



April 2009

Metropolitan Votes to Increase Rates, Speed Up Implementation

On April 14, 2009, after months of intensive discussion, the Board of Directors of the Metropolitan Water District (Metropolitan) voted to increase overall water rates and charges by an average of 19.7%. The Board action also included a one-time move to expedite the implementation of some elements of the rate schedule to September 1, 2009, rather than the normal implementation date on the first day of each calendar year.

Expediting the increases allows Metropolitan to lessen the rate of increase by extending the period of time over which the new, higher rates are collected. By comparison, the Board also considered an increase by an average of 33% effective January 1, the day upon which rate increases have customarily taken effect since 1996. Both proposals were based on the same FY 2009/10 budget.

Effective September 1, 2009, untreated and treated Tier 1 rates will increase to \$484/AF and \$701/AF respectively. As shown below, these amounts represent a 17% increase in the untreated Tier 1 rate and a 21% increase in the treated Tier 1 rate. A key factor in the increase in treated water rates was the large increase in the Treatment Surcharge, driven primarily by increasing chemical and power costs associated with water treatment.

The differential between IAWP and Tier 1 rates remains the same through 2010 - \$90 for untreated and \$114 for treated. These differentials will decrease to \$68 for untreated and \$86 for treated for 2011.

	Jan. 1, 2009	Sept.1, 2009	% Increase
<i>Full Service, Untreated Volumetric Cost (\$/AF)</i>			
Tier 1	\$412	\$484	17%
Tier 2	\$528	\$594*	13%
<i>Untreated IAWP (\$/AF)</i>	\$322	\$394	22%
<i>Treatment Surcharge</i>	\$167	\$217	30%
<i>Full Service, Treated Volumetric Cost (\$/AF) **</i>			
Tier 1	\$579	\$701	21%
Tier 2	\$695	\$811*	17%
<i>Treated IAWP (\$/AF) **</i>	\$465	\$587	26%

* Effective January 1, 2010

** Includes Treatment Surcharge

Note - the same dollar increase on a smaller rate results in a larger percentage increase

Included in the Tier 1 and IAWP rates is a new Delta Supply Surcharge of \$69/AF. The Delta Supply Surcharge is designed to recover the additional supply, personnel and consulting costs that Metropolitan faces as a result of the pumping restrictions (such as purchases from the State Drought Water Bank, additional purchases from Palo Verde Irrigation District (PVID), Yuma Desalter, etc), plus the lost value in supplies available from the SWP. The Delta Surcharge would remain in effect until a long-term solution for the Delta was achieved. It is expected that the surcharge would be phased out as interim Delta improvements ease pumping restrictions.

Metropolitan is also evaluating opportunities to increase revenues from fixed charges to take some of the pressure off water rates and help mitigate the impacts of lower sales in the future. Full evaluation of Metropolitan's ability to increase property taxes to fund a greater portion of the SWP fixed costs is underway. It is anticipated that this review would be completed by December 2009, in order to be incorporated into the rates and charges to be effective on January 1, 2011.

According to Metropolitan, it is facing one of the most challenging time periods in its history. The well publicized water supply challenges and the current economic downturn, combined with the fact that Metropolitan has not collected sufficient revenues to cover its costs in three of the past four years, will necessitate Metropolitan raising rates approximately 40 percent cumulatively over the next two years.