

Long Range Finance Plan Rate Refinement Discussions

Meeting #2
September 9, 2011

Agenda

- Introductions
 - Facilitation
- Topics for Today
 - Review of Issues list
 - Request for background information:
 - Metropolitan's cost and revenue structure
 - Historical sales volatility
 - Reserve Policy
 - Purchase Order status
- Next steps

What Issues were put on the Table?

- Fixed revenue generation
- Replenishment (Workgroup report in September)
- Growth charge for infrastructure
- Tier 1 limit / trading Tier 1 limits
- Treated water cost recovery
- Aligning the WSAP and implementation of rates and charges
- Fixed commitment to pay for the system (contracts)
- Compton: Purchase Order commitment shortfall
- Look back period for Capacity Charge
- Review of financial policies

List of Issues - Categorized

- Issues related to fixed revenue:
 - Fixed revenue generation
 - Tier 1 limit / trading Tier 1 limits
 - Fixed commitment to pay for the system (contracts)
 - Purchase Order status, Compton
 - Review of financial policies
- Issues related to specific programs:
 - Replenishment (Workgroup report in September)
 - Aligning the WSAP and T1/T2 rates
- Issues related to cost causation
 - Growth charge for infrastructure
 - Treated water cost recovery
 - Look back period for Capacity Charge

Framing the Discussions: Background Information

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Costs versus Revenues

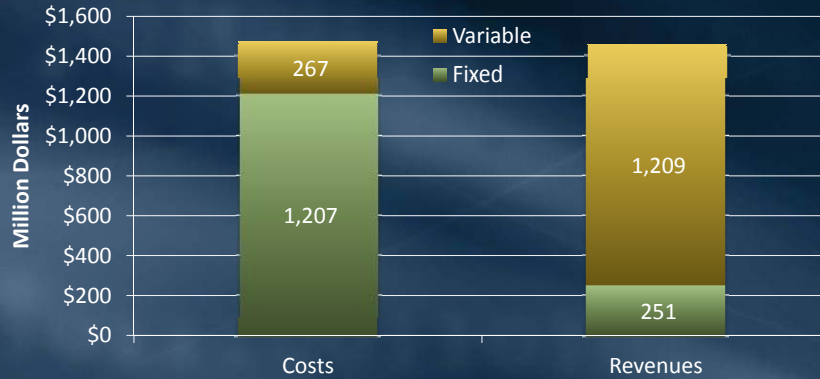
- Variable Costs: costs that vary directly with the amount of water delivered
 - SWP On Aqueduct and CRA Power
 - Power and chemicals for Treatment processes
 - Supply Programs
- Fixed Revenues: revenues that do not vary with volumes of water sold
 - Readiness-to-Serve Charge, Capacity Charge, Ad Valorem Taxes
- Different ways to define costs
 - Discretionary: O&M, PAYGO, Conservation Credits Program
 - Non-discretionary: State Water Contract, CRA Power, Debt Service, Water Supply Programs, Local Resources Program, Increase in Required Reserves

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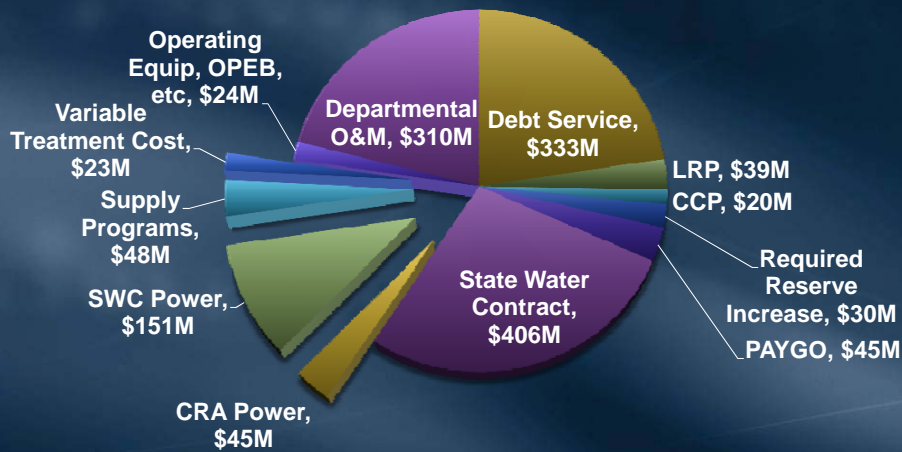
2011/12 Projected Costs and Revenues

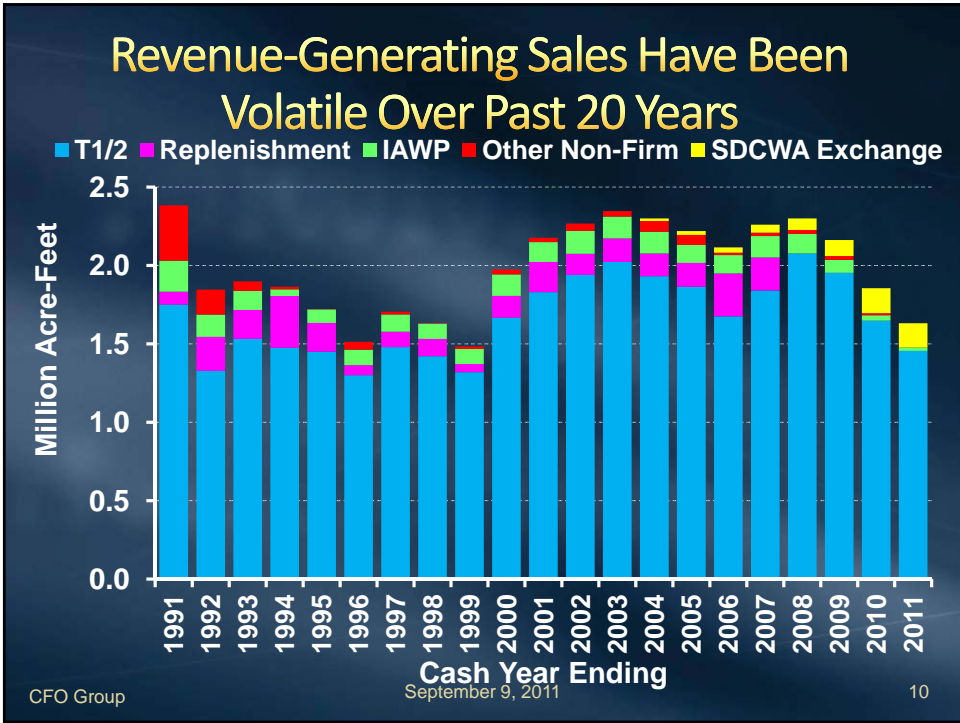
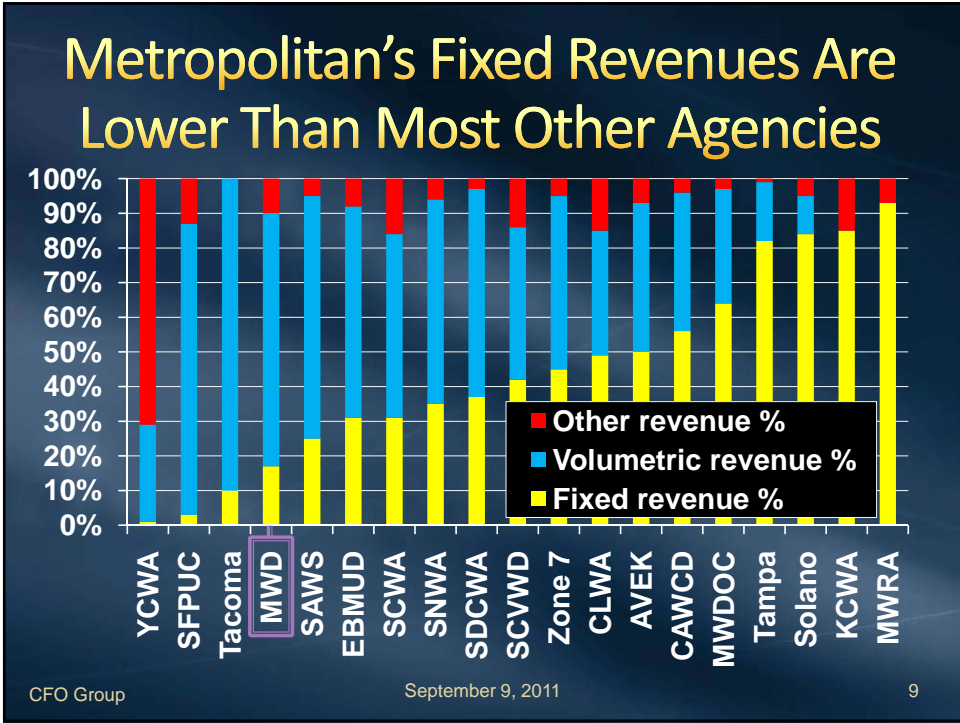


Variable Costs include SWP Variable Power, CRA Power, Variable Treatment, & Supply Programs

Fixed Revenues include RTS, CC, and Taxes/Annexations

2011/12 Projected Costs





Metropolitan Sales Variability is Higher Than Most Retail Agencies

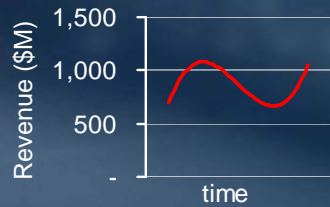
- Metropolitan is a supplemental supplier
 - Sales vary as retail demands increase/decline
 - Sales vary as local supplies increase/decline
- Revenue structure is highly dependent on variable revenues
 - ~ 80% of revenues are based on volumes sold/moved
- Result is a highly volatile revenue stream

Reserve Fund Policy

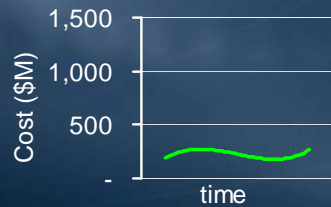
- Reserve Policy has changed 7 times since the 70's.
- Current policy was adopted with the 1999 LRFPU
 - Minimum of 18 months of rate protection
 - Maximum of 3.5 years of rate protection

Reserve Calculation

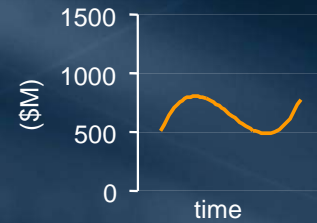
Volumetric Water Sales Revenue



Variable Costs



Fixed Costs Recovered by Water Rate



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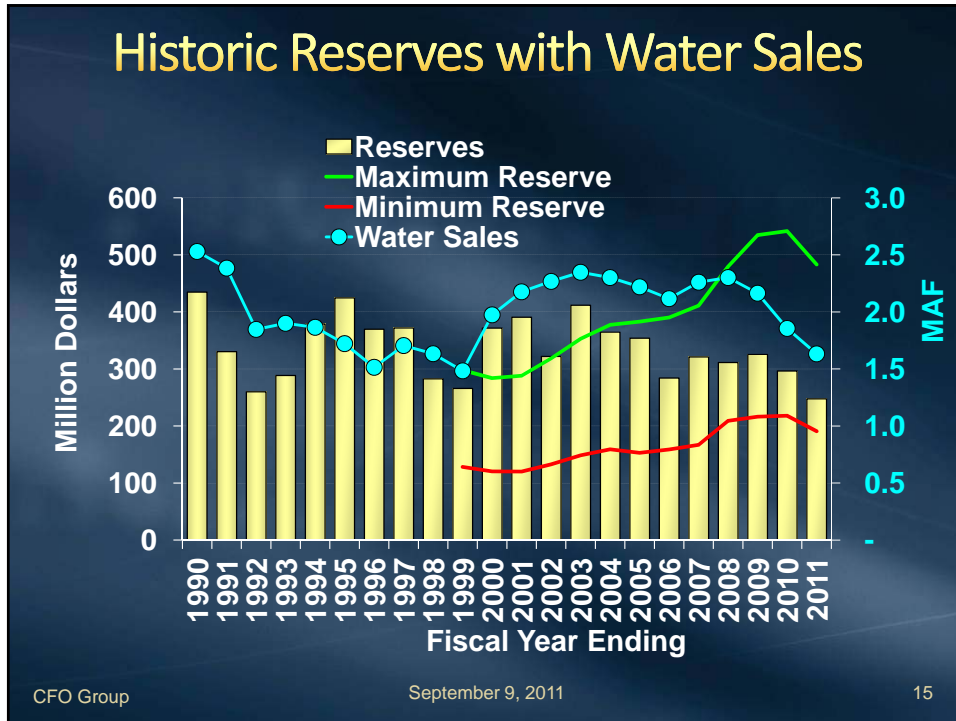
Reserve Fund Principles

- Provide stable & predictable water rates
- Provide stable rates for local water resource investment planning
 - MWD rate used as a benchmark

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- ### Industry Approaches to Revenue Challenges
- Water Research Foundation Project #4405 Rates and Revenues
 - Working group established; Utility executives
 - Strategies to bridge revenue gap faced by water utilities to address:
 - Public Health
 - Environmental
 - Community Development
 - Challenge:
 - Gap between future needs and revenues
 - Continued decreased water use per account
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Water Research Foundation Project #4405 Rates and Revenues

- Strategies :
 - Pricing and Sales Innovation
 - Financial Policies and Guidelines
 - Enhanced Integrated Planning and Cost Control
 - Community Outreach
 - Communication

Purchase Commitments: Compton's P.O.

Status of Purchase Orders as of December 31, 2010

- 21 of 24 member agencies executing Purchase Orders have met their commitment after 8 years:
 - Anaheim, Beverly Hills, Calleguas, Central Basin, Eastern, Foothill, Fullerton, Inland Empire, Las Virgenes, Long Beach, Los Angeles, MWDOC, Pasadena, SDCWA, Santa Ana, Santa Monica, Three Valleys, Torrance, Upper San Gabriel, West Basin and Western
- Three agencies have not:

Agency	SAP Adjusted PO Commitment, AF	PO Firm Delivery Thru 12/31/2010, AF	Remaining AF
Burbank	106,731	102,953	3,779 3.5%
Compton	33,046	22,667	10,379 30.8%
Glendale	171,313	170,476	838 0.5%

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Compton's Purchase Order

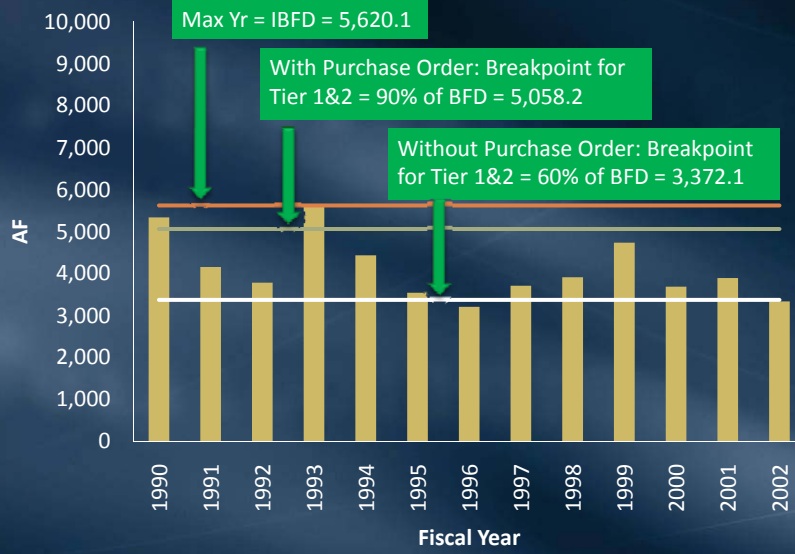
- Initial Base Firm Demand = highest firm sales from fiscal year 1989/90 through 2001/02: 5,620.1 AF
- Base Firm Demand = higher of IBFD or the rolling ten-year average of firm demands
- Purchase Order commitment: $60\% * 5,620.1 \text{ AF} * 10 \text{ years}$, or 3,372.1 AF on average per year
 - Tier 1 limit with Purchase Order = $90\% * 5,620.1 \text{ AF} = 5,058.2 \text{ AF}$
 - Tier 1 limit without Purchase Order = $60\% * 5,620.1 \text{ AF} = 3,372.1 \text{ AF}$
- Commitment adjusted for reductions, interruptions, or suspension of deliveries, excluding interruptible programs (IAWP and Replenishment)

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Compton's Purchase Order

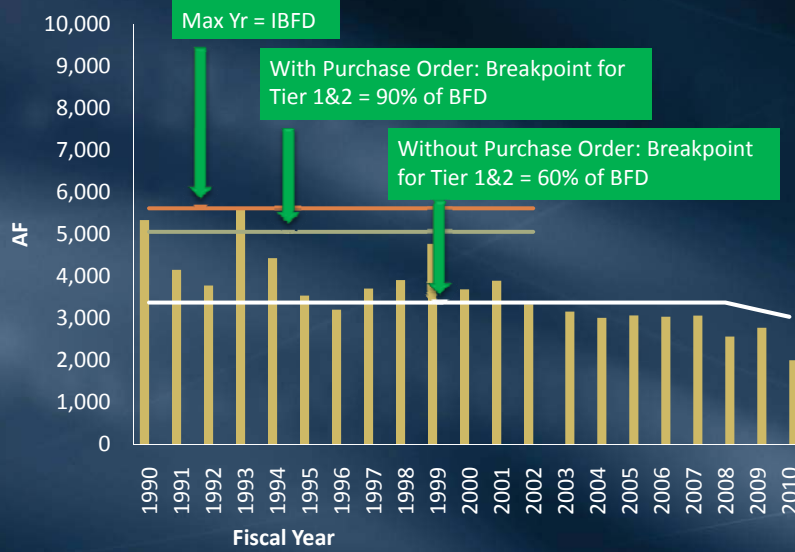


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Purchase Order & Supply Rates



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Compton's Well Rehabilitation Project

- By 2002, pumping capacity was reduced to 4,900 gpm due to the loss of two wells
- By 2008, 2 wells were rehabilitated; pumping capacity equaled 9,600 gpm
 - \$2.4M Proposition 13 funds for CUP
 - \$1.6M EPA funds
- Additional pumping capacity realized by well rehabilitation negated the need for imported water supplies

Result of Compton's Purchase Shortfall

- Compton does not anticipate meeting its Purchase Order commitment
- Purchase order provided that if purchases during the term of the agreement were less than the commitment, the Purchaser agreed to pay the Tier 1 Supply Rate for the shortfall
- Through 12/31/2010, Compton's assessment for the purchase shortfall is estimated at \$170,000

Compton's Request

- Compton has asked to withdraw its Purchase Order
- Compton's Tier 1 limit will be lower
- Compton will potentially be subject to Tier 2 Supply Rates based on the lower limit, both retroactively and going forward
 - No water purchased at Tier 2 through December 31, 2010

Next Steps

- Meeting September 29, 2011
 - Follow-up on options related to Compton P.O.
 - Discuss Tier 1/Tier 2 and Allocation Plan timing
 - Begin discussion on fixed revenue issues
 - Likely to span multiple meetings
 - Additional background information
 - Analyses