LRFP Workgroup:
Treated Water Cost Recovery Follow-on Discussion

Meeting #12

June 5, 2008

Treated Water Peaking Cost Recovery Objectives

- Infrastructure must be built to accommodate peak demands, not just average demands.
- Higher peaks result in higher costs.
- These costs are currently shared by all users uniformly through a volumetric charge.
- Each user contributes differently to system peaks.
- Equity principle implies that each member agency should pay costs of service.
- Charges could encourage more efficient use of system treatment resources.

Definition of the Issue

- Infrastructure must be designed to meet peak demands at a point in time as well as volumes over time.
- Relying on MWD for peaking capacity drives capital costs higher.
- Current rate structure recovers peaking costs uniformly through a volumetric charge.
  - 1,000 AF over a year ≈ 1.5 cfs of capacity
  - 1,000 AF in one day ≈ 5,040 cfs of capacity

Identifying the Cost

- Cost of Service Study Classified Costs for Treatment:
  - Fixed Demand ($51.0M)*: capital costs to meet peak demands in excess of average demands
  - Fixed Commodity ($137.3M)*: capital and O&M costs to meet average demands
  - O&M Variable Commodity ($39.2M)*: costs identified as varying with volumes of treated water (chemicals and power)
- Treated Water Peaking cost recovery focuses on $51.0M classified as Fixed Demand

*Costs are for FY 2009

Identifying the Relevant Usage Characteristics

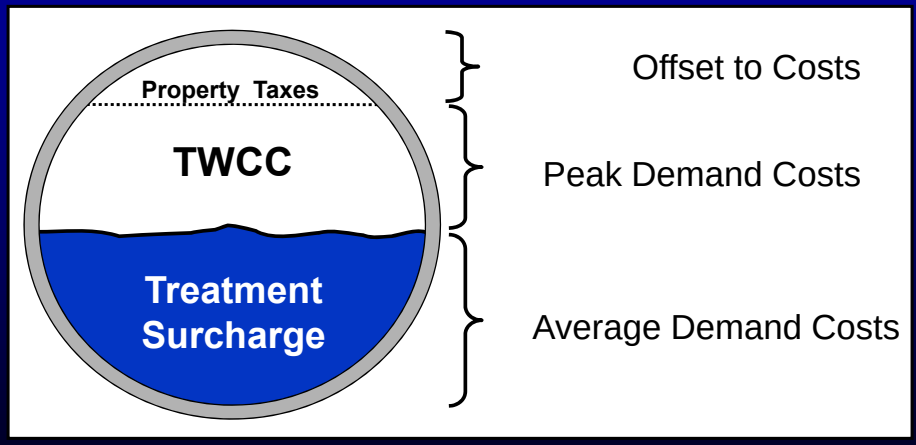
Member Agency	FY 1990-2007 (acre-feet) Average Annual	Maximum Annual	Minimum Annual	CY 2005-2007 (cfs) Average Day	Max Day	Peak factor	Peak day
Anaheim	14,202	31,611	4,641	14	40	2.9	27-Sep-2005
Beverly Hills	13,109	14,867	11,918	20	34	1.7	5-Sep-2007
Burbank	14,888	22,839	8,154	22	36	1.7	23-Aug-2005
Calleguas	112,084	136,565	86,263	216	264	1.2	31-May-2005
Central Basin	73,802	99,814	61,033	101	131	1.3	24-Jul-2006
Compton	3,962	5,620	2,892	5	8	1.5	24-Jul-2005
Eastern	68,503	99,347	43,234	181	256	1.4	1-Sep-2007
Foothill	10,756	14,831	8,394	17	25	1.5	1-Sep-2007
Fullerton	10,937	17,795	5,713	20	37	1.9	14-Sep-2007
Glendale	25,715	29,135	21,948	37	57	1.5	26-Jul-2006
Inland Empire	0	0	0	0	0	0.0	
Las Virgenes	20,567	25,373	15,293	38	45	1.2	9-May-2007
Long Beach	46,796	57,560	34,700	41	73	1.8	28-Aug-2005
Los Angeles	96,806	232,272	46,390	94	186	2.0	24-Jul-2006
MWDOC	236,597	289,625	157,654	368	454	1.2	25-Jul-2006
Pasadena	22,036	33,603	15,508	45	67	1.5	26-Jul-2006
San Diego CWA	229,833	288,911	159,961	470	587	1.2	24-Jul-2006
San Fernando	451	1,049	0	5	7	1.4	10-May-2007
San Marino	1,210	1,998	442	4	8	2.1	24-Jul-2006
Santa Ana	16,010	22,007	7,135	20	31	1.5	31-Jul-2006
Santa Monica	10,280	14,444	4,689	20	28	1.4	27-Jun-2006
Three Valleys	47,965	65,424	35,155	88	134	1.5	17-Aug-2007
Torrance	21,031	23,804	16,386	33	42	1.3	22-Jun-2005
Upper San Gabr	12,013	27,675	5,967	25	42	1.7	18-Jul-2006
West Basin	153,292	184,679	140,064	226	276	1.2	20-Jul-2005
Western MWD	44,707	87,968	19,909	153	235	1.5	15-Jul-2006
Total				2,263	3,103	1.4	
	Data include Replenishment deliveries.			Peak flows net of Replenishment service.			

2007 cfs data is through September 17, 2007

Developing the Charge: Ratemaking Criteria

- "Postage Stamp" basis
  - Uniform rate across the service area
  - Simple and understandable
- Allocating the cost
  - Member agency peak day (noncoincident) allocates peaking costs to agencies in proportion to their maximum capacity requirements
    - Specifically used where customer requirements are intermittent or infrequent (i.e., customers who are not full requirements customers)
  - Peak responsibility method (coincidence) results in not allocating costs to customers who may not contribute to the peak, but who still require investment in facilities to meet their demandS

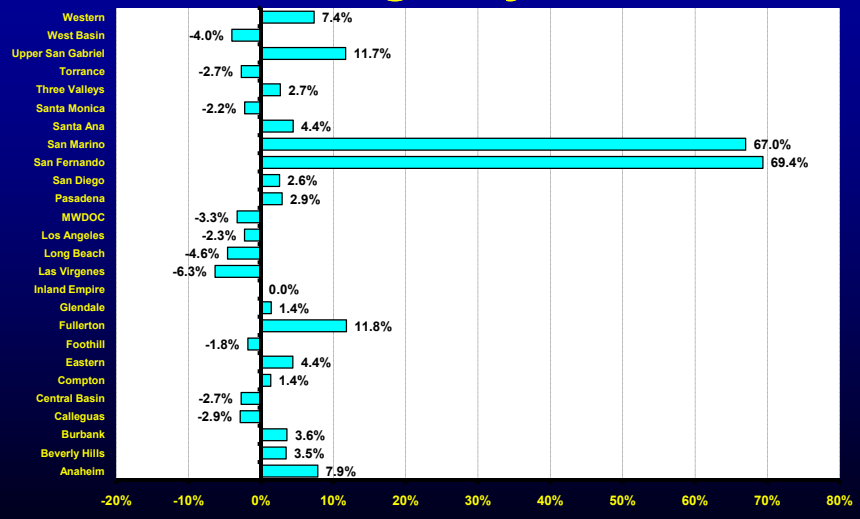
Option 1: Treated Water Capacity Charge



Example – 2008/09 Estimated Rate Impact of TWCC

- Modeled after current Capacity Charge
- Calendar Year 2007 treated water sales
- 2005, 2006 and 2007 actual treated water peak day flows, May through September
  - Net of Replenishment
- Estimated charge of $16,500 per cfs of peak day treated use
- Treatment Surcharge would decrease by about $40/AF to $128/AF for all volumetric use, including Firm, Replenishment, Agricultural, and CUP
- Member Agency impacts range from 69.4% to (6.3%)

Impact of TWCC by Member Agency



TWCC Advantages/Disadvantages

Advantages

- Patterned after the existing capacity charge.
- Better revenue stability to Metropolitan and cost predictability to Member Agencies.
- More equitably allocates costs of service.
- Sends a strong signal to manage peaks.
- No change to bundled/unbundled rate structure

Disadvantages

- Total treatment charge not influenced as strongly by short-term changes in demand.
- Substantial rate impacts on some member agencies.

TWCC Alternative: One-year Look Back

Please see handout

Effect of Capacity Charge on Member Agencies' Operations

Please see handout

Option 2: Treated Water Peaking Charge

Offset to Costs

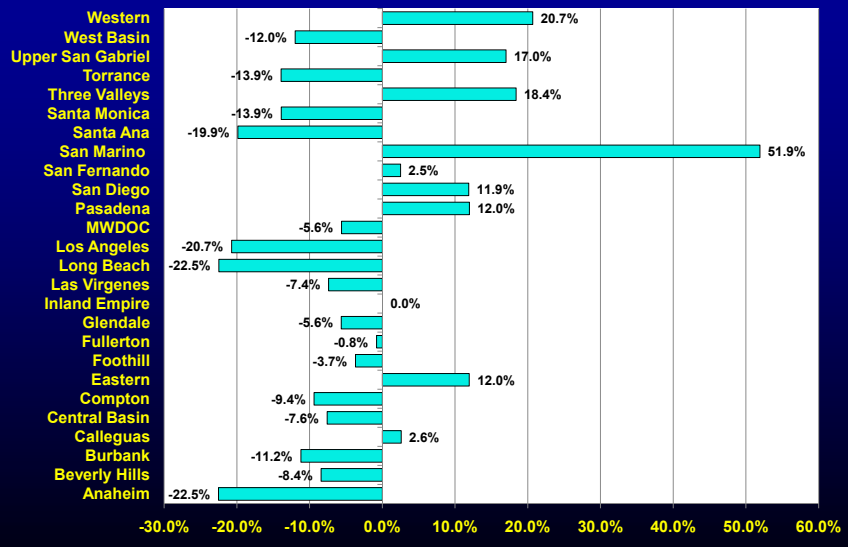
Peak Demand Costs

Average Demand Costs

Example – 2008/09 Estimated Rate Impact of TWPC

- Calendar Year 2007 treated water sales
- Baseline = average of FY 2005, 2006 and 2007 winter period actual treated water monthly demands, by Member Agency
- Over Baseline = May through September use above Baseline
- Estimated charge of $128/AF for Baseline use and Replenishment
- Estimated charge of $327/AF for Over Baseline use
- Member Agency impacts range from 51.9% to (22.5%)

Impact of TWPC by Member Agency



Peaking Charge Advantages and Disadvantages

Advantages

- Sends a signal to manage summer peaks
- Only applies to the extent that members exceed baseline
- More equitably allocates costs of service

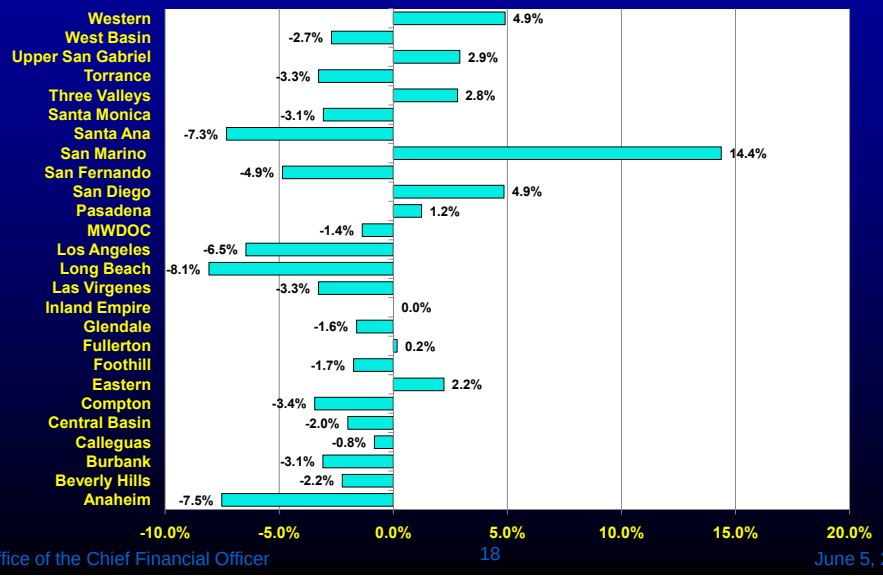
Disadvantages

- Substantial rate impacts on some member agencies
- More volatility to revenues
- Seasonality to Treatment Surcharge
- Affects some bundled rate structures

TWPC Alternative: Seasonal Treatment Rates

- Calendar Year 2007 treated water sales
- Winter = October through April use
- Summer = May through September use
- Estimated charge of $128/AF for Winter use and Replenishment
- Estimated charge of $201/AF for Summer use
- Member Agency impacts range from 14.4% to (8.1%)

Impact of Seasonal Treatment Rate by Member Agency



Conclusions

- Primary objective of proposed Treated Water Capacity Charge is cost recovery
- A volumetric structure is not as efficient in recovering peaking capacity costs due to intermittent or infrequent use of capacity
  - There may be very little volume over which to recover the fixed capacity costs
- A capacity-based charge, such as maximum day cfs, distributes the cost of having capacity standing by more equitably
- Non-coincidence is an appropriate measure for partial requirements customers

Next Steps