



*THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA*

Rate Structure Administrative Procedures Handbook

FY 2017/18

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1 Overview

The Rate Structure Administrative Procedures Handbook (Handbook) is provided to document Metropolitan's procedures for calculating, invoicing, collecting, and reconciling the components of Metropolitan's rate structure.

Metropolitan's current rate structure was adopted by its Board of Directors on October 16, 2001 through a lengthy and open process. The rate structure is designed in accordance with the Rate Structure Action Plan of December 12, 2000; the Composite Rate Structure framework of April 11, 2000; the Strategic Plan Policy Principles of December 14, 1999; and the Strategic Plan Steering Committee Guidelines of January 6, 2000.

The rate structure supports the strategic planning vision that Metropolitan is a regional provider of services, encourages the development of additional local supplies through programs such as recycling and conservation and accommodates a water transfer market. Through its regional services, Metropolitan ensures a baseline of reliability and quality for imported water deliveries in its service area. By unbundling its full-service water rate, Metropolitan provides transparency regarding its costs and a greater opportunity for member agencies to competitively manage their supplies and demands to meet future needs in a responsible and cost-effective manner.

This document supersedes all previous Rate Structure Administrative Procedures Handbooks and is supplemental and secondary to the definitions and procedures contained in Metropolitan's Administrative Code.

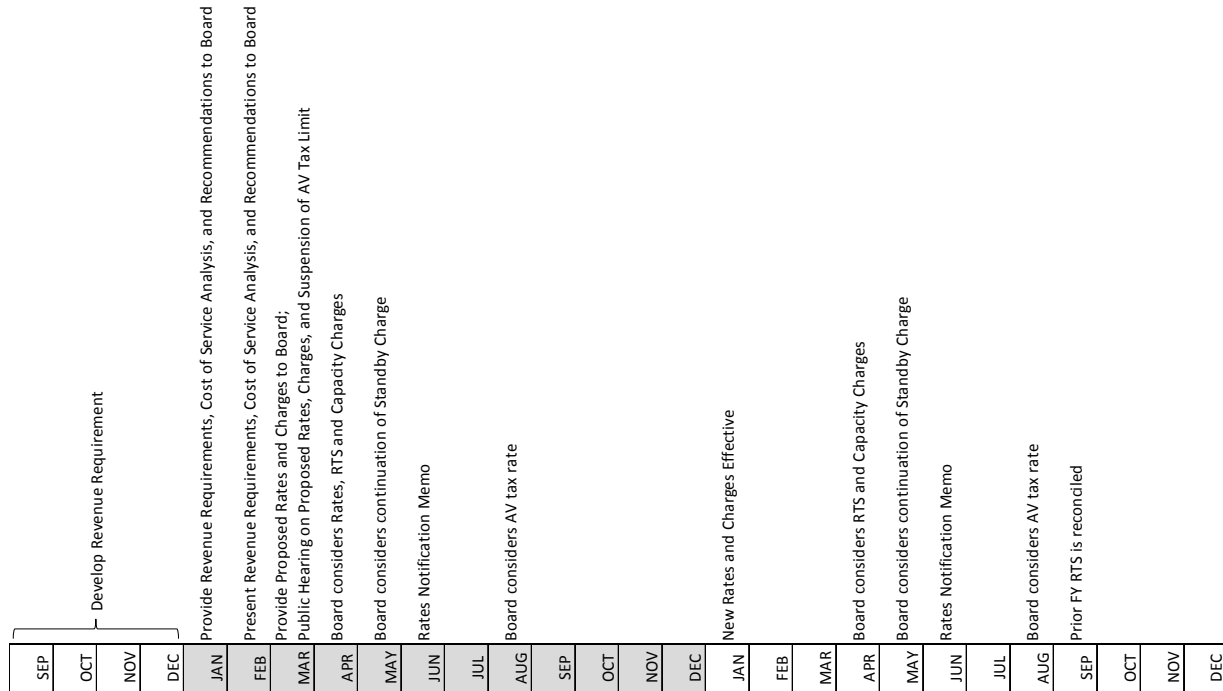
2 Rate Structure At-A-Glance

2.1 Current Rates

Table 1

Effective January 1st	2016	2017	2018
Tier 1 Supply Rate (\$/AF)	\$156	\$201	\$209
Tier 2 Supply Rate (\$/AF)	\$290	\$295	\$295
System Access Rate (\$/AF)	\$259	\$289	\$299
Water Stewardship Rate (\$/AF)	\$41	\$52	\$55
System Power Rate (\$/AF)	\$138	\$124	\$132
Full Service Untreated Volumetric Cost (\$/AF)			
Tier 1	\$594	\$666	\$695
Tier 2	\$728	\$760	\$781
Treatment Surcharge (\$/AF)	\$348	\$313	\$320
Full Service Treated Volumetric Cost (\$/AF)			
Tier 1	\$942	\$979	\$1,015
Tier 2	\$1,076	\$1,073	\$1,101
Readiness-to-Serve Charge (\$M)	\$153	\$135	\$140
Capacity Charge (\$/cfs)	\$10,900	\$8,000	\$8,700

2.2 Two-year Rate Cycle & Billing Cycle Milestones



Every two years, the Board adopts a biennial budget for two fiscal years and water rates for two calendar years. Every year, including in mid-budget years, the Board adopts the Readiness-to-Serve (RTS) and Capacity Charges for one calendar year and determines whether to continue the Standby Charge for another fiscal year. The 2016 process for the Board’s adoption of the biennial budget, water rates, and charges is described in the Handbook for FY 2016/17.

In April 2016, the Board:

- (i) approved a Biennial Budget for fiscal year (FY) 2016/17 and FY 2017/18;
- (ii) adopted rates for calendar year (CY) 2017 and CY 2018; and
- (iii) adopted RTS and Capacity Charges for CY 2017.

In May 2016, the Board voted to continue the Standby Charge for FY 2016/17. In April 2017, the Board adopted charges (RTS and Capacity Charges) for CY 2018. In May 2017, the Board voted to continue the Standby Charge for FY 2017/18. In June 2017, staff discovered that the FY 2015/16 Conjunctive Use Program sales were not included in the Rolling Ten-Year Average Firm Deliveries used to calculate the RTS shares for Calendar Year 2018. We have made this correction and the Board approved those corrections on July 11, 2017.

Every year in August, the Board also sets the rates for ad valorem property taxes. The current biennial budget, rates, and charges adopted by the Board are based on maintaining the current ad valorem tax rate.

2.3 Water Services and Programs and Rate Components

2.3.1 Metropolitan Services to Member Agencies and Rate Components

Service	Rates & Charges That Apply						Treatment Surcharge
	System Access	Water Stewardship	System Power	T1/T2	RTS	Capacity Charge	
Full Service Untreated	Yes	Yes	Yes	Yes	Yes	Yes	No
Full Service Treated	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wheeling Service*	Yes	Yes	No**	No	Yes	Yes	Yes†

*Metropolitan's rate for wheeling service applies to wheeling to member agencies in transactions of up to one year.

**Under Metropolitan's rate for wheeling service, wheeling parties must pay for their own cost for power (if such power can be scheduled by Metropolitan) or pay Metropolitan for the actual cost (not system average) of power service utilized for delivery of the wheeled water. In addition, wheeling parties shall be assessed an administration fee of not less than \$5,000 per transaction.

†If applicable.

Full Service

Full service water service, formerly known as non-interruptible water service, includes water sold for domestic and municipal uses.

Wheeling Service

Wheeling Service, to which Metropolitan's rate for wheeling service applies, refers to the use of Metropolitan's facilities, including its rights to use State Water Project facilities, to transport water not owned or controlled by Metropolitan to its member public agencies, in transactions entered into by Metropolitan for a period of up to one year. Wheeling to member agencies in transactions of over one year, or wheeling to third parties, are subject to negotiated agreements.

See Section 9 for more information regarding Metropolitan's wheeling service to its member agencies.

2.3.2 Programs and Rate Components

Full Service Program	Rates & Charges That Apply					
	System Access	Water Stewardship	System Power	T1 Maximum	RTS	Capacity Charge
Conjunctive Use Program	Yes	Yes	Yes	Yes	Yes	No
Cyclic Storage Program	Yes	Yes	Yes	Yes	Yes	No
Emergency Storage Program	Yes	Yes	Yes	No	No	No

Conjunctive Use Program

The Conjunctive Use Program is operated through individual agreements with member and retail agencies for groundwater storage within Metropolitan’s service area. Wet-year imported supplies are stored to enhance reliability during dry, drought, and emergency conditions. Metropolitan has the option to call water stored in the groundwater basins for the participating member agency pursuant to its contractual conjunctive use agreement. At the time of the call, the member agency pays the prevailing rate for that water, but the deliveries are excluded from the calculation of the Capacity Charge because Conjunctive Use Program deliveries are made at Metropolitan’s discretion. Conjunctive use programs may also contain cost-sharing terms related to operational costs.

Cyclic Storage Program

The Cyclic Storage Program is operated through individual agreements with member agencies for groundwater or surface water storage within Metropolitan’s service area. Wet-year imported supplies are stored to enhance reliability during dry, drought, and emergency conditions. Deliveries to the cyclic storage accounts are at Metropolitan’s discretion while member agencies have discretion on whether they want to accept the water. At the time the water is delivered from the cyclic storage account, the prevailing full service rate applies, but deliveries are excluded from the calculation of the Capacity Charge because Cyclic Storage Program deliveries are made at Metropolitan’s discretion.

Emergency Storage Program

The Emergency Storage Program is used for delivering water for emergency storage in surface water reservoirs and storage tanks. Emergency Storage Program purposes include initially filling a newly constructed reservoir or storage tank and replacing water used during an emergency. Because Metropolitan could interrupt delivery of this water Emergency Storage Program Deliveries are excluded from the calculation of the RTS Charge, the Capacity Charge, and the Tier 1 maximum.

2.4 Billing Measurement Basis

Rate Component	Based on		Year Type	Notes
Tier 1 Limit (Tier 1/Tier 2 Breakpoint)	With Purchase Order: 90% Base Period Demand		Calendar	With Purchase Order: 10-year cumulative calculation Without Purchase Order: Annual
	Without Purchase Order: 60% of Revised Base Firm Demand			
	Base Period Demand	Choice of (1) Revised Base Firm Demand or (2) the highest fiscal year purchases in FY 03- FY 14, with potential reset to Five-Year Rolling-Average	Fiscal	One-year lag
	Revised Base Firm Demand	Amounts listed in Administrative Code Section 4122	Calendar	
RTS Charge	Ten-Year Rolling Average Firm Demands		Calendar	One-year lag
Capacity Charge	3-Year Trailing Peak		Calendar	One-year lag; Only May-Sept. flows

3 Purchase Order

3.1 Background

Purchase Orders are voluntary agreements that determine the amount of water that a member agency can purchase at the Tier 1 Supply Rate. Under the Purchase Orders, member agencies have the option to purchase a greater amount of water at the lower Tier 1 Supply Rate in exchange for a commitment to purchase a minimum amount of water (based on past purchase levels) over the term of the Purchase Order. Such agreements allow member agencies to manage costs and provide Metropolitan with a measure of secure revenue.

In November 2014, the Metropolitan Board approved new Purchase Orders effective January 1, 2015 through December 31, 2024 (the “Purchase Order Term”). Twenty-one of the twenty-six member agencies have Purchase Orders, which commit the member agencies to purchase a minimum amount of supply from Metropolitan (the “Purchase Order Commitment”).

The key terms of the Purchase Orders include:

- A ten-year term, effective January 1, 2015 through December 31, 2024;
- A higher Tier 1 limit based on the Base Period Demand, determined by the member agency’s choice between (1) the Revised Base Firm Demand, which is the highest fiscal year purchases during the 13-year period of FY 1990 through FY 2002, or the highest year in the most recent 12-year period of FY 2003 through FY 2014. The demand base is unique for each member agency, reflecting its use of Metropolitan’s system water over time;
- An overall purchase commitment by the member agency based on the Demand Base Period chosen, times ten to reflect the ten-year Purchase Order term. Those agencies choosing the more recent 12-year period may have a higher Tier 1 Maximum and commitment. The commitment is also unique for each member agency;
- The opportunity to reset the Base Period Demand using a five-year rolling average;
- Any obligation to pay the Tier 2 Supply Rate will be calculated over the ten-year period, consistent with the calculation of any Purchase Order commitment obligation; and
- An appeals process for agencies with unmet purchase commitments that will allow each acre-foot of unmet commitment to be reduced by the amount of production from a local resource project that commences operation on or after January 1, 2014.

Member agencies that do not have Purchase Orders in effect are subject to Tier 2 Supply Rates for amounts exceeding 60 percent of their base amount (equal to the member agency’s highest fiscal year demand between 1989-90 and 2001-02) annually.

3.2 Administration

3.2.1 Purchase Order Commitment

Purchase Order Commitments are unique for each member agency. The commitment is calculated based on the demand base chosen (the “Base Period Demand”) and multiplied by ten to reflect the ten-year Purchase Order Term. If a member agency opted to use the Revised Base Firm Demand, which is the highest fiscal year purchases during the original 13-year period of FY 1990 through FY 2002 for their Purchase Order, their Commitment is 60% of the 2003 Initial Base Firm Demand, the same as the previous Amended and Restated Purchase Order agreement, multiplied by ten. If a member agency opted to use the more recent 12-year period of FY 2003 through FY 2014 for their Purchase Order, their Commitment is 60% of the highest year in the period of FY 2003 through FY 2014, multiplied by ten. The Purchase Order Commitment is fixed for the Purchase Order Term.

At the end of the Purchase Order Term, if the member agency has not purchased enough firm supply to meet its Purchase Order Commitment, it will be billed for the remaining balance of the Purchase Order Commitment at the

average of the Tier 1 Supply Rate in effect during the Term. This payment may be prorated with interest evenly over the next 12 invoices.

If a member agency fulfills its Purchase Order Commitment prior to the end of the Purchase Order Term, then the member agency has met its obligation under the Purchase Order. The member agency may continue to purchase up to 90 percent of its cumulative Base Period Demand over the Term at the Tier 1 Supply Rate for the duration of the Purchase Order Term.

Firm water purchases made under the terms of the Purchase Order agreements are subject to reduction in accordance with the shortage allocation provisions of the Water Surplus and Drought Management Plan (WSDM Plan) implemented through the Water Supply Allocation Plan (WSAP). In the event that Metropolitan's Board or General Manager determines to reduce, interrupt or suspend deliveries of water, any outstanding balance of the Purchase Order Commitment at the end of the Term will be reduced by the "Purchase Order Commitment—Annual Average" for each and every fiscal or calendar year that a reduction, interruption or suspension occurred.

The following water sales will be counted toward the Purchase Order Commitment:

- Tier 1 sales
- Tier 2 sales
- Conjunctive Use sales
- Cyclic Storage sales

The following table shows the remaining purchase order commitments:

Table 2

Purchase Orders (acre-feet)			
Member Agency	Commitments (Jan. 2015 - Dec. 2024)	Firm Purchases (Jan. 2015 - Mar. 2017)	Remaining PO Commitments
Anaheim	148,270	29,450	118,820
Beverly Hills	89,200	21,602	67,598
Burbank	108,910	25,318	83,592
Calleguas	788,180	185,420	602,760
Central Basin*	-	123,162	-
Compton*	-	4	-
Eastern	783,900	162,628	621,272
Foothill	73,310	15,845	57,465
Fullerton	75,320	14,441	60,879
Glendale	174,810	32,055	142,755
Inland Empire	398,350	87,386	310,964
Las Virgenes	162,390	41,755	120,635
Long Beach	263,140	66,397	196,743
Los Angeles	2,033,130	720,310	1,312,820
MWDOC	2,144,230	391,514	1,752,716
Pasadena	153,100	36,719	116,381
San Diego CWA*	-	587,929	-
San Fernando*	-	-	-
San Marino	9,610	1,940	7,670
Santa Ana	80,860	15,754	65,106
Santa Monica*	-	6,972	-
Three Valleys	537,920	127,481	410,439
Torrance	128,030	33,623	94,407
Upper San Gabriel	110,080	107,284	2,796
West Basin	902,780	240,286	662,494
Western MWD	705,220	129,602	575,618
TOTAL	9,870,740	3,204,876	7,383,930
*No Purchase Order			

3.2.2 Tier 2 Supply Rate

The Tier 2 Supply Rate applies to purchases in excess of a member agency’s Tier 1 Maximum, which is 60 percent of a member agency’s Revised Base Firm Demand, for those without purchase orders, and 90 percent of the Base Period Demand, for those with purchase orders. The Base Period Demand is the peak year of the member agency’s selected demand base period.

Unlike the fixed Purchase Order Commitment, the Tier 1 Maximum may increase over time. The five-year rolling average is compared to the Base Period Demand annually. If the five-year rolling average exceeds the current Base Period Demand, the Base Period Demand will reset to the current five-year rolling average. Once a Base Period Demand is reset it will not decrease.

For member agencies with Purchase Orders, the obligation to pay the Tier 2 Supply Rate will be calculated over the Purchase Order Term, consistent with the calculation of the commitment obligation. In this way, the Purchase Order focuses any Tier 2 obligation on demands exceeding Metropolitan’s long-term averages. Calculating member agencies’ Tier 2 obligations over the entire Term also accommodates responsible and sustainable water management by member agencies that may be cost prohibitive if Tier 2 obligations were calculated annually. For example, the cumulative calculation of any Tier 2 obligation allows member agencies with Purchase Orders to take large amounts of water in a short period of time in order to replenish storage but still stay within their Tier 1 base demand as long as they manage their deliveries.

Member agencies that accrue a Tier 2 obligation by virtue of exceeding their Tier 1 Maximum at the end of year five of the Purchase Order will pay their Tier 2 obligation annually. Any member agency without a Purchase Order must pay their Tier 2 obligation in the calendar year in which it accrues.

The table below shows the Base Period Demand and Tier 1 Maximum for each member agency:

Table 3

Tier 1 annual maximum (acre-feet)					
Member Agency	Base Selected	5-Year Rolling Average No Allocation Years (FY12/13-FY14/15)	Base Reset Year	2018 Base	Annual Average Tier 1 Maximum
Anaheim	27,154	18,056		27,154	24,439
Beverly Hills	14,867	11,279		14,867	13,380
Burbank	18,640	14,800		18,640	16,776
Calleguas	131,364	107,332		131,364	118,228
Central Basin*	119,617	40,104		119,617	71,770
Compton*	5,620	576		5,620	3,372
Eastern	130,650	90,818		130,650	117,585
Foothill	13,081	8,743		13,081	11,773
Fullerton	12,554	8,760		12,554	11,299
Glendale	29,135	18,715		29,135	26,222
Inland Empire	103,648	61,931		103,648	93,283
Las Virgenes	27,065	22,892		27,065	24,359
Long Beach	57,560	37,716		57,560	51,804
Los Angeles	372,959	395,213	2016	415,136	373,623
MWDOC	357,372	228,304		357,372	321,635
Pasadena	25,517	20,025		25,517	22,965
San Diego CWA*	655,903	339,092		655,903	393,542
San Fernando*	1,049	93		1,049	629
San Marino	1,602	1,043		1,602	1,442
Santa Ana	21,797	11,557		21,797	19,617
Santa Monica*	12,344	5,496		12,344	7,406
Three Valleys	89,653	66,168		89,653	80,688
Torrance	21,338	16,757		21,338	19,204
Upper San Gabriel	74,698	34,418		74,698	67,228
West Basin	150,464	117,893		150,464	135,418
Western MWD	117,537	76,644		117,537	105,783
TOTAL	2,593,188	1,754,421		2,635,365	2,133,470

*No Purchase Order; T1 maximum is annual, not cumulative

4 Tier 1 and Tier 2 Supply Rates

4.1 Purpose

Due to Metropolitan's role as a supplemental supplier of imported water, Metropolitan's water sales are highly variable and unpredictable from year to year. Variation occurs for many reasons. The demand for supplemental supplies is dependent on water use at the retail consumer level and the amount of local water supplies available to member agencies. Consumer demand and locally supplied water vary from year to year, resulting in variability in Metropolitan's water sales. Both economic growth and recessions can lead to increases and decreases in demand. Weather also affects demands. Member agencies rely on Metropolitan during times of operational emergencies.

The cost of service analysis and the resulting Readiness-to-Serve Charge, Capacity Charge, and volumetric rates capture the costs of these varying needs. Tiered rates allow Metropolitan to cover higher incremental resource costs and encourage member agencies to manage demand and other sources in a manner that is consistent to Metropolitan's long-term average forecasts.

4.2 Administration

The rate structure recovers supply costs through a two-tiered price structure. Both the Tier 1 Supply Rate and the Tier 2 Supply Rate are uniform, volumetric rates. The Tier 2 Supply Rate is charged to member agencies that have demands from Metropolitan that exceed their Tier 1 Maximum.

Member agencies that submitted a Purchase Order may purchase up to 90 percent of their Base Period Demand at the lower Tier 1 Supply Rate. Member agencies that accrue a cumulative Tier 2 obligation by virtue of exceeding their Tier 1 maximum at the end of year five of the purchase order will pay their Tier 2 obligation annually. Otherwise, any obligation to pay the Tier 2 Supply Rate will be calculated over the ten-year period, consistent with the calculation of any purchase order commitment obligation.

Member agencies that did not submit a Purchase Order will be charged the higher Tier 2 Supply Rate for supplies that exceed 60 percent of their Revised Base Firm Demand. Any member agency without a Purchase Order must pay their Tier 2 obligation in the calendar year in which it accrues.

An agency that exceeds its Tier 1 Annual Limit will most likely do so in the latter part of the calendar year. Therefore, from a member agency cash flow perspective, the Tier 2 Supply Rate, when applicable, will most likely be incurred at the beginning of a member agency's fiscal year.

4.3 Tier 2 Supply Rate Billing Method

Because the Tier 1 Maximum is set at a total member agency level and not at a meter level, all system water delivered will be billed at the Tier 1 Supply Rate. Any water delivered that exceeds the Tier 1 maximum will be billed an additional amount equivalent to the difference between the Tier 2 and Tier 1 Supply Rates.

For member agencies without Purchase Orders and member agencies with Purchase Orders that accrue a cumulative Tier 2 obligation at the end of year five of the Purchase Order, the Tier 2 Supply Rate will be applied in the month where the Tier 1 maximum is surpassed on all applicable deliveries. For member agencies with a Purchase Order that do not accrue a cumulative Tier 2 obligation at the end of year five of the Purchase Option, any obligation to pay the Tier 2 Supply Rate will be calculated over the ten-year period, at the end of the Purchase Order term, consistent with the calculation of any Purchase Order Commitment obligation.

4.4 Certification Effects

As water sales are reclassified via the certification process, the year-to-date total of Tier 1 and Tier 2 purchases may also be changed. If the total falls below the Tier 1 Maximum, then the volume of water that had been billed at the Tier 2 Supply Rate will be adjusted for the difference between the Tier 2 and Tier 1 Supply Rates. Credits and charges will be applied to the monthly invoice as appropriate.

5 Capacity Charge

5.1 Purpose

The Capacity Charge recovers costs incurred to provide peaking capacity within Metropolitan's distribution system.

The Capacity Charge provides a price signal to encourage member agencies to reduce peak day demands on the system and to shift demands that occur during the May 1 through September 30 period into the October 1 through April 30 period. This results in more efficient utilization of Metropolitan's existing infrastructure and defers capacity expansion costs.

5.2 Administration

Each member agency will pay the Capacity Charge based on a three-year trailing maximum peak day flow. Due to accepted certifications and error corrections, peak day flows may change for up to three years after the month of delivery. Therefore, the Three Year Trailing Max Peak Day is calculated with a one-year lag.

Table 4

Calendar Year 2018 Capacity Charge					
AGENCY	Peak Day Demand (cfs) (May 1 through September 30) Calendar Year				Rate (\$/cfs): \$8,700
	2014	2015	2016	3-Year Peak	Calendar Year 2018 Capacity Charge
Anaheim	34.0	33.7	29.7	34.0	295,800
Beverly Hills	30.6	25.5	26.2	30.6	266,220
Burbank	22.6	10.0	12.1	22.6	196,620
Calleguas	240.8	175.5	176.2	240.8	2,094,960
Central Basin	61.0	51.4	43.0	61.0	530,700
Compton	-	0.1	0.3	0.3	2,610
Eastern	239.4	178.5	207.7	239.4	2,082,780
Foothill	19.9	14.9	17.1	19.9	173,130
Fullerton	22.2	15.3	14.3	22.2	193,140
Glendale	43.7	33.2	38.8	43.7	380,190
Inland Empire	144.0	94.8	118.3	144.0	1,252,800
Las Virgenes	46.1	42.8	45.3	46.1	401,070
Long Beach	67.8	61.3	61.5	67.8	589,860
Los Angeles	782.5	600.9	530.3	782.5	6,807,750
MWD/OC	443.1	293.0	406.0	443.1	3,854,970
Pasadena	48.5	36.9	38.0	48.5	421,950
San Diego	1,138.2	960.7	911.3	1,138.2	9,902,340
San Fernando	-	-	-	-	-
San Marino	7.3	4.7	6.8	7.3	63,510
Santa Ana	17.5	15.6	14.7	17.5	152,250
Santa Monica	15.2	11.7	10.8	15.2	132,240
Three Valleys	152.8	108.1	113.5	152.8	1,329,360
Torrance	33.5	28.2	39.1	39.1	340,170
Upper San Gabriel	40.4	79.1	11.9	79.1	688,170
West Basin	217.5	178.5	197.9	217.5	1,892,250
Western	179.7	129.0	175.4	179.7	1,563,390
Total	4,048.3	3,183.4	3,246.2	4,092.9	35,608,230

Totals may not foot due to rounding

5.3 Adjustment for Excluded Sales

Some water programs are not subject to the Capacity Charge. Some water programs are certified on a monthly basis and it is not known at what point in time during a month that water was delivered. Metered daily flows used to calculate the Three Year Trailing Max Peak Day are reduced using the ratio of certified water program deliveries to total monthly deliveries (see example below). This adjustment is performed annually in November.

Monthly volumetric delivery to member agency (acre-feet)	1,000
Monthly delivery certified as exempt from Capacity Charge	100
Ratio of exempt delivery to total delivery	10.0%
Unadjusted Peak Day Flow (cfs)	40.0
Reduction in peak day flow (cfs) = Peak Day Flow * Ratio	4.0
Adjusted Peak Day Flow (cfs)	36.0

5.4 Adjustment for Conjunctive Use Program

Conjunctive Use deliveries are excluded from the calculation of the Capacity Charge because Conjunctive Use Program deliveries are made at Metropolitan's discretion. Peak day flows are adjusted for Conjunctive Use Program deliveries as described in 5.3 above.

5.5 Adjustment for Cyclic Storage

Cyclic Storage deliveries are excluded from the calculation of the Capacity Charge because Cyclic Storage deliveries are made at Metropolitan's discretion. Peak day flows are adjusted for Cyclic Storage deliveries as described in 5.3 above.

5.6 Adjustment for H-Constant Meters

Beginning January 1, 2004, agencies that receive deliveries using connections with "H Constant Meters" or non-AMR meters will have the daily average flow in cfs calculated for those meters included in the Capacity Charge. The daily average flow will only be calculated for the period that the meter was in operation.

Due to data constraints, the daily average flow for "H Constant Meters" or non-AMR meters will be calculated using the entire month as a denominator for any period prior to January 1, 2004.

5.7 Billing

Member agencies may elect to pay their Capacity Charge semiannually, quarterly, or monthly. Unless the member agency provides a written request to the Chief Financial Officer by July 31st to change its current billing preference it will continue to be billed under its current preference.

Billing for the Capacity Charge will be based on the Resolution adopted by Metropolitan's Board at its April meeting. Billing determinants for the Capacity Charge will be determined based on billing data around March 1st of the year prior to the test year. Certifications for water programs must be received by this date to be included in the billing determinants for the capacity charge.

For the purpose of assessing the Capacity Charge, the daily average flows by meter are calculated as the average of 96 meter reads recorded every 15-minute interval during the day. These daily average meter flows are aggregated for each member agency to develop the daily average flows for the agency. This calculation is repeated for each day in the applicable 15-month period (May through September, of last three years). The highest daily average flow establishes the peak day demand for the purpose of computing the Capacity Charge.

6 Readiness-To-Serve Charge

6.1 Purpose

The Readiness-to-Serve (“RTS”) Charge recovers the capital expenditures for infrastructure projects needed to provide emergency storage capacity and available capacity needed to maintain reliable deliveries during outages and service interruptions and during periods of hydrologic variability.

6.2 Administration

The RTS Charge is a fixed charge that is allocated among the member agencies based on a ten-fiscal year rolling average of firm demands, including water transfers and exchanges that use Metropolitan system capacity.

Firm sales are defined as:

- Tier 1
- Tier 2
- Seasonal Storage Service - Shift
- Conjunctive Use (deliveries)
- Cyclic Storage (deliveries)

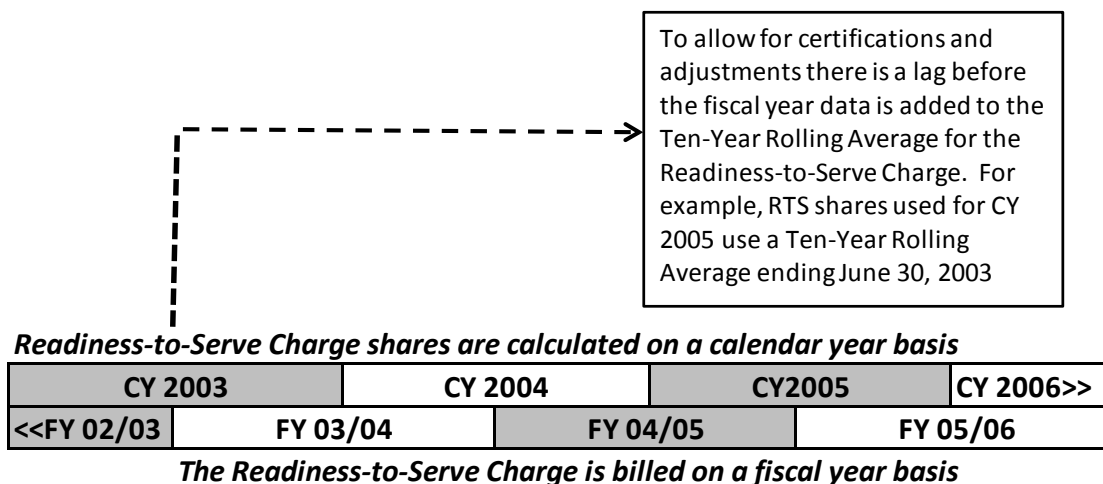
In June 2017, staff discovered that the FY 2015/16 Conjunctive Use Program sales were not included in the Rolling Ten-Year Average Firm Deliveries used to calculate the RTS shares for Calendar Year 2018. We have made this correction and the Board approved those corrections on July 11, 2017.

The table below shows the Total RTS Charge effective during Fiscal Year 2017/18.

Table 5

Fiscal Year 2017/18 READINESS-TO-SERVE CHARGE							
Member Agency	Rolling Ten-Year Average Firm Deliveries (Acre-Feet) FY2005/06 - FY2014/15	RTS Share	6 months @ \$135 million per year (7/17-12/17)	Rolling Ten-Year Average Firm Deliveries (Acre-Feet) FY2006/07 - FY2015/16	RTS Share	6 months @ \$140 million per year (1/18-6/18)	Total RTS Charge
Anaheim	20,890	1.22%	\$ 822,387	19,618	1.16%	\$ 812,457	\$ 1,634,844
Beverly Hills	11,386	0.66%	448,235	11,154	0.66%	461,919	910,154
Burbank	12,817	0.75%	504,598	12,757	0.75%	528,305	1,032,903
Calleguas	109,124	6.36%	4,296,031	106,768	6.32%	4,421,625	8,717,656
Central Basin	51,539	3.01%	2,029,003	50,174	2.97%	2,077,884	4,106,888
Compton	1,924	0.11%	75,756	1,644	0.10%	68,063	143,819
Eastern	98,628	5.75%	3,882,806	96,442	5.71%	3,993,980	7,876,786
Foothill	9,790	0.57%	385,395	9,487	0.56%	392,875	778,270
Fullerton	9,668	0.56%	380,620	9,109	0.54%	377,221	757,841
Glendale	19,594	1.14%	771,369	18,761	1.11%	776,962	1,548,331
Inland Empire	60,811	3.55%	2,394,010	58,921	3.49%	2,440,122	4,834,132
Las Virgenes	22,750	1.33%	895,608	22,212	1.31%	919,854	1,815,462
Long Beach	34,316	2.00%	1,350,941	33,532	1.98%	1,388,665	2,739,605
Los Angeles	312,096	18.20%	12,286,660	330,116	19.53%	13,671,157	25,957,817
MWDOC	221,545	12.92%	8,721,831	217,138	12.85%	8,992,405	17,714,236
Pasadena	21,181	1.24%	833,843	20,645	1.22%	854,972	1,688,815
San Diego	367,123	21.41%	14,452,980	349,857	20.70%	14,488,728	28,941,708
San Fernando	82	0.00%	3,240	51	0.00%	2,129	5,369
San Marino	931	0.05%	36,644	876	0.05%	36,282	72,926
Santa Ana	12,605	0.74%	496,221	11,824	0.70%	489,674	985,895
Santa Monica	9,252	0.54%	364,251	8,244	0.49%	341,407	705,657
Three Valleys	65,261	3.81%	2,569,222	64,315	3.80%	2,663,497	5,232,719
Torrance	18,130	1.06%	713,750	17,363	1.03%	719,066	1,432,816
Upper San Gabriel	22,143	1.29%	871,739	23,647	1.40%	979,315	1,851,054
West Basin	125,379	7.31%	4,935,938	121,853	7.21%	5,046,332	9,982,269
Western	75,617	4.41%	2,976,923	73,771	4.36%	3,055,104	6,032,028
MWD Total	1,714,580	100.00%	\$ 67,500,000	1,690,281	100.00%	\$ 70,000,000	\$ 137,500,000
Totals may not foot due to rounding							

6.3 RTS Charge Annual Calculation and Application Timeline



6.4 Application of Standby Charge Revenues

Twenty-two of the twenty-six member agencies have elected since FY 1993/94 to have Metropolitan collect the Standby Charge on property tax bills for parcels of land in the agency's service area to offset all or a portion of their RTS obligation.

See Section 7 of this Handbook for more detail on Standby Charge revenues.

6.5 RTS Charge Invoice Schedule

Member agencies may elect to pay their RTS obligation (net of estimated Standby Charge revenues, if applicable) semiannually, quarterly, or monthly. Each year, member agencies will be notified of the amount payable under each alternative payment schedule for the fiscal year. Member agencies will notify Metropolitan prior to July 31 of their choice for their RTS Charge payment schedule for fiscal year invoices.

Semi-annual payments will be invoiced with the October and April water invoices, due in December and June, respectively. Quarterly charges will be invoiced with the July, October, January, and April water invoices, due September, December, March, and June, respectively. Monthly charges paid in twelve (12) equal installments will be invoiced beginning with the July water invoice, which is due in September, and ending with the June water invoice, which is due in August.

In the event that actual net Standby Charge revenues collected in an agency's service area exceed the member agency's RTS obligation, the excess revenues may (1) be credited to other outstanding obligations of such member agency to Metropolitan that may be paid by the Standby Charge, or (2) carried forward to offset future RTS obligations.

Billing for the RTS Charge is based on the corrected Resolution, as adopted by the Board at its July meeting. Billing determinants for the RTS Charge will be determined based on billing data around March 1st of the year the new charge goes into effect. Certifications for water programs must be received by this date to be included in the billing determinants for the RTS Charge.

6.6 Estimated Net RTS Charge

Table 6 indicates the estimated net RTS Charge obligation for FY 2017/18, after application of estimated standby charge collections.

Table 6

ESTIMATED NET FY 2017/18 READINESS-TO-SERVE (RTS) CHARGE					
Member Agency	Total RTS Charge	ESTIMATED STANDBY CHARGES			Estimated Net RTS Charge
		Gross Standby Charge Revenues	Delinquencies & Administrative	Net Standby Charge	
Anaheim	\$ 1,634,844	\$ 583,431	\$ 26,454	\$ 556,976	\$ 1,077,868
Beverly Hills	910,154	-	-	-	910,154
Burbank	1,032,903	412,594	17,831	394,763	638,140
Calleguas MWD	8,717,656	2,483,113	111,164	2,371,948	6,345,708
Central Basin MWD	4,106,888	3,546,987	157,399	3,389,588	717,300
Compton	143,819	161,439	7,284	154,154	(10,335)
Eastern MWD	7,876,786	2,765,574	128,826	2,636,748	5,240,038
Foothill MWD	778,270	311,953	13,864	298,089	480,181
Fullerton	757,841	371,701	16,453	355,248	402,593
Glendale	1,548,331	549,022	24,011	525,010	1,023,321
Inland Empire Utilities Agency	4,834,132	1,883,375	86,670	1,796,705	3,037,427
Las Virgenes MWD	1,815,462	443,811	20,277	423,534	1,391,928
Long Beach	2,739,605	1,118,777	48,954	1,069,824	1,669,781
Los Angeles	25,957,817	-	-	-	25,957,817
Municipal Water District of Orange County	17,714,236	7,412,077	329,445	7,082,632	10,631,604
Pasadena	1,688,815	457,608	20,086	437,522	1,251,293
San Diego County Water Authority	28,941,708	12,715,331	559,076	12,156,255	16,785,453
San Fernando	5,369	-	-	-	5,369
San Marino	72,926	40,931	1,864	39,067	33,859
Santa Ana	985,895	427,292	19,569	407,723	578,172
Santa Monica	705,657	-	-	-	705,657
Three Valleys MWD	5,232,719	1,860,648	81,387	1,779,261	3,453,458
Torrance	1,432,816	496,026	21,694	474,332	958,484
Upper San Gabriel Valley MWD	1,851,054	1,966,718	88,360	1,878,358	(27,304)
West Basin MWD	9,982,269	-	-	-	9,982,269
Western MWD	6,032,028	3,569,997	160,468	3,409,530	2,622,498
MWD Total	\$ 137,500,000	\$ 43,578,404	\$ 1,941,136	\$ 41,637,268	\$ 95,862,732
Totals may not foot due to rounding					

7 Standby Charge

7.1 Purpose

Metropolitan's Standby Charge is collected from parcels within the service areas of 22 member agencies that have elected since FY 1993/94 to pay all or a portion of their RTS Charge obligation through the Standby Charge. Each year, the Board considers the continuation of the Standby Charge for the participating member agencies at amounts not to exceed the rates in place in FY 1996/97, when Proposition 218 was approved by the voters. The FY 1996/97 rates for the participating member agencies had remained the same since FY 1993/94 and have not exceeded those amounts since.

7.2 Standby Charge Per Parcel

The Standby Charge for each acre or parcel of less than an acre will vary from member agency to member agency as shown in Table 7. The Standby Charge has been collected at the same rate since FY 1993/94.

Table 7

FISCAL YEAR 2017/18 ESTIMATED STANDBY CHARGE REVENUE			
Member Agencies	Total Parcel Charge	Number Of Parcels Or Acres	Gross Revenues (Dollars) ¹
Anaheim	\$ 8.55	68,238	\$ 583,431
Beverly Hills	-	-	-
Burbank	14.20	29,056	412,594
Calleguas MWD	9.58	259,198	2,483,113
Central Basin MWD	10.44	339,750	3,546,987
Compton	8.92	18,099	161,439
Eastern MWD	6.94	398,498	2,765,574
Foothill MWD	10.28	30,346	311,953
Fullerton	10.71	34,706	371,701
Glendale	12.23	44,891	549,022
Inland Empire Utilities Agency	7.59	248,139	1,883,375
Las Virgenes MWD	8.03	55,269	443,811
Long Beach	12.16	92,005	1,118,777
Los Angeles	-	-	-
Municipal Water District of Orange County ²	10.09	721,599	7,412,077
Pasadena	11.73	39,012	457,608
San Diego County Water Authority	11.51	1,104,720	12,715,331
San Fernando	0.00	5,118	0
San Marino	8.24	4,967	40,931
Santa Ana	7.88	54,225	427,292
Santa Monica	-	-	-
Three Valleys MWD	12.21	152,387	1,860,648
Torrance	12.23	40,558	496,026
Upper San Gabriel Valley MWD	9.27	212,159	1,966,718
West Basin MWD	-	-	-
Western MWD	9.23	386,782	3,569,997
MWD Total		4,339,721	\$ 43,578,404
(1) Estimates per FY2016/17 parcel information			
(2) Adjusted for inclusion of Coastal MWD			
Note: Totals may not foot due to rounding.			

7.3 Collections

The Standby Charge is collected on the tax rolls, together with *ad valorem* property taxes. Any Standby Charge amounts so collected will be applied as a credit against the participating member agency's RTS Charge obligation. Delinquent payments collected on behalf of a member agency will be credited to the member agency in the year of collection. Copies of reports and/or statements from county tax collectors showing standby charges collected on behalf of a member agency are available for inspection at Metropolitan's headquarters and will be provided to member agencies upon request.

If a participating member agency's Standby Charge collections exceed that agency's RTS Charge obligation, those additional collections shall be credited to other outstanding obligations of that agency that fund the capital costs or maintenance and operation expenses for Metropolitan's water system, or future RTS Charge obligations of such agency. If a participating member agency's Standby Charge collections are not sufficient to meet that agency's RTS Charge obligation, that agency shall pay Metropolitan within fifty days after Metropolitan issues an invoice for any remaining RTS Charge obligation.

7.4 Estimation of Net Standby Charge Revenues

Metropolitan estimates net Standby Charge revenues that would be available as a credit against a member agency's RTS obligation for the following fiscal year. The estimate of gross Standby Charge revenue is based on the most recent estimate of the number of parcels or acres (billing units) in each member agency's service area, which is the current fiscal year 2016/17.

The Standby Charge revenues estimate also includes a reduction for Standby Charges that will not be collected by Metropolitan during the current fiscal year. Actual Standby Charge revenue received by Metropolitan on behalf of member agencies may be less than projected collections due to:

- Delinquent collections
- Unbilled charges
- County charges for collection services
- Exempted properties.

Revenue adjustments for FY 2017/18 were estimated to be 4 percent of each member agency's gross Standby Charge revenues based on past collections.

7.5 Administrative Charges

Metropolitan contracts for the administration of the Standby Charge. The estimated costs for this service (data management, the acquisition of county assessors tax rolls, and revenue collections) for each agency is allocated to member agencies from which Standby Charges are collected according to proportionate billing units Metropolitan will determine the amount of actual Standby Charge revenues collected on behalf of member agencies for the previous fiscal year ending June 30. Actual administrative charges will then be allocated to member agencies in proportion to the number of billing units associated with actual Standby Charge revenues received from county tax collectors for the fiscal year to determine actual net Standby Charge revenues.

7.6 Invoice Adjustments

Metropolitan will prepare a statement by September 30 reconciling estimated and actual net Standby Charge revenues for the previous fiscal year ending June 30. Copies of all documentation supporting the accounting review are available at Metropolitan headquarters.

Metropolitan is responsible for making the adjustments on the next regularly scheduled water invoice (October 10). Credits or additional charges are shown on a separate line noted "Readiness-to-Serve Adjustment" for the previous fiscal year. If a member agency's actual net Standby Charge revenues in the fiscal year are higher than its estimated net Standby Charge revenues, the difference will be credited to the agency in the manner set forth in the Resolution and in Section 7.3 above. If a member agency's actual net Standby Charge revenues in the fiscal year are less than its estimated net Standby Charge revenues, the difference will be invoiced as an adjustment to RTS charges.

7.7 Exemptions

The Standby Charge resolution provides that the following lands are exempt from the Standby Charge: (1) lands owned by the Government of the United States, the State of California, or by any political subdivisions thereof or any entity of local government; (2) lands permanently committed to open space and maintained in their natural state that are not now and will not in the future be supplied water; (3) lands not included in (1) or (2) above, which the General Manager, in his discretion, finds do not now and cannot reasonably be expected to derive a benefit from the projects to which the proceeds of the Standby Charge will be applied; and (4) lands within any member public agency, subagency, or city if the governing body of such public entity elects and commits to pay out of funds available for that purpose, in installments at the time and in the amounts established by Metropolitan, the entire amount of the Standby Charge which would otherwise be imposed upon lands within those public entities.

Each year Metropolitan makes available to interested parties procedures for filing an Application to be Exempt from the Standby Charge. Metropolitan reviews any such applications for exemption and determines whether or not the lands are eligible for exemption. If it is determined that the lands are eligible for exemption, an Exemption Agreement is signed by both parties and recorded at the respective county. If the exemption request is denied, there

is an appeals process by which the Finance & Insurance Committee shall consider such appeal and make recommendations to the Board to affirm or reverse the General Manager's determinations. The Board acts upon such recommendations and its decision as to such appeals is final.

No exemption from the Standby Charge shall reduce the applicable member agency's RTS Charge obligation, nor shall any failure to collect, or any delay in collecting, any portion of the Standby Charge excuse or delay payment of any portion of the RTS Charge when due.

8 Local Resources Program Effective Rate

Metropolitan provides financial incentives through its Local Resources Program (LRP) for the development of local water supplies, including recycled water and recovered water. The incentive is based on the difference between the LRP Effective Rate (referenced in the LRP agreements as Metropolitan's "full service treated water rate" or "Treated Non-Interruptible Water Rate") and the project's per unit (\$/AF) cost. For new projects, member agencies can choose instead from three alternative incentive payment structures: up to \$340/AF sliding scale incentive over 25 years, up to \$475/AF sliding scale incentive over 15 years, and up to \$305 fixed incentive over 25 years.

8.1 Full Service Treated Rate / Treated Non-Interruptible Water Rate

Since the current rate structure utilizes a tiered pricing system, the LRP Effective Rate is determined using the weighted average of the tiered "Full Service Treated Water Rate" or "Treated Non-Interruptible Water Rate". The LRP Effective Rate is the sum of the System Access Rate, Water Stewardship Rate, System Power Rate and Tier 1 or Tier 2 Supply Rates, respectively, plus the Treatment Surcharge. Therefore for purposes of agreements existing under the Local Resources Program, the "Full Service Treated Water Rate" or "Treated Non-Interruptible Water Rate" is now defined as being equal to the sum of the System Access Rate, Water Stewardship Rate, System Power Rate, Treatment Surcharge and weighted average (by expected Tier 1 and Tier 2 sales) of the Tier 1 and Tier 2 Supply Rates effective in the relevant calendar year, and the Capacity Charge expressed in dollars per acre-foot. Metropolitan staff calculates this LRP effective rate annually.

**Table 8
Local Resources Program Effective Rate**

Effective date	\$/AF
1/1/06	\$479
1/1/07	\$503
1/1/08	\$530
1/1/09	\$603
9/1/09	\$721
1/1/10	\$724
1/1/11	\$767
1/1/12	\$817
1/1/13	\$862
1/1/14	\$908
1/1/15	\$948
1/1/16	\$967
1/1/17	\$999
1/1/18	\$1,036

9 Wheeling

Wheeling service, to which Metropolitan's rate for wheeling service applies, refers to the use of Metropolitan's facilities, including Metropolitan's rights to use State Water Project facilities, to transport water not owned or controlled by Metropolitan to its member public agencies, in transactions entered into by Metropolitan for a period of up to one year. Wheeling to member agencies in transactions of over one year, or wheeling to third parties, are subject to negotiated agreements.

Subject to the General Manager's determination of available system capacity, Metropolitan will offer wheeling service. The determination whether there is unused capacity in Metropolitan's conveyance system will be made by the General Manager on a case-by-case basis in response to particular requests for wheeling. The rate for wheeling service will include the System Access Rate, Water Stewardship Rate and, for treated water, the Treatment Surcharge. In addition, wheeling parties must pay for their own cost for power (if such power can be scheduled by the District) or pay the District for the cost (not system average) of power service utilized for delivery of the wheeled water. Further, wheeling parties shall be assessed an administration fee of not less than \$5,000 per transaction.

9.1 Capacity Charge

Wheeled water will be included in the measurement of the peak day flow for the purpose of billing the Capacity Charge to member agencies.

9.2 Readiness-to-Serve Charge

Wheeled water will be included in the calculation of a member agency's Ten Year Rolling Average demands for allocating the RTS Charge among member agencies.

Organizational Responsibility

Administrative Procedure	Group	Section	Contact		
			Name	Email	Phone
Rate Cycle (setting rates & charges)	Chief Financial Officer	Budget & Financial Planning	June Skillman	Jskillman@mdh2o.com	213-217-6216
		Budget & Financial Planning	Stathis Kostopoulos	skostopoulos@mdh2o.com	213-217-6955
Billing (Invoices)	Chief Financial Officer	Controller	Hal Soper	HSoperIII@mdh2o.com	213-217-7545
		Controller	Thelma Bloes	tbloes@mdh2o.com	213-217-7578
Special Program Certifications					
Cyclic Storage/Conjunctive Use Program/Emergency Storage Program	Water System Operations	Operations Planning and Programs Unit	Keith Nobriga	knobriga@mdh2o.com	213-217-6540
Local Resources Program	Water Resource Management	Resource Implementation	James Bodnar	jbodnar@mdh2o.com	213-217-6099
Conservation Credits Program	Water Resource Management	Resource Implementation	Bill McDonnell	bmcdonnell@mdh2o.com	213-217-7693