



Rate Refinement Discussions: Next Steps

Member Agency Managers Meeting

June 15, 2012

Agenda

- Key Issues
- Status of Key Issues
- What are the Priorities?
- Schedule/Process to move forward

Key Issues

- Issues related to Purchase Order
 - Tier 1 limit / trading Tier 1 limits
 - Fixed commitment to pay for the system (contracts)
- Replenishment
- Issues related to fixed revenue
 - Property Tax options
 - Treatment cost recovery

Purchase Orders

Overview of Current Purchase Orders

- Component of rate structure effective January 1, 2003
- 10-year term, January 1, 2003 to December 31, 2012
- Aspects of the Purchase Order
 - Voluntary
 - Offered price incentives; allowed more water sales to be purchased at the lower Tier 1 Supply Rate
 - Additional level of financial commitment to Metropolitan
 - Not tied to reliability
- 23 member agencies executed Purchase Orders
 - Growing agencies met their commitments within 6 years
 - All agencies fulfilled their commitments by mid-2011

Upcoming Issue

- Purchase Orders expire December 31, 2012
- Path to move forward
 - Continue Purchase Orders?
 - Adjustments to rate structure?
- Under the current Administrative Code provisions, without Purchase Orders, the Tier 1 limit drops to 60% of Base Firm Demand
- Action is required to change the default outcome

Coordination Issues

- Existing Purchase Orders expire December 31, 2012
- What are the deadlines at the Member Agency level in order to implement a new Purchase Order?
 - Suggested that a new Purchase Order effective January 1, 2013 would need to be negotiated and ready for Member Agency action by October 2012
 - Allows for staff preparation and scheduling
 - Requires Metropolitan Board action by September 2012

Replenishment

Options for a Replenishment Program

- Member Agency workgroup convened
- Board adopted policy principles November 2011
- Proposed Program Concepts December 2011
 - Multilevel Program
 - Available to all member agencies on a voluntary basis
 - Full service rate program with incentives based on performance and regional benefits
- No Replenishment rate effective January 1, 2013

Ad Valorem Tax Rate

Ad Valorem Tax Rate Could Generate Greater Revenues

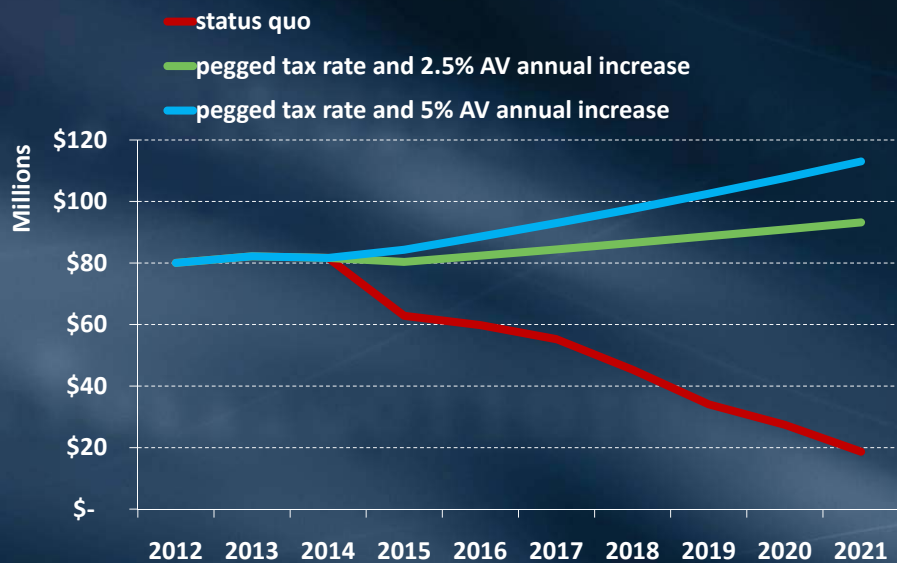
- Status quo: tax revenues will continue to decline
- Metropolitan is authorized to use property tax revenues to fund payments under the State Water Contract
- Even holding the tax rate constant could lead to revenue benefits in the long term
 - Mitigate impacts on future water rates
 - Used to offset SWP costs, including future DHCCP costs
 - SWP reliability benefits all users in Metropolitan's service area
 - Provides a long-term revenue source that does not vary with water sales to cover fixed costs

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Ad Valorem Tax Rate Scenarios



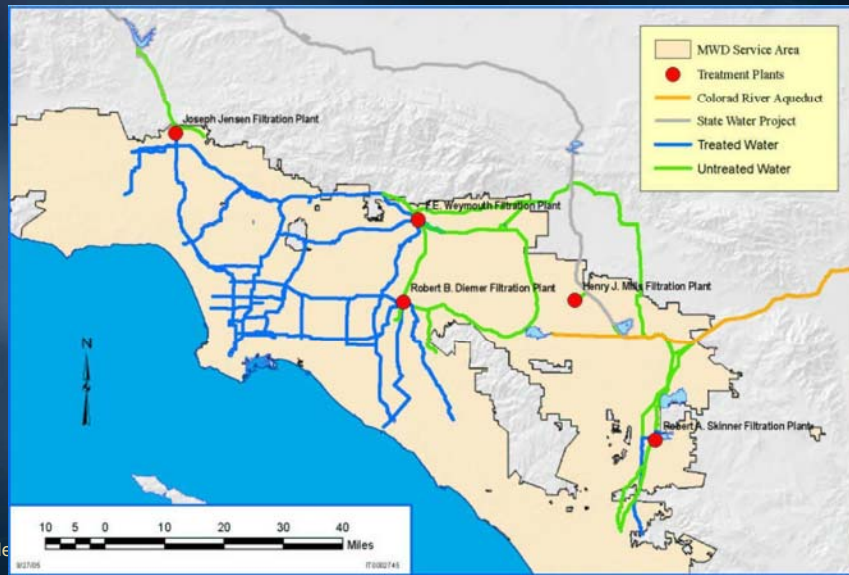
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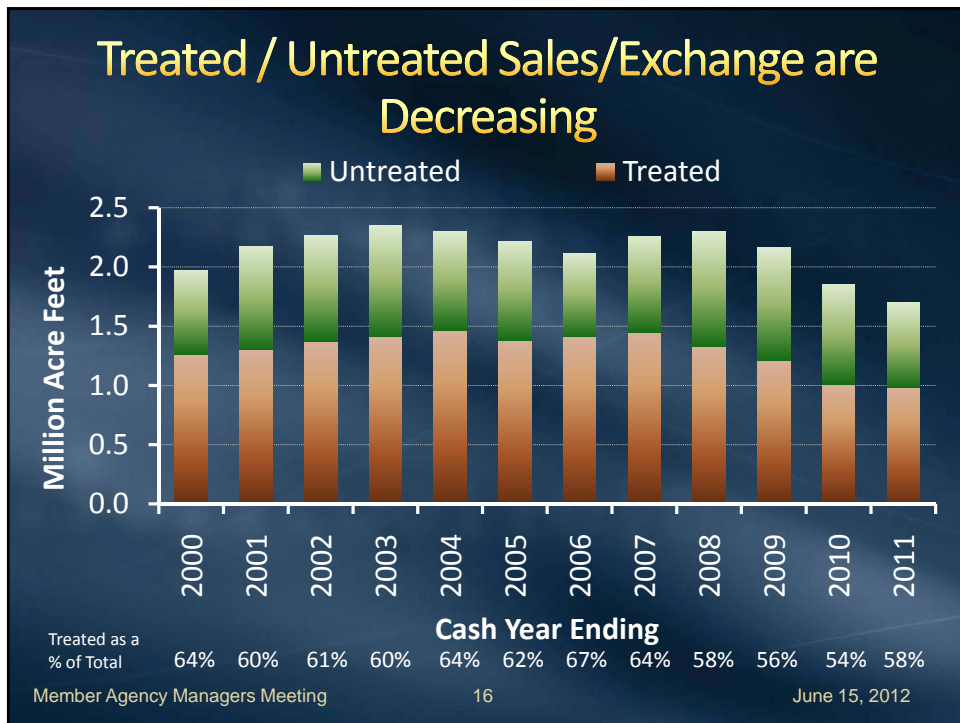
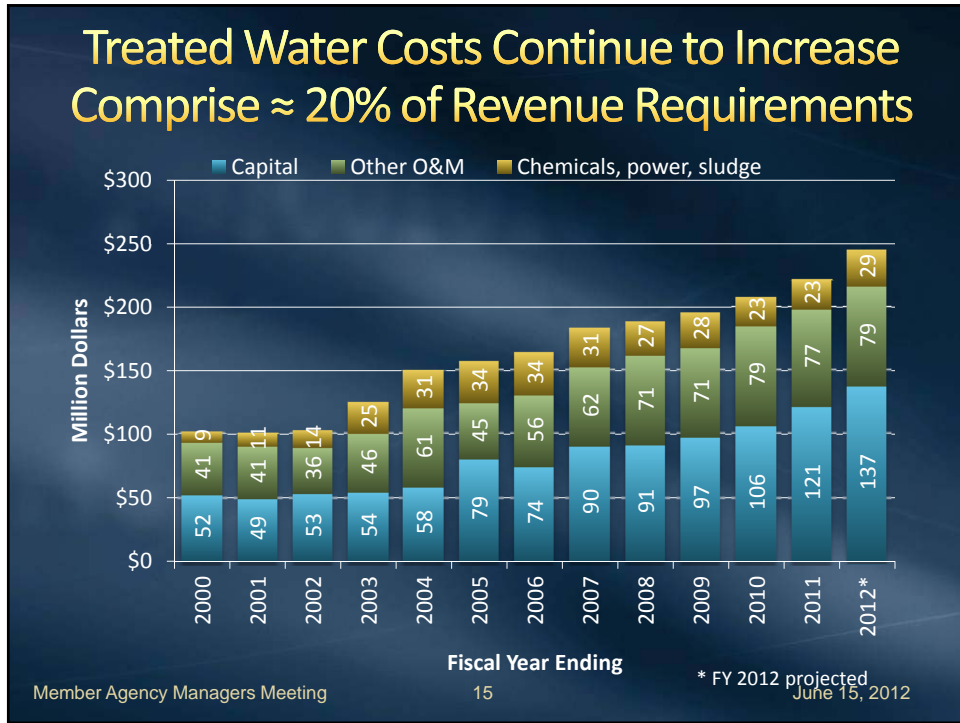
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Treatment Cost Recovery

MWD Treatment Plants and the Imported Water Distribution System





Treatment Surcharge Trend is Upward



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Treatment Study Issues

- Many rate options have been explored
- Treatment is a significant portion of the revenue requirement, and most costs are fixed
- Recovering 10% of treatment costs in a fixed charge adds 2% to total fixed revenues
- Continue to explore options to develop a fixed charge

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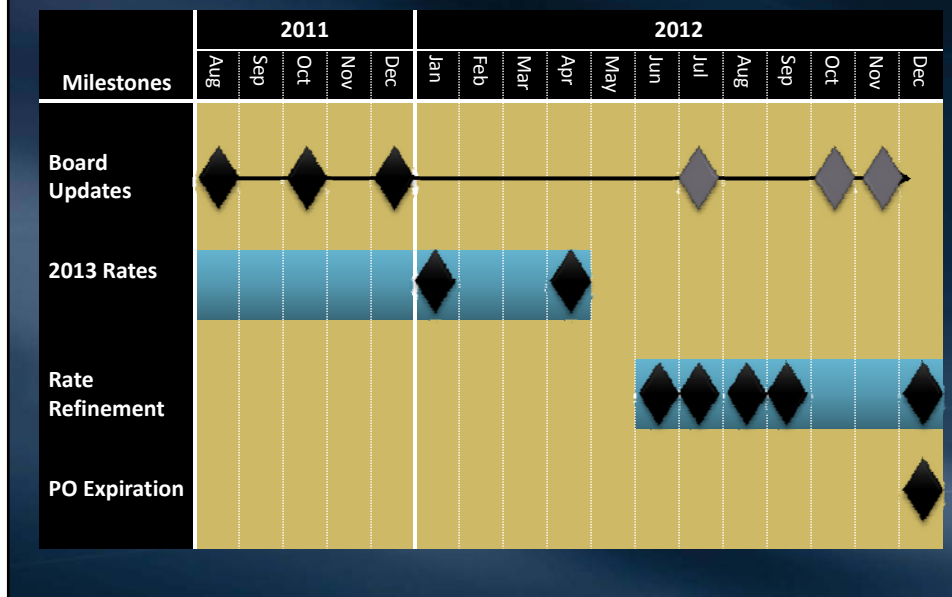
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Process to Move Forward

Schedule/Process to Move Forward

- Member Agency Managers meetings
 - June 15, July 13, August 24, September 14
 - Managers establish priorities
- Rate Refinement Workgroup to meet between Managers meetings
 - Dates to be established
- Board Information letter in October 2012
 - Consistent with Purchase Order timing
- Board Action letter in November 2012

Timeline : Rate Refinement



Next Steps

- Schedule Rate Refinement Workgroup meeting for June 2012
 - Work topic(s) based on Managers' determination of priorities
- Update to Board on Rate Refinement progress
 - Finance and Insurance Committee
- Future Workgroup meeting dates to be determined

Discussion

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