

Background: Rate Structure development 1998-2002

Statement of Common Interests included in the Strategic Policy Principles of 1999:



Statement of Common Interests

- Regional Provider: In this capacity, MWD is the steward of regional infrastructure and the regional planner responsible for drought management and the coordination of supply and facility investments.
- Financial Integrity: The MWD Board will take all necessary steps to assure the financial integrity of the agency in all aspects of its operations.
- Local Resources Development: MWD supports local resources development in partnership with its member agencies and by providing its member agencies with financial incentives for conservation and local projects.
- Imported Water Service: MWD is responsible for providing the region with imported water, meeting the committed demands of its member agencies.

Statement of Common Interests (cont'd)

- Choice and Competition: Beyond committed demands, member agencies may choose the most cost-effective additional supplies from MWD, local resource development, or market transfers. These additional supplies can be developed through a collaborative process to balance opportunities with affordability.
- Responsibility for Water Quality: MWD is responsible for advocating source water quality and implementing in-basin water quality for imported supplies provided by MWD to assure full compliance with existing and future primary drinking water standards and to meet requirements for water recycling and groundwater replenishment.
- Cost Allocation and Rate Structure: The fair allocation of costs and financial commitments for MWD's investments in supplies and infrastructure will be addressed in a revised rate structure. Committed demand has yet to be determined. The revised rate structure will address allocation of costs, financial commitment, unbundling of services, and fair compensation for services.

Strategic Planning Steering Committee principles for selecting the preferred rate structure:



Strategic Planning Steering Committee principles

- The rate structure should be fair.
- The rate structure should be based upon stability of MWD's revenue and coverage of its costs.
- The rate structure should provide certainty and predictability.
- The rate structure should not place a class of customers in a position of significant economic disadvantage.
- The rate structure should be reasonably simple and easy to understand.
- Any dry-year allocation should be based upon need.

Background: Rate Refinements Process

- April 2009: Board Letter 8-3
 - Directed Met to work with Member Agencies to:
 - Evaluate the Cost-of-service
 - Review Fixed Revenues (RTS, CC, Treated Water Fixed Charges)
 - Review Ad valorem tax revenues
- April – Sept. 2009: LRFP Workgroup
 - Reviewed Cost-of-Service

Rate Refinement process (cont'd)

- Oct. 2009: Committee item 7-a
 - Presented alternatives to increase RTS, CC
 - Presented a Treated Water Capacity Charge
- Nov. 2009: Board Letter 8-1
 - Recommended changing functionalization of SWP flexible storage to allocate a portion into Supply function
 - Board affirmed the Cost-of-Service approach and directed staff to continue work in the LRFPP

Rate Refinement process (cont'd)

- 2010-2011: Rate Refinement workgroup
 - No support towards increasing the RTS and CC or introducing a Customer Charge
 - Increasing fixed charges shifts more of the risk to the Member Agencies
 - It is less costly for MWD as regional provider to use Reserves to mitigate risks
 - No support towards a Treated Water Capacity Charge
 - Some support towards fixing the ad valorem tax rate

Increasing RTS and CC

Fixed Charges in current Cost-of-Service FY2014/15

- RTS recovers the capital costs of standby capacity for conveyance, distribution, storage, plus peak conveyance capacity
- Capacity Charge recovers the capital costs of peak distribution capacity
 - System Access Rate is a volumetric rate that recovers the costs of conveyance and distribution which are related to water deliveries
- Fixed revenues from RTS, CC, and ad valorem tax are 17% of total revenues

Capacity Charge (\$M) FY2014/15

	Demand	Fixed Commodity	Standby	Variable Commodity	Capacity Charge
Supply		184			42
Conveyance	36	308	35	220	
Storage	7	92	73	-1	
Treatment	54	164	67	30	
Distribution	35	124	15		
Demand Mgmt		81			
Total	133	954	190	249	

*Feb Board Letter, FY 2014/15 – Totals may not foot due to rounding

Readiness-To-Serve Charge (\$M) FY2014/15

	Demand	Fixed Commodity	Standby	Variable Commodity	Readiness-To-Serve Charge
Supply		184			159
Conveyance	36	308	35	220	
Storage	7	92	73	-1	
Treatment	54	164	67	30	
Distribution	35	124	15		
Demand Mgmt		82			
Total	133	954	190	249	

*Feb Board Letter, FY 2014/15 – Totals may not foot due to rounding

Increasing RTS and CC in FY14/15

- Distribution Function O&M = \$73M
 - Peaking is 39% of distribution system usage or \$29M
 - Add another \$4M for Admin & General
 - \$33M to be recovered by Capacity Charge
 - Capacity Charge would increase from \$42M to \$75M
- Conveyance Function O&M = \$183M
 - Peaking is 24% of conveyance system usage or \$44M
 - Add another \$3M for Admin & General
 - \$47M to be recovered by RTS
 - RTS would increase from \$159M to \$206M

Increasing RTS and CC in FY14/15 (cont'd)

- SAR would be reduced by \$80M or \$46/AF
- These would increase Fixed Revenues from 17% to 22%

Treatment Cost Recovery

Treated Water Cost Recovery Objectives

- Infrastructure must be designed to meet peak demands
- Current rate structure recovers peaking and standby costs uniformly through a volume charge paid by member agencies taking treated water
- Standby and peaking costs can be recovered through fixed charges
 - Board objective of increasing fixed charges and addressing peaking use
 - More equitably allocates costs of service

Treated Water Cost Recovery

- Treated water costs for FY 2014/15 from Cost of Service report
 - Fixed Demand: \$53M assigned to peaking
 - Fixed Standby: \$65M assigned to standby
 - Fixed and Variable Commodity: \$190M volumetric
- Develop Treatment Cost Recovery consistent with the Conveyance and Distribution system cost recovery
 - Standby costs recovered through a Treatment RTS
 - 10-year rolling average of firm treated water sales
 - Peaking costs recovered through a Treated Water Capacity Charge
 - Three year look back of summer peak day demands; potentially phased-in
 - All other costs are recovered on a volumetric basis

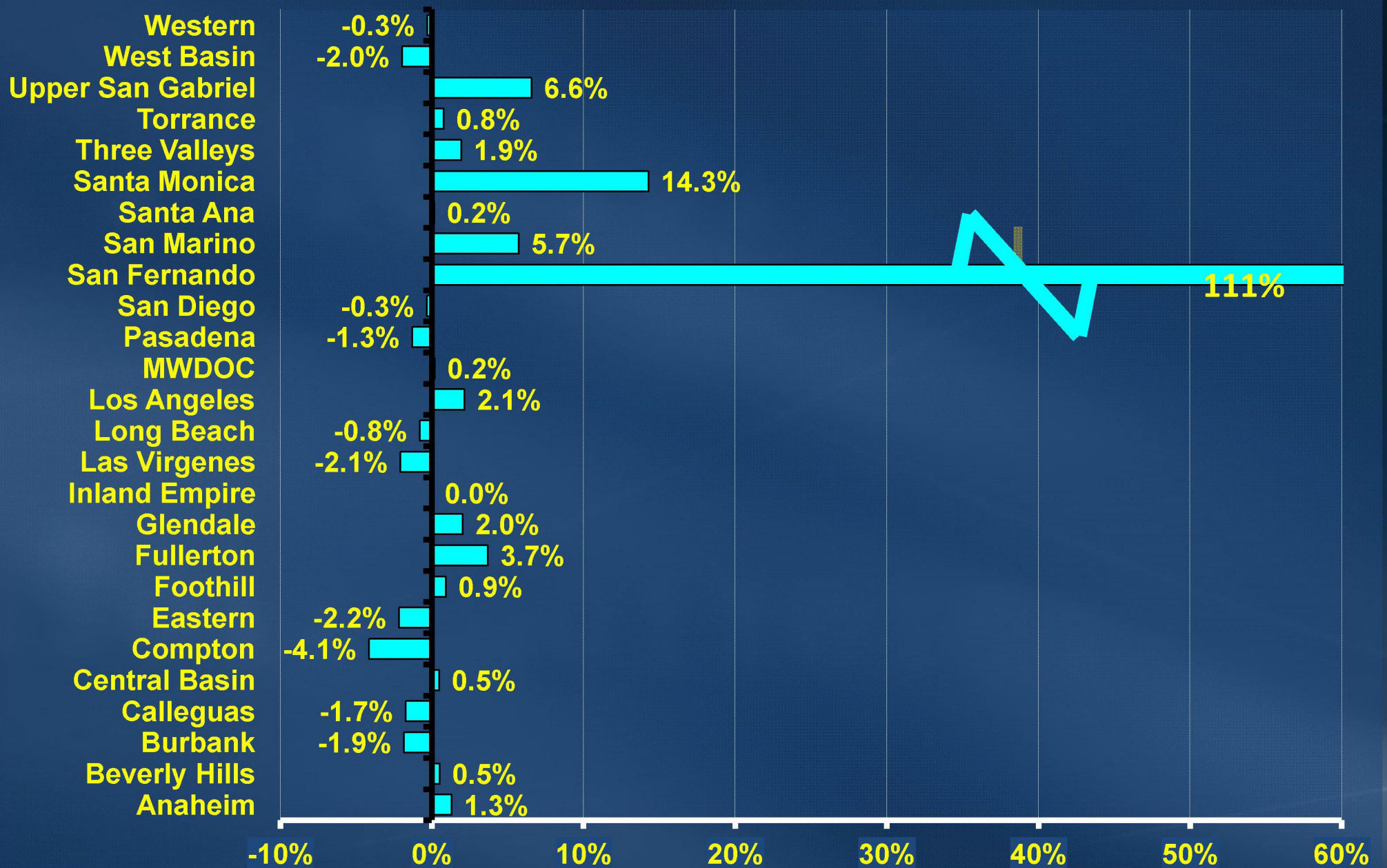
Treated Water Rate Restructuring

- For demonstration, in 2015:
 - Treatment Surcharge would be \$208/AF, or \$92/AF lower
 - Treatment Capacity Charge would be \$21,000/cfs, charged on the peak treated demands from 2011 to 2013
 - Treatment RTS would be \$29M, or \$24/AF equivalent
 - Existing RTS recovered over 1.7 MAF firm demand
 - Treatment RTS recovered over 0.9 MAF treated firm demand
- Would go into effect with the 2015 rate design

Treated Water Fixed Charges

- Historical data include exchange/wheeling, if treated
- Rate impacts highly correlated with variability of summer season treated demands
 - Reflects agencies using Metropolitan's treated water system in the summer to meet peak demand
- Two agencies' impacts reflect intermittent use of treated connections
- These charges would increase fixed revenues from 17% to 24%

TWCC and TRTS: Rate Impacts, Full Fixed Cost Recovery



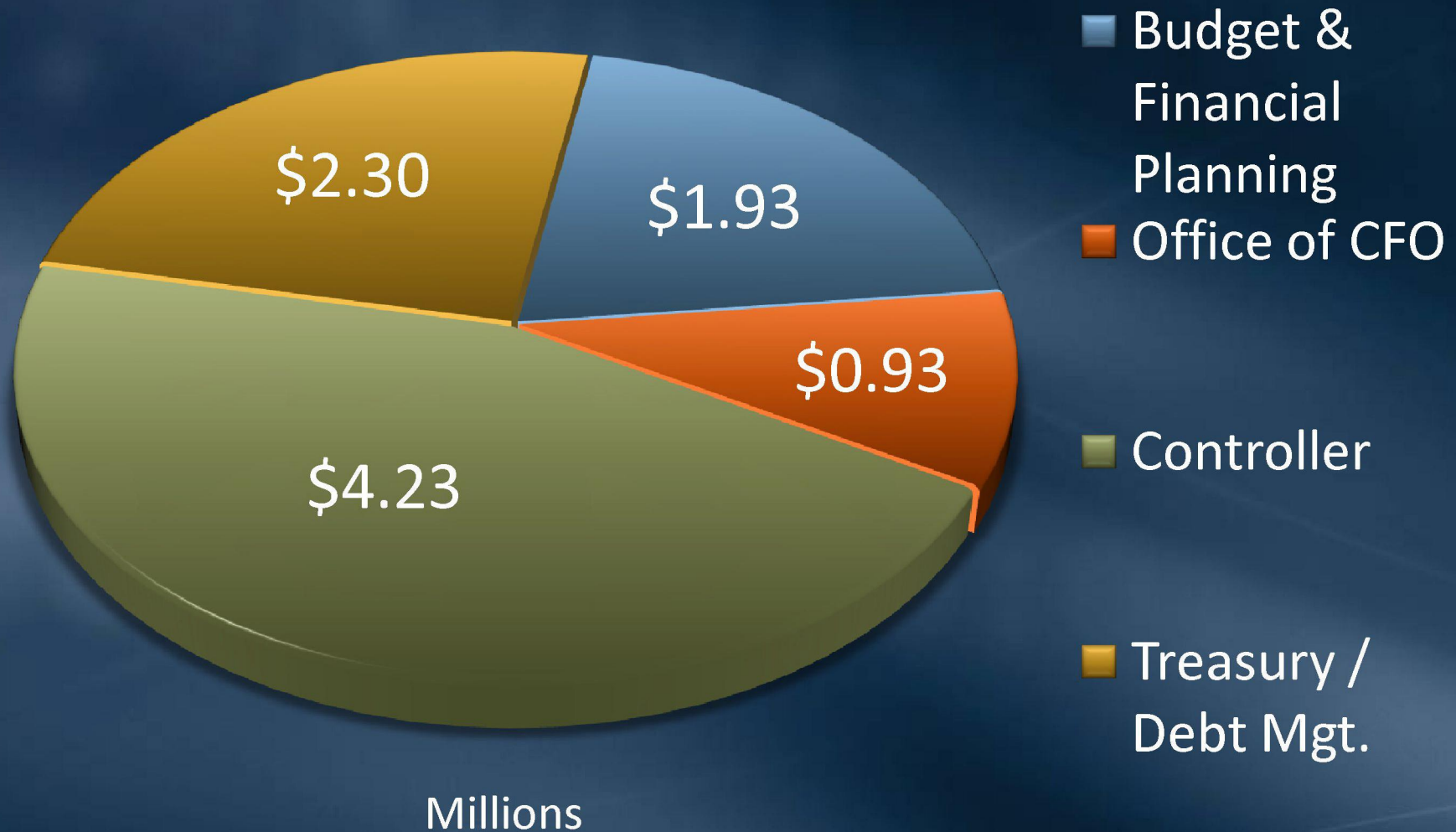
Chief Financial Officer Organization

FYs 2015 & 2016 Proposed Biennial Budget



O&M Expenditures by Function

FY 2014/15 Proposed Budget - \$9.4 Million



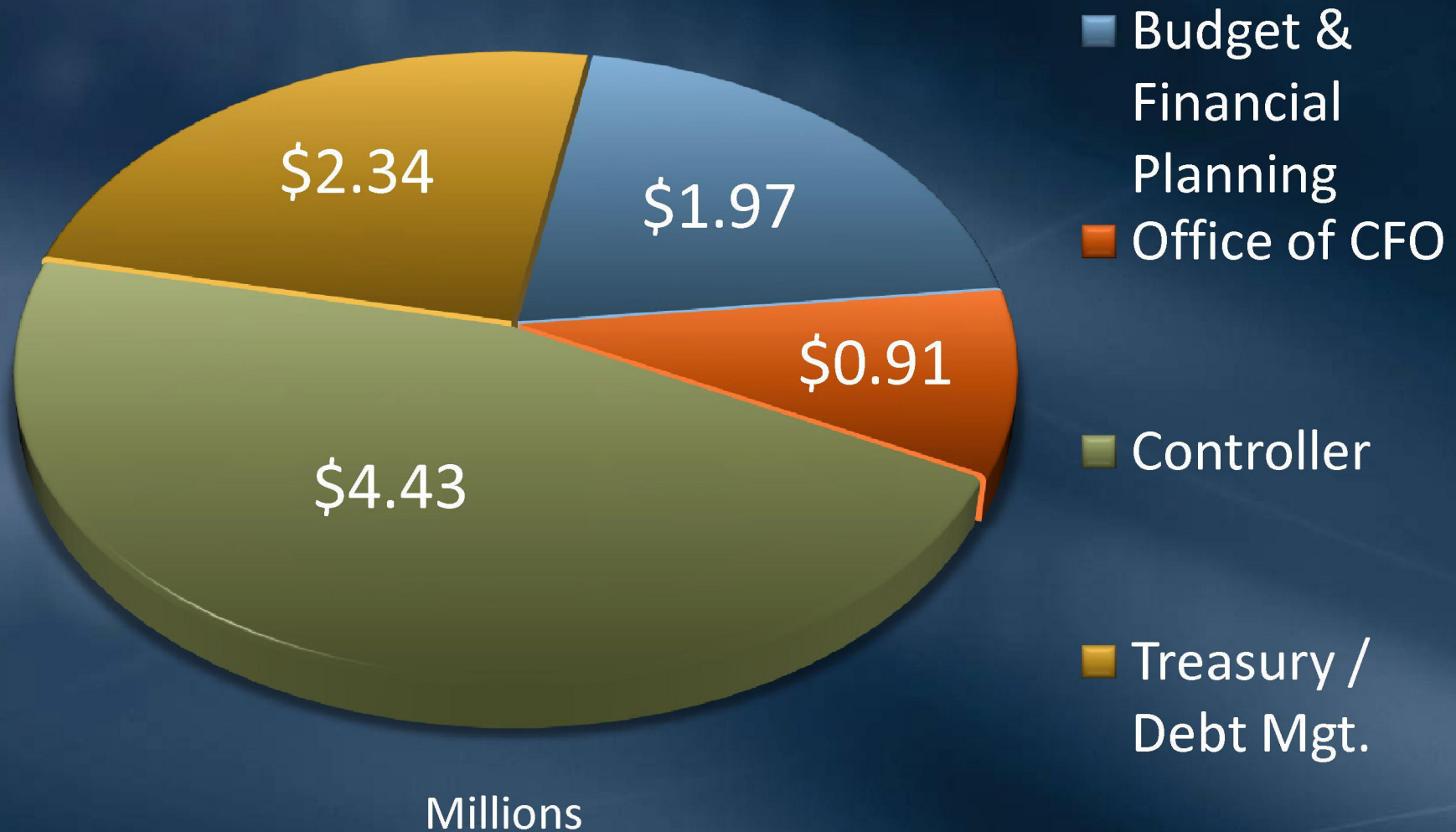
O&M Expenditures by Account

FY 2014/15 Proposed Budget - \$9.4 Million



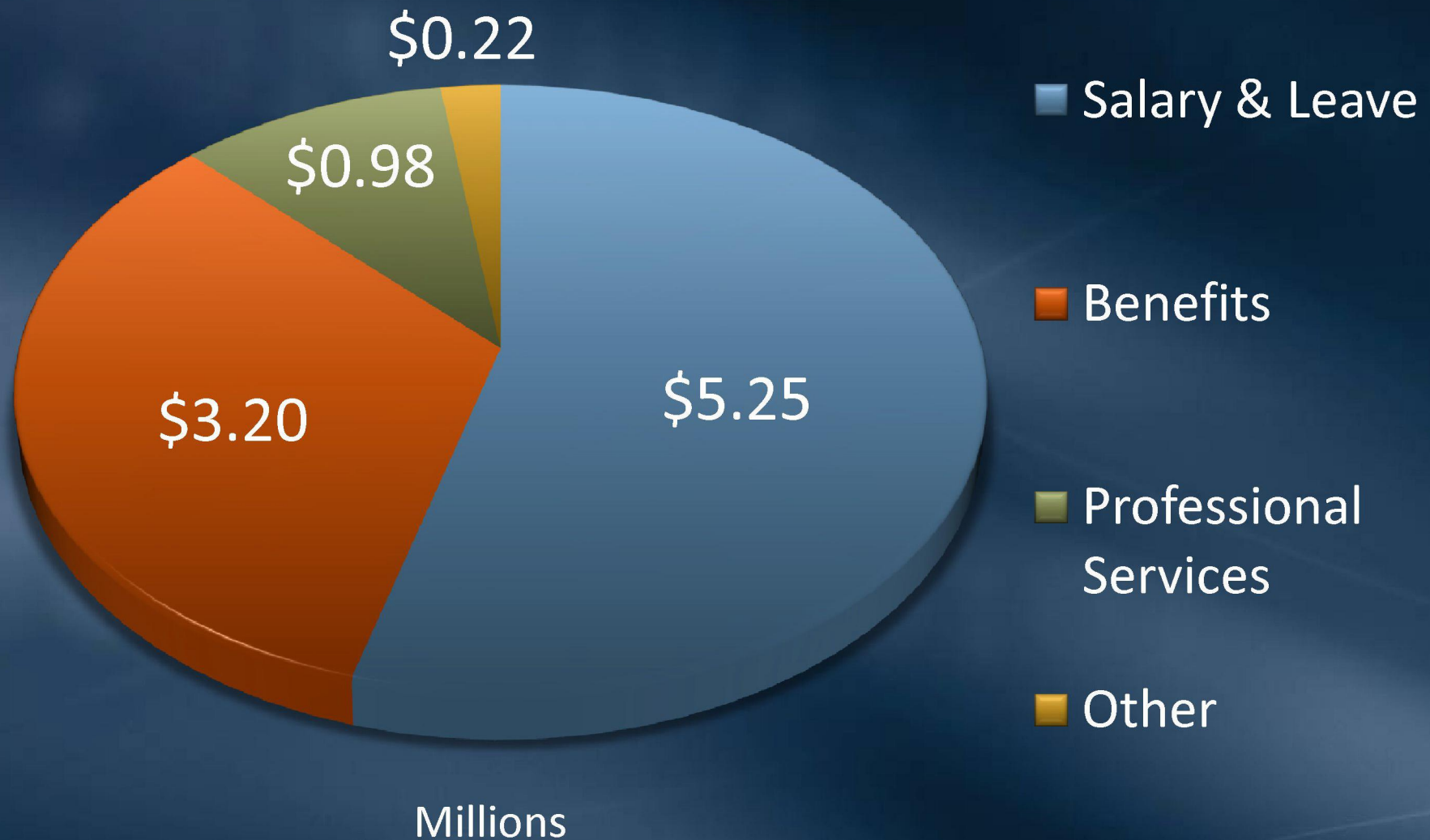
O&M Expenditures by Function

FY 2015/16 Proposed Budget - \$9.6 Million



O&M Expenditures by Account

FY 2015/16 Proposed Budget - \$9.6 Million



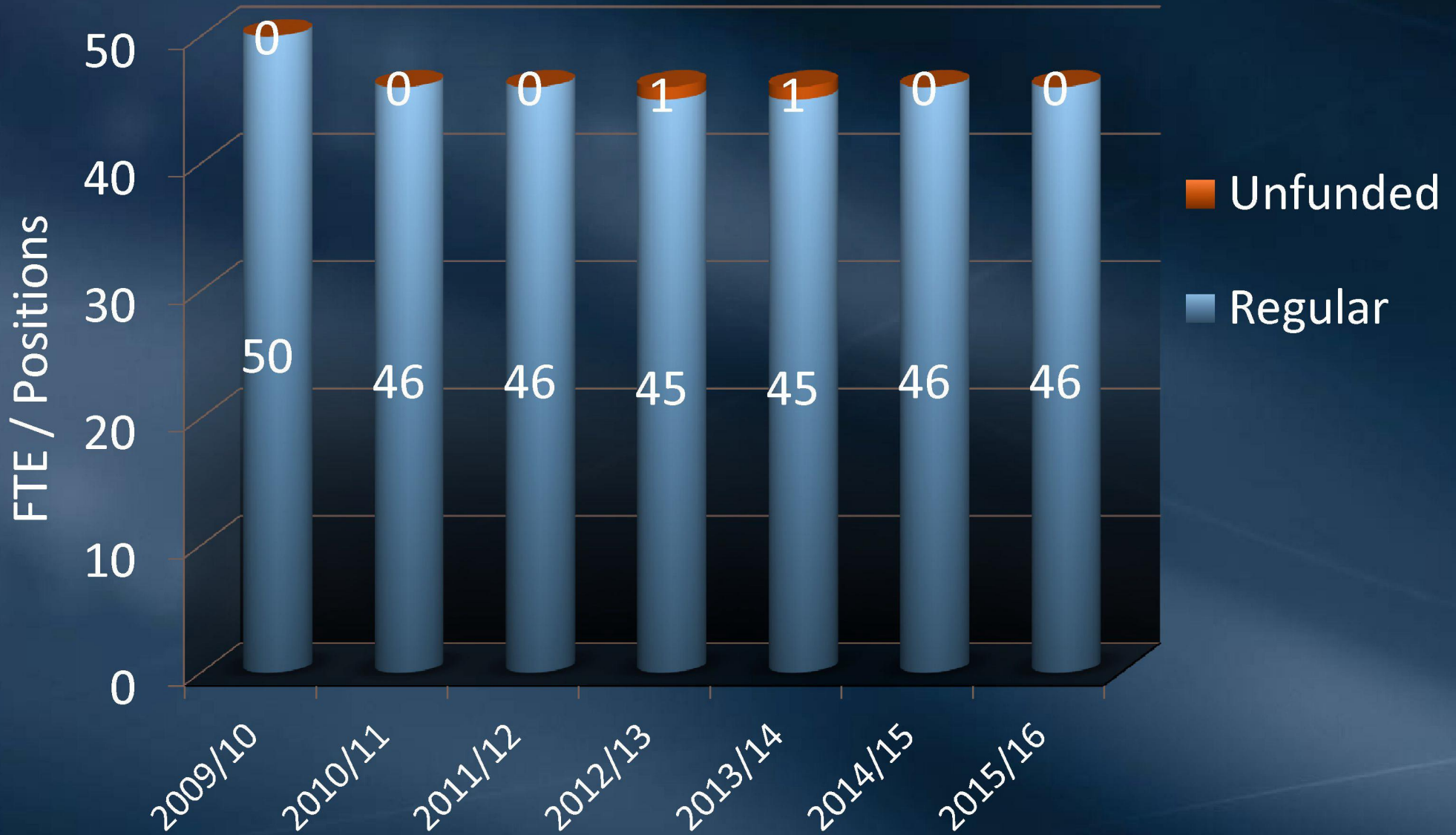
Budget Trend

FYs 2015 & 2016 Proposed Biennial Budget



Budgeted Staffing Trend

FYs 2015 & 2016 Proposed Biennial Budget



O&M Budget Comparison

FYs 2015 & 2016 Proposed Biennial Budget

Expense Type	2013/14 Budget	2014/15 Proposed	Change	2015/16 Proposed	Change
Labor	\$7.72	\$8.23	\$0.51	\$8.45	\$0.22
Prof. Services	0.97	0.97	-	0.98	\$0.01
Other	0.21	0.19	(\$0.02)	0.22	\$0.03
Total	\$8.90	\$9.39	\$0.49	\$9.65	\$0.26
Staff FTE's	46	46	0	46	0

- 2014/15 Proposed vs. 2013/14 Budget
 - Fund vacant, unfunded position - \$253K
 - Merit increases, COLAs - \$78K
 - Benefits increase - \$311K
 - Oracle upgrade – (\$135K)
- 2015/16 vs. 2014/15
 - Merit increases, COLAs - \$73K
 - Benefits increases - \$34K
 - Decrease in capital labor - \$109 K

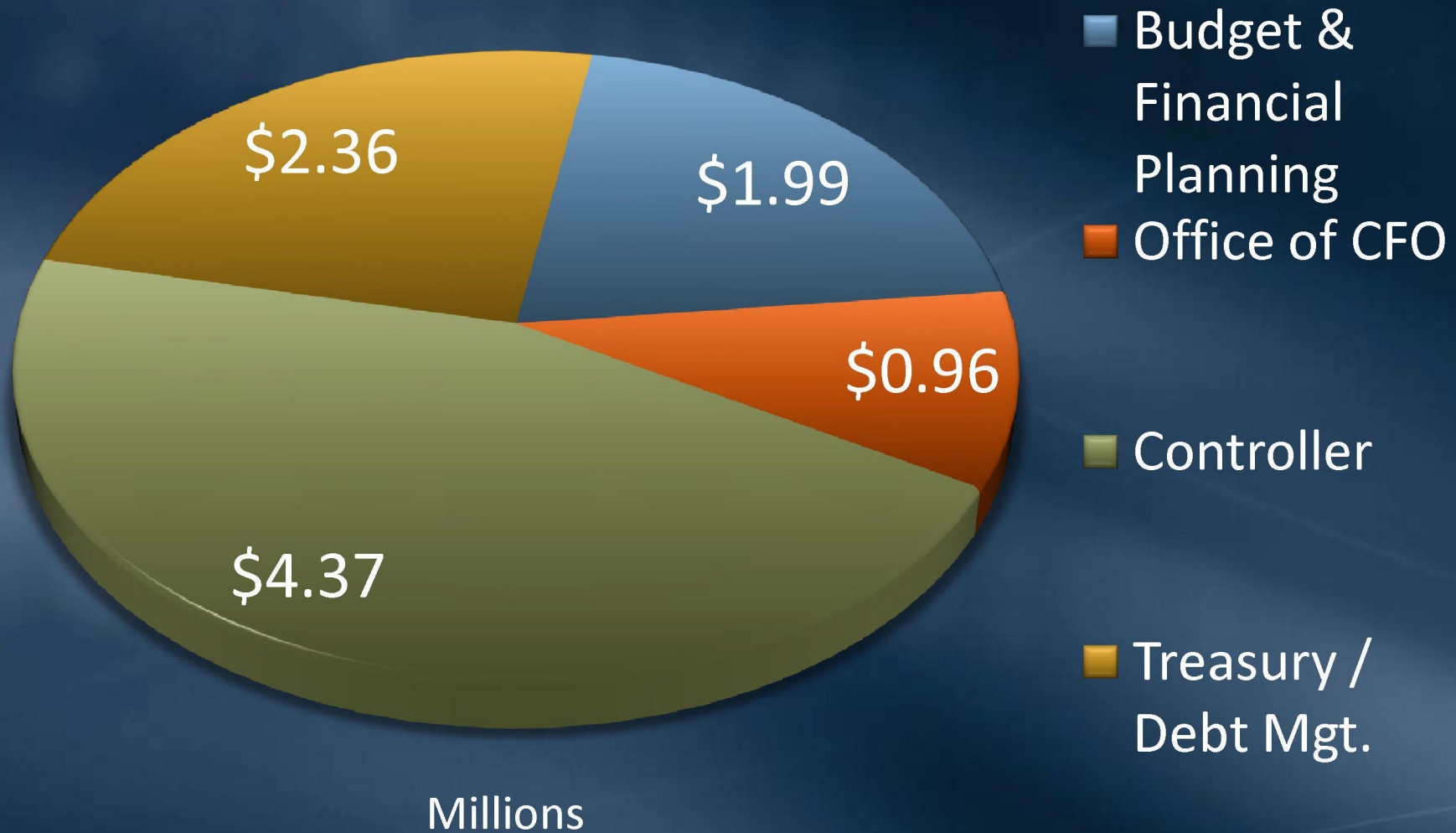
Chief Financial Officer Organization

FYs 2015 & 2016 Proposed Biennial Budget



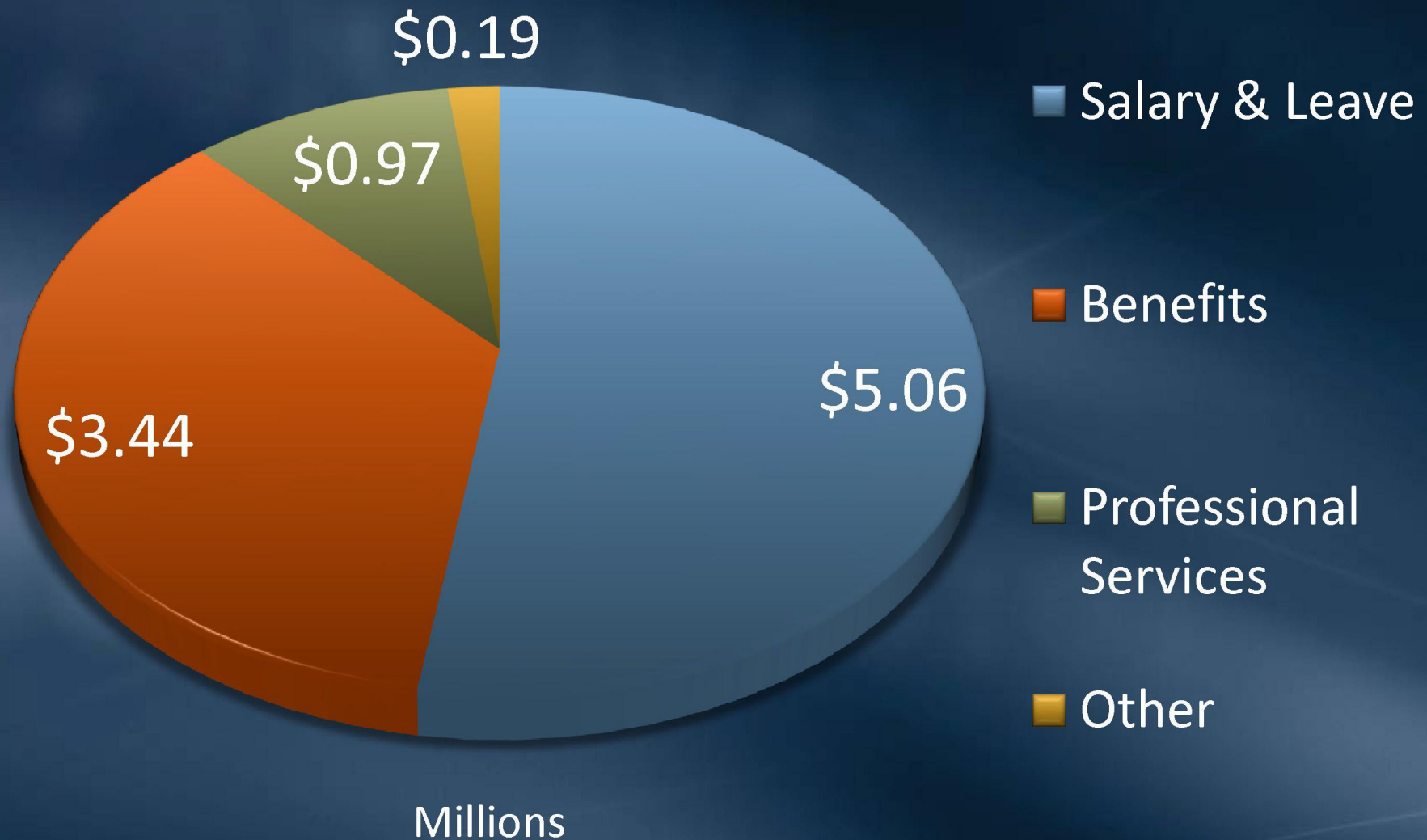
O&M Expenditures by Function

FY 2014/15 Proposed Budget - \$9.7 Million



O&M Expenditures by Account

FY 2014/15 Proposed Budget - \$9.7 Million



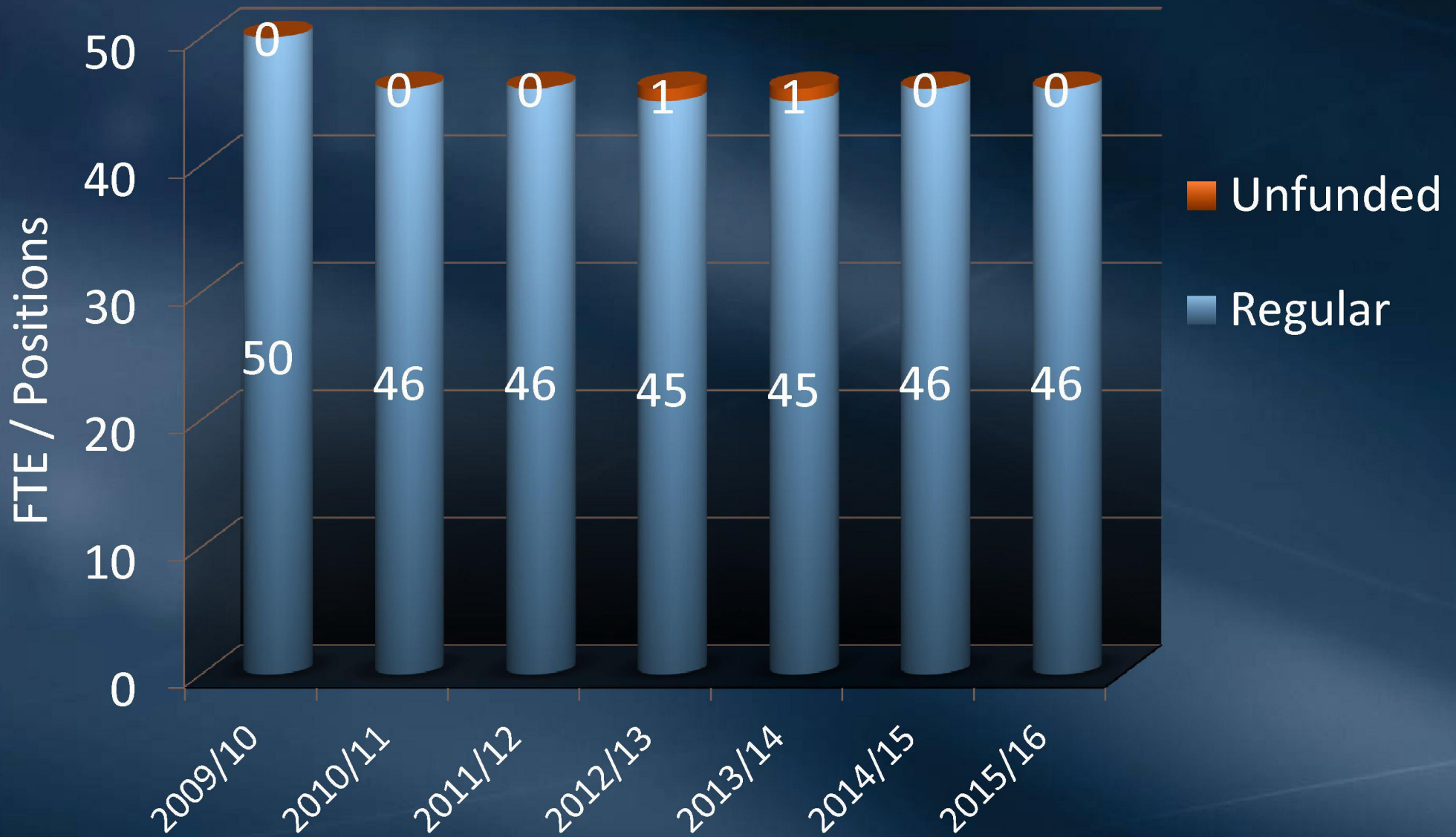
Budget Trend

FYs 2015 & 2016 Proposed Biennial Budget



Budgeted Staffing Trend

FYs 2015 & 2016 Proposed Biennial Budget



O&M Budget Comparison

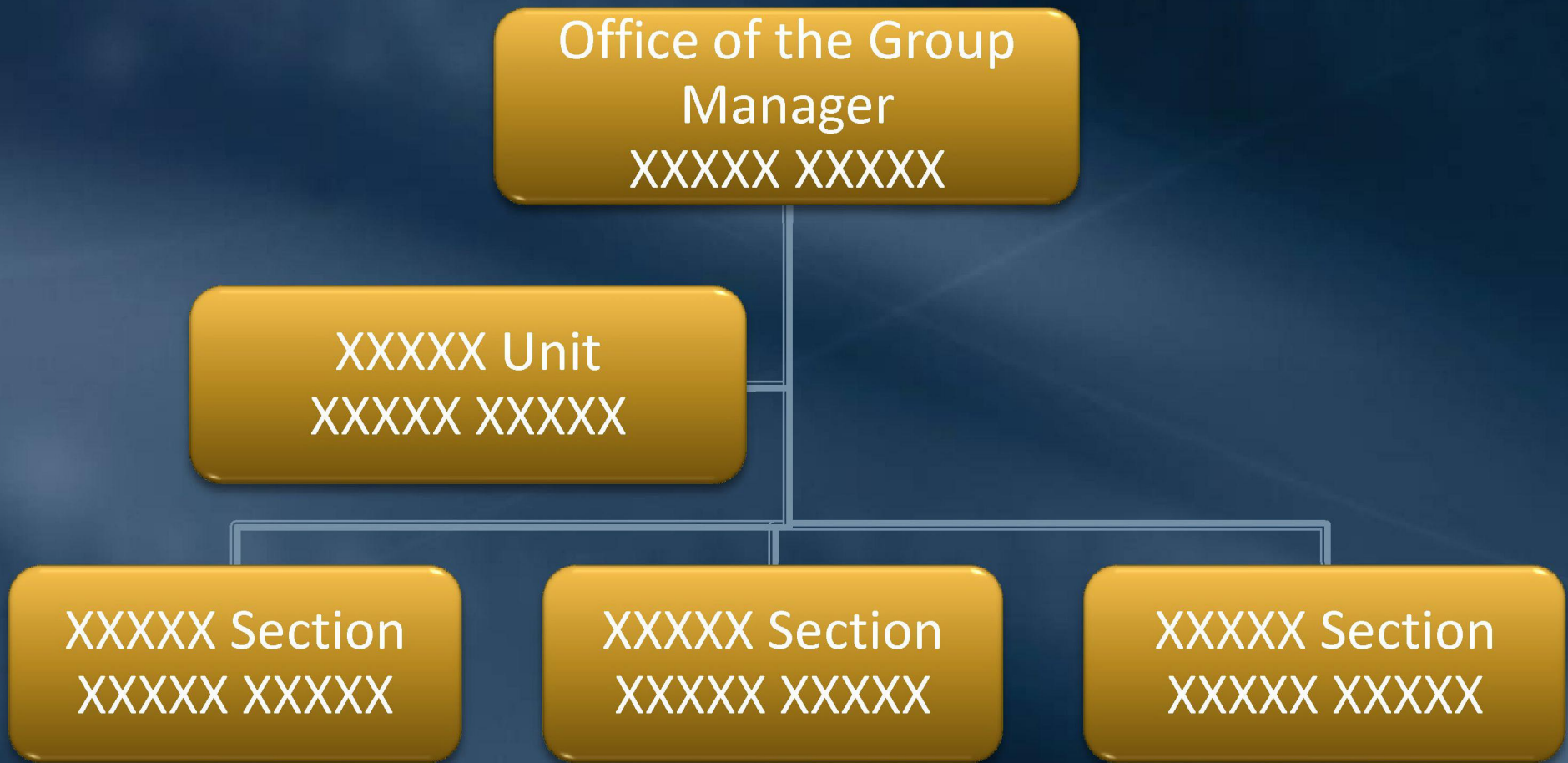
FYs 2015 & 2016 Proposed Biennial Budget

Expense Type	2013/14 Budget	2014/15 Proposed	Change	2015/16 Proposed	Change
Labor	\$7.72	\$8.50	\$0.78	\$8.93	\$0.57
Prof. Services	0.97	0.97	-	0.98	\$0.01
Other	0.21	0.20	(\$0.01)	0.23	\$0.03
Total	\$8.90	\$9.67	\$0.77	\$10.14	\$0.47
Staff FTE's	46	46	0	46	0

- 2014/15 Proposed vs. 2013/14 Budget
 - Fund vacant, unfunded position - \$253K
 - Merit increases, COLAs - \$66K
 - Benefits increase - \$581K
 - Oracle upgrade – (\$135K)
- 2015/16 vs. 2014/15
 - Merit increases, COLAs - \$182K
 - Benefits increases - \$251K
 - Decrease in capital labor - \$109 K

XXXXX Group Organization

FYs 2015 & 2016 Proposed Biennial Budget



Budget Overview

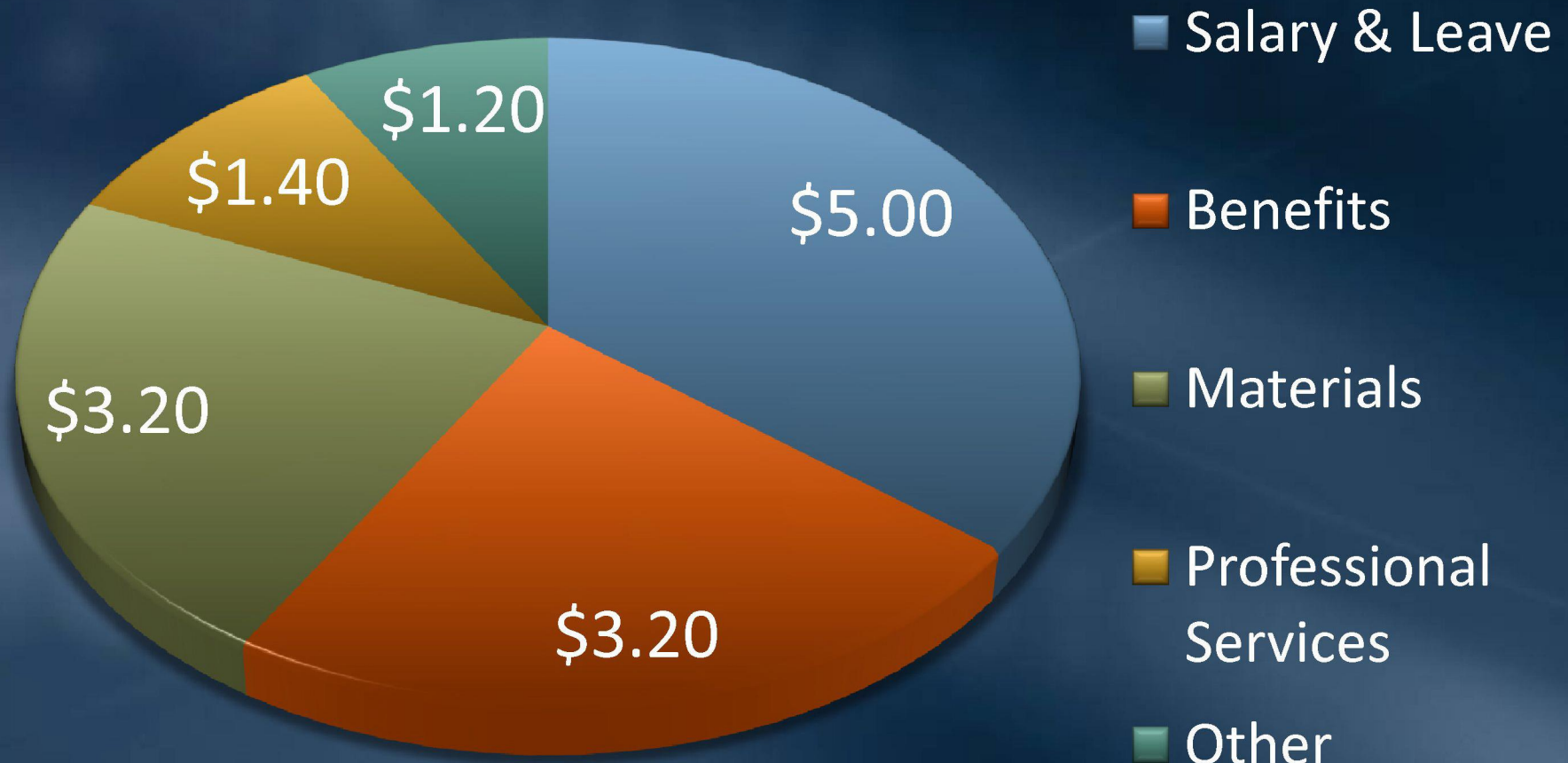
FYs 2015 & 2016 Proposed Biennial Budget

	2013/14 Budget	2014/15 Proposed	2015/16 Proposed
O&M			
Capital			
Staff : Regular			
Temporary			

- Describe changes/issues/drivers
 - Caused by ...
 - Effect on...

O&M Expenditures by Account

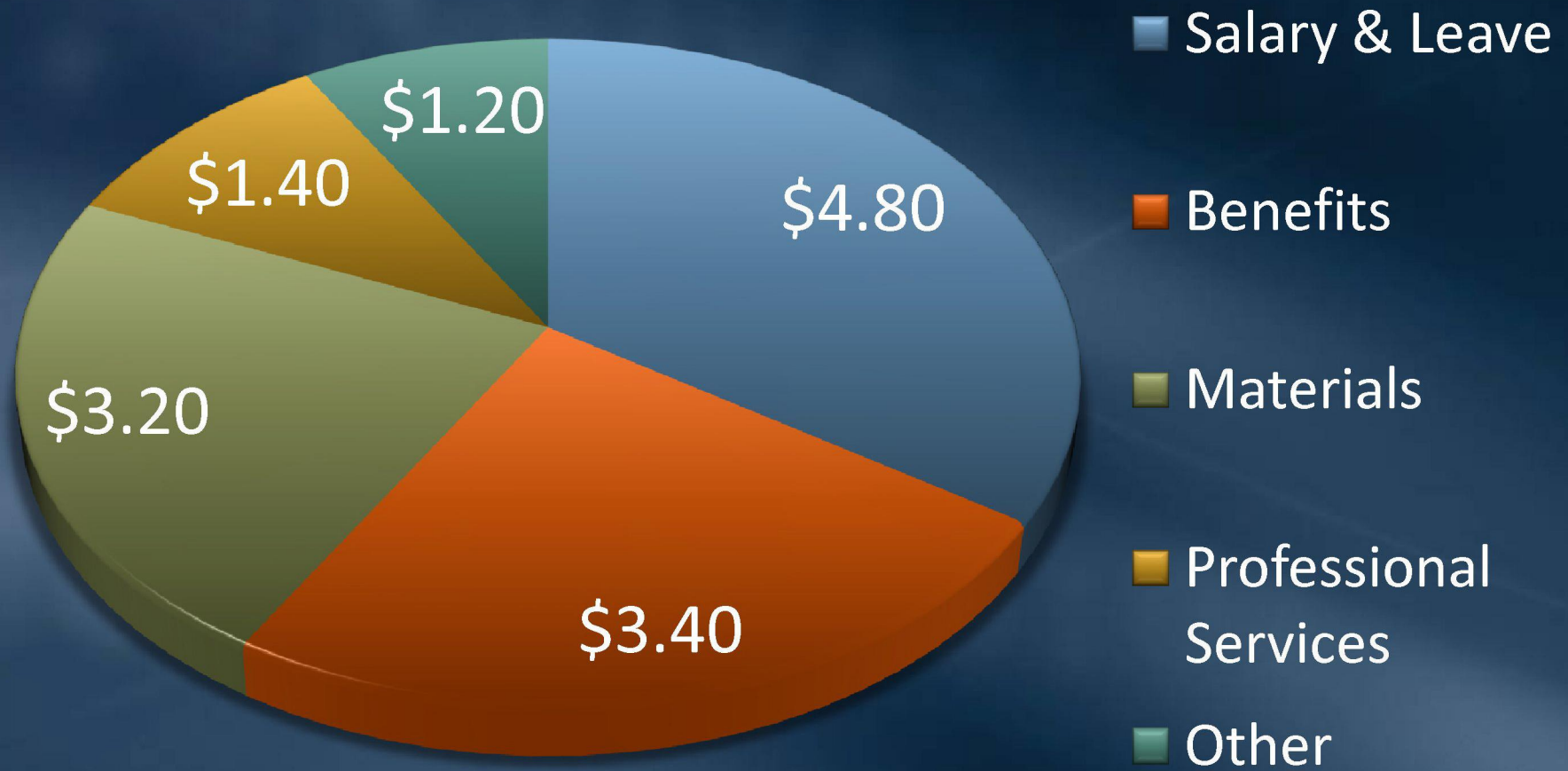
FY 2014/15 Proposed Budget - \$14.0 Million



Millions

O&M Expenditures by Account

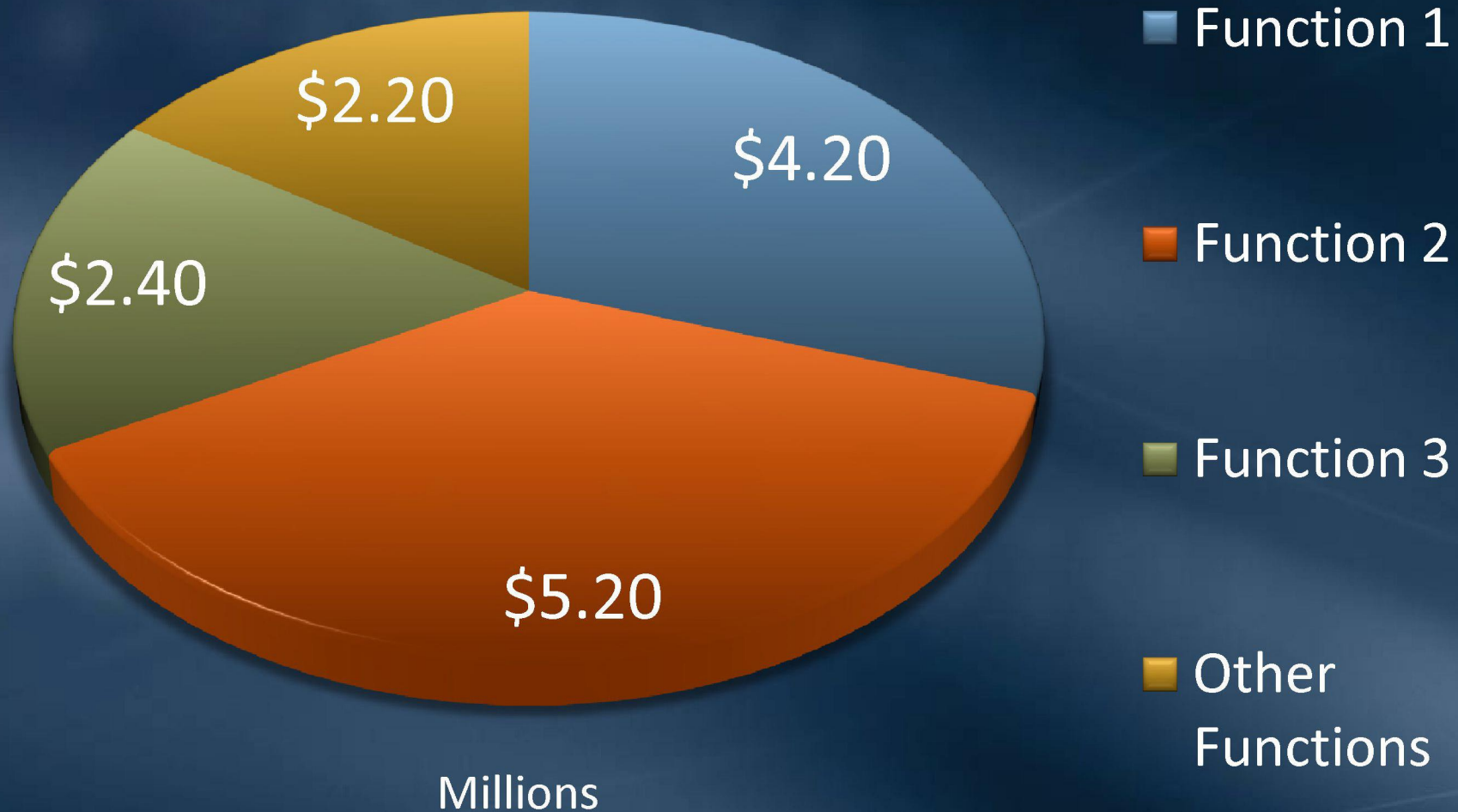
FY 2015/16 Proposed Budget - \$14.0 Million



Millions

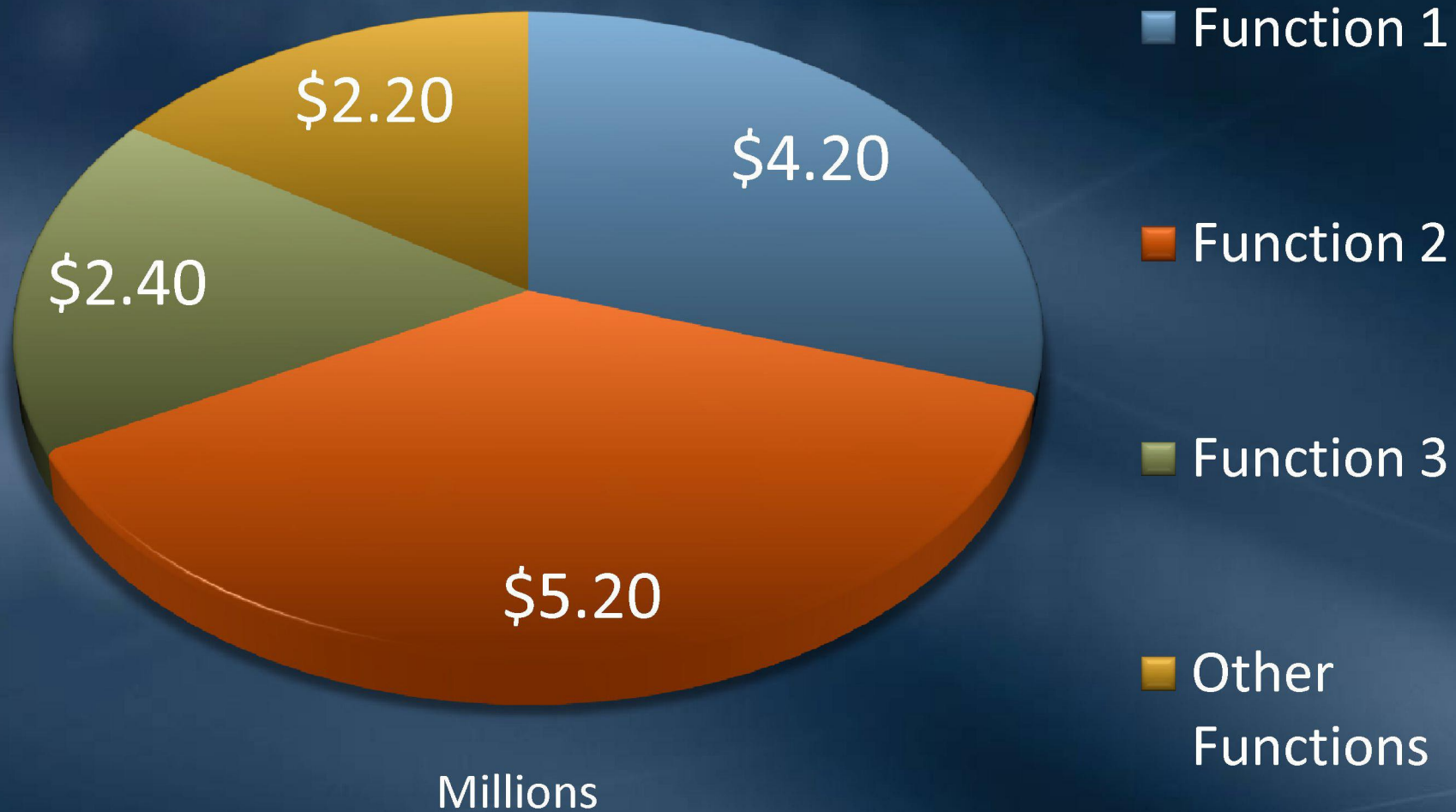
O&M Expenditures by Function

FY 2014/15 Proposed Budget - \$14.0 Million



O&M Expenditures by Function

FY 2015/16 Proposed Budget - \$14.0 Million



Budget Trend

FYs 2015 & 2016 Proposed Biennial Budget



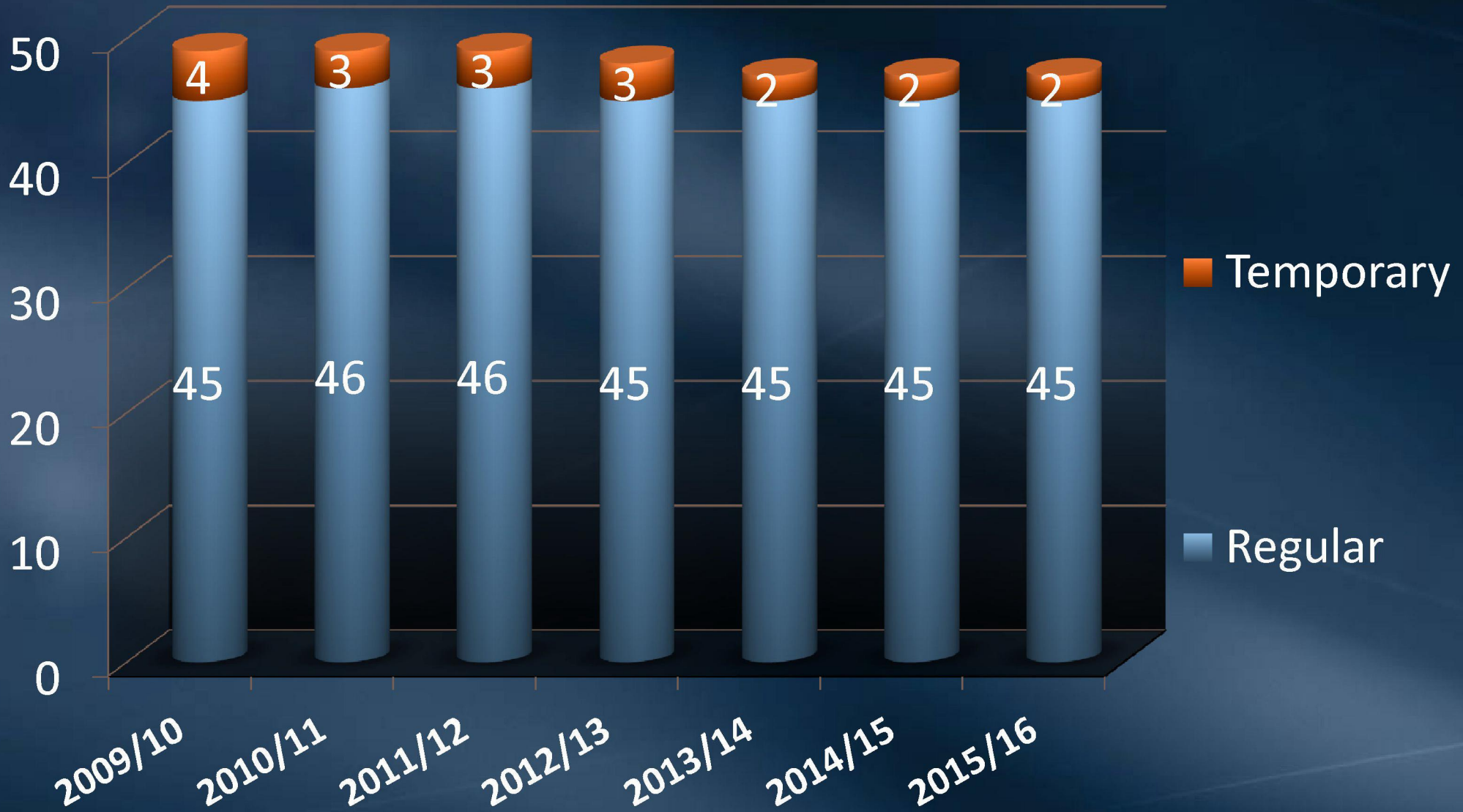
O&M Budget Comparison

FYs 2015 & 2016 Proposed Biennial Budget

- 2014/15 Proposed vs. 2013/14 Budget
 - Trends/issues/drivers
 - Etc.
 - Etc.
- 2015/16 Proposed vs. 2014/15 Proposed
 - Trends/issues/drivers

Budgeted Staffing Trend

FYs 2015 & 2016 Proposed Biennial Budget



Budget Overview

FYs 2015 & 2016 Proposed Biennial Budget

XXXXX Section

	2013/14	2014/15	2015/16
Salary & Benefits			
Other			
Total O&M			
Positions			

- Major Responsibilities

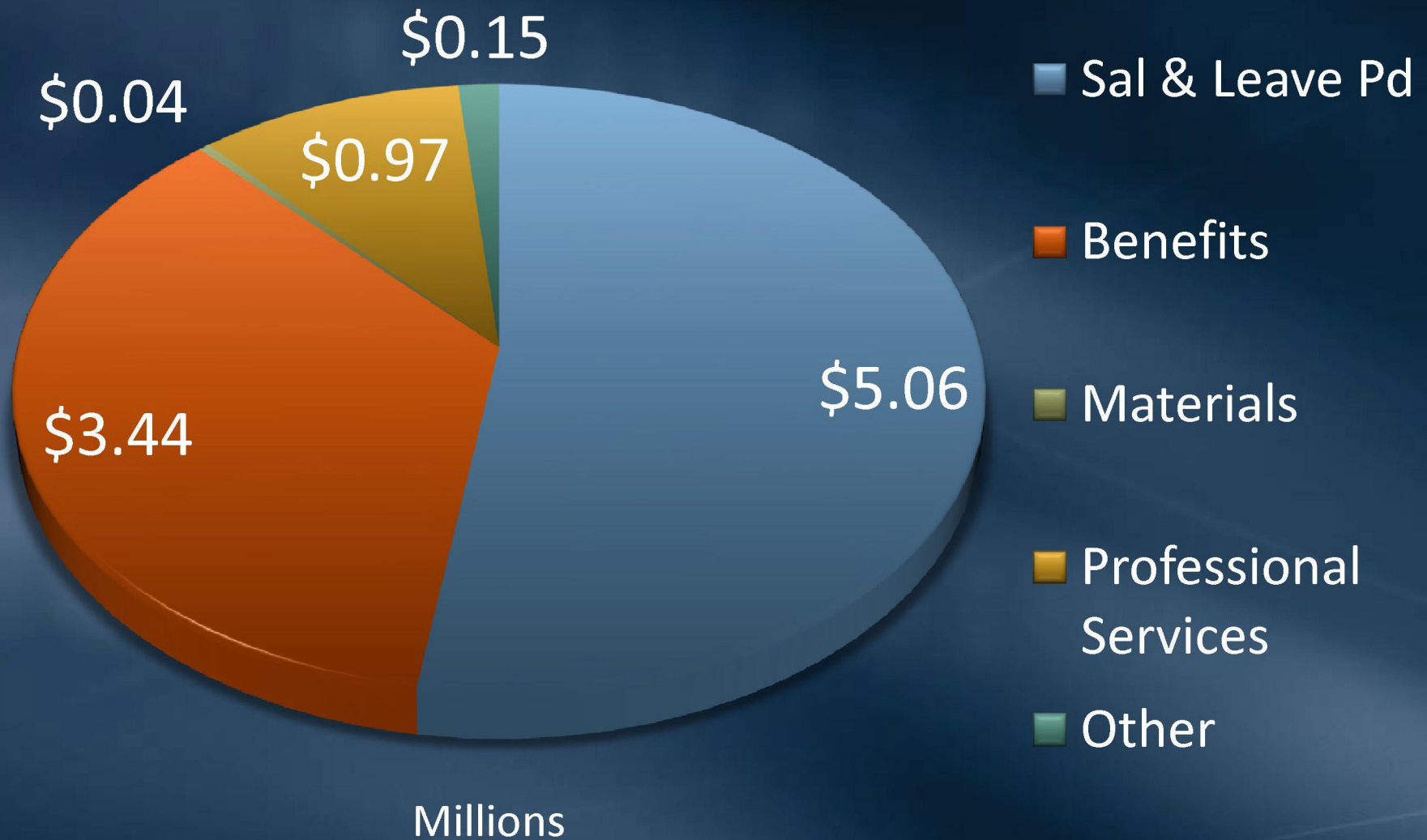
- No. 1...
- No. 2...

- Major Initiatives

- Caused by...
- Effect on...

O&M Expenditures by Account

2014/15 Proposed Budget - \$9.7 Million



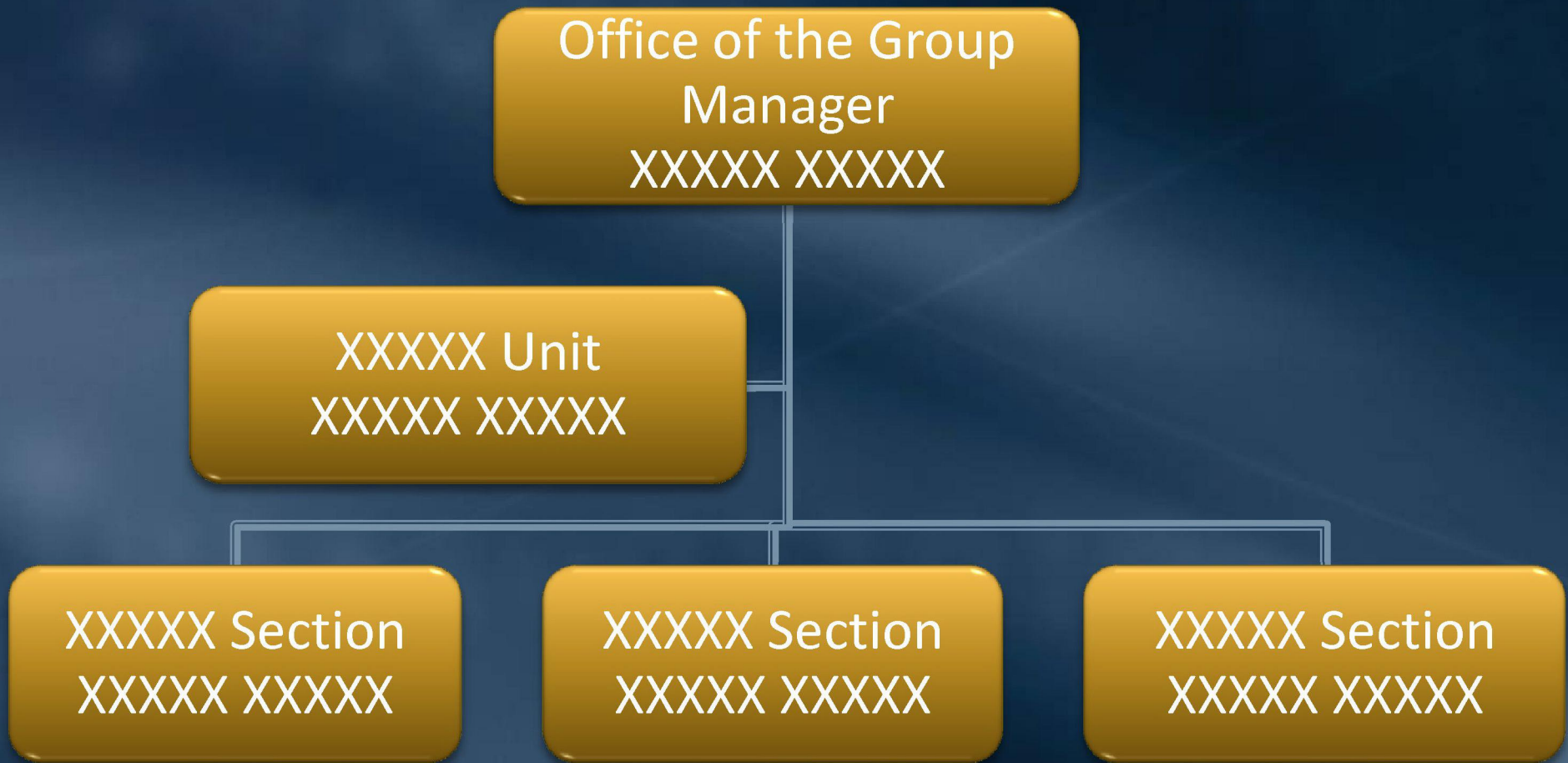
Budget Trend

2014/16 Proposed Biennial Budget



XXXXX Group Organization

FYs 2015 & 2016 Proposed Biennial Budget



Budget Overview

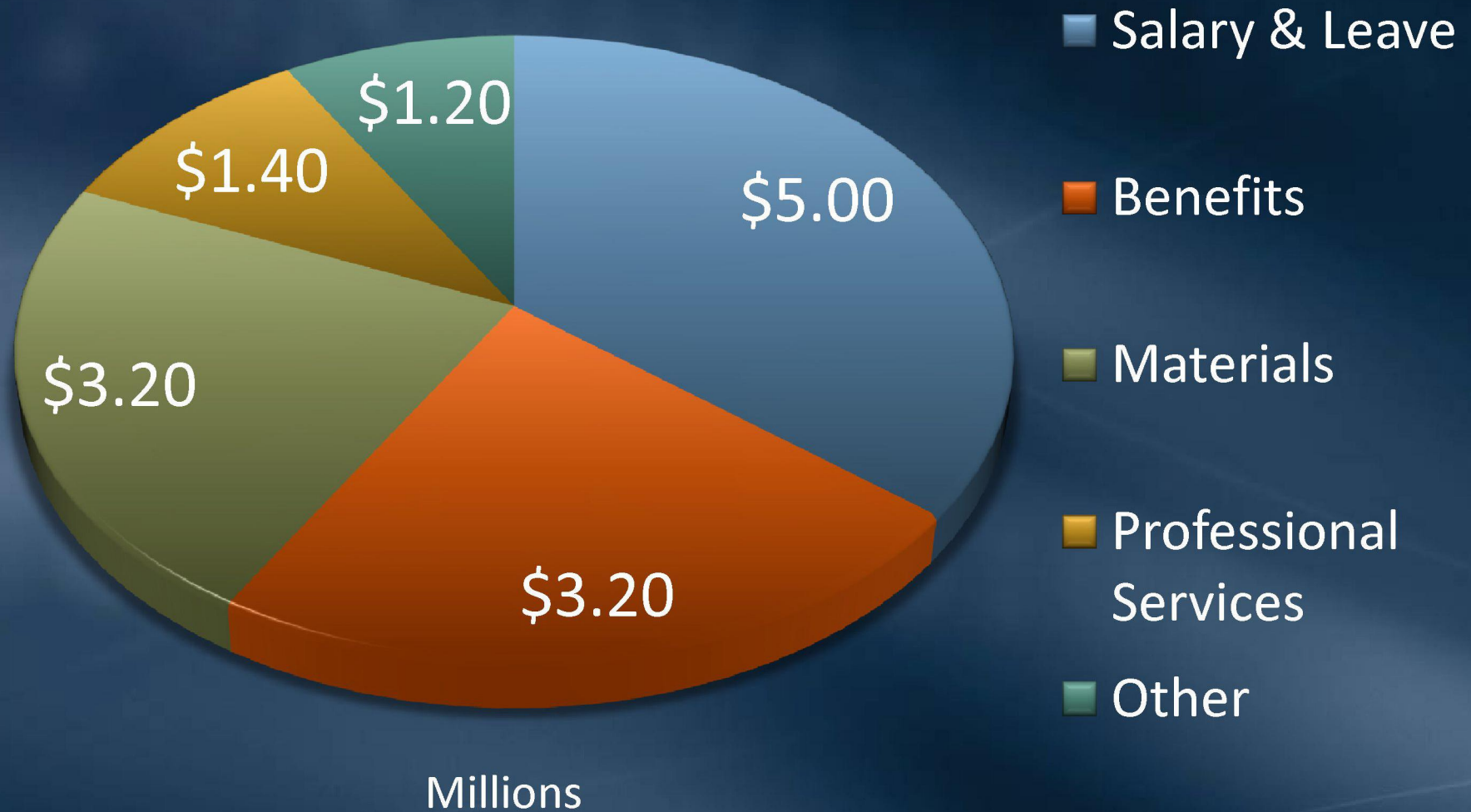
FYs 2015 & 2016 Proposed Biennial Budget

	2013/14 Budget	2014/15 Proposed	2015/16 Proposed
O&M			
Capital			
Staff : Regular			
Temporary			

- Describe changes/issues/drivers
 - Caused by ...
 - Effect on...

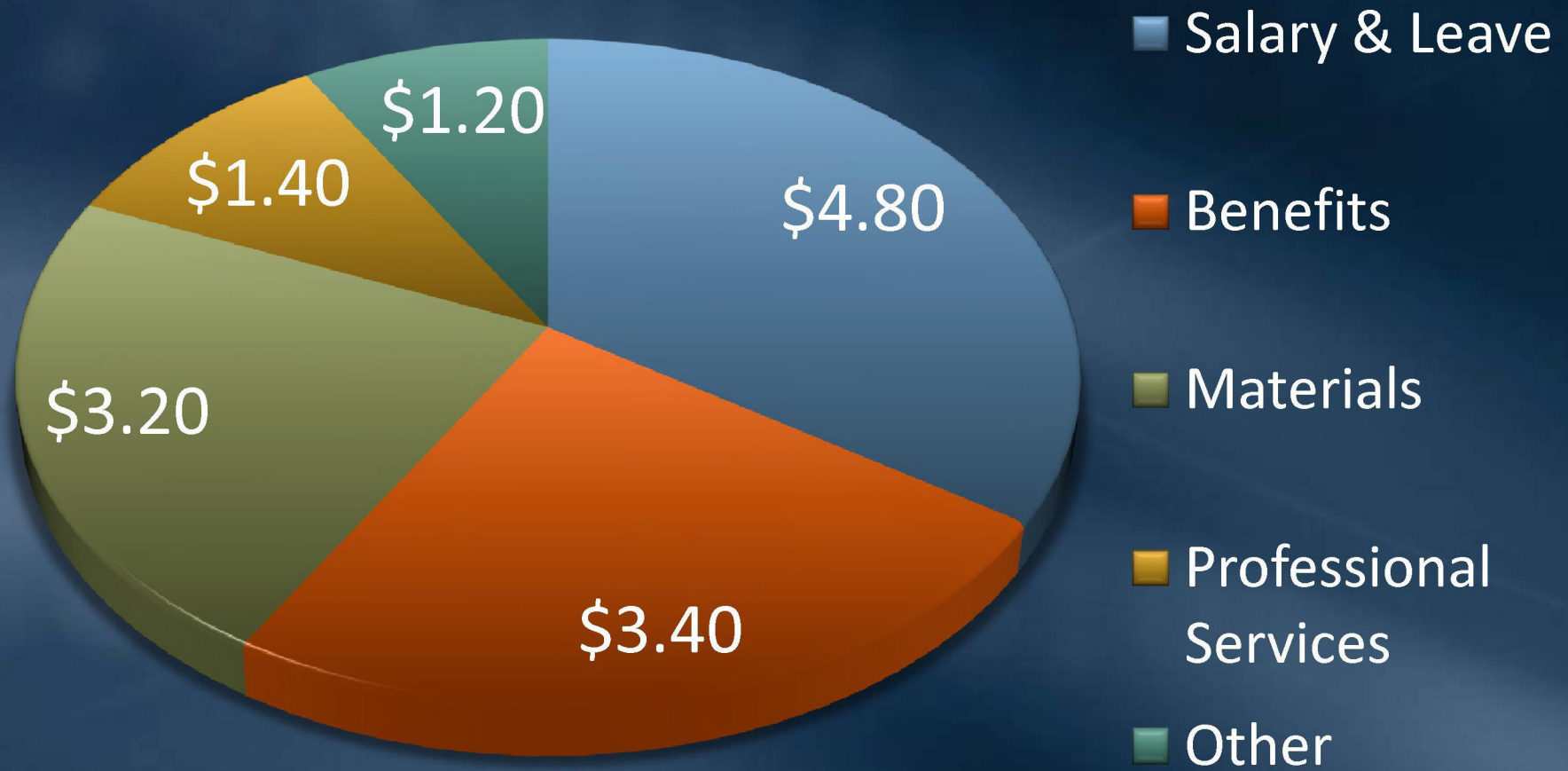
O&M Expenditures by Account

FY 2014/15 Proposed Budget - \$14.0 Million



O&M Expenditures by Account

FY 2015/16 Proposed Budget - \$14.0 Million



Millions

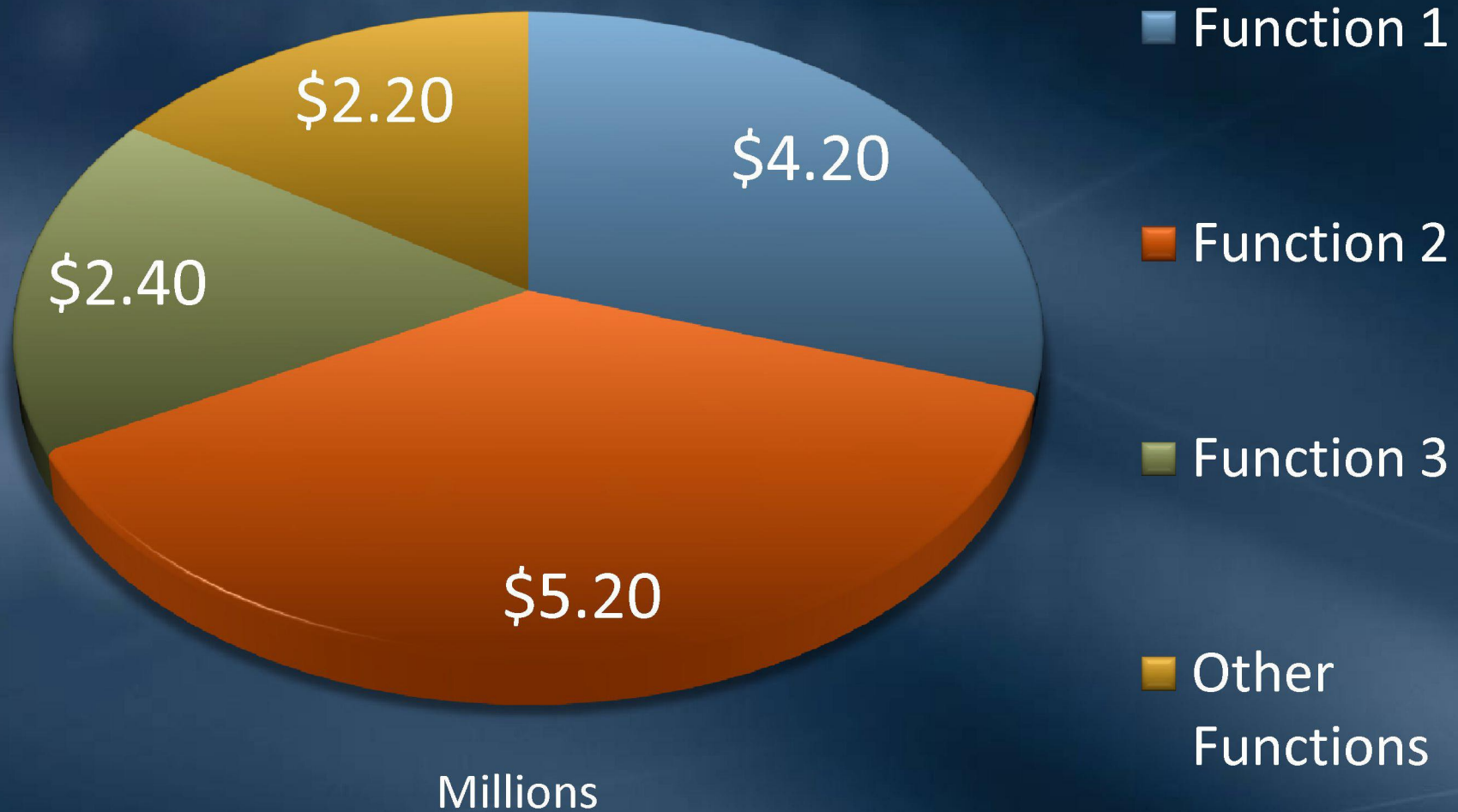
O&M Expenditures by Function

FY 2014/15 Proposed Budget - \$14.0 Million



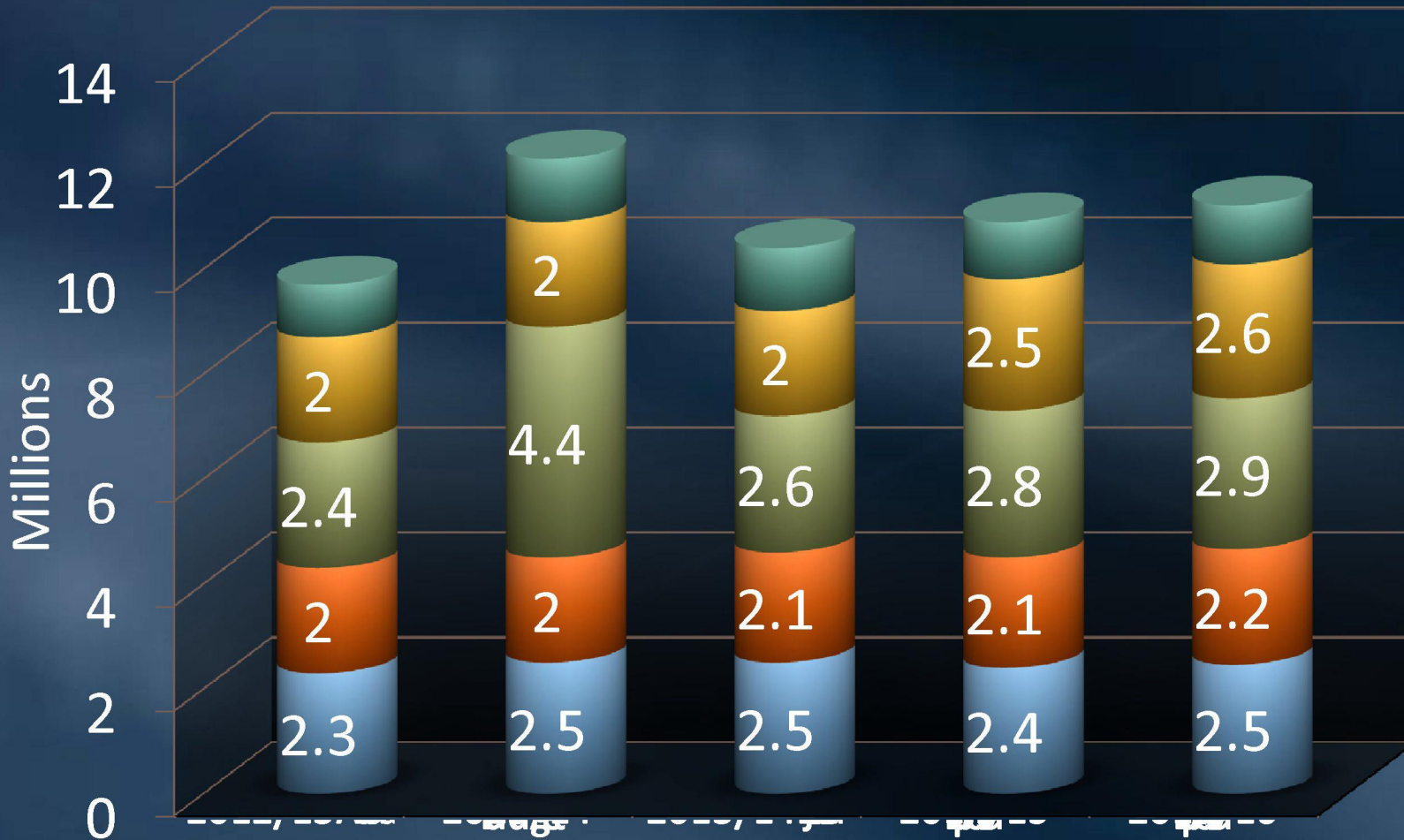
O&M Expenditures by Function

FY 2015/16 Proposed Budget - \$14.0 Million



Budget Trend

FYs 2015 & 2016 Proposed Biennial Budget



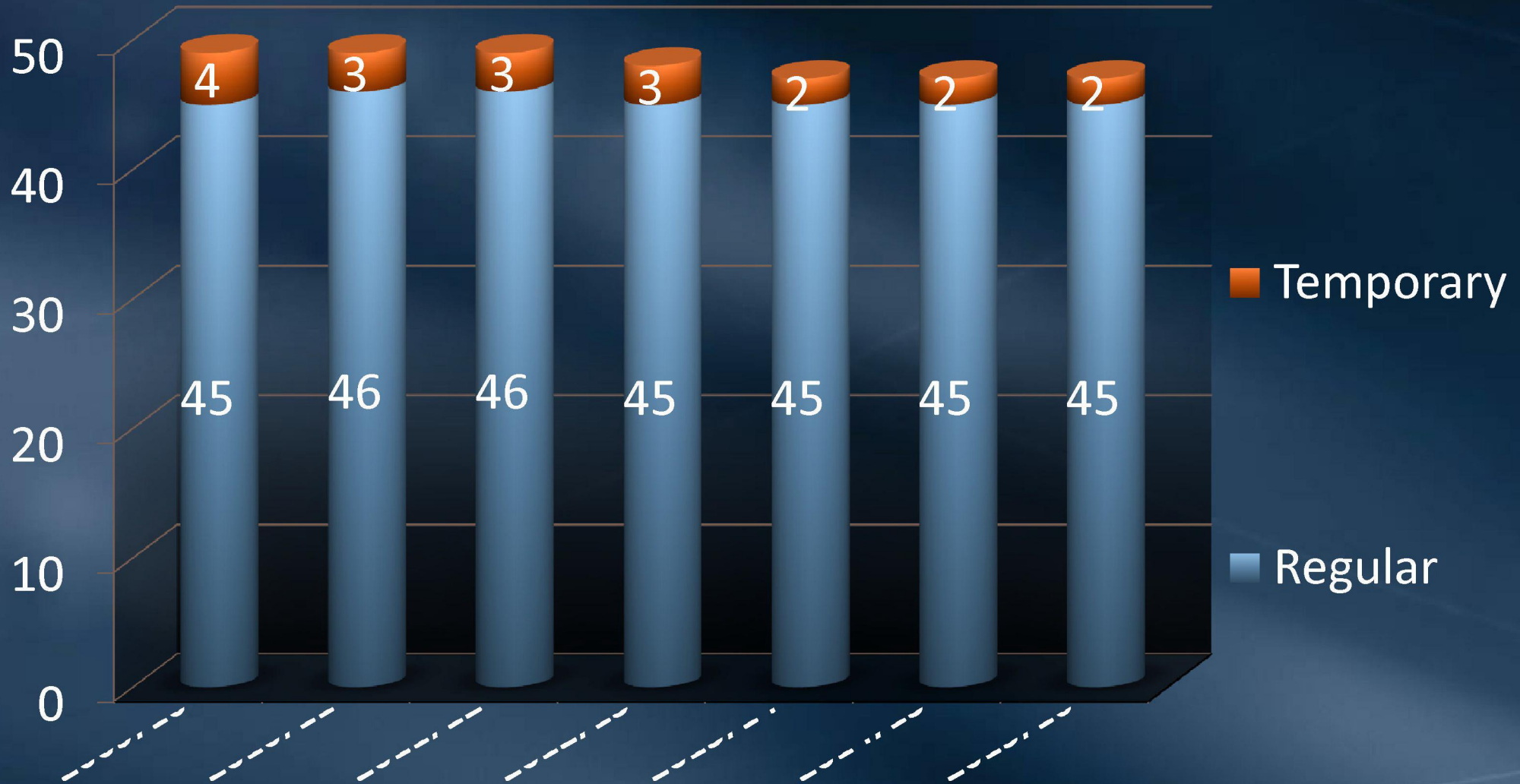
O&M Budget Comparison

FYs 2015 & 2016 Proposed Biennial Budget

- 2014/15 Proposed vs. 2013/14 Budget
 - Trends/issues/drivers
 - Etc.
 - Etc.
- 2015/16 Proposed vs. 2014/15 Proposed
 - Trends/issues/drivers

Budgeted Staffing Trend

FYs 2015 & 2016 Proposed Biennial Budget



Group Name

Date

Budget Overview

FYs 2015 & 2016 Proposed Biennial Budget

XXXXX Section

	2013/14	2014/15	2015/16
SPS			
Totals			

- Major Responsibilities

- No. 1...
- No. 2...

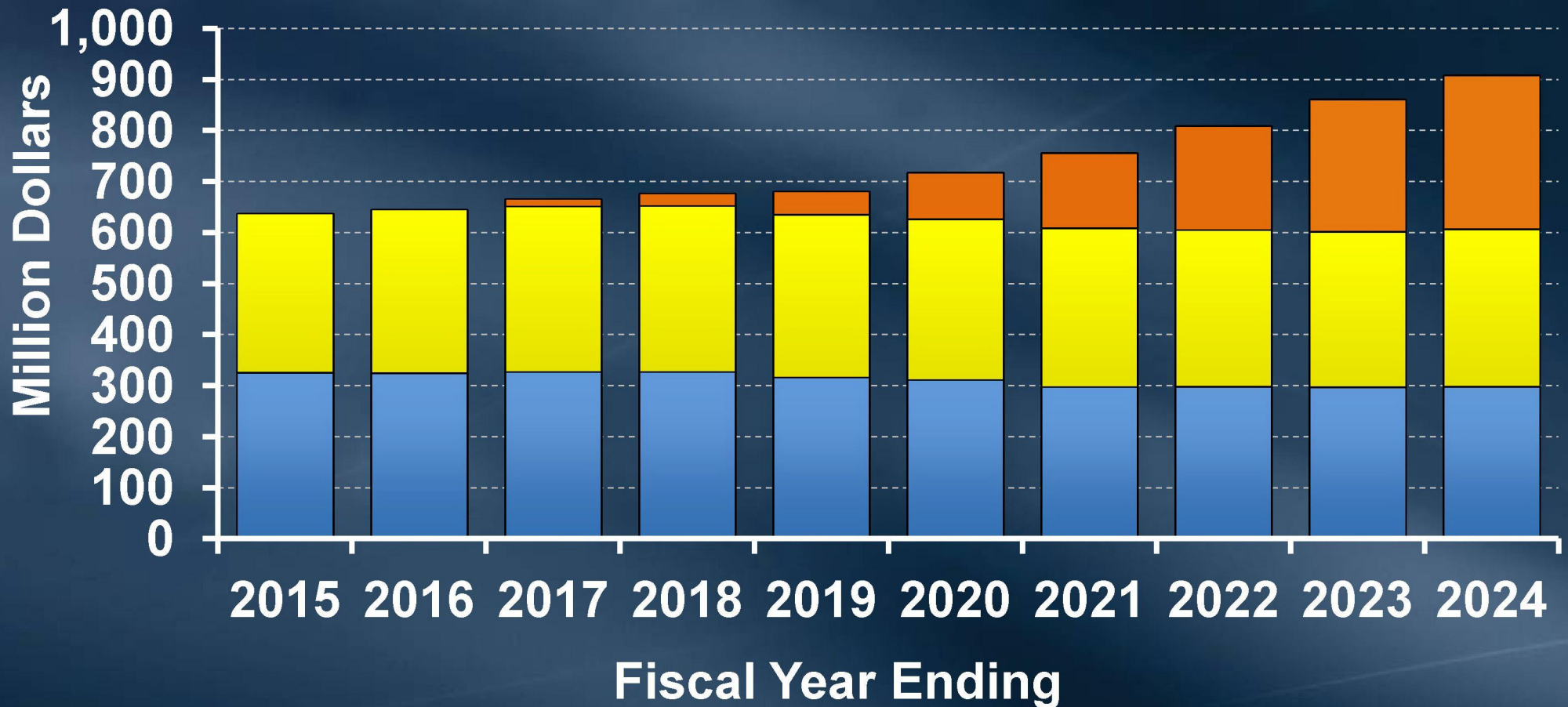
- Major Initiatives

- Caused by...
- Effect on...

Fixed Costs will Increase with the BDCP

Scenario A: 1.5% / 1.5%

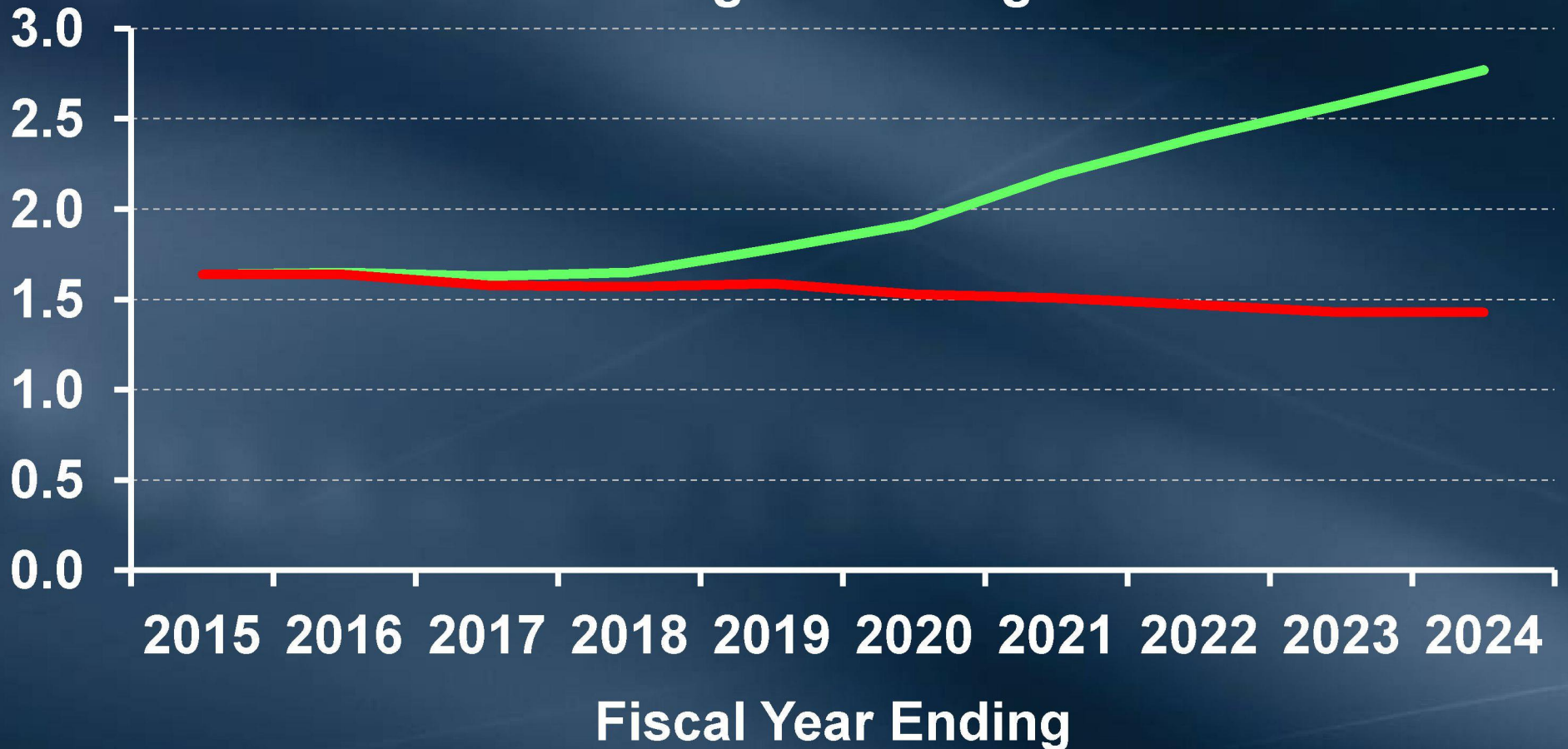
■ BDCP ■ Other SWP Fixed ■ Debt Service



Fixed Charges Coverage

Scenario A: 1.5% / 1.5%

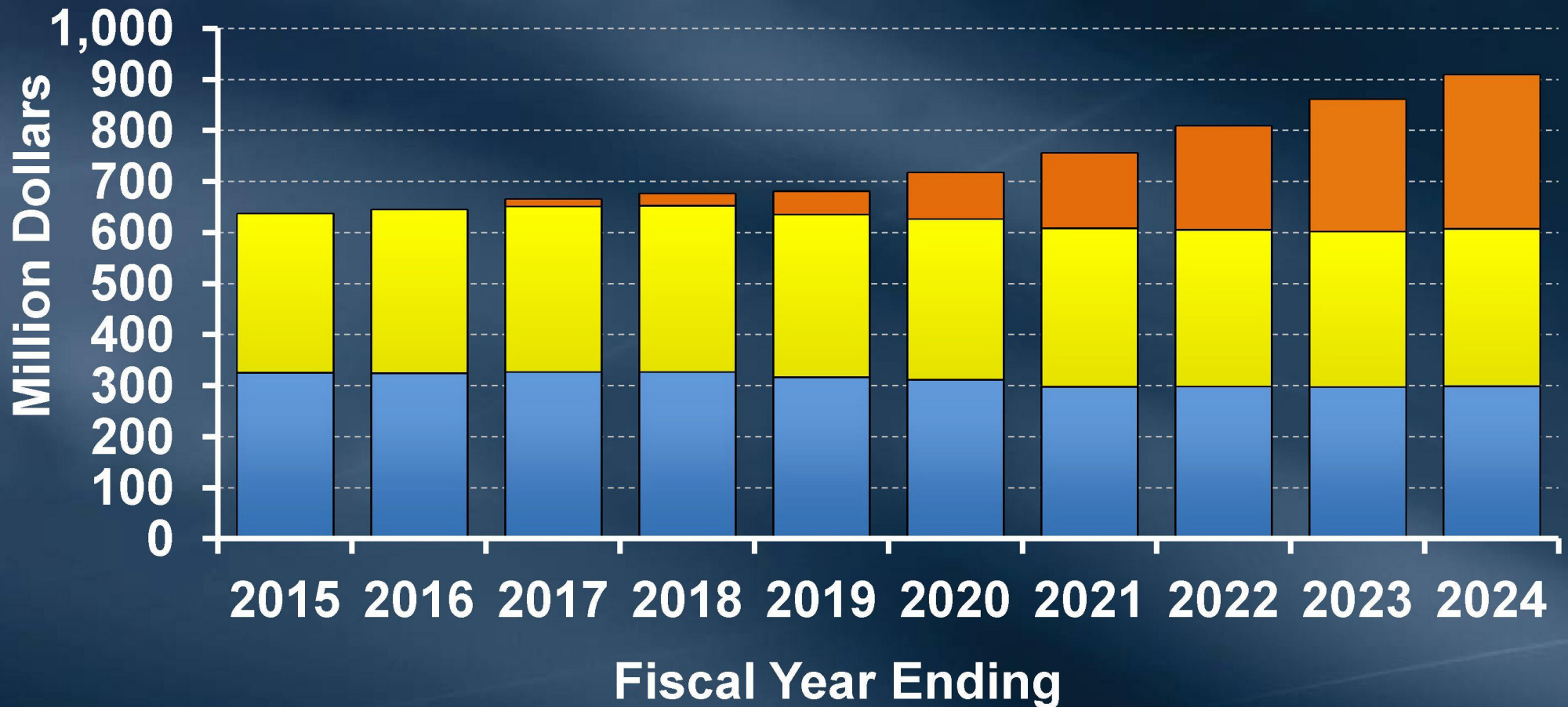
— Fixed Charges Coverage without BDCP
— Fixed Charges Coverage



Fixed Costs will Increase with the BDCP

Scenario B: 0% / 1.5%

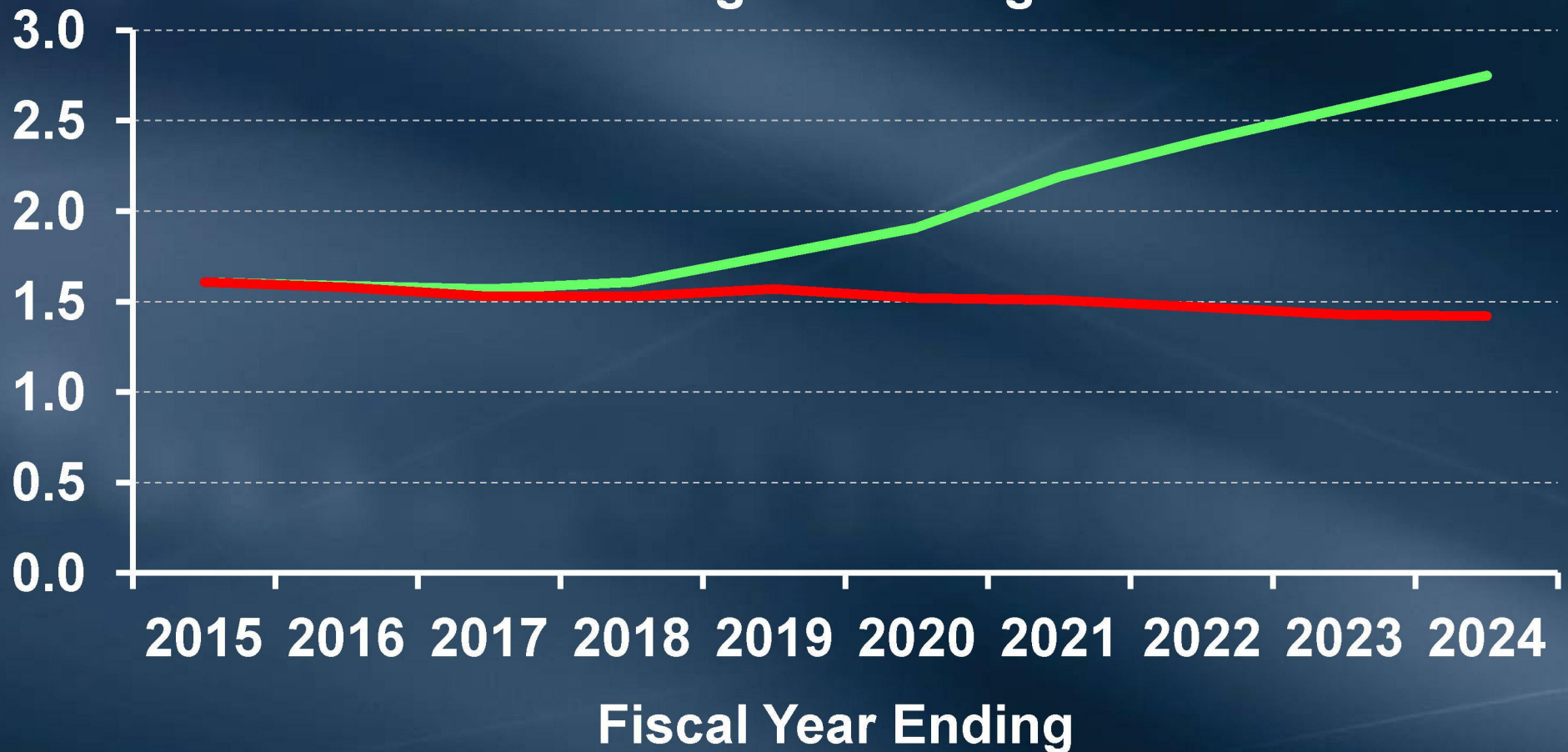
BDCP **Other SWP Fixed** **Debt Service**



Fixed Charges Coverage

Scenario B: 0% / 1.5%

— Fixed Charges Coverage without BDCP
— Fixed Charges Coverage



Scenario E: Lower SWP Allocation

- Assumed Supply Conditions and Actions
 - Lower SWP Allocation
 - 2014 – 5%, 2015 – 25%, 2016 and beyond – 50%
 - Ramp up Supply Programs
 - Increase Palo Verde Irrigation District (PVID) Land Management Program to 122 TAF/yr by 2016
 - Draw 205 TAF/yr from central valley storage in 2015 & 2016
 - Purchase 80 TAF/yr SWC Dry Year Transfer in 2015 & 2016
 - Draw Storage
 - Draw a total of 388 TAF from Intentionally Created Surplus (ICS) in 2014 and 2015
 - Draw 223 TAF SWP Carryover in 2014
 - Draw a total of 61 TAF from DVL in 2014 and 2015

Scenario E: Lower SWP Allocation

● Cost impacts

● Higher Supply Program Costs

- FY2015 increase \$37M → drawn from WMF
- FY2016 increase \$37M → drawn from WMF

● Higher CRA Power Cost

- Resulting from increased CRA deliveries from Lake Mead ICS and PVID Land Management Program.
- FY2015 increase \$26M
- FY2016 increase \$14M
- FY2017 increase \$7M

Scenario E: Lower SWP Allocation

- Cost impacts (... continued)
 - Lower SWP Power Cost
 - Resulting from lower SWP allocation but partially offset by deliveries from SWP Carryover and draws from Central Valley Storage Programs.
 - FY2015 - \$41M decrease
 - FY2016 - \$15M decrease
 - Scenario E does not account for the cost to refill storage

Scenario E: Lower SWP Allocation

- Cost impacts (... continued)
 - Net Cost Impact (in Million Dollars)

	FY2015	FY2016
CRA Power	\$ 26	\$ 14
SWP Power	(41)	(15)
Supply Programs	37	37
Total Increase in Expenditures	23	37
Draw from WMF	(37)	(37)
Net impact on Reserves	\$ (15)	\$ (0)

Total may not foot due to rounding.

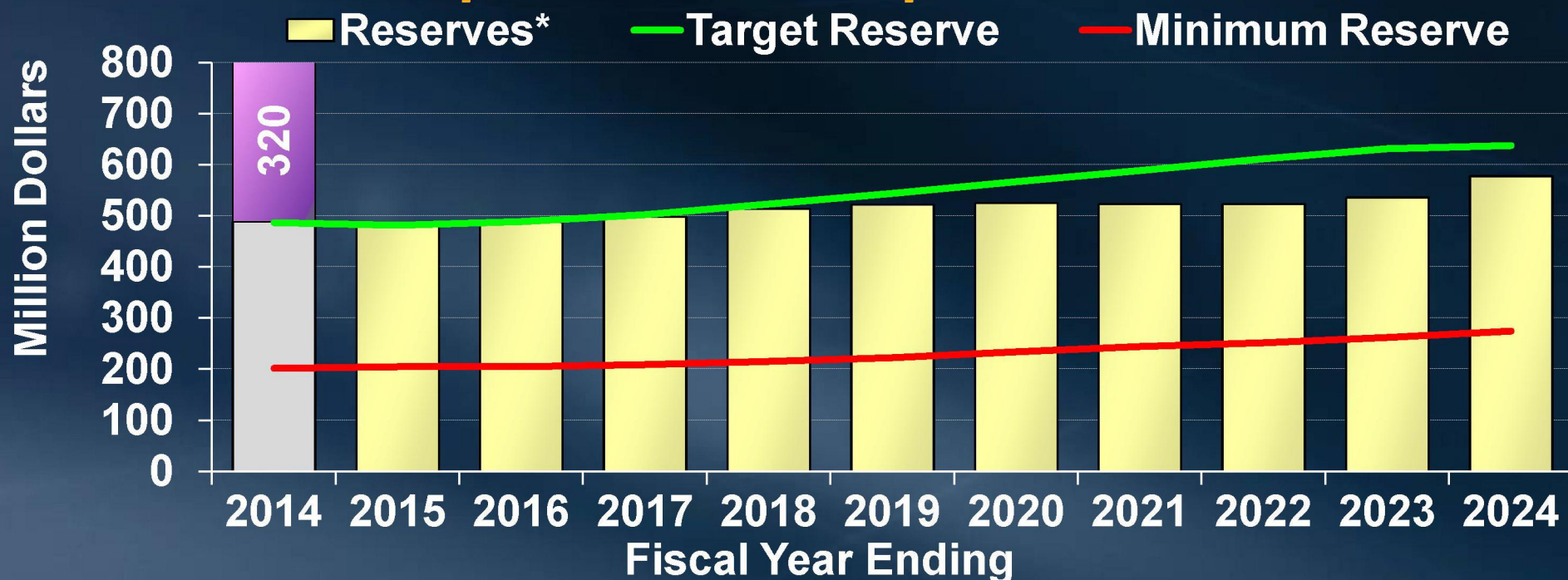
Scenario A: Original Proposal 1.5%/1.5%



Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, \$M	81	90	92	94	96	99	101	103	105	108	110
BDCP, \$M				15	24	46	91	148	204	259	302

* Revenue Remainder & WRSF

Scenario A: Updated Proposal 1.5%/1.5%



Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	3.5%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.1	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, \$M	81	90	92	94	96	99	101	103	105	108	110
BDCP, \$M				15	24	46	91	148	204	259	302

* Revenue Remainder & WRSF

Scenario B: 0%/1.5%



Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	238	200	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.5	1.5	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, \$M	81	90	92	94	96	99	101	103	105	108	110
BDCP, \$M				15	24	46	91	148	204	259	302

* Revenue Remainder & WRSF

Scenario E: Lower SWP Allocation

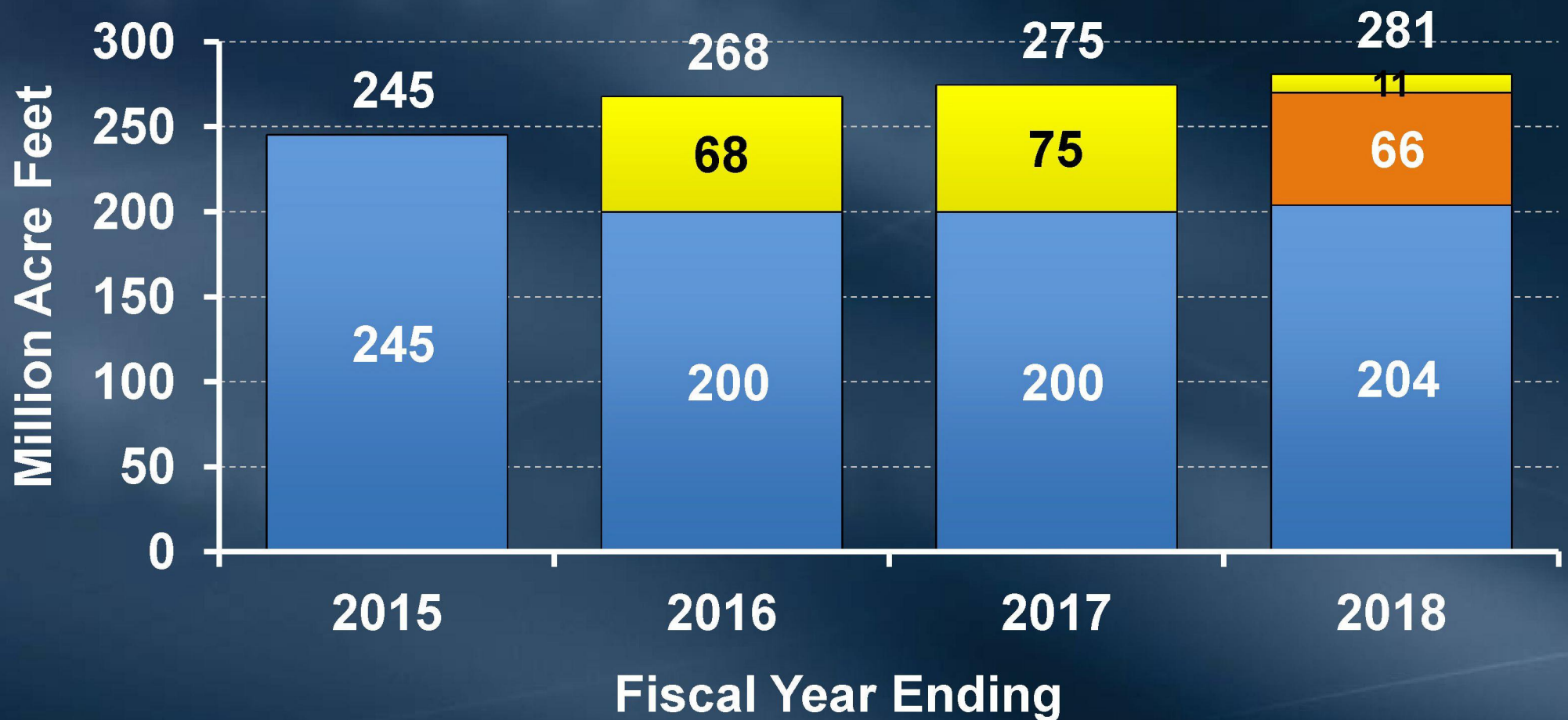


Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	200	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	1.9	2.0	2.2	2.4	2.5	2.7	2.8
Fixed Chg Cvg	2.0	1.6	1.6	1.5	1.5	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, \$M	81	90	92	94	96	99	101	103	105	108	110
BDCP, \$M				15	24	46	91	148	204	259	302

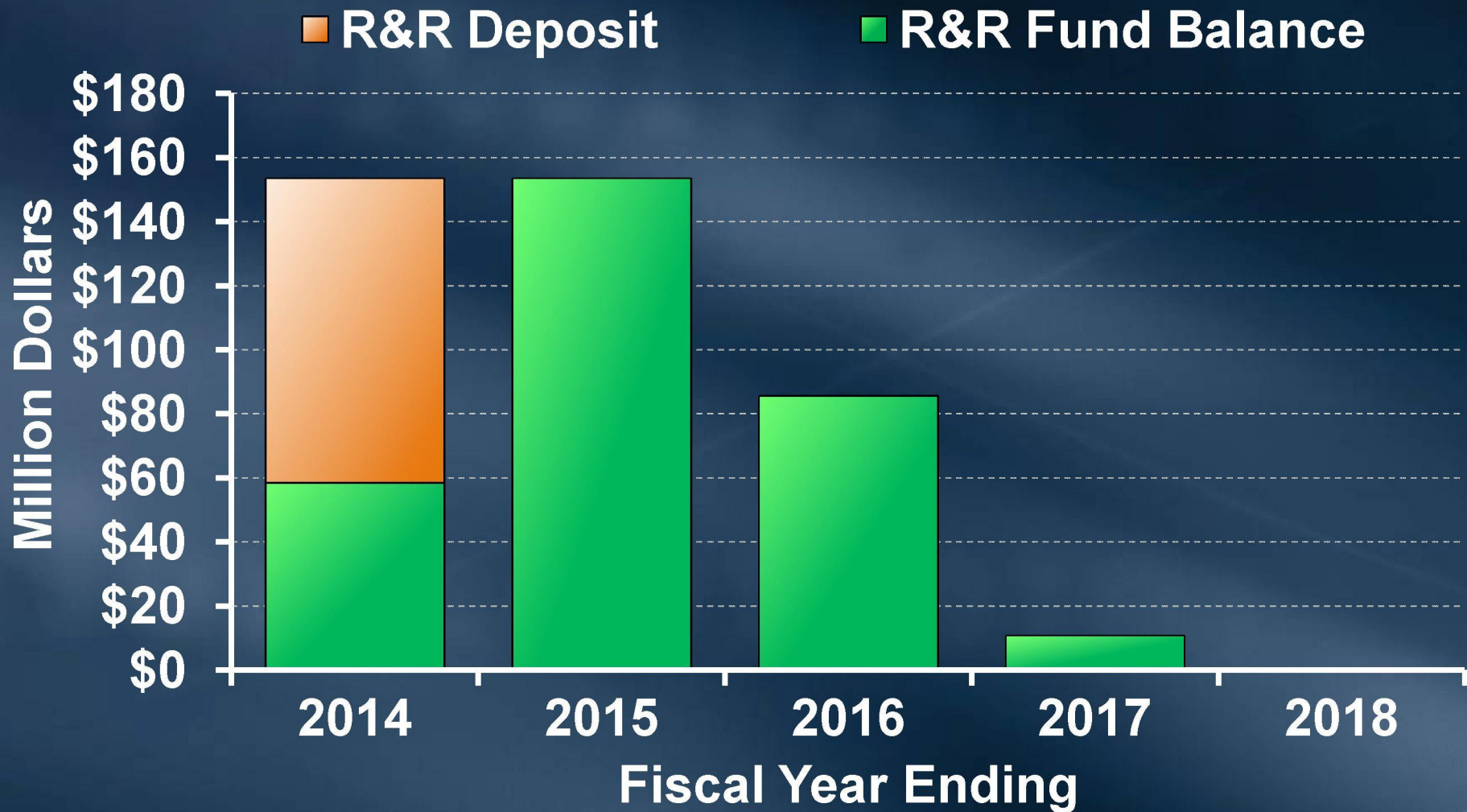
* Revenue Remainder & WRSF

Scenario E: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



Scenario E: Replacement & Refurbishment (R&R) Fund



Scenario E: Proposed Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$157	\$154
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$255	\$257
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$117	\$137
Treatment Surcharge (\$/AF)	\$297	\$338	\$339
Readiness-to-Serve Charge (\$M)	\$166	\$158	\$148
Capacity Charge (\$/cfs)	\$8,600	\$11,100	\$10,500

Scenario E:

Proposed Full Service, Exchange & Charges

Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$570	-3.9%	\$589	3.3%
Tier 2	\$735	\$703	-4.4%	\$725	3.1%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$908	2.0%	\$928	2.2%
Tier 2	\$1,032	\$1,041	0.9%	\$1,064	2.2%
Full Service Untreated Exchange Cost (\$/AF)	\$445	\$413	-7.2%	\$435	5.3%
RTS Charge (\$M)	\$166	\$158	-4.8%	\$148	-6.3%
Capacity Charge (\$/cfs)	\$8,600	\$11,100	29.1%	\$10,500	-5.4%