

**METROPOLITAN WATER DISTRICT**  
**2009 WATER RATES**  
**&**  
**LONG-RANGE FINANCIAL PLAN**

At its March 11<sup>th</sup> meeting, the Metropolitan Board approved a 14% increase in overall rates and charges effective Jan. 1, 2009. Under the new rate schedule, Metropolitan's Tier 1 rates for treated and untreated water will rise to \$554 (9% increase) and \$387 (10% increase) per acre foot respectively. In addition, a temporary \$25/AF water supply surcharge will apply to all water sales, resulting in a treated Tier 1 rate of \$579/AF and an untreated Tier 1 rate of \$412/AF. The increases for 2009 come on top of a 6.3% increase in the treated Tier 1 rate that became effective at the beginning of 2008.

Under the 2009 rate schedule, Interim Agricultural Water Program (IAWP) rates for treated and untreated water will rise to \$465 (18% increase) and \$297 (14% increase) per acre foot respectively - including the \$25/AF surcharge. IAWP rates are currently tied to the Tier 1 rate, whereby, any increase in Tier 1 rates results in a corresponding dollar for dollar increase in the IAWP rates. Currently, the cost differential between untreated Tier 1 and IAWP rates is \$90/AF, while the differential between treated Tier 1 and IAWP rates is \$114.

The concept behind the surcharge is that one of the main drivers of increased costs is the need to purchase additional water transfers to augment supplies from the State Water Project. At \$25/AF, the surcharge is projected to generate approximately \$50 million. As future water supplies become more certain, and Metropolitan acquires longer term sources (or reduces its demands), the surcharge could be eliminated, and costs would be recovered by increases in the Tier 1 and Tier 2 rates.

The primary cost factors causing the rate increases in addition to the water transfer costs are:

- **Increased conservation efforts** - also necessitated by the federal court ruling restricting pumping on the State Water Project.
- **Establishment of a control program for the quagga mussel** - current cost estimates for control of these invasive species amount to almost \$5 million per year.
- **Cargill Litigation Settlement** - results from the district's use of temporary employees and consultants.
- **Higher costs for SWP deliveries** - SWP costs for FY 2008/09 are estimated to be approximately \$53 million higher than in 2007/08.

Even with the increases, Metropolitan will not capture its true cost of service and will need to dip into its reserves for approximately \$117 million. Were Metropolitan to increase its rates to capture its true cost of service, rates would have risen by over 20 percent. In addition, the new rates and charges are based on maintaining payments to fund some portion of current capital improvement projects from current water sales revenues – known

as pay as you go (PAYG) - at \$95 million. However, in order to preserve liquidity, the Board elected to reduce the PAYG financing target to \$30 million in the 2008/09 budget. If Metropolitan's financial condition improves because of higher sales (greater than 2.23 million acre-feet) or lower operating costs or water supply costs, staff will provide options for the Board's consideration regarding increasing PAYG amounts in the upcoming fiscal year.

*Projected Rates Through 2011*

Assuming that (1) the treatment surcharge remains at \$167/AF and (2) the current cost differential between untreated Tier 1 and IAWP rates remains at \$71/AF, while the differential between treated Tier 1 and IAWP rates remains at \$114, below are the estimated rates through 2011.

	<b>Jan. 1, 2008</b>	<b>Jan. 1, 2009*</b>	<b>Jan. 1, 2010*</b>	<b>Jan. 1, 2011*</b>
Tier 1 - Untreated	\$351	\$412	\$439	\$468
Treatment Surcharge	\$157	\$167	\$167	\$167
Tier 1 - Treated	\$508	\$579	\$606	\$635
IAWP – Untreated	\$261	\$322	\$349	\$378
IAWP – Treated	\$394	\$465	\$492	\$521

\* Tier 1 and IAWP rates include \$25/AF surcharge

However, there is no guarantee that IAWP rates will continue to be pegged to Tier 1 rates. The IAWP is currently being reviewed as part of Metropolitan's Long Range Finance Plan (LRFP). The goal of LRFP update is to develop a revenue program for the next five years that balances the requirements of coverage ratios and reserve levels, while meeting future Capital Improvement Programs and O&M needs.

An LRFP Rate Structure Subgroup (the Subgroup) was formed to review the cost-of-service methodology and develop rate structure options and alternatives for the Board consideration regarding changes to Metropolitan's existing rate structure. The Subgroup will consider how Metropolitan can attain minimum reserves while dealing with lower water sales, the cost of water transfers, increased power costs, and the cost of a Bay-Delta fix. Staff recommendations on any changes to the IAWP resulting from the LRFP process will be considered by the Metropolitan Board in May.