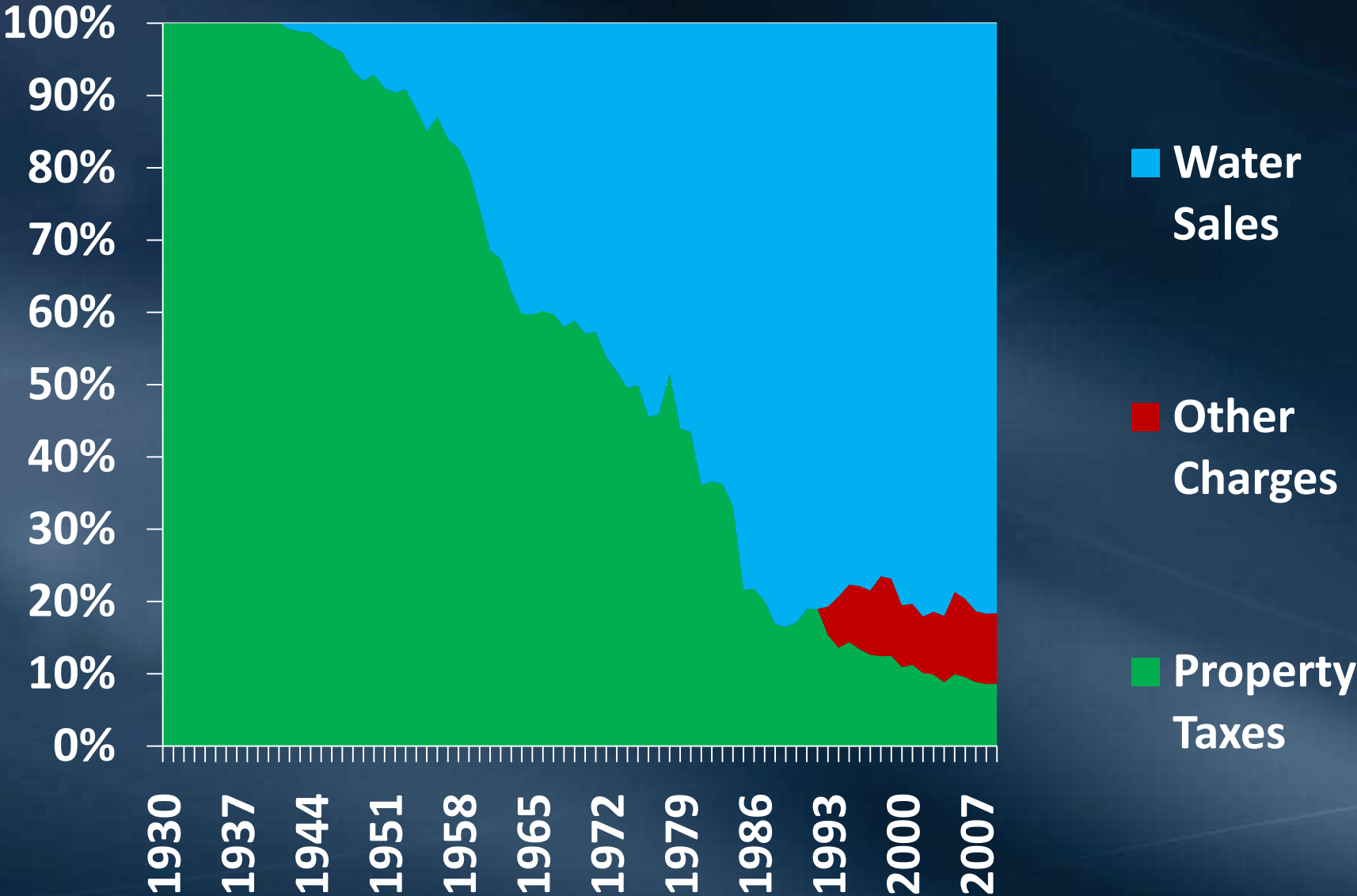


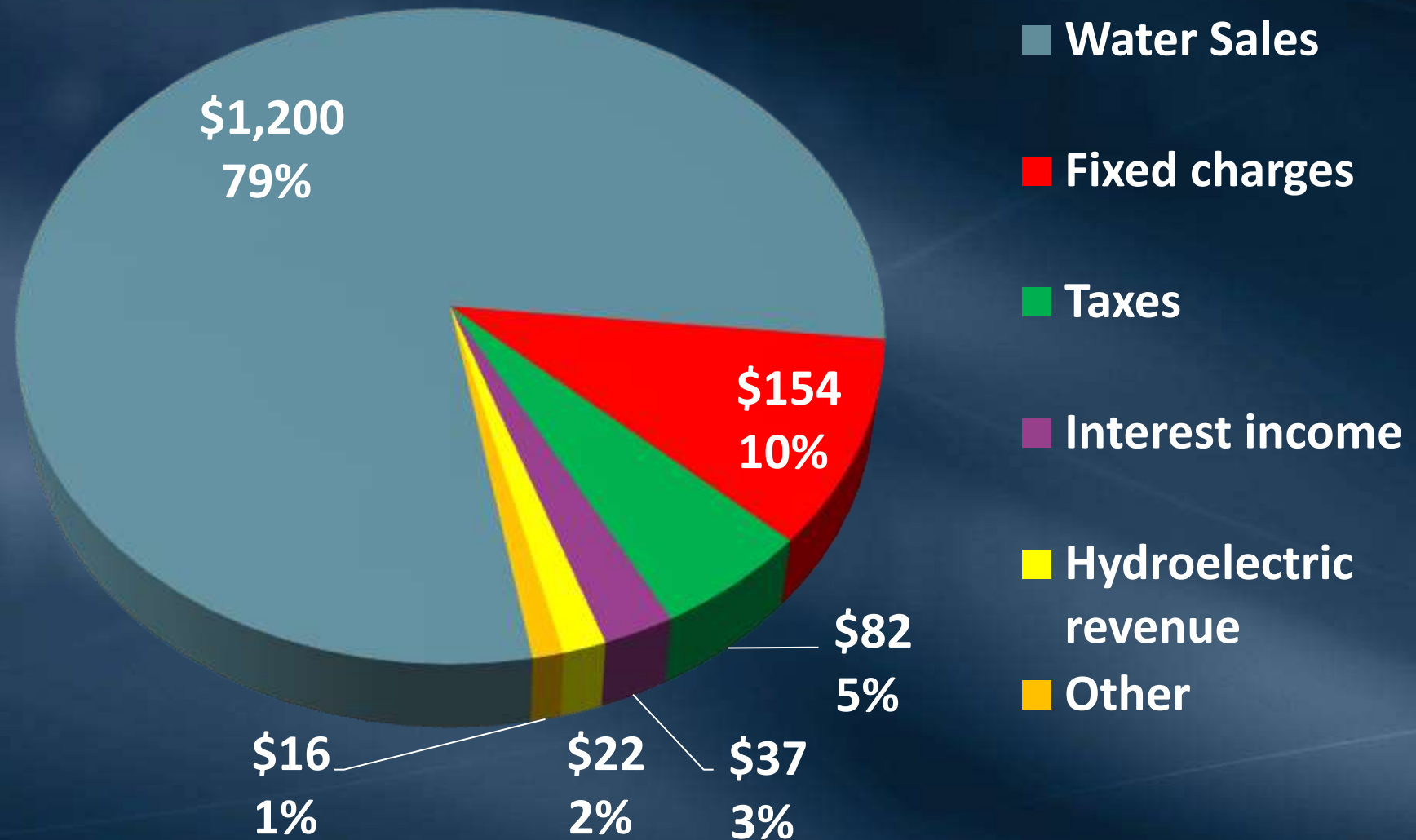
Revenue Overview and FY 2011/12 Revenue Sensitivity

Business and Finance Committee
November 8, 2010

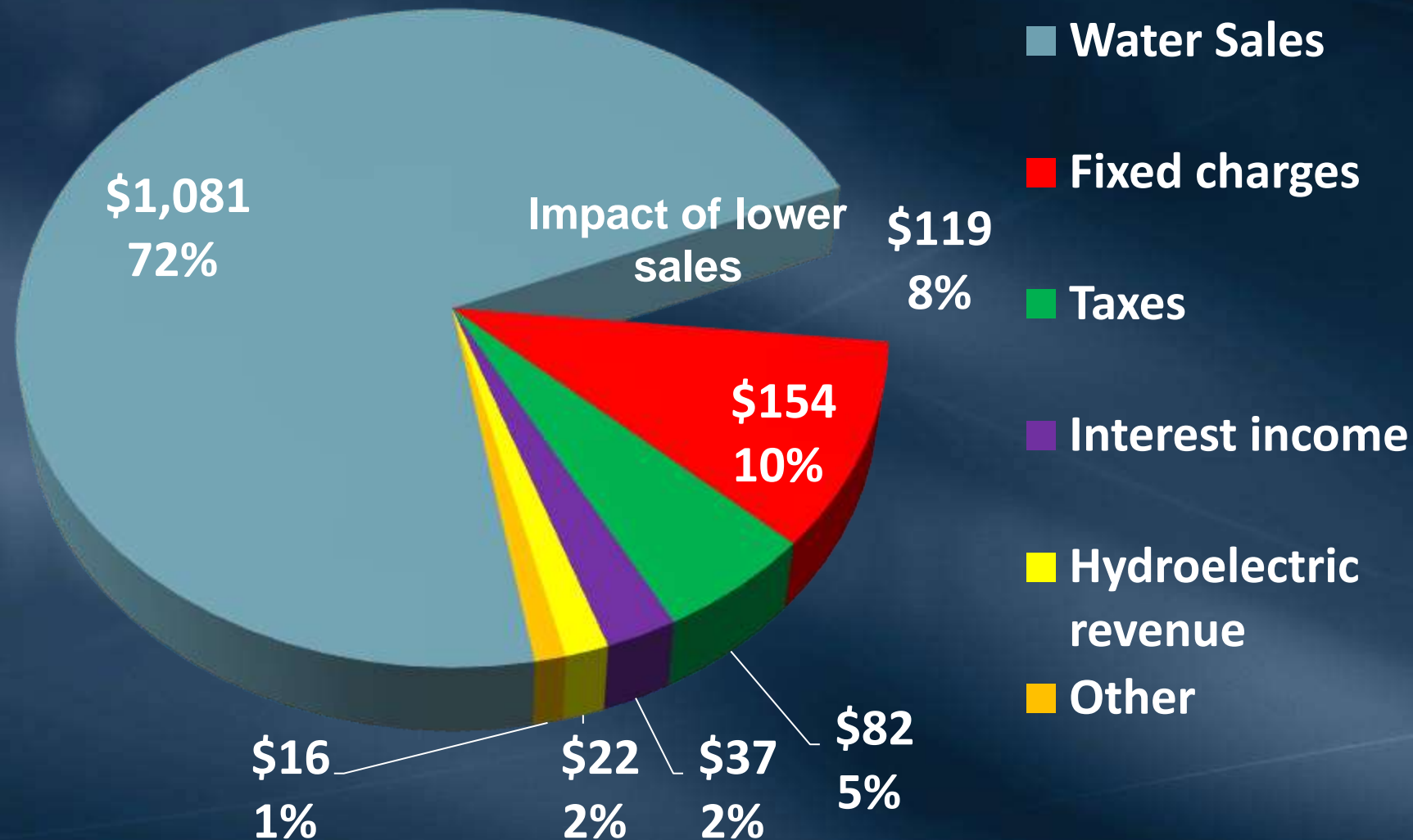
Historical Revenue Sources



Proposed Revenues FY2010/11 Budget (\$M)



Projected Revenues FY2010/11 (\$M)



Extensive Rate Structure Review Resulted in October 2001 Proposal

- Adopted by Board in October 2001 and implemented for rates effective 2003
- Member agency proposal consistent with the Rate Structure Action Plan adopted by the Board in December 2000
- Addressed specific Board concerns:
 - Use of property taxes
 - Financial impacts
 - Relative burden of financial risk
 - Financial commitment
 - Water resource management

The Proposal Had Several Objectives

- Objective 1. Maintain MWD as the regional provider of imported water
 - MWD and member agencies work collaboratively to secure necessary water supplies and build appropriate infrastructure
- Objective 2. Support cost-effective local resources development and water conservation
- Objective 3. Accommodate a water market
 - Unbundle water rates

Revenue Structure Has a Number of Components

- Taxes
- Fixed charges
 - Readiness to Serve (RTS)
 - Capacity Charge
- “Unbundled” Water Rate:
 - Supply
 - System Access
 - Water Stewardship
 - System Power
 - Treatment
- Supply rate has two tiers

Rate Structure Components

| Rate Design Elements | Costs Recovered | Type of Charge |
|------------------------|-------------------------|---------------------|
| Tier 1 Supply Rate | Supply | Volumetric (\$/af) |
| Tier 2 Supply Rate | Supply | Volumetric (\$/af) |
| System Power Rate | Power | Volumetric (\$/af) |
| Water Stewardship Rate | Conservation / LRP | Volumetric (\$/af) |
| System Access Rate | C&D (Avg Capacity) | Volumetric (\$/af) |
| Treatment Surcharge | Treatment | Volumetric (\$/af) |
| Capacity Charge | Peak Dist. Capacity | Fixed (\$/peak cfs) |
| RTS Charge | C&D (Emergency Storage) | Fixed (\$M) |

MWD also sells surplus Interim Agricultural and Replenishment water.

System Access Rate (SAR)

- Volumetric Rate
- The SAR recovers the cost of the conveyance and distribution system that is used on an average annual basis through a uniform volumetric rate.
- All users pay the SAR for access to conveyance and distribution capacity in the Metropolitan system.

Water Stewardship Rate (WSR)

- Volumetric Rate
- Provides a dedicated source of funding for the continuation of regional investments in conservation, recycling, and other economical local resources
- Paid by all users of Metropolitan's conveyance and distribution system

System Power Rate (SPR)

- Volumetric Rate
- Recovers the cost of energy required to pump water to Southern California through the State Water Project and Colorado River Aqueduct.
- All parties pay the cost of power, whether Metropolitan supplies, exchanged or wheeled

Treatment Surcharge

- Volumetric Rate
- Recovers fixed and variable cost of providing treatment capacity
- Applied to all treated water deliveries

Capacity Charge

- Fixed Charge
- \$7,200/cfs in 2010
- Recovers cost of peak distribution capacity
- Levied on an agency's peak day demand for the summer* -- three year trailing peak
- Demands include firm, agricultural, exchange & wheeling

* May 1 through Sep 30

Readiness-To-Serve Charge (RTS)

- Fixed Charge
- \$114M in 2010
- Recovers cost of emergency system storage and standby conveyance capacity
- Allocated among member agencies by a ten-year rolling average of firm demand

Tier 1 & 2 Supply Rate

- Tiered supply pricing encourages development of cost effective local resources
 - Areas with growing demands on MWD's system will pay proportionally more for the water through the second tier
- The Tier 1 Supply Rate recovers the majority of supply costs
- The Tier 2 Supply Rate is set at Metropolitan's marginal supply cost to encourage developing cost-effective local supply resources and conservation

Replenishment & Agricultural Water Program

- Volumetric Rate
- Interruptible supplies
- Available at a discounted rate
- Replenishment program provides supplies (when available) for the purpose of replenishing local storage
- Interim agricultural water program makes surplus water available for agricultural purposes
 - Will be phased out over a period of five years, from 2008 through 2012

Delta Supply Charge Introduced in 2010

- Delta Supply Surcharge
 - \$69/AF in 2010
 - Charged on all water sales except Tier 2
 - Reflects Metropolitan's cost due to Delta restrictions, including:
 - Transfer costs
 - Legal
 - Personnel
 - Outside consultants

Approved Rates and Charges

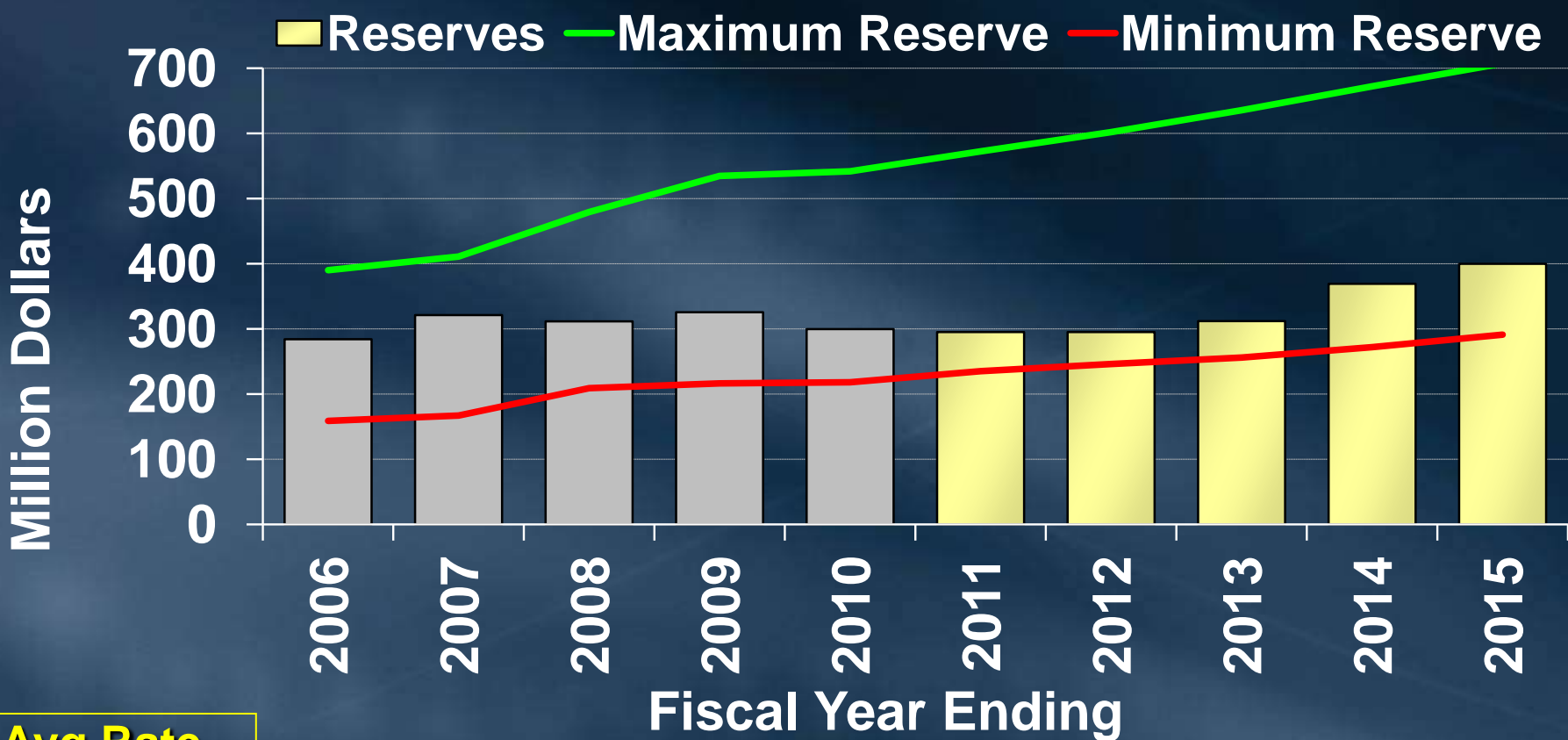
| Effective | Jan. 1, 2010 | Jan. 1, 2011 | Jan. 1, 2012 |
|---------------------------------|-----------------|-----------------|-----------------|
| Tier 1 Supply Rate (\$/AF) | \$101 | \$104 | \$106 |
| Delta Supply Surcharge (\$/AF) | \$69 | \$51 | \$58 |
| Tier 2 Supply Rate (\$/AF) | \$280 | \$280 | \$290 |
| System Access Rate (\$/AF) | \$154 | \$204 | \$217 |
| Water Stewardship Rate (\$/AF) | \$41 | \$41 | \$43 |
| System Power Rate (\$/AF) | \$119 | \$127 | \$136 |
| Treatment Surcharge (\$/AF) | \$217 | \$217 | \$234 |
| Readiness-to-Serve Charge (\$M) | \$114 | \$125 | \$146 |
| Capacity Charge (\$/cfs) | \$7,200 | \$7,200 | \$7,400 |

Approved Bundled Rates – What Agencies Pay

| Effective Date | Jan. 1, 2010 | Jan. 1, 2011 | Jan. 1, 2012 |
|--|-----------------|-----------------|-----------------|
| Untreated Full Service (\$/AF) | | | |
| Tier 1 | \$484 | \$527 | \$560 |
| Tier 2 | \$594 | \$652 | \$686 |
| Untreated Replenishment (\$/AF) | \$366 | \$409 | \$442 |
| Untreated Interim Agricultural (\$/AF) | \$416 | \$482 | \$537 |
| Treated Full Service (\$/AF) | | | |
| Tier 1 | \$701 | \$744 | \$794 |
| Tier 2 | \$811 | \$869 | \$920 |
| Treated Replenishment (\$/AF) | \$558 | \$601 | \$651 |
| Treated Interim Agricultural (\$/AF) | \$615 | \$687 | \$765 |

FY 2011/12 Revenue Sensitivity: What if MWD Sells 1.8 MAF?

Reserve Funds Balance (w/ WSF)



| Avg Rate Increase | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------|------|------|------|------|------|------|------|------|------|------|
| Avg Rate Increase | 2% | 3% | 6% | 14% | 20% | 7.5% | 7.5% | 5% | 5% | 5% |
| PAYGO, \$M | 88 | 95 | 43 | 30 | 37 | 95 | 125 | 125 | 125 | 125 |
| Rev. Bond Cvg | 1.8 | 2.2 | 1.8 | 1.8 | 1.6 | 1.9 | 2.0 | 2.0 | 2.2 | 2.1 |
| Fixed Chg Cvg | 1.3 | 1.7 | 1.3 | 1.3 | 1.1 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 |

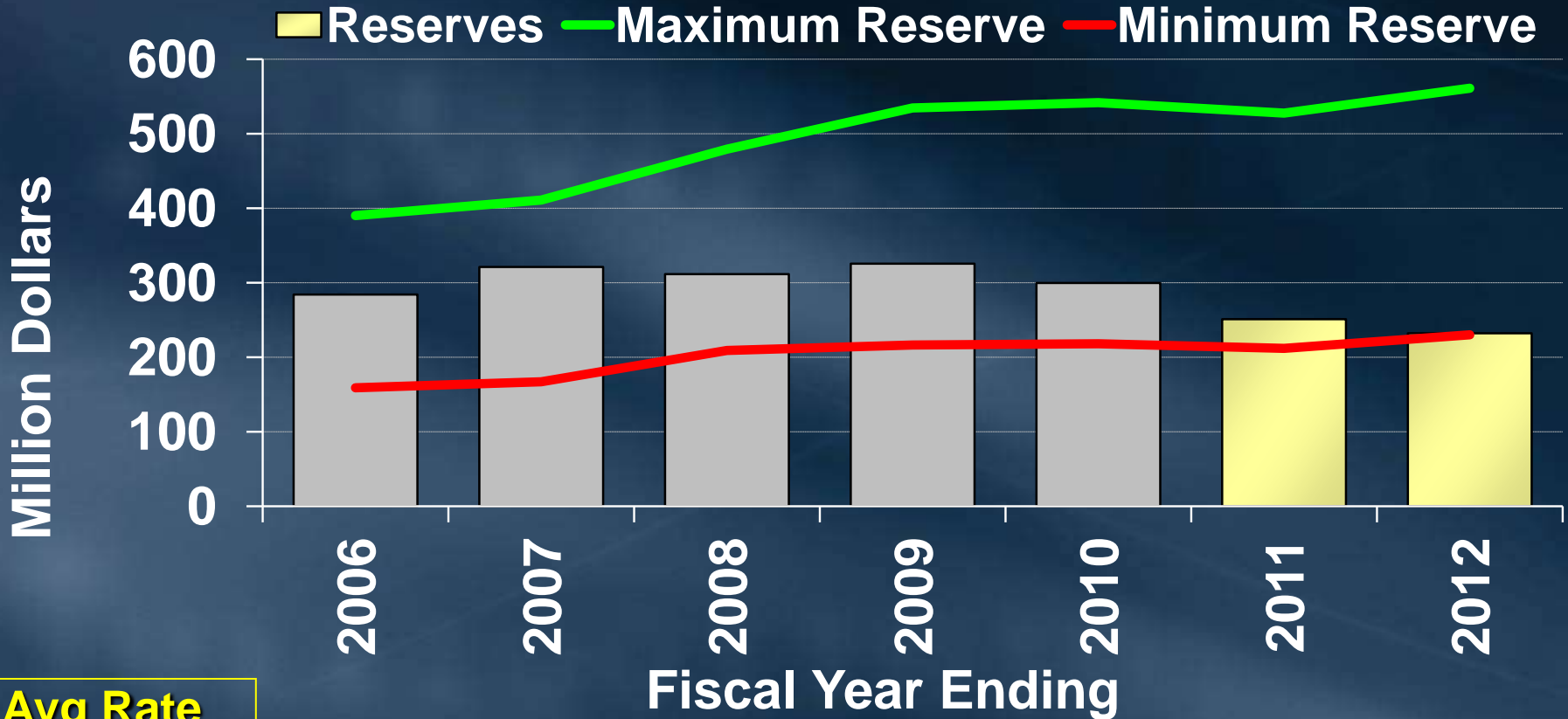
Changes from 2011/12 Budget

- Updated FY 2010/11 estimate
 - 1.77 MAF Sales
- Reduced costs:
 - Lower CRA power costs
 - Lower treatment costs
- Potentially reduce FY 2010/11 \$95M PAYGO to \$45M

Impact of Lower Sales in FY 2011/12

- 1.8MAF sales = \$152M less revenue
 - Small amount due to lower hydroelectric revenues and lower interest income
- Potential Cost Reductions:
 - Reduce water transfers by \$60M
 - Reduced Conservation Credits Program by \$0.7M in 2011/12
 - Defer OPEB funding of \$10M
 - Reduce PAYGO funding by \$35M to \$90M in 2011/12
 - Reduced power and treatment costs by \$26M in 2011/12

1.8 MAF Sales in 2011/12 with Cost Reductions



| Avg Rate Increase | 2% | 3% | 6% | 14% | 20% | 7.5% | 7.5% |
|-------------------|-----|-----|-----|-----|-----|------|------|
| PAYGO, \$M | 88 | 95 | 43 | 30 | 37 | 45 | 90 |
| Rev. Bond Cvg | 1.8 | 2.2 | 1.8 | 1.8 | 1.6 | 1.5 | 1.8 |
| Fixed Chg Cvg | 1.3 | 1.7 | 1.3 | 1.3 | 1.1 | 1.0 | 1.3 |

Summary of Impacts of 1.8MAF Sales in FY 2011/12

- Revenue impact equals \$152M
- Cost reductions total \$132M in 2011/12
- Draw on reserves in FY 2011/12 is \$19M
- Revenue Bond Coverage is 1.8x versus 2.0x, Fixed Charge Coverage is 1.3x versus 1.4x
- Alternative to draw on reserves:
 - Additional cost reductions
 - Split size of debt sale in 2011
 - Utilize in-basin storage to minimize power and supply costs

Discussion