate the rate impacts in fiscal year 2009/10 and preserve reserves, the Pay-As-You-Go (PAYG) funding will be limited to \$37.6 million in the coming fiscal year, rather than the Board’s historic guideline of \$95 million. Rate options have been developed assuming that PAYG funding will be restored to its historic levels in 2010/11.

REVENUE REQUIREMENTS

Table 1 summarizes the 2009/10 revenue requirements. The revenue requirements (including capital financing costs, but not construction outlays financed with bond proceeds) will total approximately \$1.535 billion in 2009/10.

Table 1. Revenue Requirements (by budget line item)

	Fiscal Year Ending 2010	% of Revenue Requirements (1)
Departmental Operations & Maintenance		
Office of the General Manager & Human Resources	\$ 13,907,000	0.8%
External Affairs	18,236,700	1.1%
Water System Operations	192,110,700	11.3%
Chief Financial Officer	5,846,600	0.3%
Corporate Resources	50,896,100	3.0%
Real Property Development & Mgmt	11,250,700	0.7%
Water Resource Management	19,680,200	1.2%
Ethics Department	480,200	0.0%
General Counsel	7,699,900	0.5%
Audit Department	2,058,700	0.1%
Total	322,166,800	19.0%
General District Requirements		
State Water Project	478,772,954	28.3%
Colorado River Aqueduct	49,751,247	2.9%
Supply Program Costs paid from operating revenues	125,503,611	7.4%
Water Management Programs	59,844,024	3.5%
Capital Financing Program	425,748,027	25.1%
Other O&M	18,690,700	1.1%
Increase (Decrease) in Required Reserves	54,200,000	3.2%
Total	1,212,510,563	71.6%
Revenue Offsets	(158,515,281)	9.4%
Net Revenue Requirements	\$ 1,376,162,082	100.0%

(1) Given as a percentage of the absolute values of total dollars allocated.
Totals may not foot due to rounding

Metropolitan generates a significant amount of revenue from interest income, hydroelectric power sales and miscellaneous income. These additional revenues are expected to generate about \$67.1 million in fiscal year 2009/10. It is expected that Metropolitan will also generate about \$91.4 million in ad valorem property tax revenues and annexation charges. Property tax revenues are used to pay for a portion of Metropolitan’s general obligation bond debt service, and a portion of Metropolitan’s obligation to pay for debt service on bonds issued to fund the State Water Project. The total revenue offsets for fiscal year 2009/10 are estimated to be around

\$159 million. Therefore, the revenue required from rates and charges is the difference between the total costs and the revenue offsets, or \$1.38 billion.

RATE OPTIONS

As shown above, the total revenue requirements to be generated from rates and charges in fiscal year 2009/10 is projected to be \$1.38 billion. Neither of the rate options proposed in this letter will fully recover Metropolitan's costs in 2009/10, instead relying on additional withdrawals from reserves to support expenditures through at least 2009/10.

The following overall rate options are provided for the Board's consideration. The detailed cost of service study, analysis is included in Attachment 2, the proposed Readiness-to-Serve Charge resolution is included as Attachment 3, and the proposed Capacity Charge is included as Attachment 4.

- **Option 1** – Rate increase effective on January 1, 2010, reflecting a 33.9 percent average rate increase. This rate increase does not recover the full cost-of-service within fiscal year 2009/10. It is estimated that approximately \$118 million would be withdrawn from reserves to meet expenditures in 2009/10. The projected rate increase needed on January 1, 2011 would be about 5.5 percent, and rates would then recover the full cost-of-service in fiscal year 2010/11. This option would result in lower revenues in 2009/10, but would help insure against larger rate increases in future years. In addition, this increase would result in revenues that more quickly recover Metropolitan's cost-of-service. A number of member agencies favor this option as it provides time for them and their members to pass the higher rates on to their customers. On the other hand, a number of member agencies have expressed concern over the magnitude of this rate increase, and prefer a lower increase in the current fiscal year even if the January 2011 increase will be larger.
- **Option 2** – Rate increase effective on September 1, 2009, reflecting a 19.7 percent average rate increase. This rate increase does not recover the full cost-of-service within fiscal year 2009/10. It is estimated that approximately \$88 million would be withdrawn from reserves to meet expenditures in 2009/10. The projected rate increase on January 1, 2011 would be about 21.5 percent, and revenues would not recover the full cost-of-service until fiscal year 2011/12 when the cumulative impact of these increases would affect an entire fiscal year. In addition, the timing of this increase would require an adjustment in the way that Tier 2 rates are calculated. Staff recommends that the Tier 2 Supply rate in effect on January 1, 2009, be used to calculate the bill for Tier 2 sales in calendar year 2009. The Tier 2 Supply rate in effect on January 1 of subsequent years would continue to be used to calculate bills in the relevant calendar year. This adjustment would eliminate the potential of an unintended impact on member agencies that purchase Tier 2 supplies in 2009. The Readiness-to-Serve Charge and the Capacity Charge would continue to be increased on January 1, 2010. A number of member agencies prefer this option as it would result in lower rate increases in 2009/10, while recognizing that a large rate increase on January 1, 2011 would be required. In addition, this option generates more revenue in the 2009/10 fiscal year.

Delta Supply Surcharge

Each of the rate options would include a Delta Supply Surcharge of \$69 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 biological opinion on Delta Smelt and other actions to protect endangered fish species. The Delta 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 ease pumping restrictions.

The Delta Supply Surcharge is designed to recover the costs of the additional supply costs that Metropolitan faces as a result of the pumping restrictions (such as purchases from the State Drought Water Bank, additional purchases from PVID, Yuma Desalter, etc), lost value in supplies available from the State Water Project, and the cost of personnel and consultants working to develop improved supply and ecological conditions in the Delta. These costs total approximately \$118 million in 2009/10. The Delta Supply Surcharge would be charged to all Tier 1 sales, IAWP and Replenishment sales, estimated to total about 1.7 million acre-feet. This results in a Delta

Supply Surcharge of \$69 per acre-foot. Since the Delta Supply Surcharge includes additional supply costs associated with the Delta pumping restrictions, the current Water Supply Surcharge will be eliminated effective with the 2009/10 rates.

Table 2 shows the individual rate elements proposed under both Option 1 and Option 2, along with the fully bundled rates.

Table 2: Rates and Charges by Option

	Effective January 1, 2009	Option 1 January 1, 2010	Option 2 Sept. 1, 2009
Tier 1 Supply Rate (\$/AF)	\$109	\$147	\$101
Delta Supply Surcharge (\$/AF)	\$0	\$69	\$69
Tier 2 Supply Rate (\$/AF)	\$250	\$324	\$280
Water Supply Surcharge (\$/AF)	\$25	\$0	\$0
System Access Rate (\$/AF)	\$143	\$171	\$154
Water Stewardship Rate (\$/AF)	\$25	\$44	\$41
System Power Rate (\$/AF)	\$110	\$126	\$119
Full Service Untreated Volumetric Cost (\$/AF)			
Tier 1	\$412	\$557	\$484
Tier 2	\$528	\$665	\$594
Replenishment Water Rate Untreated (\$/AF)	\$294	\$439	\$366
Interim Agricultural Water Program Untreated (\$/AF)	\$322	\$489	\$394
Treatment Surcharge (\$/AF)	\$167	\$228	\$217
Full Service Treated Volumetric Cost (\$/AF)			
Tier 1	\$579	\$785	\$701
Tier 2	\$695	\$893	\$811
Treated Replenishment Water Rate (\$/AF)	\$436	\$642	\$558
Treated Interim Agricultural Water Program (\$/AF)	\$465	\$699	\$587
Readiness-to-Serve Charge (\$M)	\$92	\$120	\$114*
Capacity Charge (\$/cfs)	\$6,800	\$7,600	\$7,200*

* Effective January 1, 2010

Future Rate and Cost-of-Service Discussion

Over the next year, the committee, staff and the member agencies will review the cost-of-service methodology, and evaluate the need to add or delete cost of service categories, and to adjust rates and charges in 2010/11 to reflect full cost of service. This review may result in the addition or deletion of rate elements, as well as increases or decreases in rate elements. This evaluation would reflect the request of a number of Board members and member agency managers to evaluate increasing fixed charges. This would take some of the pressure from water rates, while helping to mitigate the impacts of lower sales in the future. Staff recommends continuing this discussion, with a full evaluation of Metropolitan's ability to increase property taxes to fund a greater portion of the State Water Project fixed costs. In addition, other fixed charges including the Readiness to Serve Charge, the Capacity Charge, and possibly a Treated Water Capacity Charge will also be reviewed as ways to fund the costs associated with emergency and peaking service over time. It is anticipated that this review would be completed by December 2009, in order to be incorporated into the rates and charges to be effective on January 1, 2011.

Policy

Metropolitan Water District Administrative Code Sections 4301 (a) (b): Cost of Service and Revenue Requirement

Metropolitan Water District Administrative Code Sections 4304 (c) (f): Apportionment of Revenues and Setting of Water Rates and Charges to Raise Firm Revenues

California Environmental Quality Act (CEQA)

CEQA determination for Options #1, #2, and #3:

The proposed actions are not defined as a project under CEQA, because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed actions are not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

Board Options

Option #1

Adopt the CEQA determination and

- a. Approve water rates effective January 1, 2010;
- b. Adopt Resolution to Impose the Readiness-to-Serve Charge; and
- c. Adopt Resolution to Impose the Capacity Charge.

Fiscal Impact: Revenues from rates and charges of \$1.18 billion in fiscal year 2009/10, and an increase in the effective rate of 33.9 percent in 2010 if the rates and charges are adopted as recommended. This represents an increase of \$98 million in revenues in fiscal year 2009/10.

Option #2

Adopt the CEQA determination and

- a. Approve water rates effective September 1, 2009;
- b. Adopt Resolution to Impose the Readiness-to-Serve Charge; and
- c. Adopt Resolution to Impose the Capacity Charge.

Fiscal Impact: Revenues from rates and charges of \$1.22 billion in fiscal year 2009/10, and an increase in the effective rate of 19.7 percent in 2010 if the rates and charges are adopted as recommended. This represents an increase of \$128 million in revenues in fiscal year 2009/10.

Option #3

Adopt the CEQA determination and instruct staff to modify the recommended rates and charges.

Fiscal Impact: Unknown

Staff Recommendation

Option #2


 Brian G. Thomas 4/7/2009
 Chief Financial Officer Date


 Jeffrey Knightlinger 4/7/2009
 General Manager Date

Attachment 1 – Public Comments

Attachment 2 – Metropolitan Water District of Southern California, FY 2009/10 Cost of Service

Attachment 3 – Resolution to Fix and Adopt Readiness-to-Serve Charge

Attachment 4 – Resolution to Fix and Adopt Capacity Charge

BLA #6333

Attachment 1

Public Comments

Public Hearing Held March 9, 2009

Comments of Mr. Chuck Rathbone
Chief Financial Officer
Eastern Municipal Water District

(MWD staff notes)

The Eastern Municipal Water District expressed its appreciation for Metropolitan's staff work to prepare a variety of rate options, but also its concern with the rate proposals. Eastern is a retail agency and Metropolitan's rates are treated as a pass-through. The proposed rate action for September 2009 is very difficult for Eastern to implement. Eastern agrees that the SWP fixed cost recovery is the real issue. As such, these costs should be recovered through other sources. For example, increasing the tax rates should be an option. Even a one cent per \$100 of Assessed Valuation increase, would yield \$212 million from property taxes. This would only imply an additional \$35 tax for a \$350 thousand home. However, an average rate increase of \$112 per acre-foot would imply an additional \$56 per year for the average water bill. There are several benefits of increasing the property taxes, namely: easy to administer, creates additional revenues, it would lower volumetric rates, and it would be beneficial for Metropolitan's credit rating. Therefore, it deserves further consideration.

Mr. Rich Atwater
Chief Executive Officer/General Manager
Inland Empire Utilities Agency

(MWD staff notes)

Projected sales have been revised from 2.1 MAF in the proposed budget, to 1.9 MAF at present. However, even the 1.9 MAF sales might be too optimistic for the near term. A September 2009 rate increase is feasible for Inland to accommodate; a July rate increase would be problematic to implement. Inland recommends to consider a higher rate increase in the current year, so that future rate increases are lower. Eastern's proposal for raising the tax rate is intriguing and deserves serious consideration, though it may be challenging to implement this summer given the current issues facing the State. The LRF process has been beneficial for all member agencies, but we still need long-term sustainable financial planning.

Mr. Mike Nolan
Former Director
City of Burbank

(MWD staff notes)

Mr. Nolan emphasized the need for leadership from the Metropolitan Board during these times when water deliveries to Southern California are declining. Metropolitan leadership has brought significant improvements like reclaim water projects, and the stand-by charge, both of which were not present during the last drought. However, increasing rates by 20 percent during a time of increased conservation is more difficult for the water users. A rate increase of over 20 percent as proposed, would be tough for customers in Southern California.

Mr. William Seelig
President
Institute of Human Engineering

(MWD staff notes)

The Institute of Human Engineering expressed their desire for more small businesses submitting bids for projects, which would then reduce the cost of such projects. There was a proposal in the 1950s by Bob Skinner and Kenneth Hahn, for the import of water to Southern California from the Columbia River. Such a project would be financed by the US Government, just like the CRA. There is a pressing need to increase water deliveries to Southern California from out of State.

From: EDEN ROSEN [mailto:roseneden@hotmail.com]

Sent: Sunday, March 08, 2009 10:56 PM

To: Wakiro,Rosalind

Subject: March 9, 2009 meeting

Dear Ms. Wakiro:

I am writing in regard to Monday's public hearing pertaining to water rate increases as I will not be able to attend. Any cost increases you pass onto City governments will be passed onto many via higher rents or fees who can't afford them.

As an advocate for seniors, I want to voice my concerns about these proposed increases. Seniors are on fixed incomes and this would be an extreme hardship as it would for the average citizen or those who lost their jobs. With the economy continuously tanking, citizens are finding it more difficult to make ends meet. There will be more belt-tightening resulting in more store closures and an increase in unemployment. It is never a good idea to raise fees and taxes in such an economy.

Seniors, those who are disabled and others are not able to pay for their medications, their rents, mortgages, and higher rates would devastate them.

I urge you to consider the above-mentioned comments when you make your decision and plan for your budget.

Sincerely,
Eden Rosen

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From: EDEN ROSEN [mailto:roseneden@hotmail.com]

Sent: Wednesday, March 18, 2009 8:13 PM

To: Gil De Montes, Melani C

Subject: re your proposed rate increase

I'm writing in regard to your proposed rate increase hearing on April 14th. I won't be able to attend and want to voice my opposition to any and all increases.

We are in new and uncharted territory with the economy and it continues to tank and shed jobs every day. A spike in water rates to Cities will be passed onto the ratepayers. This means higher rents, higher fees, more money for groceries, and more belt tightening.

People can barely pay their rents and fees now. I hear a lot of complaints. When people can't pay their bills and decrease their shopping more stores will close, which will mean more people out of work and higher unemployment.

While there isn't a good time to raise rates you are proposing, in this economy it's a disaster. Please have compassion and a heart for those who aren't going to be able to afford your increases.

Sincerely,
Eden Rosen
Consumer/Senior Advocate

Windows Live™: Keep your life in sync. [Check it out.](#)



WESTERN
MUNICIPAL
WATER
DISTRICT

John V. Rossi
General Manager

Charles D. Field
Division 1

Thomas P. Evans
Division 2

Brenda A. Dennstedt
Division 3

Donald D. Galleano
Division 4

S.R. Al Lopez
Division 5

March 9, 2009

Mr. Tim Brick, Board Chairman
Mr. Jeff Kightlinger, General Manager
Metropolitan Water District of Southern California
Los Angeles, CA

Subject: Proposed 2009 Water Rate Increase

Gentlemen:

At Western Municipal Water District, we fully recognize that our imported water supply is a precious resource, one we do not take for granted. Our entire state faces extraordinary times as we contend with the affects of years of drought on the Colorado River, below-average rainfall in California, decreased Sierra Nevada snowpack, and an economic recession. Such factors have led to Governor Schwarzenegger declaring a statewide water emergency just last month.

In 2008, we further saw the largest court-ordered supply cutbacks in State Water Project. Adding to the growing anxiety over the long-term future of our imported water supply is the recent announcement of water reductions to protect the Delta Smelt, leading to a projected 15 percent State Water Project water allocation for the coming year. In short, we face a "perfect storm" of extraordinary issues requiring extraordinary leadership. Our economy and our very livelihood as we currently know it, depend upon a reliable water supply.

Western and its partner sub-agencies are aware that during the last three out of four years, Metropolitan has not collected sufficient revenues to cover its costs, thus relying upon its reserves to mitigate rate increases and fund expenditures. We, as member agencies, expect to face the impact of this growing disparity, leading to higher rates which ultimately must be passed on to our customers. Prudent fiscal management dictates rates must be increased to maintain our fiscal health and ensure a reliable water supply to our customers. However, we must also thoroughly consider the impact to our local and regional ratepayers. With California unemployment rate at 10.1 percent as of January 31, we've reached our highest monthly rate since June 1983. Riverside County fares no better with unemployment at 10.4 percent as of December 2008. These factors and impending rate increases put further pressure on member agency elected board's and could have far-reaching implications should voters not properly understand why such dramatic increases have become necessary.

Metropolitan staff has indicated that the District may need as much as a 50 percent rate increase to meet bond coverage requirements on its outstanding debt. This is due in large part to the pending shortages that have resulted from the loss of full Bay Delta water supply deliveries. While Metropolitan has met demands thus far by drawing down financial reserves and strategic water supplies, and conservatively raising rates, these options have practical limits as well.

We understand Metropolitan must mitigate impacts on water ratepayers by holding the 2009/10 departmental operating budget "flat" compared to the 2008/09 budget. Measures include staff reductions and maintaining an average vacancy rate equal to approximately 5.4 percent of salaries. We all have a vested interest in ensuring that Metropolitan remains viable and continues to provide a safe and reliable water supply to its member agencies. This is critical to the region's economic health. However, we also believe that aggressive cost-control measures and finding creative ways to further reduce costs are essential.

Letter to Metropolitan Water District of Southern California
March 9, 2009
Page 2

Western recommends that Metropolitan implement an increase in revenues from property taxes to offset some of the consumption-based rate increases coming from non-commodity based costs (e.g., State Water Project). As staff has explained, this could be achieved by keeping the Ad Valorem rate at current levels. This opportunity is afforded by way of the previously voter approved AV Authority. Voters approved this authority as method to pay for some of the costs associated to the State Water Project. Western recommends that the Board consider directing District staff to provide alternatives that would better align fixed costs to be recovered by fixed revenues. Metropolitan could make a necessary finding after a public hearing and make the necessary reports/requests to the legislature as outlined in Section 124.5 of the MWD act.

In past times, there were good policy reasons not to increase this tax levy. However, current conditions are beyond normal including the extreme stresses on Metropolitan's financial reserves and rate revenue setting capacity. The MWD and the state legislature were wise leaving this option for Metropolitan in the event of unprecedented conditions which we currently face today.

Western and our retail water agency partners met on February 18th to discuss these issues and to receive their input on these key issues. Many of the issues addressed in this letter were suggested by the staff and elected board members from the group's collective comments. Additionally, the Riverside County Water Task Force held a Riverside County Water Purveyor's Roundtable (general managers from Riverside County water agencies) on March 4th to discuss local water issues and the need for working together to develop mutually viable solutions for a sustainable water supply. A direct result of these meetings was a general consensus that we all need to work closer with Metropolitan to further emphasize water use efficiency and related conservation programs, rather than cutting these critical programs. Additionally, innovative and aggressive messaging must be developed to engage and inform consumers throughout Southern California. The District is working closely with its sub-agencies to implement recently completed Integrated Regional Water Management and Water Use Efficiency master plans. Each identifies how to best allocate our limited imported water supplies within our wholesale service territory; utilize innovative emerging technologies and practices; and develop proven water use efficiency measures that are both easy and cost effective for customers to implement.

Western's top long-term priority is to restore water reliability from the Bay Delta by supporting the peripheral canal. This action will result in the ability to deliver the greatest amount of water to the most people, farms and industry throughout this great state.

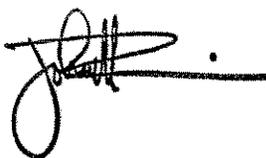
Western Municipal Water District believes the suggestions presented in this letter for your consideration as part of the full evaluation and integration of ideas into the budgetary and rate increase process. We believe strongly in member agencies working more effectively with MWD, and the need for strong leadership and clear messaging to all residents in Southern California on the realities of the new dynamics of water supply reliabilities.

Please contact me if you have any questions or if Western and its sub-agencies can provide additional information or assistance in the process.

Sincerely,



Thomas P. Evans
BOARD PRESIDENT



John V. Rossi
GENERAL MANAGER



CITY OF FULLERTON

CITY COUNCIL

Office of the Mayor and City Council

Mayor, Don Bankhead
Mayor Pro Tem, Pam Keller
F. Richard Jones, M.D.
Shawn Nelson
Sharon Quirk

March 5, 2009

Jeff Kightlinger
General Manager
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, California 90054-0153

Subject: Proposed 2009/10 Fiscal Year Budget

Dear Mr. Kightlinger:

In reference to the January 13, 2009 Metropolitan Water District Board's letter, the City of Fullerton supports MWD's continual efforts to control operating costs and examine all possible areas to cut costs now and into the 2009-10 budget.

With the water supply challenges in the Delta, rate increases are inevitable. Fullerton supports smoothing the amount of increase to no single year over 15% and eventually adopting a minimum rate increase tied to the Consumer Price Index. With our current economic downturn, a single year over 20% will be met with much resistance by the rate payers of Fullerton.

The City of Fullerton appreciates your efforts, and those of your staff, to do all you can to deal with these water supply cost increases while being sensitive to current economic perils, which are affecting all the rate payers in your service area.

Sincerely,

Don Bankhead
Don Bankhead
Mayor

Chris Meyer
City Manager
Chris Meyer

copy: James Blake, MWD Board



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

January 13, 2009

Jeff Kightlinger,
General Manager
Metropolitan Water district
of Southern California
P.O. Box 54153
Los Angeles, California 90054-0153

MEMBER AGENCIES

- Carlsbad
Municipal Water District
- City of Del Mar
- City of Escondido
- City of National City
- City of Oceanside
- City of Poway
- City of San Diego
- Fallbrook
Public Utility District
- Helix Water District
- Lakeside Water District
- Olivenhain
Municipal Water District
- Otay Water District
- Padre Dam
Municipal Water District
- Camp Pendleton
Marine Corps Base
- Rainbow
Municipal Water District
- Ramona
Municipal Water District
- Rincon del Diablo
Municipal Water District
- San Dieguito Water District
- Santa Fe Irrigation District
- South Bay Irrigation District
- Vallecitos Water District
- Valley Center
Municipal Water District
- Vista Irrigation District
- Yuma
Municipal Water District
- OTHER REPRESENTATIVE**
County of San Diego

Subject: Proposed 2009/10 Fiscal Year Budget

Dear Jeff:

I have been informed by the Water Authority's MWD Delegation that Metropolitan's Budget and Finance Committee yesterday voted to delay the adoption of rates and charges for 2010 to April, in order to better coincide with the board's decision on possible supply allocation. The Water Authority strongly supports this decision, especially in light of your staff's presentation showing how sensitive Metropolitan's rates and charges are to various modeled sales assumptions. We understand that Metropolitan plans to use this additional time to conduct a thorough review of the budget before it is adopted, and, that you are seeking input from the member agencies on specific subjects for the Board's consideration.

Current circumstances are such that the recommended rates and charges for 2010 must be considered in the context of a 3-5 year water supply look ahead, taking into account a range of assumptions for both weather conditions and availability of imported water. Metropolitan and its member agencies are facing an extended period of water supply challenges and it is therefore important not to fall into the trap of looking for "quick fixes" in the current fiscal year that will only leave us more vulnerable in 2010 and beyond – from the point of view of either water supply availability or rates. In order to accomplish this objective, an integrated review of water supply requirements and availability with the proposed budget and long term financial plan is required.

As a starting point for your consideration, the Water Authority would suggest the following specific topics be included in your analysis of the budget and presentations to the board:

Cost Cutting Measures

- Propose departmental budgets showing a 5%, 10%, and 15% cut and be prepared to explain the service impact of these cuts.

A public agency providing a safe and reliable water supply to the San Diego region

Mr. Kightlinger
January 13, 2009
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- In each departmental budget, identify core vs. non-core functions and costs that the proposed budget supports (e.g., identify whether DVL and Lake Skinner recreational activities are core or non-core functions); identify why is it necessary for Metropolitan to support these functions and if these functions are necessary and cannot be eliminated.
- Review the capital budget to identify those new projects, including replacement and refurbishment projects, which could be delayed; identify the impacts of delaying new projects for 6 to 12 months; and consider whether projects already authorized but for which construction has not commenced may be deferred;
- Review all demand management programs to disclose:
 1. How much of the budget is to meet existing obligations? How much is for new programs? How have these programs been evaluated to assure that the supply/demand reduction benefit of each program will be realized?
 2. What do the new programs support? What would be the impact if MWD reduces/eliminates this expense?
 3. Are there other less costly means of obtaining some or all of the benefits, such as a revolving fund?
- Review all supply programs to determine whether they provide a cost-effective benefit justifying the expenditures; and report on cost-efficiency opportunities staff undertook for these programs.
- Report staff's effort in exploring all outside funding opportunities.

Financial Measures

- Investigate limiting Pay-as-you-go funding to minimum required.
- Investigate the impact of financing a portion of the operation expenses using taxable bonds over the next two years to mitigate rate impacts.
- Investigate transitioning the current incentive programs to revolving fund mechanisms.

Mr. Kightlinger
January 13, 2009
Page 3 of 3

- Investigate the impact of redirecting the use of \$19M currently set aside for desalination facilities to fund operations.
- Investigate, in consultation with the General Counsel, the risk and impact of redirecting the use of \$25M currently set aside for self insured retention to fund operations.

I appreciate that in preparing the draft budget, you and your staff have accomplished several cost savings measures and that finding additional savings will be a challenge. However, the action by Metropolitan's Board demonstrates that it desires a transparent process that further explores all areas of cost cutting, as well as potential revenue generating opportunities, before the budget is adopted by the Board. The Water Authority believes the suggestions in this letter will help assure that fiscal and water supply realities are fully evaluated and integrated into the budget process. My staff and I look forward to working with you in the coming weeks to develop a budget and rates recommendation that our delegates can support. Please contact me if you have any questions or if I may be of assistance to you in this process.

Sincerely,



Maureen A. Stapleton
General Manager

cc: San Diego MWD Delegation
SDCWA Board of Directors

BURBANK COMMENTS FOR CONSIDERATION DURING MWD 2009/10 ANNUAL BUDGET REVIEW -2/24/09

OPERATION AND MAINTENANCE BUDGET

1. Some portion of the flat O&M budget appears to be a result of charging labor to capital projects. This isn't a sustainable reduction as it would have to happen every year or there is an actual increase in O&M that is masked by single year accounting.
2. Labor is the largest is the component of the O&M budget. Some potential management actions for cost reduction require "meet and confer" with bargaining units. In order to achieve a 5% reduction a policy choice of "give backs" or layoffs should be offered to the unions. Future wage and salary surveys for all compensation, including benefits, should be pegged to the middle of the average of the third quartile of the MWD member agencies. The current wage structure needs to be brought into line with member agencies as consecutive double digit rate increases are being proposed.
3. Ensure that plant and equipment replacement schedules are tied to meaningful life cycle costing for replacement rather than simple age basis or qualitative judgment replacement.

CAPITAL BUDGET

1. Reduce capital spending and related bond issues to only those projects that are clearly required to ensure the safe and reliable delivery of water or are specifically reimbursed by a member agency.
2. Identify all remaining capital projects that are appropriate for Design/Build implementation and execute them utilizing that project delivery method. A legal issue may require resolution.

FINANCIAL POLICY

1. Immediately halt all subsidized interruptible water sales. The current "Opt Out" rate of 75% further confirms what happened in both the gas and electric industries when interruptions are to be implemented. Customers utilizing an interruptible rate but truly desiring firm service switch to firm demand when service is about to be interrupted.
2. Eliminate Paygo capital and bond all capital work until reserves are restored. Raising rates while Paygo capital is continued and/or increased and reserves are built is not sustainable in the current situation of water shortage and economic downturn.
3. A Delta Crisis Surcharge to reflect the economics of incremental water costs until the crisis is resolved makes sense in that it ties the cause of increased costs to providing supply and explains the impact to retail customers. The current rates have a \$25/AF Drought Surcharge. Will this be rolled into a Delta Crisis surcharge? We are also lacking a 10 year outlook as to the solution of the Delta Crisis. Is the solution, i.e. cost of the solution, such that a Delta Crisis Surcharge will morph into bond payments or DWR charges for a peripheral canal or equivalent? If that is the case, are we looking at the rates of the future rather than a temporary or interim surcharge?



17140 S. Avalon Blvd., Suite 210, Carson CA 90746 310-217-2411 www.westbasin.org

February 23, 2009

Jeffrey Kightlinger, General Manager
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054

Dear Jeff,

West Basin Municipal Water District appreciates the leadership that the Metropolitan Water District staff has demonstrated in recommending a rate increase that, given not only the current financial crises at every level of government, but also the threat of water shortages and mandatory conservation, is understandably unpopular. We expect that Metropolitan will continue to consider aggressive cost-management actions with the member agencies, and to take action where appropriate to ensure that revenue will be spent most responsibly.

Metropolitan is now well beyond the point of pulling levers such as drawing down reserves or debt-financing maintenance of facilities, in order to keep rate increases artificially low. Metropolitan's proposed budget must reflect the reality of shallow reserves and extended lower sales forecasts driven by recession and extraordinary conservation intended to avoid shortage allocation.

West Basin is particularly concerned with the impact that continued failure to set rates and charges to recover full cost of service and adequate reserve levels will have on Metropolitan's ability to maintain its excellent credit ratings. Fitch's recent "Negative Outlook" for Metropolitan only reinforces this concern. Furthermore, Metropolitan is currently out of compliance with its own financial policies or guidelines regarding rate stabilization reserve levels, debt service coverage ratios, and PAYGO funding of system rehabilitation and refurbishment.

Not only would a downgrade of Metropolitan's credit result in significantly higher borrowing and debt management costs, and hinder access to markets – all of which translate to cost and rate increases over the long-term, but it would cause a rippling effect on the credit ratings of member agencies with outstanding debt portfolios of their own, such as West Basin.

As Metropolitan refines the sales projections for the proposed Fiscal Year 2009-10 budget over the next few weeks, West Basin urges you to continue to recommend increases in water rates and charges that will maintain Metropolitan's hard-earned financial reputation by recovering the full cost of providing reliable water service and bringing the agency back within its financial policy guidelines.

Jeffrey Kightlinger
February 23, 2009
Page 2 of 2

Please don't hesitate to contact me at (310) 660-6210 to further discuss West Basin's concerns regarding this matter.

Sincerely,



Rich Nagel
General Manager

FP:sa w:\shared\sue\Rich Correspondence\JK MWD ltr



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March 23, 2009

Metropolitan Water District of Southern California
Business and Finance Committee
700 N. Alameda Street
Los Angeles, CA 90012

Re: ***Objection to Proposed 2009/10 Budget and Rates***

Dear Business and Finance Committee Members:

The Olivenhain Municipal Water District (District) would like to officially be entered into the public record of the Metropolitan Water District (MWD) Business and Finance Committee as objecting to the proposed budget and water rate charges for fiscal year 2009/2010, as presented in the General Manager's memo to the Board of Directors Business and Finance Committee on March 10, 2009. The District is a member agency of the San Diego County Water Authority, and provides retail water treatment and supply to approximately 60,000 customers in North San Diego County.

On behalf of our customers, the District must express its deep concern and objection to the substantial and unplanned wholesale water rate increases being proposed by MWD Staff. The District as part of its own prudent financial planning looks to MWD rate forecasts to project its own future rates and charges. In September 2008, a 15-21% rate increase projection for 2010 was provided by MWD Staff to retail agencies for planning purposes following a 14% rate increase that took effect January 1, 2009. Only last month (March 2009), the five-year rate increase options with a rate increase projection as high as 33.9% turned into one of the rate options with a very aggressive implementation date as early as September 1, 2009. A smooth ramping of rates for the next five years, rather than large rate spikes such as this, would be more workable for planning purposes.

Like MWD, the District is also expecting a lower sales volume due to water supply shortages. However, retail water agencies should not be expected to absorb all of MWD's budget shortfalls. As you are aware, our customers are already faced with difficult financial times. We, therefore, need to be sensitive to their current financial situation.

We are requesting the Finance Committee to give direction to MWD Staff to take another look at the Staff 2009/10 Proposed Budget and Rates for a possibility of smoothing out MWD's rate increases for the next five years. Some things for the

Committee to consider are as follows: Is now a good time to be concerned about restoring Pay-As-You-Go (PAYG) funding levels to \$95 million by 2010/2011 to comply with the Board's policy when wholesale demands are expected be at a 10% to 20% lower from MWD's Staff original sales projection? Since MWD will be in the negotiation process with bargaining units, has Staff fully evaluated the impact of revised salary and employee benefit costs on MWD's operating budget? A consistent, structured communications and conservation outreach program builds the credibility necessary to support rate increases; cutting conservation and outreach programs expenditures by \$2.1 million as currently proposed by MWD Staff in the 2009/10 budget would not achieve that objective.

The District is also concerned with the proposed \$61 Delta surcharge. While we fully appreciate the need to find the long-term solutions to fix the Delta for future water reliability, a thorough cost evaluation should be considered for retail water agencies who have invested their own dollars to find alternative water supplies such as recycled water and seawater desalination. We would ask that your board take these additional factors into account before assessing the \$61 dollar Delta Surcharge on every acre foot of water delivered on MWD system.

We further do not believe that the future year's rate projections in the 3% to 5% range are realistic. MWD should make sure that future rates are realistic and do no place us in another significant shortfall situation five to seven years down the road. Finally, if MWD is willing to violate the Board policy on bond covenant so long as it has a future plan to raise revenues, why not cut more now and take the bond covenant ratio lower and then make up the difference in subsequent years? In essence, if MWD is willing to go lower than the bond covenant requires, why not go a little further in the first year to ease the impact on the end customers and then ramp up in subsequent years?

We believe that it is critical that MWD take into account the perspectives and needs of the retail water agencies who are on the front line and directly accountable to the public we serve. Rate spikes reduce our credibility and make it harder to get the job done for the public we serve.

Respectfully submitted,



Kimberly A. Thorner, Esq.
General Manager

Metropolitan Water District of Southern California
Fiscal Year 2009/10 Cost of Service

April 2009

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1 Cost of Service

Prior to discussing the specific rates and charges that make up the rate structure, it is important to understand the cost of service process that supports the rates and charges. The purpose of the cost of service process is to: (1) identify which costs should be recovered through rates and charges; (2) organize Metropolitan's costs into service functions; and (3) classify service function costs on the basis for which the cost was incurred. The purpose of sorting Metropolitan's costs in a manner that reflects the type of service provided (e.g. supply vs. conveyance), the characteristics of the cost (e.g. fixed or variable) and the reason why the cost was incurred (e.g. to meet peak or average demand) is to create logical cost of service "building blocks". The building blocks can then be arranged to design rates and charges with a reasonable nexus between costs and benefits.

1.1 Cost of Service Process

The general cost of service process involves the four basic steps outlined below.

Step 1 - Development Of Revenue Requirements

In the revenue requirement step, the costs that Metropolitan must recover through rates and charges, after consideration of revenue offsets, are identified. The cash needs approach, an accepted industry practice for government-owned utilities, has historically been used in identifying Metropolitan's revenue requirements and was applied for the purposes of this study. Under the cash needs approach, revenue requirements include operating costs and annual requirements for meeting financed capital items (debt service, funding of replacement and refurbishment from operating revenues, etc.).

Step 2 – Identification of Service Function Costs

In the functional allocation step, revenue requirements are allocated to different categories based on the operational functions served by each cost. The functional categories are identified in such a way as to allow the development of logical allocation bases. The functional categories used in the cost of service process include:

- Supply
- Conveyance and Aqueduct
- Storage
- Treatment
- Distribution
- Demand Management
- Administrative and General
- Hydroelectric

In order to permit functional allocation at the level of accuracy required, many of these functional categories are subdivided into more detailed sub-functions in the cost of service process. For example, costs for the Supply and Conveyance and Aqueduct functions are further subdivided into the sub-functions State Water Project (SWP), Colorado River Aqueduct (CRA), and Other. Similarly, costs in the Storage function are broken down into the sub-functions Emergency Storage, Drought Carryover Storage, and Regulatory Storage.

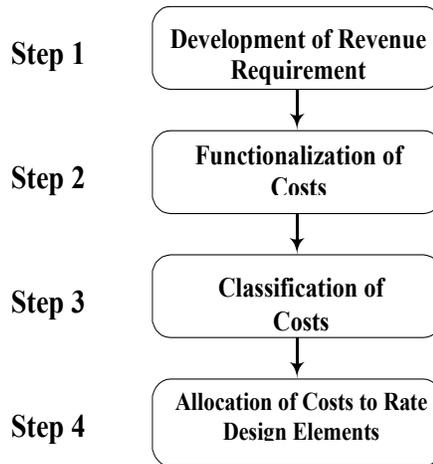
Step 3 - Classification Of Costs

In the cost classification step, functionalized costs are separated into categories according to their causes and behavioral characteristics. Proper cost classification is critical in developing a rate structure that recovers costs in a manner consistent with the causes and behaviors of those costs. Under American Water Works Association (AWWA) guidelines, cost classification may be done using either the Base/Extra-Capacity approach or the Commodity/Demand approach. In the simplest sense, these approaches offer alternative means of distinguishing between utility costs incurred to meet average or base demands and costs incurred to meet peak demands. The Commodity/Demand approach was modified for its application to Metropolitan's rate structure by adding a separate cost classification for costs related to providing standby service. Analysis of system operating data indicated that a modified Commodity/Demand approach was the most appropriate for developing Metropolitan's cost of service classification bases.

Step 4 - Allocation Of Costs To Rate Design Elements

The allocation of costs to the rate design elements depends on the purpose for which the cost was incurred and the manner in which the member agencies use the Metropolitan system. For example, costs incurred to meet average system demands are typically recovered by dollar per acre-foot rates and are allocated based on the volume of water purchased by each agency. Rates that are levied on the amount or volume of water delivered are commonly referred to as volumetric rates as the customer's costs vary with the volume of water purchased. Costs incurred to meet peak demands (referred to in this report as demand costs) are recovered through a peaking charge (the Capacity Charge) and are allocated to agencies based on their peak demand behavior. Costs incurred to provide standby service in the event of an emergency are referred to here as standby costs. Differentiating between costs for average usage and peak usage is just one example of how the cost of service process allows for the design of rates and charges that improves overall customer equity and efficiency. Figure 1 summarizes the cost of service process.

Figure 1. The Cost of Service Process



1.2 Revenue Requirements

The estimated revenue requirements presented in this report are for FY 2009/10. Throughout the report, FY 2009/10 is used as the “test year” to demonstrate the application of the cost of service process. Schedule 1 summarizes the FY 2009/10 revenue requirement by the major budget line items used in Metropolitan’s budgeting process. Current estimates indicate Metropolitan’s annual cash expenditures (including capital financing costs, but not construction outlays financed with bond proceeds) will total approximately \$1.535 billion in FY 2009/10.

The rates and charges do not have to cover this entire amount. Metropolitan generates a significant amount of revenue from interest income, hydroelectric power sales and miscellaneous income. These internally generated revenues are referred to as revenue offsets and are expected to generate about \$67.1 million in FY 2009/10. It is expected that Metropolitan will also generate about \$91.4 million in ad valorem property tax revenues and annexation charges. Property tax revenues are used to pay for a portion of Metropolitan’s general obligation bond debt service, and a portion of Metropolitan’s obligation to pay for debt service on bonds issued to fund the State Water Project. The total revenue offsets for FY 2009/10 are estimated to be around \$159 million. Therefore, the revenue required from rates and charges is the difference between the total costs and the revenue offsets, or \$1.376 billion. Approximately \$88 million from the Water Rate Stabilization Fund will be used to fund a portion of Metropolitan’s expenditures during 2009/10. Given an effective date of September 1, 2009, the rates and charges recommended in this report, combined with rates and charges effective through August 31, 2009 will generate a total of \$1.215 billion in 2009/10.

All of Metropolitan’s costs fall under the broad categories of Departmental Costs or General District Requirements. Departmental Costs include budgeted items identified with specific organizational

groups. General District Requirements consist of requirements associated with the Colorado River Aqueduct, State Water Project, the capital financing costs associated with the Capital Investment Program (CIP), and Water Management Programs. General District Requirements also include reserve fund transfers required by bond covenants and Metropolitan's Administrative Code.

When considered in total, General District Requirements make up approximately 72 percent of the absolute value of the allocated costs. The largest component of the revenue requirement relates to SWP expenditures, which make up approximately 28 percent of Metropolitan's FY 2009/10 revenue requirements. Metropolitan's SWP contract requires Metropolitan to pay its allocated share of the capital, minimum operations, maintenance, power and replacement costs incurred to develop and convey its water supply entitlement, irrespective of the quantity of water Metropolitan takes delivery of in any given year. Metropolitan's capital financing program is the second largest component of the revenue requirement, constituting approximately 25 percent of the revenue requirement.

Departmental O&M costs make up 19 percent of the total revenue requirement in FY 2009/10. Water System Operations is the largest single component of the Departmental Costs and accounts for 11 percent of the revenue requirements. Water System Operations responsibilities include operating and maintaining Metropolitan's pumping, storage, treatment, and hydroelectric facilities, as well as the Colorado River Aqueduct and other conveyance and supply facilities.

Schedule 1. Revenue Requirements (by budget line item)

	Fiscal Year Ending 2010	% of Revenue Requirements (1)
Departmental Operations & Maintenance		
Office of the General Manager & Human Resources	\$ 13,907,000	0.8%
External Affairs	18,236,700	1.1%
Water System Operations	192,110,700	11.3%
Chief Financial Officer	5,846,600	0.3%
Corporate Resources	50,896,100	3.0%
Real Property Development & Mgmt	11,250,700	0.7%
Water Resource Management	19,680,200	1.2%
Ethics Department	480,200	0.0%
General Counsel	7,699,900	0.5%
Audit Department	2,058,700	0.1%
Total	322,166,800	19.0%
General District Requirements		
State Water Project	478,772,954	28.3%
Colorado River Aqueduct	49,751,247	2.9%
Supply Program Costs paid from operating revenues	125,503,611	7.4%
Water Management Programs	59,844,024	3.5%
Capital Financing Program	425,748,027	25.1%
Other O&M	18,690,700	1.1%
Increase (Decrease) in Required Reserves	54,200,000	3.2%
Total	1,212,510,563	71.6%
Revenue Offsets	(158,515,281)	9.4%
Net Revenue Requirements	\$ 1,376,162,082	100.0%

(1) Given as a percentage of the absolute values of total dollars allocated.
Totals may not foot due to rounding

1.3 Service Function Costs

Several major service functions result in the delivery of water to Metropolitan's member agencies. These include the supply itself, the conveyance capacity and energy used to move the supply, storage of water, distribution of supplies within Metropolitan's system, and treatment of these supplies. Metropolitan's rate structure recovers the majority of the cost of providing these functions through rates and charges.

The functional categories developed for Metropolitan's cost of service process are consistent with the American Water Works Association rate setting guidelines, a standard chart of accounts for utilities developed by the National Association of Regulatory Commissioners (NARUC), and the National Council of Governmental Accounting. Because all water utilities are not identical, the rate structure reflects Metropolitan's unique physical, financial, and institutional characteristics.

A key goal of functional allocation is to maximize the degree to which rates and charges reflect the costs of providing different types of service. For functional allocation to be of maximum benefit, two criteria must be kept in mind when establishing functional categories.

- The categories should correlate charges for different types of service with the costs of providing those different types of service; and
- Each function should include reasonable allocation bases by which costs may be allocated.

Each of the functions developed for the cost of service process is described below.

- *Supply.* This function includes costs for those SWP and CRA facilities and programs that relate to maintaining and developing supplies to meet the member agencies' demands. For example, Metropolitan's supply related costs include investments in the Conservation Agreement with the Imperial Irrigation District and the Palo Verde Irrigation District (PVID) Program from the Colorado River supply programs. The SWP programs include the Drought Water Bank purchases, and transfer programs such as Semitropic Water Storage Program, Kern Delta Program, and the Arvin-Edison Water Storage Program. Costs for groundwater conjunctive use programs within Metropolitan's service area, such as the North Las Posas Groundwater Basin Conjunctive Use Agreement are also included.
- *Conveyance and Aqueduct.* This function includes the capital, operations, maintenance, and overhead costs for SWP and CRA facilities that convey water through Metropolitan's internal distribution system. Variable power costs for the SWP and CRA are also considered to be Conveyance and Aqueduct costs but are separately reported under a "power" sub-function. Conveyance and Aqueduct facilities can be distinguished from Metropolitan's other facilities primarily by the fact that they do not typically include direct connections to the member agencies. For purposes of this study, the Inland Feeder Project functions as an extension of the SWP East Branch and is therefore considered a Conveyance and Aqueduct facility as well.
- *Storage.* Storage costs include the capital financing, operating, maintenance, and overhead costs for Diamond Valley Lake, Lake Mathews, Lake Skinner, and five smaller regulatory reservoirs within the distribution system. Metropolitan's larger storage facilities are operated to provide (1) emergency storage in the event of an earthquake or similar system outage; (2) drought storage that produces additional supplies during times of shortage; and (3) regulatory storage to balance system demands and supplies and provide for operating

flexibility. To reasonably allocate the costs of storage capacity among member agencies, the storage service function is categorized into sub-functions of emergency, drought, and regulatory storage.

- *Treatment.* This function includes capital financing, operating, maintenance, and overhaul costs for Metropolitan's five treatment plants and is considered separately from other costs so that treated water service may be priced separately.
- *Distribution.* This function includes capital financing, operating, maintenance, and overhead costs for the "in-basin" feeders, canals, pipelines, laterals, and other appurtenant works. The "in-basin" facilities are distinguished from Conveyance and Aqueduct facilities at the point of connection to the SWP, Lake Mathews, and other major turnouts along the CRA facilities.
- *Demand Management.* A separate demand management service function has been used to clearly identify the cost of Metropolitan's investments in local resources like conservation, recycling, and desalination.
- *Administrative and General (A&G).* These costs occur in each of the Groups' departmental budgets and reflect overhead costs that cannot be directly functionalized. The cost-of-service process allocates A&G costs to the service functions based on the labor costs of non-A&G dollars allocated to each function.
- *Hydroelectric.* Hydroelectric costs include the capital financing, operating, maintenance, and overhead costs incurred to operate the 16 small hydroelectric plants located throughout the water distribution system.

1.3.1 Functional Allocation Bases

The functional allocation bases are used to allocate a cost to the various service functions. The primary functional allocation bases used in the cost-of-service process are listed below.

- Direct assignment
- Work-In-Progress or Net Book Value plus Work-In-Progress
- Prorating in proportion to other allocations
- Manager analysis

Schedule 2 summarizes the amounts of total cost allocated using each of the above types of allocation bases.

Schedule 2. Summary of Functional Allocations by Type of Allocation Basis

Primary Functional Allocation Bases	Estimated for FY 2010	% of Allocated Dollars
Direct Assignment	\$ 949,414,066	56.1%
Work in Progress/Net Book Value	456,505,927	27.0%
Prorating	134,990,990	8.0%
Manager Analysis	27,319,200	1.6%
Other	\$ 125,503,611	7.4%
Total Dollars Allocated	\$ 1,693,733,793	100.0%
Portion of Above Allocations Relating to:		
Revenue Requirements before Offsets	1,535,177,363	
Revenue Offsets	158,556,430	
Total Dollars Allocated	\$ 1,693,733,793	

Totals may not foot due to rounding

Each of the primary allocation bases is discussed in detail in the remainder of this section. Discussion of each allocation basis includes examples of costs allocated using that particular basis.

(a) Direct assignment

Direct assignment makes use of a clear and direct connection between a revenue requirement and the function being served by that revenue requirement. Directly assigned costs typically include: costs associated with specific treatment plants, purely administrative costs, and certain distribution and conveyance departmental costs. Examples of costs that are directly assigned to specific functional categories are given below.

- * Water System Operations Group departmental costs for treatment plants are directly assigned to treatment.
- * Transmission charges for State Water Contract are directly assigned to conveyance SWP.

(b) Work-In-Progress; Net Book Value Plus Work-In-Progress

Capital financing costs, including debt service and funding replacements and refurbishments from operating revenues, comprise about 25 percent of Metropolitan's annual revenue requirements. One approach would be to allocate payments on each debt issue in direct proportion to specific project expenditures made using bond proceeds. But, this approach would result in a high degree of volatility in relative capital cost allocations from year to year. The approach used in this analysis is one widely used in water industry cost of service studies. Capital and debt-related costs (including repair and replacement costs paid from current revenues) are allocated on the basis of the relative net book values of fixed assets within each functional category. This approach produces capital cost allocations that are consistent with the functional distribution of assets. Also, since the allocation basis is tied to fixed asset records rather than debt payment records, the resulting allocations are more reflective of the true useful lives of assets. Use of net book values as an allocation basis provides an improved matching of functional costs with asset lives. A listing of fixed asset net book values summarized by asset function is shown in Schedule 3.

Schedule 3. Net Book Value and Work in Progress Allocation Base

Functional Categories	NBV for FY 2010	% of Total NBV
Source of Supply	\$ 74,727,487	1.0%
Conveyance & Aqueduct	1,404,623,477	18.0%
Storage	2,314,129,287	29.7%
Treatment	2,457,444,547	31.6%
Distribution	1,149,431,651	14.8%
Administrative & General	271,665,552	3.5%
Hydroelectric	112,091,231	1.4%
Total Fixed Assets Net Book Value	\$ 7,784,113,232	100.0%

Totals may not foot due to rounding

In most instances, the cost-of-service process uses net book value *plus* work-in-progress to develop allocation bases for debt and capital costs. For organizational units handling current construction activity, however, allocations are based on work-in-progress alone. For these organizational units, exclusion of net book value from the allocation basis is done because the costs being allocated relate directly to work in progress not yet reflected in the completed assets records.

Examples of revenue requirements allocated using these net book value and work-in-progress allocations are shown below.

- * General Obligation and Revenue Bond Debt Service: *allocated using Work In Progress plus Net Book Value.*
- * Annual deposit of operating revenue to replacement and refurbishment fund: *allocated using Work In Progress plus Net Book Value.*

To calculate the relative percentage of fixed assets in each functional category Metropolitan staff conducted a detailed analysis of historical accounting records and built a database of fixed asset accounts that contains records for all facilities currently in service and under construction. Each facility was sorted into the major service function that best represented the facilities primary purpose and was then further categorized into the appropriate sub-functions described earlier.

(c) Prorating in proportion to other allocations

Utility cost of service studies frequently contain line items for which it would be difficult to identify an allocation basis specific to that line item. In these cases, the most logical allocation basis is often a prorata blend of allocation results calculated for other revenue requirements in the same departmental group, or general category. Reasonable prorata allocations are based on a logical nexus between a cost and the purpose which it serves. For example: Human Resources Section costs are allocated using all labor costs, since Human Resources spends its time and resources attending to the labor force.

(d) Manager analyses

The functional interrelationships of some organizational units are so complex and/or dynamic that reliable allocation bases can only be developed with extensive input from the organization's managers. In these cases, managers use their first-hand knowledge of the organization's internal operations to generate a functional analysis of departmental costs. An example of revenue requirements allocated based on manager analyses is: Water System Operations Group: Operations Planning Unit.

A summary of the functional allocation results is shown in Schedules 4 and 5. Schedule 4 provides a breakdown of the revenue requirement for FY 2009/10 into the major service functions and sub-functions prior to the re-distribution of administrative and general costs. Schedule 5 serves as a cross-reference summarizing how the budget line items are distributed among the service functions. The largest functional component of Metropolitan's revenue requirement is the Conveyance and Aqueduct function, which constitutes approximately 36 percent of the allocated revenue requirement.

Schedule 4. Revenue Requirement (by service function)

Functional Categories	Fiscal Year Ending 2010	% of Allocated Dollars (1)
Source of Supply		
CRA	\$ 69,871,966	5.0%
SWP	126,274,765	9.0%
Other Supply	20,658,294	1.5%
Total	216,805,025	15.4%
Conveyance & Aqueduct		
CRA		
<i>CRA Power (net of sales)</i>	54,252,715	3.9%
<i>CRA All Other</i>	38,804,409	2.8%
SWP		
<i>SWP Power</i>	164,899,966	11.7%
<i>SWP All Other</i>	195,872,438	13.9%
Other Conveyance & Aqueduct	57,781,374	4.1%
Total	511,610,903	36.4%
Storage		
Storage Costs Other Than Power		
<i>Emergency</i>	65,182,615	4.6%
<i>Drought</i>	53,309,384	3.8%
<i>Regulatory</i>	13,071,293	0.9%
Wadsworth plant pumping/generation	(687,572)	0.0%
Total	130,875,720	9.4%
Treatment		
Jensen	41,098,691	2.9%
Weymouth	37,017,865	2.6%
Diemer	44,831,808	3.2%
Mills	42,688,652	3.0%
Skinner	55,968,138	4.0%
Total	221,605,155	15.8%
Distribution	115,672,181	8.2%
Demand Management	70,310,436	5.0%
Hydroelectric	(13,779,400)	1.0%
Administrative & General	123,062,064	8.8%
Total Functional Allocations:	\$ 1,376,162,082	100.0%

(1) Given as a percentage of the absolute values of total dollars allocated.

Totals may not foot due to rounding

Schedule 5. Service Function Revenue Requirements (by budget line item)

	Source of Supply	Conveyance & Aqueduct	Storage	Treatment	Distribution	Demand Management	Hydro Electric	Administrative & General	Total \$ Allocated
Departmental Operations & Maintenance									
Office of the General Manager & Human Resources	\$ 1,020,996	\$ 1,348,495	\$ 709,456	\$ 3,078,161	\$ 2,268,621	\$ 316,540	\$ 162,023	\$ 5,002,707	\$ 13,907,000
External Affairs	-	-	-	-	-	5,360,873	-	12,875,827	18,236,700
Water System Operations	11,500,145	28,651,301	3,429,132	91,682,095	51,710,118	9,020	3,574,876	1,554,012	192,110,700
Chief Financial Officer	-	-	-	-	-	-	-	5,846,600	5,846,600
Corporate Resources	2,136,940	5,978,498	6,952,082	11,837,141	7,124,825	606,527	581,352	15,678,736	50,896,100
Real Property Development & Mgmt	-	-	11,250,700	-	-	-	-	-	11,250,700
Water Resource Management	12,224,675	14,624	-	185,393	1,403,934	5,626,509	-	225,064	19,680,200
Ethics Department	-	-	-	-	-	-	-	480,200	480,200
General Counsel	-	-	-	-	-	-	-	7,699,900	7,699,900
Audit Department	-	-	-	-	-	-	-	2,058,700	2,058,700
Total Departmental O&M	26,882,757	35,992,918	22,341,370	106,782,791	62,507,499	11,919,468	4,318,251	51,421,747	322,166,800
General District Requirements									
State Water Project	66,877,687	411,895,267	-	-	-	-	-	-	478,772,954
Colorado River Aqueduct	-	49,751,247	-	-	-	-	-	-	49,751,247
Water Transfers and Storage Programs	125,503,611	-	-	-	-	-	-	-	125,503,611
Demand Management	-	-	-	-	-	59,844,024	-	-	59,844,024
Capital Financing Program	3,621,783	68,077,238	112,157,836	134,408,652	88,883,156	-	5,432,674	13,166,689	425,748,027
Other Operating Costs	477,229	630,307	331,611	1,438,780	1,060,388	147,956	75,732	14,528,697	18,690,700
Increase (Decrease) in Required Reserves	-	-	-	-	-	-	-	54,200,000	54,200,000
Total General District Requirements	196,480,310	530,354,059	112,489,447	135,847,432	89,943,544	59,991,980	5,508,406	81,895,386	1,212,510,563
Revenue Offsets	(6,558,041)	(54,736,074)	(3,955,098)	(21,025,068)	(36,778,862)	(1,601,012)	(23,606,057)	(10,255,069)	(158,515,281)
Net Revenue Requirements	\$ 216,805,025	\$ 511,610,903	\$ 130,875,720	\$ 221,605,155	\$ 115,672,181	\$ 70,310,436	\$ (13,779,400)	\$ 123,062,064	\$ 1,376,162,082

Totals may not foot due to rounding

1.4 Classified Costs

In the cost classification step, functionalized costs are further categorized based on the causes and behavioral characteristics of these costs. An important part of the classification process is identifying which costs are incurred to meet average demands vs. peak demands and which costs are incurred to provide standby service. As with the functional allocation process, the proposed classification process is consistent with AWWA guidelines, but has been tailored to meet Metropolitan's specific operational structure and service environment.

In the cost of service process, cost classification is done using a hybrid of two methods discussed in the AWWA M1 Manual, Principles of Water Rates, Fees and Charges. These two methods are the Commodity/Demand method and the Base/Extra Capacity method.

The Commodity/Demand method allocates costs that vary with the amount of water produced to the commodity category with all other costs associated with water production allocated to the demand category. In the Base/Extra Capacity method costs related to average demand conditions are allocated to the base category and capacity costs associated with meeting above average demand conditions are allocated to the extra capacity category.

The approach used to classify Metropolitan's costs differs from the Base/Extra Capacity method by the fact that costs are separated into a variable category and a fixed category. The Base/Extra Capacity method does not separate these costs into two categories but rather combines them into one category referred to as base costs. The approach used to classify Metropolitan's costs differs from the Commodity/Demand method in the fact that demand costs are separated into fixed commodity and fixed demand costs. The Commodity/Demand method would not make this distinction, but would combine these costs into the demand category. By using the hybrid method, costs are disaggregated to a lower level of detail, providing greater visibility to costs. Under the hybrid classification method, functional cost categories are reallocated into demand, commodity, or standby categories, which are discussed below. Classification of costs into these categories depends on an analysis of system capacity as well as actual system operating data.

Classification categories used in the analysis include:

- Fixed demand costs
- Fixed commodity costs
- Fixed standby costs
- Variable commodity costs
- Hydroelectric costs

Demand costs are incurred to meet peak demands. Only the direct capital financing costs were included in the demand classification category. A portion of capital financing costs was included in the demand cost category because in order to meet peak demands additional physical capacity is designed into the system and, therefore, additional capital costs are incurred. Commodity costs are generally associated with average system demands. Variable commodity costs include costs of chemicals, most power costs, and other cost components that increase or decrease in relation to the volume of water supplied. Fixed commodity costs include fixed operations and maintenance and capital financing costs that are not related to accommodating peak demands or standby service.

Standby service costs relate to Metropolitan's role in ensuring system reliability during emergencies such as an earthquake or an outage of a major facility like the Colorado River Aqueduct. The two principal components of the standby costs were identified as the emergency storage capacity within the system and the standby capacity within the State Water Project conveyance system.

An additional component used in Metropolitan's cost classification process is the hydroelectric component. While not a part of most water utilities' cost classification procedures, the hydroelectric classification component is necessary to segregate revenue requirements carried from the hydroelectric function established in the functional allocation process. Hydroelectric revenue requirements are later embedded in the distribution function. Any net revenues generated by the hydroelectric operations offset the distribution costs and reduce the System Access Rate. All users of the distribution system benefit proportionately from the revenue offset provided by the sale of hydroelectric energy.

Schedule 6 provides the classification percentages used to distribute the service function costs into demand, commodity and standby service classification categories. All of the supply costs are classified as fixed commodity costs. Because these particular supply costs have been incurred to provide an amount of annual reliable system yield and not to provide peak demand delivery capability or standby service they are reasonably treated as fixed commodity costs.

Costs for the Conveyance and Aqueduct (C&A) service function are classified into demand, commodity, and standby categories. Because the capital costs for C&A were incurred to meet all three classification categories, an analysis of C&A capacity usage for the three years ending June 2010 was used to determine that 64 percent of the available conveyance capacity has been used to meet member agency demands on an average annual basis. A system peak factor¹ of 1.5 was applied to the average annual usage to determine that 30 percent of available capacity is used to meet peak monthly deliveries to the member agencies. The remaining portion of C&A, around 7 percent, is used for standby. The same classification percentages are applied to the CRA, SWP, and Other (Inland Feeder) Conveyance and Aqueduct sub-functions. The classification shares reflect the system average use of conveyance capacity and not the usage of individual facilities. All of the Conveyance and Aqueduct energy costs for pumping water to Southern California are classified as variable commodity costs and, therefore, are not shown in Schedule 6 because they carry through the classification step.

Storage service function costs for emergency, drought and regulatory storage are also distributed to the classification categories based on the type of service provided. Emergency storage costs are classified as 100 percent standby related. Emergency storage is a prime example of a cost Metropolitan incurs to ensure the reliability of deliveries to the member agencies. In effect, through the emergency storage capacity in the system, Metropolitan is "standing by" to provide service in the event of a catastrophe such as a major earthquake that disrupts regional conveyance capacity for an extended period of time. Drought carryover storage serves to provide reliable supplies by carrying over surplus supplies from periods of above normal precipitation and snow pack to drought periods when supplies decrease. Drought storage creates supply and is one component of the portfolio of resources that result in a reliable amount of annual system supplies. As a result, drought storage is classified as a fixed commodity cost, in the same manner as Metropolitan's supply costs. Regulatory storage within the Metropolitan system provides operational flexibility in meeting peak demands and

¹ Peak monthly deliveries to the member agencies average about 50 percent more than the average monthly deliveries.

flow requirements, essentially increasing the physical distribution capacity. Therefore, regulatory storage is classified in the same manner as distribution costs.

Distribution service function costs were classified using daily flow data for the three calendar years ending December 2007. During this period, the average annual volume of deliveries to the member agencies used 53 percent of the peak distribution capacity. The difference between the average flow and system capacity, or 47 percent of the distribution capacity, was used to meet peak day demands in excess of average annual flows. Although the Metropolitan distribution system has a great deal of operational flexibility, the total amount of distribution capacity was limited to the peak non-coincident² 24-hour daily flow of all the member agencies.

As presented in Schedule 6, treatment service function costs were also classified using daily flow data of deliveries to the member agencies for the ten years ending December 2009. Total treated water capacity of 4,204 cfs, the total design capacity of all the treatment plants, was used in the calculation. Schedule 7 summarizes the service function revenue requirements by classification category. Administrative and general costs have been allocated to the classification categories by service function based on the ratio of classified non-A&G service function costs to total non-A&G service function costs.

² The term “non-coincident” means that the peak day flow for each agency may or may not coincide with the peak day system flow. Both non-coincident and coincident approaches to measuring peak demands are used in rate design approaches. A non-coincident approach is used in the rate design to capture the different operating characteristics of the member agencies (e.g., the distribution system is designed to meet peak demands in different load areas within the System that have non-coincident demands due to each member agencies unique operating characteristics).

Schedule 6. Classification Percentages

Function	Classification Percentages			Total % Classified	Comments
	Fixed				
	Commodity	Demand	Standby		
Source of Supply					
Colorado River Aqueduct	100%	0%	0%	100%	Supply costs classified as commodity
State Water Project	100%	0%	0%	100%	Supply costs classified as commodity
Conveyance & Aqueduct					
Colorado River Aqueduct	64%	30%	7%	100%	Demand (peaking) percentage represents application of system monthly peak factor of 1.5 to average monthly flow. Commodity percentage represents average flows. Remainder of capacity is for standby (expected growth). SWP and CRA are treated the same due to application of system wide uniform price.
State Water Project	64%	30%	7%	100%	
Other	64%	30%	7%	100%	
Other	64%	30%	7%	100%	
Storage					
Emergency	0%	0%	100%	100%	Standby service (recovered by RTS)
Drought	100%	0%	0%	100%	Recovered by Supply Rates
Regulatory	53%	47%	0%	100%	See distribution (below)
Treatment	45%	51%	4%	100%	Demand percentage represents amount of system treatment capacity used to meet peak day flows in excess of average. Commodity percentage represents amount of capacity used to meet average flows. Standby percentage is estimated as remaining total capacity. The same classification is applied to all five treatment plants due to the use of a uniform system wide treatment surcharge.
Distribution	53%	47%	0%	100%	Demand percentage represents amount of system distribution capacity used to meet peak day flows in excess of average. Commodity percentage represents amount of capacity used to meet average flows. Standby percentage is estimated as remaining total system capacity. The same classification is applied to all distribution facilities due to the use of a system wide uniform system access rate.

Totals may not foot due to rounding

A summary of cost classification results is shown in Schedule 7. The classification of the service function costs results in about 9 percent, or \$129 million of the total revenue requirements, being allocated to the demand classification category. This amount represents a reasonable estimate of the annual fixed capital financing costs incurred to meet peak demands (plus the allocated administrative and general costs). A portion of Metropolitan's property tax revenue is allocated to C&A fixed demand costs and offsets the amount that is recovered through rates. The taxes are used to pay for the general obligation bond debt service allocated to the C&A costs.

Schedule 7. Service Function Revenue Requirements (by classification category)

Functional Categories (by sub-Function)	Fixed Demand	Commodity	Standby	Variable Commodity	Hydroelectric	Total Classified
Source of Supply						
CRA	\$ -	\$ 77,531,651	\$ -	\$ -	\$ -	\$ 77,531,651
SWP	-	140,117,582	-	-	-	140,117,582
Other Supply	-	22,922,950	-	-	-	22,922,950
Subtotal: Source of Supply	-	240,572,184	-	-	-	240,572,184
Conveyance & Aqueduct						
CRA						
CRA Power	-	6,365,909	-	51,262,669	-	57,628,578
CRA All Other	2,968,611	39,353,292	667,208	-	-	42,989,111
SWP						
SWP Power	-	15,069	-	174,222,209	-	174,237,279
SWP All Other	15,475,634	198,030,199	3,478,213	-	-	216,984,046
Other Conveyance & Aqueduct	16,200,073	43,568,688	3,963,626	-	-	63,732,387
Subtotal: Conveyance & Aqueduct	34,644,317	287,333,158	8,109,046	225,484,879	-	555,571,400
Storage						
Storage Costs Other Than Power						
Emergency	-	-	71,109,290	-	-	71,109,290
Drought	-	59,153,402	-	-	-	59,153,402
Regulatory	5,824,141	8,566,732	-	-	-	14,390,873
Storage Power	-	-	-	(726,502)	-	(726,502)
Subtotal: Storage	5,824,141	67,720,134	71,109,290	(726,502)	-	143,927,062
Water Quality						
CRA	-	-	-	-	-	-
SWP	-	-	-	-	-	-
Other	-	-	-	-	-	-
Subtotal: Water Quality	-	-	-	-	-	-
Treatment	60,568,044	143,738,008	-	38,483,147	-	242,789,199
Distribution	28,540,416	99,256,796	-	-	-	127,797,211
Demand Management	-	78,018,188	-	-	-	78,018,188
Hydroelectric	-	-	-	-	(12,513,162)	(12,513,162)
Total Costs Classified	\$ 129,576,917	\$ 916,638,467	\$ 79,218,336	\$ 263,241,524	\$ (12,513,162)	\$ 1,376,162,082

Totals may not foot due to rounding

About 67 percent of the revenue requirement (\$917 million) is classified as “fixed commodity”. These fixed capital and operating costs are incurred by Metropolitan to meet annual average service needs and are typically recovered by a combination of fixed charges and volumetric rates. Fixed capital costs classified to the “Standby” category total about \$79 million and account for about 6 percent of the revenue requirements. Standby service costs are commonly recovered by a fixed charge allocated on a reasonable representation of a customer’s need for standby service. The variable commodity costs for power on the conveyance and aqueduct systems, and power, chemicals and solids handling at the treatment plants change with the amount of water delivered to the member agencies. These costs are classified as variable commodity costs, total about \$263 million, and account for about 19 percent of the total revenue requirement. Because of the variable nature of these costs, it is appropriate to recover them through volumetric rates.

2 Rates and Charges

Schedule 8 provides a cross-reference between the classified service function costs and their allocation to the rate design elements. The specifics of each rate design element are discussed in detail in the following section. Schedule 9 summarizes the rates and charges to be effective September 1, 2009. Average costs by member agency will vary depending upon an agency’s RTS allocation, capacity charge and relative proportions of treated and untreated Tier 1, Tier 2, Replenishment, and Interim Agricultural Water Program purchases.

Schedule 8. Classified Service Function Revenue Requirements (by rate design element)

Service Function by Classification Category	Rate Design Elements							Total Costs Allocated
	Supply Rates	System Access Rate	Water Stewardship Rate	System Power Rate	Capacity Charge	Readiness-to-Serve Charge	Treatment Surcharge	
Supply								
Fixed Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Commodity	240,572,184	-	-	-	-	-	-	240,572,184
Fixed Standby	-	-	-	-	-	-	-	-
Variable Commodity	-	-	-	-	-	-	-	-
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Supply	240,572,184	-	-	-	-	-	-	240,572,184
Conveyance and Aqueduct								
Fixed Demand	-	-	-	-	-	34,644,317	-	34,644,317
Fixed Commodity	-	287,333,158	-	-	-	-	-	287,333,158
Fixed Standby	-	-	-	-	-	8,109,046	-	8,109,046
Variable Commodity	-	-	-	225,484,879	-	-	-	225,484,879
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Conveyance and Aqueduct	-	287,333,158	-	225,484,879	-	42,753,363	-	555,571,400
Storage								
Fixed Demand	-	-	-	-	5,824,141	-	-	5,824,141
Fixed Commodity	59,153,402	8,566,732	-	-	-	-	-	67,720,134
Fixed Standby	-	-	-	-	-	71,109,290	-	71,109,290
Variable Commodity	(726,502)	-	-	-	-	-	-	(726,502)
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Storage	58,426,900	8,566,732	-	-	5,824,141	71,109,290	-	143,927,062
Water Quality								
Fixed Demand	-	-	-	-	-	-	-	-
Fixed Commodity	-	-	-	-	-	-	-	-
Fixed Standby	-	-	-	-	-	-	-	-
Variable Commodity	-	-	-	-	-	-	-	-
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Water Quality	-	-	-	-	-	-	-	-
Treatment								
Fixed Demand	-	-	-	-	-	-	60,568,044	60,568,044
Fixed Commodity	-	-	-	-	-	-	143,738,008	143,738,008
Fixed Standby	-	-	-	-	-	-	-	-
Variable Commodity	-	-	-	-	-	-	38,483,147	38,483,147
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Treatment	-	-	-	-	-	-	242,789,199	242,789,199
Distribution								
Fixed Demand	-	-	-	-	28,540,416	-	-	28,540,416
Fixed Commodity	-	99,256,796	-	-	-	-	-	99,256,796
Fixed Standby	-	-	-	-	-	-	-	-
Variable Commodity	-	-	-	-	-	-	-	-
Hydroelectric	-	(12,513,162)	-	-	-	-	-	(12,513,162)
Subtotal: Distribution	-	86,743,634	-	-	28,540,416	-	-	115,284,050
Demand Management								
Fixed Demand	-	-	-	-	-	-	-	-
Fixed Commodity	-	-	78,018,188	-	-	-	-	78,018,188
Fixed Standby	-	-	-	-	-	-	-	-
Variable Commodity	-	-	-	-	-	-	-	-
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Demand Management	-	-	78,018,188	-	-	-	-	78,018,188
Total								
Fixed Demand	-	-	-	-	34,364,556	34,644,317	60,568,044	129,576,917
Fixed Commodity	299,725,586	395,156,686	78,018,188	-	-	-	143,738,008	916,638,467
Fixed Standby	-	-	-	-	-	79,218,336	-	79,218,336
Variable Commodity	(726,502)	-	-	225,484,879	-	-	38,483,147	263,241,524
Hydroelectric	-	(12,513,162)	-	-	-	-	-	(12,513,162)
Total	\$ 298,999,084	\$ 382,643,524	\$ 78,018,188	\$ 225,484,879	\$ 34,364,556	\$ 113,862,653	\$ 242,789,199	\$ 1,376,162,082

Totals may not foot due to rounding

Schedule 9. Rates and Charges Summary

	Effective January 1, 2009	Effective Sept.1, 2009
Tier 1 Supply Rate (\$/AF)	\$109	\$101
Delta Supply Surcharge (\$/AF)	\$0	\$69
Tier 2 Supply Rate (\$/AF)	\$250	\$280
Water Supply Surcharge (\$/AF)	\$25	\$0
System Access Rate (\$/AF)	\$143	\$154
Water Stewardship Rate (\$/AF)	\$25	\$41
System Power Rate (\$/AF)	\$110	\$119
Full Service Untreated Volumetric Cost (\$/AF)		
Tier 1	\$412	\$484
Tier 2	\$528	\$594
Replenishment Water Rate Untreated (\$/AF)	\$294	\$366
Interim Agricultural Water Program Untreated (\$/AF)	\$322	\$394
Treatment Surcharge (\$/AF)	\$167	\$217
Full Service Treated Volumetric Cost (\$/AF)		
Tier 1	\$579	\$701
Tier 2	\$695	\$811
Treated Replenishment Water Rate (\$/AF)	\$436	\$558
Treated Interim Agricultural Water Program (\$/AF)	\$465	\$587
Readiness-to-Serve Charge (\$M)	\$92	\$114*
Capacity Charge (\$/cfs)	\$6,800	\$7,200*

* Effective January 1, 2010

2.1 System Access Rate (SAR)

The SAR is a volumetric³ system-wide rate levied on each acre-foot of water that moves through the MWD system. All system users (member agency or third party) pay the SAR to use Metropolitan's conveyance and distribution system. It is recommended that the SAR increase from its current level of \$143 per acre-foot to \$154 per acre-foot. The SAR recovers the cost of providing conveyance and distribution capacity to meet average annual demands. Current estimates indicate that the SAR revenue requirement will be about \$383 million in FY 2009/10, or 28 percent of the total revenue requirement.

2.2 Water Stewardship Rate (WSR)

It is recommended that the WSR increase from its current level of \$25 per acre-foot to \$41 per acre-foot. The WSR recovers the costs of providing financial incentives for existing and future investments in local resources including conservation and recycled water. These investments or incentive payments are identified as the "demand management" service function in the cost of service process. Demand management costs are classified as 100 percent fixed commodity costs and are estimated to be about \$78 million in FY 2009/10, about 6 percent of the revenue requirement. The WSR is a volumetric rate levied on each acre-foot of water that moves through the Metropolitan system. All system users (member agency or third parties) will pay the same proportional costs for existing and future conservation and recycling investments.

2.3 System Power Rate (SPR)

The recommended SPR increases from \$110 per acre-foot to \$119 per acre-foot in 2010. The SPR is a volumetric rate that recovers the costs of pumping water to Southern California. The SPR recovers the cost of power for both the SWP and CRA. In FY 2009/10 the revenue requirement for the SPR is estimated to be about \$225 million, about 16 percent of the total revenue requirement.

2.4 Treatment Surcharge

It is recommended that the treatment surcharge be increased from its current level of \$167 per acre-foot to \$217 per acre-foot effective September 1, 2009. The treatment surcharge is a system-wide volumetric rate set to recover the cost of providing treated water service. The treatment surcharge revenue requirement is expected to be about \$243 million in FY 2009/10, almost 18 percent of the total revenue requirement. The treatment surcharge recovers all costs associated with providing treated water service, including commodity, demand and standby related costs. The increase in the treatment surcharge is necessary to cover capital financing costs allocated to the treatment surcharge. Significant capital improvements at Metropolitan's five treatment plants, such as the Ozone Retrofit Program, Skinner Filtration Plant Expansion Project, and improvement programs at all five treatment plants result in additional capital financing costs being allocated to the treatment surcharge.

³ A volumetric rate is a charge applied to the actual amount of water delivered.

2.5 Capacity Charge

It is recommended that the Capacity Charge increase from its current level of \$6,800 per cubic-foot-second to \$7,200 per cubic-foot-second of capacity used effective January 1, 2010. The capacity charge is levied on the maximum summer day demand placed on the system between May 1 and September 30 for a three-calendar year period. The three-year period ending December 31, 2008 is used to levy the capacity charge effective January 1, 2010 through December 31, 2010. Demands measured for the purposes of billing the capacity charge include all firm demand and agricultural demand, including wheeling service and exchanges. Replenishment service is not included in the measurement of peak day demand for purposes of billing the capacity charge.

The capacity charge is intended to pay for the cost of peaking capacity on Metropolitan's system, while providing an incentive for local agencies to decrease their use of the Metropolitan system to meet peak day demands and to shift demands into lower use time periods particularly October through April. Over time, a member agency will benefit from local supply investments and operational strategies that reduce its peak day demand on the system in the form of a lower total capacity charge. The estimated capacity charge to be paid by each member agency in calendar year 2010 (as of March 2009) is included in Schedule 10.

Schedule 10. Calendar Year 2010 Capacity Charge

	Peak Day Demand (cfs)				Calendar Year 2010 Capacity Charge (\$7,200/cfs)
	(May 1 through September 30) Calendar Year				
AGENCY	2006	2007	2008	3-Year Peak	
Anaheim	37.0	38.0	36.0	38.0	\$ 273,600
Beverly Hills	33.0	34.0	33.0	34.0	244,800
Burbank	35.0	34.0	34.0	35.0	252,000
Calleguas	254.0	261.0	250.0	261.0	1,879,200
Central Basin	131.0	126.0	103.0	131.0	943,200
Compton	7.0	7.0	5.0	7.0	50,400
Eastern	249.0	304.0	260.0	304.0	2,188,800
Foothill	25.0	25.0	22.0	25.0	180,000
Fullerton	33.0	37.0	27.0	37.0	266,400
Glendale	57.0	55.0	56.0	57.0	410,400
Inland Empire	114.0	176.0	126.0	176.0	1,267,200
Las Virgenes	45.0	45.0	45.0	45.0	324,000
Long Beach	57.0	61.0	68.0	68.0	489,600
Los Angeles	540.0	769.0	822.0	822.0	5,918,400
MWDOC	456.0	469.0	454.0	469.0	3,376,800
Pasadena	67.0	59.0	56.0	67.0	482,400
San Diego ¹	1057.0	1178.0	929.0	1296.0	9,331,200
San Fernando	0.0	7.0	0.0	7.0	50,400
San Marino	8.0	5.0	5.0	8.0	57,600
Santa Ana	31.0	30.0	15.0	31.0	223,200
Santa Monica	28.0	28.0	26.0	28.0	201,600
Three Valleys	156.0	171.0	168.0	171.0	1,231,200
Torrance	42.0	42.0	36.0	42.0	302,400
Upper San Gabriel	42.0	64.0	37.0	64.0	460,800
West Basin	276.0	262.0	243.0	276.0	1,987,200
Western	290.0	289.0	274.0	290.0	2,088,000
Total	4,070	4,576	4,130	4,789	\$ 34,480,800

(1) San Diego capacity set at 1,296 cfs per surface storage operating agreement terms
Totals may not foot due to rounding

2.6 Readiness-to-Serve Charge

The costs of providing standby service, such as emergency storage, are recovered by the RTS. Metropolitan's cost for providing emergency storage capacity within the system are estimated to be about \$71 million in FY 2009/10. In addition, to simplify the rate design by reducing the number of separate charges, the demand and standby related costs identified for the conveyance and aqueduct service function are also allocated to the RTS. These costs are estimated to be about \$43 million in FY 2009/10. Currently the RTS recovers \$92 million, an amount that represents a portion of the capital financing costs for facilities that serve existing users. It is recommended that the RTS be increased to \$114 million in calendar year 2010 to recover the additional costs associated with emergency storage and conveyance.

The RTS is allocated to the member agencies based on each agency's proportional share of a ten-year rolling average of all firm deliveries (including water transfers and exchanges that use Metropolitan

system capacity). The ten-year rolling average will not include replenishment service and interim agricultural deliveries because these deliveries will be the first to be curtailed in the event of an emergency. A ten-year rolling average leads to a relatively stable RTS allocation that reasonably represents an agency's potential long-term need for standby service under different demand conditions. Member agencies that so choose may have a portion of their total RTS obligation offset by standby charge collections levied by Metropolitan on behalf of the member agency. Schedule 11 provides an estimate as of March 2009 of each agency's total RTS obligation for calendar year 2010.

Schedule 11. Readiness-to-Serve Charge (by member agency)

Member Agency	Rolling Ten-Year Average Firm Deliveries (Acre- Feet) FY1998/99 - FY2007/08	RTS Share	12 months @ \$114 million per year (1/10-12/10)
Anaheim	20,228	1.10%	\$ 1,255,093
Beverly Hills	12,912	0.70%	801,160
Burbank	12,912	0.70%	801,148
Calleguas MWD	111,839	6.09%	6,939,385
Central Basin MWD	64,106	3.49%	3,977,669
Compton	3,346	0.18%	207,632
Eastern MWD	87,844	4.78%	5,450,563
Foothill MWD	11,280	0.61%	699,929
Fullerton	9,389	0.51%	582,595
Glendale	24,721	1.35%	1,533,863
Inland Empire Utilities Agency	57,206	3.11%	3,549,555
Las Virgenes MWD	22,851	1.24%	1,417,882
Long Beach	37,275	2.03%	2,312,828
Los Angeles	277,759	15.12%	17,234,473
Municipal Water District of Orange County	227,051	12.36%	14,088,083
Pasadena	22,682	1.23%	1,407,371
San Diego County Water Authority	486,698	26.49%	30,198,714
San Fernando	119	0.01%	7,359
San Marino	995	0.05%	61,707
Santa Ana	12,711	0.69%	788,689
Santa Monica	12,759	0.69%	791,654
Three Valleys MWD	72,197	3.93%	4,479,694
Torrance	20,975	1.14%	1,301,486
Upper San Gabriel Valley MWD	15,491	0.84%	961,183
West Basin MWD	143,381	7.80%	8,896,503
Western MWD	68,556	3.73%	4,253,783
MWD Total	1,837,281	100.00%	\$ 114,000,000

Totals may not foot due to rounding

2.7 Purchase Order

The rate structure relies on a Purchase Order to establish a financial commitment from the member agency to Metropolitan. In return for providing a financial commitment to Metropolitan the member agency may purchase more of its supply at the lower Tier 1 Supply Rate than had it not provided the commitment.

The Purchase Order is voluntarily submitted by the member agency to Metropolitan. Through the Purchase Order the member agency commits to purchase a fixed amount of supply from Metropolitan (the Purchase Order Commitment). The Purchase Order Commitment is determined as a portion of the member agency's historical demands on the Metropolitan system and the term of the Purchase Order.

Term

The Purchase Order is for a ten-year term beginning January 1, 2003. Ten years was chosen as a balance between the long-term investments Metropolitan makes to secure water supply (many of the supply development agreements Metropolitan commits to are for 20 years or more) and a shorter period that would require less of a commitment from the member agencies. In addition, a ten-year period will most likely allow sufficient time for high and low demand years to average, reducing the likelihood that a member agency will pay for unused water.

Initial base demand

The maximum annual firm demands since FY 1989/90 through June 30, 2002 are used to establish each member agency's "initial base demand". Firm demands are defined as all deliveries through the Metropolitan system to a member agency excluding replenishment service, interim agricultural service, deliveries made under the interruptible service program and deliveries made to cooperative and cyclic storage accounts at the time water was put into the accounts.

Purchase Order Commitment

The Purchase Order Commitment is limited to a portion of a member agency's initial base demand. The Purchase Order Commitment is defined as ten times 60 percent of the member agency's initial base demand. The ten times reflects the ten-year term of the Purchase Order and the 60 percent was chosen to balance risk transferred to the member agencies with the need for a financial commitment to Metropolitan.

Two factors influenced the use of the 60 percent demand level. First, there is substantial fluctuation in demands as a result of weather. During cool, wet weather, member agencies use less imported supply from Metropolitan's system. As a result, the Purchase Order Commitment was set at a level that would accommodate these annual fluctuations in weather driven demands, while helping to ensure that member agencies would have a reasonable opportunity to utilize all of the water during the ten-year Purchase Order term. Second, the 60 percent level was selected in consultation with member agency representatives and represents a sufficient incentive to utilize Metropolitan's supplies and provide a base financial commitment to the regional system. Since the Purchase Order Commitment is voluntary, no member agency is required to commit to the minimum level. But, in exchange for the commitment, the member agency may purchase more Metropolitan water supply (up to 90 percent of its Base Demand) at the lower Tier 1 Supply Rate. The Purchase Order Commitment quantity and the Tier 1 Annual Limit for all member agencies are shown in Schedule 12.

Schedule 12. Purchase Order Commitment Quantities (acre-feet)

	2010 Tier 1 Annual Limit*	Purchase Order Commitment (acre-feet)
Anaheim	22,240	148,268
Beverly Hills	13,380	89,202
Burbank	16,336	108,910
Calleguas	110,249	692,003
Central Basin	72,361	482,405
Compton	5,058	33,721
Eastern	83,988	504,664
Foothill	10,997	73,312
Fullerton	11,298	75,322
Glendale	26,221	174,809
Inland Empire	59,792	398,348
Las Virgenes	20,699	137,103
Long Beach	39,471	263,143
Los Angeles	304,970	2,033,132
MWDOC	228,130	1,486,161
Pasadena	21,180	141,197
San Diego	543,778	3,342,571
San Fernando	630	-
San Marino	1,199	-
Santa Ana	12,129	80,858
Santa Monica	11,483	74,062
Three Valleys	70,474	469,331
Torrance	20,967	139,780
Upper San Gabriel	16,512	110,077
West Basin	156,874	1,045,825
Western	65,915	391,791
Total	1,946,331	12,495,995

Totals may not foot due to rounding

*To be updated by April 2010 for the IAWP opt-outs received

2.8 Tier 2 supply rate

The Tier 2 Supply Rate is set at Metropolitan's cost of developing long-term firm supplies to encourage the member agencies and their customers to maintain existing local supplies and develop cost-effective local supply resources and conservation. The Tier 2 Supply Rate also recovers a greater proportion of the cost of developing additional supplies from member agencies that have increasing demands on the Metropolitan system. Because of the uncertainty about supply and critically dry conditions, Metropolitan will have to purchase water transfers in 2009/10, at a cost of as much as or more than \$280 per acre-foot. Hence, it is recommended that the Tier 2 Supply Rate effective September 1, 2009 increase from its current level of \$250 per acre-foot, to \$280 per acre-foot in order to reflect the much higher costs of acquiring the additional supply.

The total revenue requirement for the supply service function is about \$299 million in FY 2009/10. At an expected average sales level of 1.9 million acre-feet it is estimated that about 90 thousand acre-feet will be sold at the Tier 2 Supply Rate, resulting in about \$25 million in revenues at the \$280 per acre-foot rate in effect during 2010. The remaining supply costs are recovered by the Tier 1 Supply Rate and by the replenishment rate and agricultural water rate discussed below.

The two-tier pricing approach is closely linked to the Purchase Order and a base level of demand. The initial base demand (IBD) is defined as the maximum annual firm demands on the Metropolitan system for the 13 years ending June 30, 2002. Firm demands are defined as all deliveries through the Metropolitan system to a member agency excluding: (1) replenishment service; (2) interim agricultural service; (3) deliveries made under the interruptible service program and (4) deliveries made from cooperative, cyclic and conjunctive use storage accounts not certified under the replenishment program.

Member agencies that submitted a Purchase Order may purchase up to 90 percent of the IBD at the lower Tier 1 Supply Rate. For supply purchases in excess of 90 percent of the IBD the member agency will be charged the higher Tier 2 Supply Rate. Member agencies that do not submit a Purchase Order are charged the higher Tier 2 Supply Rate for supplies that exceed 60 percent of the IBD. Over time the IBD will be compared to a rolling ten-year average of firm demands (not including water transfers and exchanges). The greater of the IBD and the rolling ten-year average of firm demands will be used to set the breakpoint between supply purchases made at the Tier 1 and Tier 2 Supply Rates.

2.9 Tier 1 supply rate

It is recommended that the Tier 1 Supply Rate effective January 1, 2010 increase from its current level of \$134 per acre-foot, to \$170 per acre-foot. This increase is due to the substantial additional costs of the required additional water transfers, caused by the critically dry conditions and a court imposed cutback in State Water Project deliveries. The Tier 1 Supply rate includes a Delta Surcharge of \$69 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 biological opinion on Delta Smelt and other actions to protect endangered fish species, as well as the ongoing drought conditions. The Delta Surcharge would remain in effect until a long-term solution for the delta was achieved or interim facility improvements are made to restore yield on the

State Water Project. The Tier 1 Supply Rate recovers the majority of the supply revenue requirement. The Tier 1 Supply Rate is simply calculated as the amount of the total supply revenue requirement that is not recovered by the Tier 2 Supply Rate and a portion of the revenues from the replenishment water rate and agricultural water rate divided by the estimated amount of Tier 1 water sales. At an expected demand level of about 1.9 million acre-feet it is estimated that Metropolitan will sell about 1.66 million acre-feet at the Tier 1 Supply Rate in 2009/10.

2.10 Replenishment and agricultural water rates

Metropolitan currently provides interruptible service for long-term replenishment operations and agricultural deliveries through the replenishment program and the interim agricultural water program (IAWP). Because of the critically dry conditions and uncertainty about supply, replenishment deliveries will remain curtailed in 2009/10. In October 2008, the Board approved a five-year phase out of the IAWP. In 2009/10 certified agricultural deliveries are expected to be about 56 thousand acre-feet. However, if water supply conditions improve and surplus water becomes available, Metropolitan could make Replenishment service available to its member agencies at the recommended rates of \$366 per acre-foot for untreated, and \$558 per acre-foot for treated water.

3 Sales

Staff estimates of water sales used for developing the rate recommendation were based on current member agency demands and information and an expectation that demands will trend to levels expected under normal weather conditions. Since 1989/90, total sales have averaged about 2.00 million acre-feet per year, ranging from a high of around 2.5 million acre-feet in 1989/90 to a low of about 1.5 million acre-feet in 1997/98. In 2008/09 water sales are projected to be around 2.13 million acre-feet. Water sales in 2009/10 are expected to be about 1.9 million acre-feet.

4 Proof of Revenue

Based on expected sales of 1.9 MAF the expected revenues would be about \$75 million lower than the total revenue requirement, if the rates and charges were in effect the entire test year period. However, because the recommended rates do not take effect until September 1, 2009, the expected revenues for 2009/10 will be about \$161 million (12 percent) less than the total revenue requirement in 2009/10. The total revenue requirement includes a \$15.3 million increase in the required reserves for the Revenue Remainder Fund. In addition, based on the Board's feedback during the budget workshops, the Pay-As-You-Go funding of the capital program has been reduced to \$36.7 million from \$95 million. Accounting for these adjustments, the required draw from reserves is about \$87.6 million in 2009/10.

Schedule 13. FY 2009/10 Proof of Revenue if Rates Effective for Full Test Year (\$ millions)

	Revenues if Rates Effective May 1	Revenue Requirements	Difference	% Over (Under) Collected
Supply	315.1	299.0	16.1	5%
System Access Rate	291.4	382.6	(91.3)	-24%
Water Stewardship Rate	77.6	78.0	(0.4)	-1%
System Power Rate	225.2	225.5	(0.3)	0%
Treatment Surcharge	243.2	242.8	0.4	0%
Readiness-to-serve Charge	114.0	113.9	0.1	0%
Capacity Charge	34.3	34.4	(0.1)	0%
Total	1,300.7	1,376.2	(75.4)	-5%

Totals may not foot due to rounding

Schedule 14. FY 2009/10 Proof of Revenue if Rates Effective January 1 (\$ millions)

	Revenues if Rates Effective Sep 1	Revenue Requirements	Difference	% Over (Under) Collected
Supply	290.5	299.0	(8.5)	-3%
System Access Rate	283.2	382.6	(99.4)	-26%
Water Stewardship Rate	66.3	78.0	(11.7)	-15%
System Power Rate	218.5	225.5	(7.0)	-3%
Treatment Surcharge	220.0	242.8	(22.8)	-9%
Readiness-to-serve Charge	103.0	113.9	(10.9)	-10%
Capacity Charge	33.3	34.4	(1.0)	-3%
Total	1,214.9	1,376.2	(161.2)	-12%

Totals may not foot due to rounding

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION _____

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
FIXING AND ADOPTING
A READINESS-TO-SERVE CHARGE FOR CALENDAR YEAR 2010**

WHEREAS, at its meeting on October 16, 2001, the Board of Directors (“Board”) of The Metropolitan Water District of Southern California (“Metropolitan”) approved a rate structure proposal described in Board Letter 9-6 dated October 16, 2001, including a readiness-to-serve charge; and

WHEREAS, providing firm revenue sources is a goal of such rate structure; and

WHEREAS, the amount of revenue to be raised by the readiness-to-serve charge shall be as determined by the Board and allocation of the readiness-to-serve charge among member public agencies shall be in accordance with the method established by the Board; and

WHEREAS, the readiness-to-serve charge is a charge imposed by Metropolitan upon its member agencies, and is not a fee or charge imposed upon real property or upon persons as an incident of property ownership; and

WHEREAS, Metropolitan has legal authority to impose such readiness-to-serve charge as a water rate pursuant to Section 134 of the Metropolitan Water District Act (the “Act”), and as an availability of service charge pursuant to Section 134.5 of the Act; and

WHEREAS, under authority of Sections 133 and 134 of the Act, the Board has the authority to fix the rate or rates for water as will result in revenue which, together with other revenues, will pay Metropolitan’s operating expenses and provide for payment of other costs, including payment of the interest and principal of Metropolitan’s non-tax funded bonded debt; and

WHEREAS, pursuant to Resolution 8329, adopted by the Board on July 9, 1991, proceeds of the readiness-to-serve charge and other revenues from the sale or availability of water are pledged to the payment of Metropolitan’s outstanding revenue bonds issued and revenue bonds to be issued pursuant to Resolution 8329; and

WHEREAS, under authority of Section 134.5 of the Act, a readiness-to-serve charge imposed as an availability of service charge may be collected from the member public agencies within Metropolitan, or may be imposed as a standby charge against individual parcels within Metropolitan’s service area; and

WHEREAS, under such authority, the water standby charge may be imposed on each acre of land or each parcel of land less than an acre within Metropolitan to which water is made available for any purpose by Metropolitan, whether the water is actually used or not; and

WHEREAS, certain member public agencies of Metropolitan have opted in prior fiscal years to provide collection of all or a portion of their readiness-to-serve charge obligation through a Metropolitan water standby charge imposed on parcels within those member agencies; and

WHEREAS, Metropolitan is willing to comply with the requests of member public agencies opting to have Metropolitan continue to levy water standby charges within their respective territories, on the terms and subject to the conditions contained herein; and

WHEREAS, the readiness-to-serve charge applicable to each member public agency, the method of its calculation, and the specific data used in its determination are as specified in the Engineer's Report dated December 2008 (the "Engineer's Report"), on file with the Board Executive Secretary; and

WHEREAS, the Business and Finance Committee of the Board conducted a public hearing at its regular meeting on March 9, 2009, at which interested parties were given the opportunity to present their views regarding the readiness-to-serve charge and the Engineer's Report; and

WHEREAS, notice of the public hearing on the proposed rates and charges was published prior to the hearing in various newspapers of general circulation within Metropolitan's service area; and

WHEREAS, notice of the public hearing and of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held April 14, 2009, on the General Manager's recommendation to increase Metropolitan's readiness-to-serve charge for calendar year 2010 was mailed to each of Metropolitan's member public agencies; and

WHEREAS, board workshops regarding the proposed budget and future rates and charges were held on January 6, February 24, and March 24, 2009; and

WHEREAS, an updated cost of service report, dated April 2009 and included in the General Manager's recommendation for rates and charges on April 13, 2009, was produced based on the feedback received from the public comments and the board workshops; and

WHEREAS, each of the meetings of the Board were conducted in accordance with the Brown Act (commencing at Section 54950 of the Government Code), for which due notice was provided and at which quorums were present and acting throughout;

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California does hereby resolve, determine and order as follows:

Section 1. That the Board of Directors of Metropolitan hereby fixes and adopts a readiness-to-serve charge for the period from January 1, 2010 through December 31, 2010.

Section 2. That said readiness-to-serve charge shall be in an amount sufficient to provide for payment of debt service and other appropriately allocated costs, for capital expenditures for projects needed to provide standby and emergency storage service needs.

Section 3. That such readiness-to-serve charge for January 1, 2010 through and including December 31, 2010 shall be a water rate equal to \$62.05 per acre-foot, which shall be charged on a historic basis for each acre-foot of water, excluding water used for purposes of replenishing local storage and agriculture as defined by the Administrative Code, included in Metropolitan's average water deliveries to its member agencies for the applicable ten-year period identified in Section 5 below. The aggregate readiness-to-serve charge for the period from January 1, 2010 through and including December 31, 2010 shall be \$114,000,000.

Section 4. That in the alternative, and without duplication, the readiness-to-serve charge shall be an availability of service charge pursuant to Section 134.5 of the Act.

Section 5. That the readiness-to-serve charge for January 1, 2010 through December 31, 2010 shall be allocated among the member public agencies in proportion to the average of deliveries through Metropolitan's system (in acre-feet) to each member public agency during the ten-year period ending June 30, 2008. Metropolitan sales of reclaimed water under the Local Projects Program, groundwater under the Groundwater Recovery Program, and deliveries under the Replenishment and Interim Agricultural Water Service Programs are not included in the readiness-to-serve charge water sales calculation. The allocation of the readiness-to-serve charge among member agencies is based on sales data recorded by Metropolitan and shall be conclusive in the absence of manifest error.

The amount of the readiness-to-serve charge to be imposed on each member public agency effective January 1, 2010, is as follows:

Table 1

Calendar year 2010 Readiness-To-Serve Charge

Member Agency	Rolling Ten-Year Average Firm Deliveries (Acre- Feet) FY1998/99 - FY2007/08	RTS Share	12 months @ \$114 million per year (1/10-12/10)
Anaheim	20,228	1.10%	\$ 1,255,093
Beverly Hills	12,912	0.70%	801,160
Burbank	12,912	0.70%	801,148
Calleguas MWD	111,839	6.09%	6,939,385
Central Basin MWD	64,106	3.49%	3,977,669
Compton	3,346	0.18%	207,632
Eastern MWD	87,844	4.78%	5,450,563
Foothill MWD	11,280	0.61%	699,929
Fullerton	9,389	0.51%	582,595
Glendale	24,721	1.35%	1,533,863
Inland Empire Utilities Agency	57,206	3.11%	3,549,555
Las Virgenes MWD	22,851	1.24%	1,417,882
Long Beach	37,275	2.03%	2,312,828
Los Angeles	277,759	15.12%	17,234,473
Municipal Water District of Orange County	227,051	12.36%	14,088,083
Pasadena	22,682	1.23%	1,407,371
San Diego County Water Authority	486,698	26.49%	30,198,714
San Fernando	119	0.01%	7,359
San Marino	995	0.05%	61,707
Santa Ana	12,711	0.69%	788,689
Santa Monica	12,759	0.69%	791,654
Three Valleys MWD	72,197	3.93%	4,479,694
Torrance	20,975	1.14%	1,301,486
Upper San Gabriel Valley MWD	15,491	0.84%	961,183
West Basin MWD	143,381	7.80%	8,896,503
Western MWD	68,556	3.73%	4,253,783
MWD Total	1,837,281	100.00%	\$ 114,000,000

Totals may not foot due to rounding

Section 6. That the allocation of the readiness-to-serve charge among member agencies set forth in Section 5 above is consistent with the per-acre-foot water rates imposed pursuant to Section 3 above.

Section 7. That it is the intent of the Board that water conveyed through Metropolitan's system for the purposes of water transfers, exchanges or other similar arrangements shall be included in the calculation of a member agency's rolling ten-year average firm demands used to allocate the readiness-to-serve charge.

Section 8. That the readiness-to-serve charge and the amount applicable to each electing member public agency, the method of its calculation, and the specific data used in its determination are as specified in the General Manager's recommendation on rates and charges to be effective January 1, 2010, which forms the basis of the readiness-to-serve charge. Such recommendation is on file and available for review by interested parties at Metropolitan's headquarters.

Section 9. That except as provided in Section 11 below with respect to any readiness-to-serve charge collected by means of a Metropolitan water standby charge, the readiness-to-serve charge shall be due monthly, quarterly or semiannually as agreed upon by Metropolitan and the member agency.

Section 10. That such readiness-to-serve charge may, at the request of any member agency which elected to utilize Metropolitan's standby charge as a mechanism for collecting its readiness-to-serve charge obligation in FY 1996/97, be collected by continuing the Metropolitan water standby charge at the same rates imposed in FY 1996/97 upon land within Metropolitan's (and such member public agency's) service area to which water is made available by Metropolitan for any purpose, whether such water is used or not.

Section 11. That the proposed water standby charge, if continued, shall be collected on the tax rolls, together with the *ad valorem* property taxes which are levied by Metropolitan for the payment of pre-1978 voter-approved indebtedness. Any amounts so collected shall be applied as a credit against the applicable member agency's obligation to pay a readiness-to-serve charge. After such member agency's readiness-to-serve charge allocation is fully satisfied, any additional collections shall be credited to other outstanding obligations of such member agency to Metropolitan or future readiness-to-serve obligations of such agency. Notwithstanding the provisions of Section 9 above, any member agency requesting to have all or a portion of its readiness-to-serve charge obligation collected through standby charge levies within its territory as provided herein shall pay any portion not collected through net standby charge collections to Metropolitan within 50 days after Metropolitan issues an invoice for remaining readiness-to-serve charges to such member agency, as provided in Administrative Code Section 4507.

Section 12. That on March 9, 2009, the Business and Finance Committee of Metropolitan's Board conducted a public hearing at which interested parties were afforded the opportunity to present their views regarding the readiness-to-serve charge in accordance with Section 4304(c) of Metropolitan's Administrative Code.

Section 13. That notice is hereby given to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held May 12, 2009 (or such other date as the Board shall hold its regular meeting in such month), on the General Manager's recommendation to continue its water standby charge for FY 2009/10 under authority of Section 134.5 of the Act on land within Metropolitan at the same rates, per acre of land, or per parcel of land less than an acre, imposed in FY 1996/97 upon land within Metropolitan's (and such member public agency's) service area. Such water standby charge will be continued as a means of collecting the readiness-to-serve charge.

Section 14. That no failure to collect, and no delay in collecting, any standby charges shall excuse or delay payment of any portion of the readiness-to-serve charge when due. All amounts collected as

water standby charges shall be applied solely as credits to the readiness-to-serve charge of the applicable member agency, with any excess collections being carried forward and credited against other outstanding obligations of such member agency to Metropolitan.

Section 15. That the readiness-to-serve charge is imposed by Metropolitan as a rate or charge on its member agencies, and is not a fee or charge imposed upon real property or upon persons as incidents of property ownership, and the water standby charge is imposed within the respective territories of electing member agencies as a mechanism for collection of the readiness-to-serve charge. In the event that the water standby charge, or any portion thereof, is determined to be an unauthorized or invalid fee, charge or assessment by a final judgment in any proceeding at law or in equity, which judgment is not subject to appeal, or if the collection of the water standby charge shall be permanently enjoined and appeals of such injunction have been declined or exhausted, or if Metropolitan shall determine to rescind or revoke the water standby charge, then no further standby charge shall be collected within any member agency and each member agency which has requested continuation of Metropolitan water standby charges as a means of collecting its readiness-to-serve charge obligation shall pay such readiness-to-serve charge obligation in full, as if continuation of such water standby charges had never been sought.

Section 16. That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 17. That this Board finds that the readiness-to-serve charge and other charges provided in this Resolution are not defined as a Project under the California Environmental Quality Act ("CEQA") since they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

Section 18. That if any provision of this Resolution or the application to any member agency, property or person whatsoever is held invalid, that invalidity shall not affect other provisions or applications of this Resolution which can be given effect without the invalid portion or application, and to that end the provisions of this Resolution are severable.

Section 19. That the General Manager is hereby authorized and directed to take all necessary action to satisfy relevant statutes requiring notice by mailing or by publication.

Section 20. That the Board Executive Secretary is hereby directed to transmit a certified copy of this Resolution to the presiding officer of the governing body of each member public agency.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on April 14, 2009.

Board Executive Secretary
The Metropolitan Water District
of Southern California

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION ____

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
FIXING AND ADOPTING
A CAPACITY CHARGE
EFFECTIVE JANUARY 1, 2010**

WHEREAS, the Board of Directors (“Board”) of The Metropolitan Water District of Southern California (“Metropolitan”), pursuant to Sections 133, 134 and 134.5 of the Metropolitan Water District Act (the “Act”), is authorized to fix such rate or rates for water as will result in revenue which, together with revenue from any water standby or availability of service charge or assessment, will pay the operating expenses of Metropolitan, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by Metropolitan, and provide for the payment of the interest and principal of its bonded debt; and

WHEREAS, the capacity charge is a fixed fee imposed (on a dollar per cubic-foot-per-second basis) on member agencies on the amount of capacity used by such member agency and is designed to recover the cost of providing peaking capacity within the distribution system; and

WHEREAS, on January 13, 2009, the General Manager presented to the Business and Finance Committee of Metropolitan’s Board his determination of total revenues and of revenues to be derived from water sales and firm revenue sources required during the fiscal year beginning in FY 2009/10, and a detailed report describing each of the rates and charges and the supporting cost of service process, dated December 2008 (the “Report”), that (i) describes the rate structure process and design, (ii) shows the costs of major service functions that Metropolitan provides to its member agencies, (iii) classifies these service functions costs based on the use of the Metropolitan system to create a logical nexus between the revenues required from each of the rates and charges, and (iv) sets forth the rates and charges necessary to defray such costs; and

WHEREAS, on January 13, 2009, the General Manager presented to the Business and Finance Committee his recommendation for rates and charges to be imposed and determination of total revenues to be derived from water sales and firm revenue sources required during the fiscal year beginning in FY 2009/10; and

WHEREAS, the Business and Finance Committee of the Board conducted a public hearing at its regular meeting on March 9, 2009, at which interested parties were given the opportunity to present their views regarding the proposed capacity charge; and

WHEREAS, notice of the public hearing was published prior to the hearing in various newspapers of general circulation within Metropolitan’s service area; and

WHEREAS, board workshops regarding the proposed budget and future rates and charges were held on January 6, February 24, and March 24, 2009; and

WHEREAS, an updated cost of service report, dated April 2009 and included in the General Manager's recommendation for rates and charges on April 13, 2009, was produced based on the feedback received from the public comments and the board workshops; and

WHEREAS, each of the meetings of the Board were conducted in accordance with the Brown Act (commencing at Section 54950 of the Government Code), for which due notice was provided and at which quorums were present and acting throughout; and

WHEREAS, the amount of revenue to be raised by the capacity charge shall be as determined by the Board and allocation of such charges among member public agencies shall be in accordance with the method established by the Board; and

WHEREAS, the capacity charge is a charge imposed by Metropolitan upon its member agencies, and is not a fee or charge imposed upon real property or upon persons as an incident of property ownership; and

WHEREAS, Metropolitan has legal authority to impose the capacity charge as a water rate pursuant to Sections 133 and 134 of the Metropolitan Water District Act (the "Act"); and

WHEREAS, under authority of Sections 133 and 134 of the Act, the Board has the authority to fix the rate or rates for water as will result in revenue which, together with other revenues, will pay Metropolitan's operating expenses and provide for the payment of other costs, including payment of the interest and principal of Metropolitan's non-tax funded debt; and

WHEREAS, the capacity charge is intended to recover the debt service and other appropriately allocated costs to construct, operate and maintain projects needed to meet peak demands on Metropolitan's distribution system, as shown in the Report; and

WHEREAS, in the alternative under Section 134.5 of the Metropolitan Water District Act, an availability of service charge may be collected from the member public agencies within Metropolitan;

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California does hereby resolve, determine and order as follows:

Section 1. That the Board of Directors of Metropolitan hereby fixes and adopts a capacity charge, as described below, to be effective January 1, 2010.

Section 2. That the capacity charge shall be in an amount sufficient to provide for payment of the capital financing costs not paid from *ad valorem* property taxes, as well as operations, maintenance and overhead costs incurred to provide peaking capacity within Metropolitan's distribution system.

Section 3. That such capacity charge effective January 1, 2010 shall be a water rate of \$7,200 per cubic-foot-per-second (set in dollars per cubic-foot-per-second of the peak day capacity) for capacity provided to a member agency.

Section 4. That in the alternative, and without duplication, the capacity charge shall be an availability of service charge pursuant to Section 134.5 of the Act.

Section 5. That on March 9, 2009, the Business and Finance Committee of Metropolitan’s Board conducted a public hearing at which interested parties were afforded the opportunity to present their views regarding the capacity charge in accordance with Section 4304(c) of Metropolitan’s Administrative Code.

Section 6. That this Board finds and determines that the capacity charge is a reasonable fee for use of capacity of Metropolitan’s distribution system.

Section 7. That the capacity charge shall be a fixed charge as shown in the following table and collected from each member agency monthly, quarterly or semiannually as agreed to by Metropolitan and the member agency.

Table 1. Calendar Year 2010 Capacity Charge

AGENCY	Peak Day Demand (cfs)				Calendar Year 2010 Capacity Charge (\$7,200/cfs)
	(May 1 through September 30)				
	Calendar Year				
	2006	2007	2008	3-Year Peak	
Anaheim	37.0	38.0	36.0	38.0	\$ 273,600
Beverly Hills	33.0	34.0	33.0	34.0	244,800
Burbank	35.0	34.0	34.0	35.0	252,000
Calleguas	254.0	261.0	250.0	261.0	1,879,200
Central Basin	131.0	126.0	103.0	131.0	943,200
Compton	7.0	7.0	5.0	7.0	50,400
Eastern	249.0	304.0	260.0	304.0	2,188,800
Foothill	25.0	25.0	22.0	25.0	180,000
Fullerton	33.0	37.0	27.0	37.0	266,400
Glendale	57.0	55.0	56.0	57.0	410,400
Inland Empire	114.0	176.0	126.0	176.0	1,267,200
Las Virgenes	45.0	45.0	45.0	45.0	324,000
Long Beach	57.0	61.0	68.0	68.0	489,600
Los Angeles	540.0	769.0	822.0	822.0	5,918,400
MWDOC	456.0	469.0	454.0	469.0	3,376,800
Pasadena	67.0	59.0	56.0	67.0	482,400
San Diego ¹	1057.0	1178.0	929.0	1296.0	9,331,200
San Fernando	0.0	7.0	0.0	7.0	50,400
San Marino	8.0	5.0	5.0	8.0	57,600
Santa Ana	31.0	30.0	15.0	31.0	223,200
Santa Monica	28.0	28.0	26.0	28.0	201,600
Three Valleys	156.0	171.0	168.0	171.0	1,231,200
Torrance	42.0	42.0	36.0	42.0	302,400
Upper San Gabriel	42.0	64.0	37.0	64.0	460,800
West Basin	276.0	262.0	243.0	276.0	1,987,200
Western	290.0	289.0	274.0	290.0	2,088,000
Total	4,070	4,576	4,130	4,789	\$ 34,480,800

(1) San Diego capacity set at 1,296 cfs per surface storage operating agreement terms
Totals may not foot due to rounding

Section 8. That the capacity charge for each member public agency, the method of its calculation, cost allocations and other data used in its determination are as specified in the Report, which is on file and available for review by interested parties at Metropolitan’s headquarters.

Section 9. That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 10. That this Board finds that the proposed capacity charge is not defined as a Project under the California Environmental Quality Act (“CEQA”) since it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

Section 11. That the General Manager is hereby authorized and directed to take all necessary action to satisfy relevant statutes requiring notice by publication.

Section 12. That the Board Executive Secretary is hereby directed to transmit a certified copy of this Resolution to the presiding officer of the governing body of each member public agency.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on April 14, 2009.

Board Executive Secretary
The Metropolitan Water District
of Southern California