
**RATE STRUCTURE ACTION PLAN
(APPROVED DECEMBER 2000)**



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

December 14, 2000

Metropolitan Water District's final version of the Rate Structure Action Plan

Attached is the final version of the Rate Structure Action Plan, which was adopted by the Board on December 12. We are in the process of developing a master schedule and plan for Phase III of the Strategic Planning Process - Rate Structure Implementation. We will schedule a series of meetings of the Board's Rate Structure Implementation Sub-Committee who will provide the Board's oversight for this effort. We have also attached our news release and an article by James Flanigan, which appeared in Wednesday's Los Angeles Times for your information. As we pass another milestone, we are very appreciative of all opinions expressed by the Board, member agency managers and the public during the course of the last two years.

If you require any information regarding this on-going effort please do not hesitate to contact Gilbert F. Ivey by telephone at (213) 217-6622 or by e-mail at givey@mwd.dst.ca.

Executive Committee meeting of Dec. 12, 2000.

Motion on the Rate Structure Plan:

In order to provide sound water management of limited water supplies and financial equity, as specified in the approved Strategic Plan Policy Principles, the Board hereby adopts the rate structure action plan and in concept the proposed rate structure, which is attached. The rate structure action plan incorporates the elements of the proposed rate structure (Attachment 1), subject to revisions that the Board may consider appropriate during the implementation process (Attachment 2).

Attachment 1

Metropolitan Water District of Southern California

Strategic Plan

Proposed Rate Structure

December 12, 2000

Proposed Rate Structure

Metropolitan has been conducting a Strategic Planning process for almost two years. During that two years, the board has provided extensive public input and taken action on several key milestones. The next critical milestone will be the approval of a proposed new rate structure. The objectives of the proposed rate structure are threefold: (1) to recover sufficient revenue to cover the cost of Metropolitan's system, (2) to provide water supply contract opportunities, shortage allocation, and water management price signals that will support regional investments and local resource decisions, and (3) to ensure the reliability, quality and efficient use of water resources in Southern California. The rate structure and other components of Metropolitan's strategic plan, including the Integrated Resources Plan (IRP), Water Surplus and Drought Management Plan (WSDM), and capital planning process will address the strategic needs for Southern California's water future. In the first half of next year, the update of the IRP will provide an opportunity to focus the regional priorities for strategic investments in new water supplies to ensure Southern California's water quality and reliability over the next fifty years.

This action plan summarizes the elements of the proposed rate structure and an implementation schedule that provides sufficient lead-time for member agencies and their retail utilities to incorporate the new structure into their local rates and charges. It is recognized that, as is the case with the current rate structure, the proposed rate structure will have different effects on each member agency and their retail agencies. The proposed action plan attempts to address those differences, provide ample time for local implementation, allow agencies to take advantage of the opportunities provided by the new structure and minimize any potential adverse impacts. It is recognized that the final rate structure may address "catastrophic" events that may impact member agencies' contract commitments. To this end, prior to the final approval of a new rate structure, the Board will develop a process for member agencies to request relief from their Tier 1 contract obligations in the event of an emergency.

Proposed Board Action in December. That the Board of Directors approve in concept the proposed rate structure described below.

Cost-of-service Rationale. The proposed rates and charges should be based on industry standard cost-of-service methods. Cost-of-service will provide the basis for the initial rates and future revisions to contract payments, rates and other charges.

Status Quo Current Rates and Charges Transition. Current Rates and Charges, including the Readiness-to-serve Charge, Connection Maintenance Charge, Basic Untreated Water Rate, Treatment Surcharge, Interim Agricultural Rates (treated and untreated) and Seasonal Storage Rates (treated and untreated) will remain unchanged through June 30, 2002.

Proposed Rate Structure. The proposed rate structure will support better water resource management in Southern California. The rates provide strong price signals for efficient use of water by encouraging the development of local resources and conjunctive use programs. The revenues generated by the structure support continued regional investment in water quality and regional reliability through water transfers and water management programs such as conservation, water recycling and as economically feasible, ocean desalination. Growing water demands would be financed through a fair assessment on new demands. Finally, the structure recognizes the need for reliable water supplies and commitments for delivery through the proposed supply contracts. The rate structure is a cost-of-service based, economically sound revenue foundation for future water investments to ensure Metropolitan and its member agencies' ability to meet water quality and reliability needs into the future.

Proposed Rate Structure Elements. The following elements would be implemented and effective on July 1, 2002, following the General Manager's January 2002 letter recommending the level of rates and charges and board approval of such rates in March 2002:

- a. **System Access Rate.** The System Access Rate will be charged on a dollar per acre-foot basis and collect the allocable costs associated with the conveyance and distribution system, including capital and operating and maintenance costs. The System Access Rate will be reviewed and revised as necessary on an annual basis. The System Access Rate will be assessed on every acre-foot of water conveyed by Metropolitan. All users (including member agencies and third-party wheeling entities) of the Metropolitan system would pay the same rate for conveyance.
- b. **Water Stewardship Rate.** A Water Stewardship Rate will be charged on a dollar per acre-foot basis to collect revenues in support of Metropolitan's financial commitment to conservation, water recycling, desalination and groundwater conjunctive use projects by its member agencies. The Water Stewardship Rate will be assessed on every acre-foot of water conveyed by Metropolitan. The member agencies and Metropolitan staff will develop recommendations on budget levels (and rate levels necessary to meet these budgets) and programmatic changes to these programs by June 30, 2001, consistent with the update of the Integrated Water Resources Plan.
- c. **Power Rate.** The Power Rate will be charged on a dollar per acre-foot basis to recover the cost of power necessary to pump water from the State Water Project and Colorado River Aqueduct, and within the system. The Power Rate will be charged to all Metropolitan supplies and be set on an average cost basis (that is by dividing all power costs anticipated to be incurred by Metropolitan during the fiscal year by the total acre-feet of water expected to be sold by Metropolitan during that same time period). Entities wheeling water will pay the actual cost of power.

- d. **Treatment Surcharge.** Metropolitan will continue to charge a treatment surcharge on the delivery of treated water. The surcharge will be set on a dollar per acre-foot basis and be equivalent to the current charge.
- e. **Capacity Reservation Charge and Peaking Surcharge.** Member agencies will elect to reserve a given amount of capacity (in cubic feet per second) to meet their peak-day requirements. Member agencies will pay a Capacity Reservation Charge (set in dollars per cubic feet per second of the capacity they reserved). Peak-day deliveries in excess of this reserved amount will be assessed a Peaking Surcharge. The election of necessary capacity will be submitted to Metropolitan by August 31, 2001. Peaking Surcharge revenue collected by Metropolitan for the three fiscal years ending on June 30, 2005 will be reserved by Metropolitan in the name of the member agency paying the fee and will be refunded to that member agency to implement specific capital projects and programs to avoid peaking charges in the future.
- f. **Readiness-to-serve Charge.** Metropolitan's Readiness-to-serve Charge will be increased to recover standby costs associated with Metropolitan's conveyance and storage facilities. The Readiness-to-serve Charge will be allocated among the member agencies on the basis of each agency's average and/or peak deliveries over the past rolling ten years. This allocation will be revised each year. Revenues equal to the amount of Standby Charges and other potential applicable offsets would be credited against the member agency's monthly water bill. Over the next six months, Metropolitan's Board and its member agencies will evaluate the appropriate use of property taxes as a potential offset to emergency and standby service charges.
- g. **Contract Supply.** Each member agency may elect to contract for Tier 1 water quantities up to 110% of the member agency's highest annual demand over the ten-year period ending June 30, 2000 as the basis for allocating a total Tier 1 supply which will be capped at a level between 1.2 mafy to 2.1 mafy, to be determined by the Board after further study. The amount of Tier 1 contract water is an important rate structure component that determines whether Metropolitan can effectively meet its resource management objectives. Part of the consideration for setting the amount of Tier 1 supply is the determination of the minimum amount of Tier 2 supply required to maintain regional reliability under the WSDM Plan. During the initial transition to contracts, each member agency can elect to phase the amount of Tier 1 contract supplies up to this maximum amount over a 3-year time period without incurring any additional charges in order to determine its appropriate contract level. Such election will provide the member agency the most reliable supply of Metropolitan water and will be on a "take-or-pay" basis. The contracts will be evergreen in nature, and for an initial term of ten years. Consistent with the update of the Integrated Resources Plan, member agencies will provide preliminary estimates of contract amounts to Metropolitan by August 31, 2001. Initial contracts will be based on member agency final indications of contract volume, which would be submitted to Metropolitan by November 30, 2001. It is anticipated that the contracts would be

executed by January 2, 2002. If an agency does not elect to contract for Tier 1 supply then that agency may purchase available water at prices comparable to or greater than Tier 2 prices.

The member agency's take-or-pay obligation will be limited to the supply costs associated with the quantity of water for which the member agency has contracted. All other rates and charges will be set by the board and described in Metropolitan's Administrative Code. Member agencies would be able to amend their contract amounts by shifting the obligation and the supply to other member agencies willing to sign up for additional supply or acquire additional supply from member agencies willing to give up supply as they develop local resources. Metropolitan would function as the clearinghouse to facilitate the exchanges of obligation and water. Member agencies may terminate the contracts on five years' notice. In the event of a contract termination, other member agencies could acquire the water on a pro-rata basis. If no member agency elects to contract for the water, the water would become part of the Tier 2 supply.

- h. **Tier 2 Water Supply.** Member agencies may continue to purchase water on a dollar per acre-foot basis, just as they do today. The price of Tier 2 water supplies would initially be set at a rate of \$50 to \$100 per acre-foot higher than Contract Supply in order to provide the appropriate water management signal and incentive for participation in Tier 1 contracts. Based on the IRP and water management evaluations, an appropriate minimum amount of Tier 2 supply would be determined and maintained. The final WSDM allocation of water from Tier 1 and Tier 2 during shortages would be determined before the final approval of the rate structure, and would provide due consideration for regional reliability and the priority of Tier 1 contracts.
- i. **Growth Charge.** It is Metropolitan's intention to levy a growth charge, based on a member agency's increased reliance on Metropolitan supplies and regional conveyance and storage system above 110% of that member agency's highest annual demand over the ten-year period ending June 30, 2000. Annexation fees and revenues collected through supply and water stewardship fees to meet additional demands in Metropolitan's service area will offset growth charges. Rather than simply assessing this charge, Metropolitan will first commission a joint study to be conducted with Metropolitan's member agencies and other stakeholders to determine how each agency will implement the growth charge within its service area. This study, which will be completed by June 30, 2001, will detail the method by which member agencies and their customers may pass on the growth charge to those entities causing the need for additional supplies. Member agencies would then provide a report to Metropolitan describing how they intend to implement the growth charge. Appropriate steps will be made to ensure that the proposed charge has the proper legal basis and nexus. The growth charge would be effective at the same time as the other components of the proposed rate structure.

- j. **Interruptible Service Contracts.** Metropolitan and its member agencies will execute contracts for the delivery of supplies expressly for agricultural use and long-term storage (including groundwater replenishment and surface storage). These contracts will detail the level of service and extent of interruption entailed by such service and the price of such service. The initial contracts for interruptible service will be based on member agencies' estimates of requirements for agricultural and storage purposes provided to Metropolitan by August 31, 2001. Contracts for interruptible supplies would be executed as requested by member agencies. The basic form of the interruptible contracts will be developed with the member agencies, groundwater agencies and agencies serving agricultural water.

Transition Funds. Metropolitan will reserve funds in excess of the maximum reserve level available at the end of fiscal year 2000-01 and 2001-02 in accounts for each member agency to use for purposes of mitigating impacts of the change in rate structure, to fund local capital projects in each member agency's service area or to be credited against the member agency's water bill. The allocation of funds for each member agency will be based on the member agency's relative share of basic water sales, less any treatment surcharge revenues, during the relevant fiscal year.

Attachment 2

Implementation Process for Rate Structure

Action	Timeframe
<u>Resources Management Strategies</u>	
1. Review the impact of the rate structure on sound water management practices, focusing upon <ul style="list-style-type: none"> • Conjunctive use programs • Water transfers • Local resources • Water stewardship programs 	January - April 2001
2. Update the Integrated Resources Plan (IRP)	January - June 2001
3. Finalize the Water Surplus and Drought Management (WSDM) allocation methodology	January - June 2001
<u>Rate Structure Implementation Issues</u>	
1. Tiers 1 and 2 pricing methodology and relationship <ul style="list-style-type: none"> • Draft Tier 1 supply contracts • Sensitivity analysis of Tiers 1 and 2 sizing, pricing, and relationship over 20 years • Member agency notification of preliminary Tier 1 supply contract amounts • Draft study to refine analysis of Tiers 1 and 2 sizing, pricing, and relationship • Member agency notification of final Tier 1 supply contract amounts • Final study of Tiers 1 and 2 sizing, pricing, and relationship • Execution of final Tier 1 supply contracts 	January - June 2001 July - August 2001 August 2001 September - October 2001 November 2001 November - December 2001 January 2002
2. Allocation of Readiness-to-Serve (RTS) Charge <ul style="list-style-type: none"> • Analyze the RTS allocation base (average vs. dry-year demands) • Study to determine appropriate use of property taxes • Final determination of RTS allocation 	January - March 2001 January - June 2001 April 2001
3. Joint study with member agencies to determine how each agency will implement the growth charge within its service area	January - June 2001
4. Submittal of member agency request for peak day capacity	August 2001

Attachment 2

Implementation Process for Rate Structure

Action	Timeframe
<u>Rate Structure Implementation Issues (Continued)</u>	
5. Interruptible Service Contracts <ul style="list-style-type: none"> • Draft interruptible service contracts • Member agency notification of interruptible contract amounts • Execution of final interruptible service contracts 	January – June 2001 August 2001 As requested December 2001
6. Board final approval of rate structure	December 2001
<u>Setting Rates and Charges</u>	
1. General Manager's recommendation of rates and charges	January 2002
2. Public hearing on recommended rates and charges	February 2002
3. Board consideration of rates and charges	March 2002
4. Implementation of rates and charges	July 1, 2002



Dec. 12, 2000

**METROPOLITAN BOARD APPROVES HISTORIC
NEW RATE STRUCTURE PLAN FOR IMPORTED WATER**
Action plan built on open, public process

An action plan offering a fundamental change in the way imported water will be sold throughout Southern California won conceptual approval today from Metropolitan Water District's board of directors.

"An open, public process in water will help avert the instability and mistakes created by the 1996 deregulation of electrical power," said Metropolitan General Manager Ronald R. Gastelum.

One of the most sweeping rate structure overhauls in the district's 72-year history, the action plan begins the process for working out the details with individual agencies, member cities and the public of the new pricing system to be rolled out in fiscal year 2002-03.

"This is a break from the past with a clear eye on California's water future," said Metropolitan board Chairman Phillip J. Pace. "As the foundation of our strategic plan, the new rate structure is a testament to the thoughtful, deliberate process our board has undertaken to forge compromise.

"With this pricing structure, our 27 member public agencies will have greater reliability and more options to control their own destiny when it comes to keeping reliable, high-quality water flowing for their customers," Pace said.

The proposed rate structure results in two tiers of service. The first is the least expensive and provides a fixed amount of Metropolitan water based on voluntary contracts with each agency. Over time, contract amounts can be decreased or increased through willing transfers between agencies.

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The second tier of supply is more expensive and is intended to be a backup supply to contend with unplanned circumstances. Higher second tier rates are designed to send a market signal that encourages conservation and other local water management investments.

"Underlying the proposal is the board's vision to provide member agencies with opportunities to develop local resources and compete at market rates for alternative sources like recycling and desalination," Pace said.

MWD member agencies also will have options in the ways they handle growth within their service areas, he said.

"Some could contract for more than their current average demand to build in a level of guaranteed supply, with the option to transfer any unused water to another member agency. Other agencies that grow more than anticipated can buy second tier supplies or team up with Metropolitan on expanded water management programs," Pace said.

"This new rate structure paves the way for an open, competitive water market that promotes conservation. Through a uniform wheeling charge, water transfers will be a viable option because the rate structure introduces a stable platform for the development of a fair, efficient water transfer market," he said.

Today's action marks the first step in implementing the new rate structure. Metropolitan's board has scheduled a series of reports and public meetings to allow full assessment of the rate structure plan prior to its final roll out.

"This transparent public process ensures that all stakeholders will have input in the final details of the plan," Pace said.

In another action, MWD's board took the next step in developing a program, which could for the first time provide higher-quality Sierra water to Metropolitan. The board authorized the district to enter into a memorandum of understanding with the Friant Water Users Authority, a joint powers authority of 25 irrigation and water districts in the southern San Joaquin Valley.

The proposed agreement, to be considered by Friant's board next month, initiates a work plan to develop a program that examines joint water management projects. Potential projects include exchanges of Metropolitan's State Water Project supplies for Sierra sources available to Friant agencies, which would provide significant water quality benefits to MWD's service area, as well as capital improvements in Friant's service area, which would improve supply reliability for Friant members.

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MWD restructures rates, regulations on water supplies

Action prepares for system letting cities buy from suppliers independently.

Los Angeles Times - 12/13/00
By James Flanigan, staff writer

Southern California's governing water agency set up a structure of rates and regulations Tuesday to prepare for a new system in 2002 in which cities, public agencies and private companies will be able to trade water supplies.

The significance of the new rates, which the Metropolitan Water District will experiment with in the next year, is that they presage open markets for part of the region's water supply in years to come.

The water system will be partially deregulated to allocate supplies throughout the West at a time when Southern California must reduce its water consumption. The region must cut water use by 5% over 15 years, despite the fact that its population is projected to rise by 6 million in that time.

Under the proposed system, the MWD will supply water from the Colorado River and Northern California under contracts to the agencies and companies—such as Los Angeles Department of Water & Power and California Water Service Co.—that deliver water to consumers.

A two-tier pricing system will be set up, with one rate for basic supplies allocated on a city's usage over the last 10 years and a presumably higher rate geared to market transactions. Cities will be able to buy water from each other or from suppliers independently, something they cannot do now.

The MWD, a consortium of 27 cities and water districts serving six Southern California counties, will stop bundling its charges, specifying prices for the water, access to the infrastructure of aqueducts and piping that deliver the water, conservation and growth.

If a city is putting in new residential developments or attracting industrial users, it will pay a charge to offset the MWD's cost of adding capacity, a spokesman said.

"With this pricing structure," the MWD's member cities and public agencies "will have more options to control their own destiny when it comes to keeping water flowing for their customers," said MWD board Chairman Philip J. Pace.