



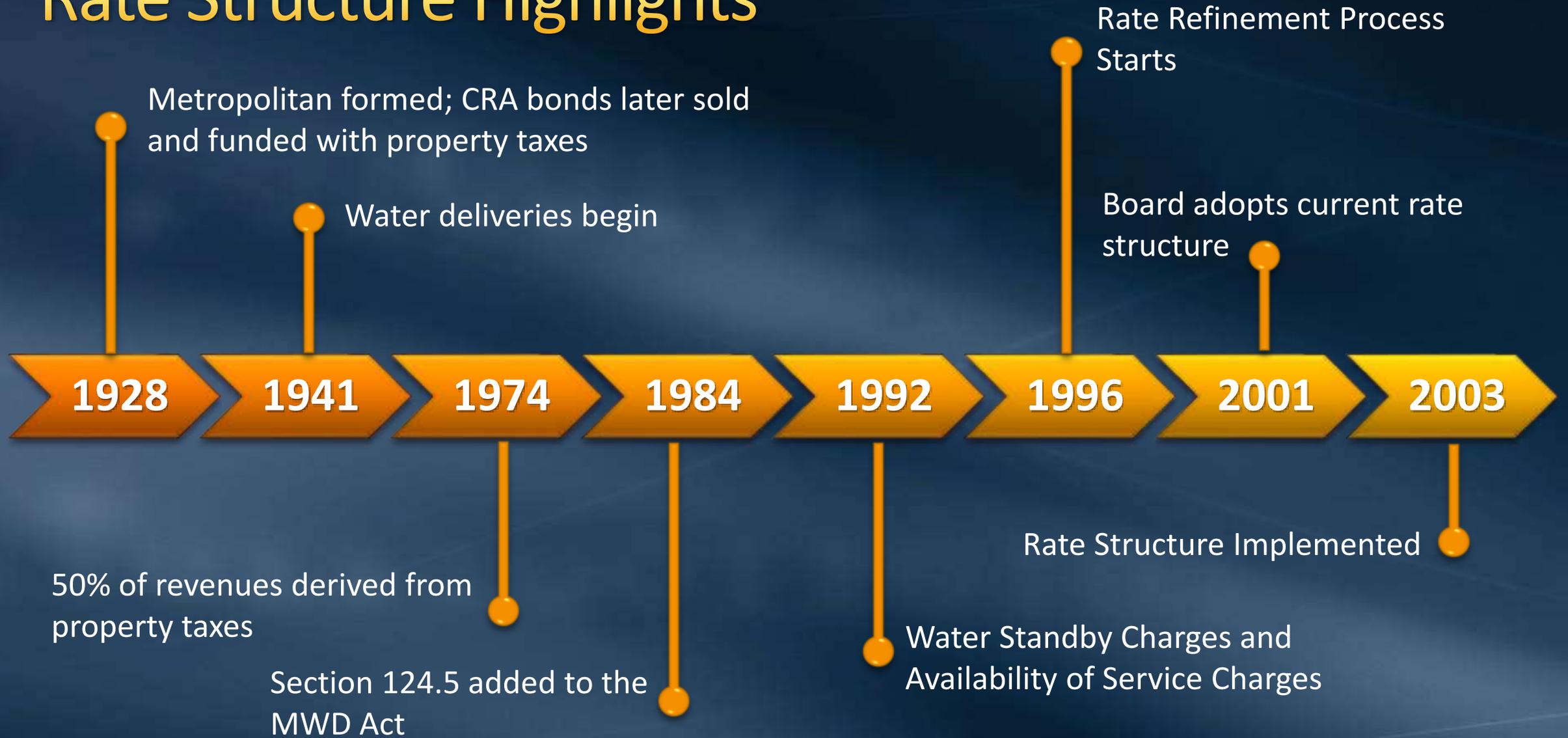
# Draft Rate Refinement Structure Guiding Principles

Finance and Insurance Committee

Item 6a

May 10, 2021

# Rate Structure Highlights



# 1996-2001 Rate Refinement Process

- Initiated in January 1996
  - Focus on wheeling principles, drought allocation plan, alternative revenues and long term rate design
- Board initiates Strategic Planning 1998
- Board Adopted Strategic Plan Policy Principles in December 1999
- Subcommittee of Member Agencies submitted and Rate Structure Approved by Board in October 2001
- Current Rate Structure Implemented in January 2003

# Existing Rate Structure Framework from 1999 Board Adopted Strategic Plan

## Major Requirements of Metropolitan's Mission

- Flexibility
- Certainty
- Public Stewardship

## Statement of Common Interest

- Regional Provider
- Financial Integrity
- Local Resource Development
- Imported Water Services
- Choice and Competition
- Responsibility for Water Quality
- Cost Allocation and Rate Structure

## Rate Structure Framework

- Fair
- Based on the stability of MWD's revenue and coverage of its costs
- Provide certainty and predictability
- Reasonably simple and easy to understand
- Any dry-year allocation should be based on need

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Major Requirements of Metropolitan's Mission

Statement of Common Interest

Rate Structure Framework

## Rate Structure Framework Purpose

Provide a set of policy objectives to evaluate alternative rate structure proposals

- Choice and Competition
- Responsibility for Water Quality
- Cost Allocation and Rate Structure

- Fair
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# Proposed Changes to Rate Structure Framework

## Current

## Draft



- Fair
- Based on the stability of MWD's revenue and coverage of its costs
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1. Be fair, equitable, and transparent
2. Meet applicable legal requirements
3. Follow cost of service principles
4. Provide rate and revenue stability under changing collective demand characteristics and coverage of its costs
5. Protect the long-term fiscal integrity of Metropolitan and maintain its strong bond ratings
6. Be reasonably simple, logically structured, and easy to understand
7. Encourage prudent water management actions that recognize both local and regional benefits, consistent with the Integrated Resources Plan
8. Any water shortage allocation should be based on need and addressed through pricing mechanisms

## Rate Structure Framework

The rate structure should:

1. Be fair, equitable, and transparent
2. Meet applicable legal requirements
3. Follow cost of service principles
4. Provide rate and revenue stability under changing collective demand characteristics and coverage of its costs
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6. Be reasonably simple, logically structured, and easy to understand
7. Encourage prudent water management actions that recognize both local and regional benefits, consistent with the Integrated Resources Plan
8. Any water shortage allocation should be based on need and addressed through pricing mechanisms

# Rate Refinement Proposed Board Timeline

- June 2021: Comprehensive Informational Board Report on DM Cost Recovery
- June 2021: Proposed Board Action Updated Rate Refinement Principles
- July 2021: Proposed Board Action on DM Cost Recovery
- August 2021: Workgroup to Continue work on Rate Refinement
- September 2021: Start process for Biennial Budget and Rates and Charges for FY 2022/23 & FY 2023/24

