

MINUTES
ADJOURNED REGULAR MEETING OF THE
BOARD OF DIRECTORS
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
APRIL 11, 2000

43940 The Board of Directors of The Metropolitan Water District of Southern California met in Adjourned Regular Meeting in the Board Room located in the building at 700 North Alameda Street in the City of Los Angeles, State of California, on Tuesday, April 11, 2000.

The Meeting was called to order by Chairman Pace at 11:50 a.m.

43941 The Meeting was opened with an invocation by Director Wyatt L. Troxel.

43942 The Pledge of Allegiance to the Flag was given, led by Board Secretary Thom Coughran.

43943 Secretary Coughran called the roll. Those answering present were: Directors Abdo, Bannister, Barbosa, Barker, Battey, Blake, Brick, Castro, Coughran, Edwards, Foley, Forbes, Grandsen, Harris, Hansen, Herman, Koopman, Kosmont, Krauel, Krieger, Little, McMurray, Morris, Morse, Murph, Mylne, Owen, Pace, Parker, Peterson, Rascon, Record, Rez, Royce, Stanton, Swan, Tinker, Troxel, Turner, Wein, Witt, and Wright.

Those not answering were: Directors Borenstein, Fellow, Freeman, Lewis, Luddy (entered 1:08 p.m.), Moret, Murray (entered 12:55 p.m.), Treviño (entered 12:20 p.m.), and Watton (entered 11:58 a.m.).

The Chair declared a quorum present.

43944 At 11:53 a.m., Chairman Pace called the Meeting into a Public Hearing to receive comments on the proposed Water Standby Charge for 2000-2001. Chairman Pace invited interested parties to comment on the proposed Water Standby Charge.

Dan Hentschke, speaking as General Counsel for the San Diego County Water Authority and as a property owner within Metropolitan's service area, protested the proposed standby charge to the extent that it is used to pay for facilities that provide no benefit to property in the Water Authority's service territory which he indicated is demonstrated in a report prepared by Bartle Wells Associates, Inc., which report was given to the Board at its last meeting. Mr. Hentschke stated in that report it was shown that the readiness-to-serve charge and the standby charge lack appropriate foundation to be levied upon the Water Authority and property within its service area because revenues from those charges are used to pay capital costs or facilities that provide no benefit or service to the Water Authority or property in San Diego County. He requested that the Bartle Wells report be made a part of the record. Mr. Hentschke also commented on the readiness-to-serve charge and referred to a letter from Chair Parker of the Authority requesting a rescission and reconsideration of the readiness-to-serve charge. On behalf of the Authority, Mr. Hentschke requested that Chair Parker's request for reconsideration of the readiness-to-serve charge be placed on the agenda for the Board Meeting in May.

Chairman Pace noted that a letter was received from Kevin D. Jeffries of Lake Elsinore protesting the standby charge.

Director Watton took his seat at 11:58 a.m.

The Chairman declared the Public hearing closed at 11:59 a.m., stating that the Board's final action on the proposed charge is expected to take place at its adjourned monthly meeting on May 17, 2000.

43945 There being no objection, the Chair ordered the reading of the Minutes of the Meeting held March 14, 2000, dispensed with, a copy having been mailed to each Director.

Director Blake moved, seconded by Director Stanton and carried, approving the foregoing Minutes as mailed.

43946 Chairman Pace inquired if there were any additions to the agenda. There being none, the Chair declared only those matters listed on the agenda would be considered.

43947 Chairman Pace invited members of the public to address the Board on matters within the Board's jurisdiction.

Both Heather Hoecherl and Madeline Glickfeld from Heal the Bay, a nonprofit organization dedicated to making Santa Monica Bay and the Southern California coastal waters clean, commented on Agenda Item 8-4, the legislative policy principles on watershed management. They expressed support for Metropolitan's role in formulating these principles and working with the environmental groups to protect the water quality through watershed management.

Executive Assistant to the General Manager for External Affairs Ortega introduced members from the United States Postal Service, City of Hemet: Theresa Granger, Gary McGinnis, and Danielle Cote. On behalf of the postal service, Mr. McGinnis presented plaques to Chairman Pace, General Manager Gastelum, and the entire Board for their foresight in constructing Diamond Valley Lake. Envelopes with a Diamond Valley Lake commemorative stamp were distributed to the Board.

A video of the Diamond Valley Lake and the dedication ceremony was shown.

Chairman Pace noted that a letter was received from Kevin D. Jeffries of Lake Elsinore protesting Agenda Item 8-7, Metropolitan's support for AB 1982 (Gallegos): Local Agency Assessments.

43948 Chairman Pace presented a Certificate of Appreciation to Carl Boronkay, Metropolitan's former General Manager and General Counsel, for his outstanding service to the District and his role in making the Diamond Valley Lake a reality.

Director Treviño took his seat at 12:20 p.m.

43949 Chairman Pace presented to General Counsel Taylor a pin emblematic of his completion of ten years of service with Metropolitan.

43950 Chairman Pace presented to Director Bonny L. Herman a pin emblematic of her completion of five years of service as a representative of the City of Los Angeles on April 11, 2000.

43951 Chairman Pace presented to Director Regina Murph a pin emblematic of her completion of twenty years of service as a representative of the City of Compton on March 11, 2000.

43952 Chairman Pace reported that the Association of California Water Agencies has voted to oppose Senator Kelley's bill on Metropolitan's governance structure.

Chairman Pace reported on events in which he participated on behalf of Metropolitan, as follows: On March 17 through 19 the dedication ceremonies for Diamond Valley Lake were held, which were a tremendous success with virtually every major Los Angeles television station covering the event. The three-day festivities included a reception at the Wadsworth Pumping Plant on Friday evening honoring local area officials, the dedication ceremony on Saturday, and a Sunday open house for employees and the public. At a luncheon last week, the Chair addressed the City and County Engineers who were interested in the reorganization of Metropolitan and its impact on the engineering division. Also discussed was the importance of maintaining the region's vast water infrastructure and the future development of local resources as part of a long-term strategy for ensuring supply reliability and water quality. On April 6 Metropolitan hosted a reception honoring the State Legislature's Southern California Water Caucus. Assembly members Tom Calderon and Bob Margett addressed the group and pledged their continuing support for Southern California water issues.

In response to a request regarding the estimated added costs for the Board of Directors under SB 1594 (Kelley), the proposed governance structure, Chairman Pace stated the total costs would approximate \$7.6 million versus the current amount allocated of \$600,000, which would be further reduced to approximately \$425,000 when the Board membership is reduced to 37. An additional \$3 million to \$6 million would be added to the \$7.6 million to cover the cost of election in the counties.

Directors Blake and Witt withdrew from the Meeting at 12:38 p.m.

43953 Strategic Plan Steering Committee Chairman Kosmont reported on the workshop held immediately prior to the Board Meeting, wherein the Composite Rate Structure Framework was approved. In addition, the Board reaffirmed the Strategic Plan Policy Principles which provides the foundation for the Composite Rate Structure Framework. Director Kosmont announced that the Strategic Plan Steering Committee, which he chaired, will sunset at the end of May, having completed its charge of guiding the Strategic Plan process, and that the Executive Committee will assume responsibility to consider and report to the Board on the Strategic Plan.

Directors Foley and Wein withdrew from the Meeting at 12:43 p.m.

Director Kosmont then moved, seconded by Board Secretary Coughran and carried, and the Board approved the Composite Rate Structure Framework for public review as discussed by the Strategic Plan Steering Committee, and directed staff, in cooperation with the agency managers, to do the following:

1. Conduct a sixty-day public comment period on the Composite Rate Structure Framework and report periodically to the Board the public comments received and make a monthly report of the public input to the Executive Committee;

2. Develop the detailed design of a proposed rate structure to be implemented by fiscal year 2002, based upon the Composite Rate Structure Framework and the input received from the public for the Board's consideration no later than at its September 2000 meeting; and

3. Develop a form of a take or pay contract between Metropolitan and its member agencies to implement the proposed rate structure for the Board's consideration no later than at its September 2000 meeting.

Directors Krauel, Parker, Tinker, Turner, and Watton requested to be recorded as voting no.

Director Foley returned to the Meeting at 12:50 p.m.

Director Wein returned to the Meeting at 12:52 p.m.

43954 Chairman Pace stated the next major project involves the development of a museum dedicated to Metropolitan's great

water history over the last 71 years. To that end, the Chair created a Museum Feasibility Committee who will be responsible for the development of a Metropolitan water museum in connection with the Diamond Valley Lake program.

Board Secretary Coughran moved, seconded by Director Krieger and carried, approving the committee appointments as recommended by the Chair and approved by the Executive Committee, as follows: Directors Pace (Chairman), Foley, Record, Brick, Krieger, Little, Morris, Mylne, Hansen, Stanton, Wright, Edwards, Wein, and McMurray.

43955 Communications and Legislation Committee Chairman Peterson moved, seconded by Director Abdo and carried, adopting Resolutions to thank the Diamond Valley Lake community groups, as follows:

Resolution 8673	Riverside County Board of Supervisors
Resolution 8674	Hemet City Council
Resolution 8675	San Jacinto City Council
Resolution 8676	Hemet Unified School District
Resolution 8677	San Jacinto Unified School District
Resolution 8678	Mt. San Jacinto College
Resolution 8679	Valley Economic Development Corporation
Resolution 8680	Hemet-San Jacinto Action Group
Resolution 8681	Retired Senior Volunteer Program
Resolution 8682	Hemet/San Jacinto Valley Chamber of Commerce
Resolution 8683	Hemet Post Office
Resolution 8684	Mayor VanArsdale, City of Hemet
Resolution 8685	Southern California Edison Company
Resolution 8686	Kristen Duffin, Student Essay Contest Winner

Director Murray took his seat at 12:55 p.m.

43956 Regarding the Colorado River matters, General Manager Gastelum referred to his activity report for March dated April 10, 2000, which is at each Director's place, giving an update on the Colorado river quantification settlement.

43957 Deputy General Manager Quinn gave an update on the status of the CALFED program. He reported that both the State and Federal negotiators have a list of agreements--investing in storage in California, increase in surface storage in Shasta

Reservoir, Lake Millerton, possible expansion of Los Vaqueros, and possibly within Delta surface storage and a new Sites Reservoir in the west Sacramento Valley. There is strong agreement on the need for groundwater storage capacity in the Sacramento Valley, the San Joaquin Valley, and in Southern California. There is also agreement on water quality programs for both the Bay area and Southern California, which means political and likely financial support for water quality exchange agreements. There appears to be an agreement on the concept of an environmental water account whereby all environmental water is to be managed under a single well-defined budget so that water supply interests can be stored for reliability purposes. There is disagreement among both parties regarding the size of an environmental water account. The Federal position is that it wants an account that would meet all the recent interpretations of Federal law plus another 400,000 acre-feet of purchased water, which is an amount that would break the bank and not leave enough benefits for agriculture and urban water users. The State position on that issue is that the "Feds" should moderate the regulatory requirements and instead develop new capacity and share it equally amongst fishery requirements and the water user requirements. On this issue the difference between the two parties is very substantial and is probably the single greatest risk factor in putting a deal together. A secondary disagreement is the Delta infrastructure, whether there will be a screen diversion that connects the Sacramento River to the Mokelumne River for water quality and fishery protection purposes. The fish regulators are opposed, and it has been labeled the first leg of the Peripheral Canal. The State argued that it is not and indeed it is a necessary investment to get modest water quality benefits out of a through Delta system. The two sides held a meeting yesterday which did not go well with little progress in closing the gap on the two biggest outstanding issues. Another meeting is scheduled for April 26. Metropolitan's staff will continue working with both the Federal and State negotiators to educate them regarding Metropolitan's needs.

Directors Herman and Watton withdrew from the Meeting at 1:05 p.m.

43958 General Manager Gastelum referred to his written activity report dated April 10, 2000, which was distributed earlier. He then introduced the employees who contributed to the success of the Diamond Valley Lake dedication.

43959 General Counsel Taylor referred to his written activity report dated March 31, 2000, which was distributed earlier.

43960 General Manager Gastelum reported that he has selected Brian Thomas, Metropolitan's former Assistant Chief of Planning and Resources, as the new Chief Financial Officer.

Director Stanton moved, seconded by Director Edwards, confirming the appointment of Brian Thomas as the new Chief Financial Officer. General Counsel Taylor reported that included in this appointment is the General Manager's authority to enter into a contract with the provision of a six-month severance. This provision was incorporated into the motion and carried.

43961 The reports of the Standing Committees are as follows:

On behalf of the Executive Committee, Chairman Pace had no further report.

Budget and Finance Committee Chairman Bannister reported the committee reviewed and approved Agenda Item 9-6, and requested that it be moved to the Consent Calendar.

Director Luddy took his seat at 1:08 p.m.

Engineering and Operations Committee Chairman Luddy requested that Agenda Item 9-4 be added to the Consent Calendar.

Legal and Claims Committee Chairman Morse reported that in closed session the committee approved Agenda Items 9-2 through 9-4, and requested that Items 9-2 and 9-3 be added to the Consent Calendar.

Chairman Pace stated that Agenda Item 9-5 will also be added to the Consent Calendar.

Communications and Legislation Committee Chairman Peterson reported on the actions taken by the committee. The committee received a report from the General Manager on three Senate bills directly affecting Metropolitan: SB 1594 by Senator Kelley regarding election of Metropolitan's Board; SB 1973 by Senator Perata which would put Metropolitan's wheeling rates under the Public Utilities Commission; and SB 2139 by Senators Johnson and Kelley concerning wheeling. The committee voted to oppose all three bills consistent with Metropolitan's previous

Board adopted positions on an elected Board and its wheeling policy principles.

Water Planning and Resources Committee Chairman Owen reported the committee approved the items on its agenda, and requested that Agenda Item 9-1 be added to the Consent Calendar.

Director Turner stated that the San Diego County Water Authority is supporting Agenda Item 9-5, the repair of the Allen-McColloch Pipeline, with the understanding that this project constitute a distribution pipeline, and not a conveyance pipeline. Under the Strategic Plan and rate framework, there should be an understanding that these types of facilities need to be supported by the agencies that receive the benefit.

Director Tinker raised a question on Agenda Item 8-1 regarding the investment program with small banks and savings and loans institutions. Following a discussion, the Chair removed Agenda Item 8-1 from the Consent Calendar.

Director Krauel requested that San Diego's opposition to the Communications and Legislation Committee's action on SB 1594, SB 1973, and SB 2139 be recorded in the record. General Counsel Taylor stated these bills are not before the Board for action, but the committee's action was consistent with prior Board adopted legislative policy principles.

Director Owen moved, seconded by Director Stanton and carried, and the Board approved the Consent Calendar Items, M.I. 43962 through M.I. 43976, as follows:

43962 Adopted five Resolutions in the form attached to the letter signed by the General Manager on March 29, 2000, providing in substance that Metropolitan elects to be allocated that additional portion of revenue from taxes levied on redevelopment property which is attributable to any increase in Metropolitan's base year tax rate applied to the incremental assessed value of the project property:

- | | |
|------------------------|--|
| Resolution 8687 | Amendment No. 2 to the Central City Redevelopment Project in the City of Bell Gardens, County of Los Angeles |
| Resolution 8688 | Amendment No. 1 to the Town Center Project in the City of Upland, County of San Bernardino |

- Resolution 8689** Upland Redevelopment Project No. 7 in the City of Upland, County of San Bernardino
- Resolution 8690** Ontario Guasti Redevelopment Project in the City of Ontario, County of San Bernardino
- Resolution 8691** South Carlsbad Coastal Redevelopment Project (Revised) in the City of Carlsbad, County of San Diego

each Resolution entitled:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA ELECTING TO RECEIVE ALLOCATION OF TAXES PURSUANT TO PROVISIONS OF THE COMMUNITY REDEVELOPMENT LAW

43963 Approved the amendments to Administrative Code Sections 2720 and 2740 set forth in Attachment 2 to the letter signed by the General Manager on March 29, 2000, to change the frequency of financial reporting and the basis of accounting used to report financial information.

43964 Adopted the legislative policy principles on watershed management as proposed in the letter signed by the General Manager on March 30, 2000.

Directors Krauel, Parker, Tinker, and Turner requested to be recorded as voting no.

43965 The Board (A) granted conditional approval, as defined in Administrative Code Section 3100(b), for Annexation No. 63 concurrently to Metropolitan and Calleguas Municipal Water District, conditioned upon a cash payment to Metropolitan of a portion of the annexation charge of approximately \$492,752.96 as defined in Administrative Code Section 3106(a) and conditioned upon installment payments of the remaining annexation fee of approximately \$369,290.88, as provided in Administrative Code Sections 3106(b) and (c) (10% down and the balance over 15 years plus interest guaranteed by member agency) or such terms and conditions as may be fixed by the Board in granting formal consent to such annexation, as set forth in Attachment 1 to the General Manager's letter signed on March 29, 2000; (B) subject to

the approval of Item (A), approved Calleguas' proposed Annexation No. 63 Plan for Implementing Water Use Efficiency Guidelines set forth in Attachment 2 of the foregoing letter; and (C) subject to the approval of Items (A) and (B), approved the Resolution of Intention (**Resolution 8692**) to impose water standby charges within the proposed annexation territory, substantially in the form of Attachment 3 to the foregoing letter; said Resolution entitled:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA GIVING NOTICE OF INTENTION TO IMPOSE WATER STANDBY CHARGE CONTINGENT UPON ANNEXATION

43966 The Board (A) granted conditional approval, as defined in Administrative Code Section 3100(b), for American Beauty Annexation concurrently to Metropolitan and Eastern Municipal Water District, conditioned upon a cash payment to Metropolitan of approximately \$517,835.84 if completed by December 31, 2000, or at the then current annexation charge rate if completed after December 31, 2000, as set forth in Attachment 1 to the General Manager's letter signed on March 29, 2000; (B) subject to the approval of Item (A), approved Eastern's proposed American Beauty Annexation Plan for Implementing Water Use Efficiency Guidelines set forth in Attachment 2 of the foregoing letter; and (C) subject to the approval of Items (A) and (B), approved the Resolution of Intention (**Resolution 8693**) to impose water standby charges within the proposed annexation territory, substantially in the form of Attachment 3 to the foregoing letter; said Resolution entitled:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA GIVING NOTICE OF INTENTION TO IMPOSE WATER STANDBY CHARGE CONTINGENT UPON ANNEXATION

43967 Expressed support for Assembly Bill 1982 (Gallegos), legislation to permit increases of standby charges if approved as part of a schedule of adjustments, as set forth in the letter signed by the General Manager on March 29, 2000.

43968 Authorized (1) the titles of the positions of Auditor and Assistant Auditor be revised to General Auditor and Assistant General Auditor, respectively, and amend the Administrative Code where necessary to effectuate such actions; and (2) an increase

in the Auditor's contracting authority outlined in Administrative Code Section 6452 from \$25,000 to \$40,000 per contract per year, as set forth in the letter signed by the Auditor on March 23, 2000.

43969 Authorized the General Manager to pursue Federal grant funding on behalf of the Western Center Museum for Archaeology and Paleontology and for Trails at the Diamond Valley Lake Recreation Project Area, as set forth in the letter signed by the General Manager on March 29, 2000.

43970 Approved an increase of \$240,000 in Appropriation No. 15341 (No. 2) from the Pay-As-You-Go Fund, to fund \$124,000 of costs previously incurred in property negotiations and preliminary protection assessment of the gravel mining pit, and the remainder to authorize the completion of a study that will develop alternatives and cost estimates for the protection of the Whitewater River siphons, remediation of the mining pit, and evaluation of the Whitewater Mutual Water Company's adjacent pipeline, as set forth in the letter signed by the General Manager on March 29, 2000.

43971 The Board (1) affirmed/approved principles as set forth in Attachment 1 to the letter signed by the General Manager on March 29, 2000; and (2) approved the principles summarized in Attachment 2 to the foregoing letter, guiding the General Manager in negotiating State Water Project contract amendments consistent with these principles, and in a form acceptable to the General Counsel.

43972 Authorized settlement in eminent domain action for Metropolitan's Inland Feeder Project entitled Metropolitan v. Ray, Riverside Superior Court Case No. 293062, as set forth in the confidential letter signed by the General Counsel on March 23, 2000.

Directors Krauel, Parker, Tinker, and Turner requested to be recorded as voting no.

43973 Authorized litigation against Kenko, Inc. for violation of the False Claims Act and Breach of Contract, as set forth in the confidential letter signed by the General Counsel on March 23, 2000.

Director Rascon requested to be recorded as abstaining.

Directors Krauel, Parker, Tinker, and Turner requested to be recorded as voting no.

43974 Approved the recommendation in the confidential letter signed jointly by the General Counsel and the General Manager on March 29 and March 30, 2000, respectively, regarding the Inland Feeder contracts.

Directors Krauel, Parker, Tinker, and Turner requested to be recorded as voting no.

43975 The Board authorized (1) Appropriation No. 15352 in the amount of \$4,500,000; and (2) the General Manager to award competitively bid contracts to repair the Allen-McColloch Pipeline (AMP) on an accelerated schedule; and (3) considered the information contained in Addendum No. 1 to the Final Environmental Impact Report and found that there is no substantial evidence that the proposed action will create any new significant impacts and approved Addendum No. 1 and the proposed repairs to the AMP, as set forth in the letter signed by the General Manager on April 6, 2000.

43976 Approved commencement of preparations for a bond tender program to take advantage of market conditions currently present in the municipal bond market, and to begin preparations to pursue the other debt management strategies identified by the Subcommittee on Financial Policies and Reporting, as set forth in the letter signed by the General Manager on April 4, 2000, with the first bullet in the letter revised to read "Increase variable rate borrowing of the capital investment program up to 25 percent of total revenue bonds outstanding".

43977 The Chair reported that Agenda Item 9-7 regarding the criteria for the evaluation of the General Manager, General Counsel, and Auditor was withdrawn from the agenda.

43978 Budget and Finance Committee Chairman Bannister reported that in considering the investment program in small banks and savings and loans institutions, the committee received a presentation from staff which showed that to continue the program the operating costs would be about \$9,500, that participants in the program had decreased from 18 to 10, and that the interest rate obtained through normal investment is higher than what the program offers. As far as Metropolitan is

concerned, the committee felt that the program was not beneficial and a motion was made and approved to discontinue the program.

Discussion ensued on the effectiveness of the program and the lack of interest in the program by participants.

After further discussion, Director Swan then moved, seconded by Director Bannister and carried that the Board approve Option #2 in the letter signed by the General Manager on March 31, 2000, allowing the Investment Program for Small Banks and Savings and Loans to lapse effective March 22, 2000, due to the reduced level of participation in the program and associated administrative costs and lost opportunity costs.

Directors Abdo, Brick, Luddy, Murph, and Murray requested to be recorded as voting no.

43979 The following communications were submitted to the Board for information:

- a. Status report for the Diamond Valley Lake Project for the month ending February 2000, signed by the General Manager on March 29, 2000.
- b. Status report for the Inland Feeder Project for the month ending February 2000, signed by the General Manager on March 30, 2000.
- c. Letter of the General Manager signed on March 29, 2000, reporting on the Revised Groundwater Recovery Program Agreement for the Irvine Ranch Desalter Project.
- d. Letter of the General Manager signed on March 29, 2000, reporting on the Water Surplus and Drought Management Plan.
- e. Letter of the General Manager signed on March 29, 2000, reporting on AB 1956 (Keeley): The Consumers' Energy and Environmental Security Authority Act.
- f. Confidential letter of the General Manager and the General Counsel signed on March 24, 2000, regarding briefing on Diamond Valley Lake (Eastside Reservoir Project) construction claims filed by Kiewit-Granite for construction of the East Dam.

43980 The following item was received as a pending item and will be discussed at a later date:

- a. Letter signed by the General Manager on March 29, 2000, titled Clarification of General Manager's authority to execute Water Quality Exchange Agreements.

43981 At 1:25 p.m., there being no objection, Chairman Pace adjourned the Meeting to May 17, 2000.

THOM COUGHRAN
SECRETARY

PHILLIP J. PACE
CHAIRMAN

STRATEGIC PLAN WORKSHOP



**Putting The
Pieces Together**

METROPOLITAN WATER DISTRICT



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

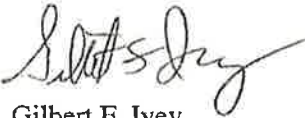
Date: April 7, 2000
To: Board of Directors
Member Agency Managers
From: Gilbert F. Ivey, Board Executive Officer
Subject: Strategic Plan Steering Committee Recommendation

At its March 29 meeting, the Strategic Plan Steering Committee approved and recommended that a revised "Composite Rate Structure Framework" be forwarded to the Board for consideration and action. This action followed significant discussions at the committee meeting where all proponents and board members were afforded the opportunity to openly address the committee's proposed work product.

Pursuant to this action, the Committee directed staff to prepare a version of the Composite Framework that tracks the Committee's direction to clarify and refine certain portions of the framework based on comments and revisions made by the Committee. This version is enclosed for your consideration and approval. If the Board gives tentative approval to the framework, we will commence a 60-day public comment and review period and forward any information gained during this time to the Board for its consideration. We will also commence a process to design a new detailed rate structure based on the Board-adopted framework that we anticipate by September 2000.

Director Larry Kosmont, Chair of the Steering Committee and Timothy Brick, Vice-Chair will present the revised framework and Steering Committee recommendation to the Board on Tuesday, April 11, at 9:30a.m. during the Strategic Plan Workshop.

Please contact me if you need further clarification or assistance. I can be reached by telephone at (213) 217-6622 or via e-mail at givey@mwd.dst.ca.us.



Gilbert F. Ivey

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**STRATEGIC PLAN WORKSHOP
"Building a Platform for Tomorrow"**

The Metropolitan Water District
of Southern California
700 N. Alameda Street • Los Angeles, CA 90012

April 11, 2000

AGENDA

Continental Breakfast **7:30 – 8:00 am**

Executive Committee **8 – 9:30 am**

Strategic Plan Workshop **9:30 – 11:30 am**

- ◆ Presentation of Strategic Plan
Steering Committee Recommendations
- ◆ Adoption of Composite Rate Structure Framework
- ◆ Wrap Up and Next Steps
Larry J. Kosmont, Chair
Gilbert F. Ivey, Board Executive Officer

Regular Board Meeting **12 Noon***

* Time approximate
Meeting to begin immediately following
Strategic Plan Steering Committee Workshop

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- a) Building a Platform for Tomorrow
- b) Final Draft Strategic Plan Policy Principles
- c) Composite Rate Structure Framework
- d) Review
- e) Addendum

Building a Platform for Tomorrow

Building a Platform for Tomorrow

Metropolitan's Strategic Plan

The Strategic Plan is a comprehensive approach to how Metropolitan conducts business. The process has entailed a program of self-evaluation and operational alternatives directed at reorienting the organization. The evaluation encompasses components that are now being considered for approval by the board.

In concert with the essential ingredients of change—the update of the Integrated Resources Plan, a revised long-range finance plan and the reorganization—all will serve to build the flexibility required for the organization's platform for tomorrow.

At the heart of the Strategic Plan and the board's vision is "choice"—the opportunity for member agencies to competitively manage their supply and demand for water while ensuring reliability, quality and fairness. The policy principles outlining this vision were adopted by the board in December 1999.

Competitive choices, according to the board's vision, are anchored in responsible stewardship of water resources as mandated by the State Constitution. Public stewardship of water is to be managed by Metropolitan in a manner that helps customers manage market variations, emergencies and drought. In a region without enough native water supplies and dependent on aqueducts to convey water from hundreds of miles away, this is how water quality, reliability and fairness can be maintained in a competitive environment.

Metropolitan's board is looking at successive plan components that will advance the vision to truly change the way water and financial mechanisms related to water resources are acquired, distributed and managed in Southern California. The plan will result in competitive choices for water resource development for the 27 member agencies, while assuring good water quality, reliability and fairness.

The components include a composite rate structure, a resource management plan, the determination of prices and, finally, a compatible board governance and management structure with comprehensive ethical standards.

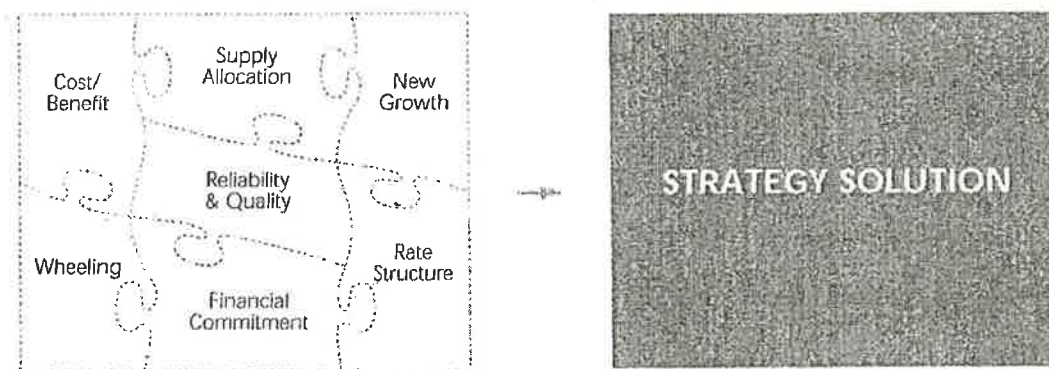
Foundation of the Strategic Plan: Policy Principles

Metropolitan's Board of Directors approved the Strategic Plan Policy Principles on December 14, 1999. These policy principles define the way in which Metropolitan will do business in the future. They essentially establish a new strategy for Metropolitan to continue to be responsive to the diverse water reliability and quality needs of the region.

During the strategic planning process, the board identified a number of issues considered key to determining the district's future. These critical issues include:

- Choice of services for member agencies;
- Financial commitment to enable Metropolitan to recover a greater portion of its fixed costs;
- Supply allocation that will ensure water is available to meet the needs of the public in a cost-effective and environmentally sound manner;
- Water reliability and quality;
- Rate structure that provides the fair allocation of costs and financial commitments for Metropolitan's current and future investments in supplies and infrastructure;
- Wheeling to allow fair access to Metropolitan's delivery system;
- Cost/benefit of regional programs; and
- New growth.

The Strategic Plan Policy Principles have addressed these critical issues and put these "pieces" together to build a platform for the Metropolitan of tomorrow.



Latest Accomplishment: Composite Rate Structure

In coming to a vision of the future of water in Southern California, the board recognized that the next step would be to revamp the rate structure in a manner that provides flexibility and incentives for competitive choices in water resource development. In a process driven by the customers—Metropolitan's 27 member agencies—four draft rate structure alternatives were developed by groups and individual member agencies, the private sector and directors. At the direction of the board, the four alternatives were crafted into a composite rate structure that addresses the common and beneficial elements of each through its framework.

The composite rate structure framework provides the flexibility necessary to afford choice for the member agencies. The framework includes tiers of service, providing incentives for the local development of water resources. The first tier of service is the least expensive and will provide a fixed amount of water from Metropolitan under a voluntary contract with the respective member

agencies. The second tier is more expensive and is meant to provide a back-up plan in the event that a local community must deal with unanticipated circumstances such as sudden growth needs or the failure of local facilities. The second tier pricing will also be set to encourage competition at market rates among alternative water sources such as water transfers, recycling and desalination provided by others.

The framework supports the board-approved policy principles and guidelines. Following tentative board approval and a 60-day public review to determine any issues related to timing and implementation, a rate development process will commence to develop the details of the new rate structure. This process will be open and collaborative and will adhere to the policy principles and guidelines established by the board.

Rate Structure Framework Objectives

Market	Customers	Stewardship
Demand-based Competition	Choices/Value	Secure base supply
Risk	Contracts	Adaptability
Profits	Satisfied demands	Emergency & drought planning
Fair business practices	Trust & ability to pay	No stranded public investments & contained costs

Next Steps

Goal: Resource Management Plan
 Method: Assessment of customer needs, statutory requirements and willingness to pay

Goal: Price
 Method: Assessment of organizational structure and programs to deliver components of the Resource Management Plan

Goal: Final governance and management structure
 Method: Determination of appropriate level of oversight needed, business accountability and ethics office


 Larry Kosmont
 Chair, Strategic Plan
 Steering Committee

**Final Draft
Strategic Plan Policy
Principles**

The Metropolitan Water District of
Southern California

Final Draft Strategic Plan Policy Principles

December 14, 1999

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Preamble

Metropolitan is a voluntary cooperative of member public agencies created for the purpose of "developing, storing and distributing water." Metropolitan's Board is committed to providing a high quality, reliable supply of affordable water for the residents in its service area.

The strategic planning process was initiated in July 1998 in an effort to address the evolving needs of the member agencies and their retailers to effectively fulfill Metropolitan's mission over the long-term. These diverse needs focus on flexibility, certainty and public stewardship.

Flexibility: There are significant legislative and economic pressures to increase the flexibility and responsiveness of water services to meet changing demands through a competitive water market. Fair compensation for wheeling through Metropolitan's conveyance systems is an essential element of Southern California's developing market.

Certainty: Certainty in Metropolitan's supply reliability and cost of service is important to member agencies and retailers, particularly in their efforts to ensure value to their customers.

Public Stewardship: Metropolitan and its member agencies must ensure that water is available to meet the needs of the public in a cost-effective and environmentally sound manner.

The Board has been engaged in a strategic planning process for the past year and a half. This process identified areas of common interests that form the basic elements for Metropolitan's strategic plan. Issues related to cost allocation and rate structure require further discussion and resolution.

Statement of Common Interests

- **Regional Provider:** Metropolitan is a regional provider of water for its service area. In this capacity, Metropolitan is the steward of regional infrastructure and the regional planner responsible for drought management and the coordination of supply and facility investments. Regional water services should be provided to meet the needs of the member agencies. Accordingly, the equitable allocation of water supplies during droughts will be based on water needs and adhere to the principles established by the Water Surplus and Drought Management Plan.

- Financial Integrity. The Metropolitan Water District Board will take all necessary steps to assure the financial integrity of the agency in all aspects of its operations.
- Local Resources Development. Metropolitan supports local resources development in partnership with its member agencies and by providing its member agencies with financial incentives for conservation and local projects.
- Imported Water Service. Metropolitan is responsible for providing the region with imported water, meeting the committed demands of its member agencies.
- Choice and Competition. Beyond the committed demands, the member agencies may choose the most cost-effective additional supplies from either Metropolitan, local resources development and/or market transfers. These additional supplies can be developed through a collaborative process between Metropolitan and the member agencies, effectively balancing local, imported, and market opportunities with affordability.
- Responsibility for Water Quality. Metropolitan is responsible for advocating source water quality and implementing in-basin water quality for imported supplies provided by Metropolitan to assure full compliance with existing and future primary drinking water standards and to meet the water quality requirements for water recycling and groundwater replenishment.
- Cost Allocation and Rate Structure. The fair allocation of costs and financial commitments for Metropolitan's current and future investments in supplies and infrastructure may not be reflected in status quo conditions and will be addressed in a revised rate structure:
 - a) The committed demand, met by Metropolitan's imported supply and local resources program, has yet to be determined.
 - b) The framework for a revised rate structure will be established to address allocation of costs, financial commitment, unbundling of services, and fair compensation for services including wheeling, peaking, growth, and others.

Refer to the Composite Rate Structure Framework.

* * * * *

Composite Rate Structure Framework

Composite Rate Structure Framework

Introduction

The following summarizes a composite rate structure framework (Composite) prepared by staff at the request of the Board. In an effort to create clear linkages between the benefits and costs of the services provided by Metropolitan, the Composite borrows heavily from the four rate structure framework proposals received by the Metropolitan Board as part of the Strategic Planning process. The Composite begins to design a rate structure composed of long-term supply contracts, market mechanisms, and standard utility industry cost of service rates and charges to recover the cost of the services that Metropolitan provides to the region. The proper rate design will allow the Southern California water market to develop as one driven by local communities looking for competitive choices and will also preserve the efficiencies of a regional approach. The proper rate design will also not place any one party at a significant disadvantage as compared to any other party.

At the request of the Strategic Plan Steering Committee, four rate structure framework proposals were presented to the Metropolitan Board at a Strategic Plan workshop on March 13 and 14 2000. These proposals are:

- Directors' Swan and Owen: The Simple Plan
- Member Agency Managers' Proposal
- San Diego County Water Authority (SDCWA): Framework of Key Contract Terms
- Azurix: The Choice Model

After hearing the presentation of each proposal and further exploring their merits, the workshop was summarized by Director Brick, Vice Chair of the Strategic Plan Steering Committee. Director Brick's summary pointed out several ideas that were common to all four proposals including:

- The development of a reasonable nexus between the costs of the services provided and the benefits received from those services;
- A tiered pricing approach;
- The establishment of a contractual relationship between Metropolitan and the member agencies; specifically the use of the principles of a take or pay contract to dispel the uncertainty surrounding the allocation of supplies that is in part due to Preferential Rights;
- The development of a fair system access fee;
- The use of market mechanisms to allocate resources among agencies beyond their base contractual supplies; and

- A common commitment to water stewardship, conservation and better management of our water supplies.

Following the workshop, the Board directed staff "...to develop a preliminary rate structure framework that integrates the meritorious elements of all four proposals..."¹ The following briefly discusses staff's initial efforts to develop a composite rate structure framework. There is a brief section for each rate structure feature (e.g. contracts) included in the Composite. The proposal(s) from which the feature was borrowed are identified and a basic rationale for the inclusion of the feature is stated.

Common Features of the Composite Framework

Regional Approach

Proposed recommendations: The Member Agency Mangers' Proposal, The Simple Plan, and The Choice Model have proposed that rates and charges are applied on a uniform basis (postage stamp) to reflect the regional benefits of Metropolitan's services. This approach has been incorporated in the Composite Framework. It should be noted that the SDCWA proposal proposes that while the costs of conveyance facilities be recovered on a uniform basis, member agencies pay for only distribution and treatment facilities that serve them.

Rationale: In keeping with a regional approach, rates and charges in the Composite Framework are applied on a uniform basis (postage stamp) across the service area and are not broken down into separate geographic areas within the service area. This approach recognizes that in the past the member agencies have collectively invested in resources and infrastructure, including distribution facilities, in an effort to treat each member agency equally and provide comparable service reliability to each member agency. Due to these past regional investments, many of the member agencies maintain that it would be inequitable to now create significant differentials in the cost of service based upon geographic unbundling of the system. To impose a geographic or facilities-based pricing approach to recover the costs of the existing system would create winners and losers within the region after the investment decisions have already been made and price cannot influence behavior to reduce cost. Zonal pricing is technically possible within Metropolitan's system, but it is not practical to apply this approach if the policy interest of the Board is to preserve a regional cooperative of agencies to capitalize on risk sharing and beneficial economies of scale.

Supply contracts

Proposal recommendations: Each of the four proposals employed the general principles of a take or pay contract to both reduce Metropolitan's reliance on variable commodity revenues and to provide greater certainty with respect to the allocation of supply.

¹ Director Grandsen's motion regarding MWD Strategic Plan Workshop, March 14, 2000

Rationale: The Composite also relies on a long-term take or pay contractual arrangement between Metropolitan and the member agencies. The contract would be long-term with the provision for regulated annual adjustments (e.g. modified evergreen or 30-year). The term of the contracts should provide financial commitment over a duration that recovers the costs of Metropolitan's State Water Contract and long-term debt service obligations and therefore provides greater certainty. The supply contract amounts will initially be determined by the member agencies within a minimum and maximum amount. Agencies may increase and decrease their contract amounts so that the risk of signing up for a long-term supply contract can be better managed by the member agencies and retail purveyors. The member agencies have the choice of increasing and decreasing contract supplies through exchanges between agencies on an annual or long-term basis and/or the development of additional supplies independently or in cooperation with Metropolitan. Increases and decreases in contract supplies would be regulated to assure that the overall balance of supply and fiscal responsibility among the member agencies is maintained.

Two-tier pricing structure

Proposal recommendations: Each of the four proposals is structured around some form of a two-tiered pricing approach.

Rationale: The Composite also uses a tiered pricing approach with the supply contracts defining the first tier and an "exchange pool" defining the second tier. All services with the exception of supply are priced the same in both tiers (e.g. the cost of conveyance and distribution is the same for a unit of contract water and a unit of exchange pool water). The cost of supply differs between the tiers. The allocation of supply cost between contract and exchange pool supply can be handled in a number of ways. The various methods of pricing supply will be examined as part of the detailed rate design and related back to policy and financial implications. In general the pricing of supply should stabilize Metropolitan's revenues, provide an appropriate price signal that is reflective of hydrologic and market conditions and not transfer an unacceptable amount of supply cost risk to the member agencies or retail purveyors. The tiered pricing would meet four basic goals:

- No member agency should be placed in a position of significant economic disadvantage.
- Member agencies should have equal access to Metropolitan's system according to need (WSDM Plan).
- Pricing should balance the financial risks and stability between Metropolitan and the member agencies.
- Tier 1 prices should be lower than Tier 2.

The ability of Metropolitan to contract for supply is not impeded by Preferential Rights. As an assurance, the supply contracts under Tier 1 will stipulate that Water Code Sections 350 – 359 will be used as the basis for allocating our limited water supplies among member agencies.

Needs based allocation of supply (WSDM Plan)

Proposal recommendations: The Member Agency Managers' proposal, The Simple Plan, and in the event that a market fails to allocate resources The Choice Model, accommodate the use of a needs based allocation approach consistent with the guiding policy principles adopted by the Board for the Water Surplus and Drought Management (WSDM) Plan.

Rationale: In the event of a shortage, the Composite relies on the use of a need based supply allocation for exchange pool water. Specifically, the Composite advocates the use of the WSDM allocation formula developed in cooperation with the member agencies as part of the WSDM plan. The Board would adopt a formula as part of the WSDM Plan following approval of a new rate structure.

Use of market mechanisms

Proposal recommendations: Each of the four proposals uses market mechanisms to shift some of the cost and risk of developing new supplies to the private sector. The Choice model, as proposed by Azurix, advocates the development of transparent information on potential transactions to reduce transaction costs and facilitate the development of a market for water resources where local communities have greater flexibility and choice.

Rationale: As the water market develops, the Composite will accommodate market mechanisms. In particular, Metropolitan can enable the accounting of transactions between willing parties that want to develop additional imported water supplies, invest in additional local resources, and increase or decrease their MWD contract supplies. To facilitate the development of a market, a tremendous amount of information will need to be organized into databases that are open to all interested parties. The technology available today for this purpose, particularly the Internet, creates tremendous possibilities. In fact, The Choice Model proposes the use of an Internet-based trading system. This concept would be compatible with the Composite Framework since the member agencies would be free to purchase additional supplies developed for them by Metropolitan or a third party.

Uniform system access rate and other charges for conveyance and distribution

Proposal recommendations: The Composite recovers the full cost of Metropolitan's conveyance and distribution capacity, as proposed by all four proposals. The Composite borrows the concept that there should be a uniform system access rate (SAR) that recovers the costs of conveying water on an annual average basis, from the proposals made by the Member Agency Managers' and Azurix. The remaining capacity accommodates deliveries to meet peak and future demands and the associated costs would be recovered through other charges, such as the readiness-to-serve charge, peaking

charge, growth charge, additional tax from State Water Project authorization, and/or others.

Rationale: The Composite's approach of recovering costs based on the use of conveyance and distribution capacity is similar to the "load-based" or "demand/commodity" approaches utilized in rate structure designs in the water, electric, and gas sectors. The SAR will recover the costs of providing conveyance and distribution capacity to meet average annual demands and will be charged to each acre-foot of water that moves through the Metropolitan system. The costs for the remaining capacity would be recovered through other charges. Uniform system-wide charges are proposed rather than facilities based or zonal charges in order to avoid a situation where one party is put at a significant disadvantage due to their geographic location in the system, or historic costs incurred for facilities that provide redundancy and other advantages but not necessarily the lowest cost.

Uniform water stewardship rate

Proposal recommendations: Among the four proposals, there was a common commitment to water stewardship through the continued support of conservation and development of local resources. This support is funded in several of the proposals by a uniform or "non-discriminatory" water stewardship fee that is charged to each acre-foot of water conveyed and distributed by Metropolitan.

Rationale: The Composite also endorses this approach to continue the financial support of local resource and conservation Best Management Practices (BMPs) development. However, the Composite proposes the use of an accounting/market mechanism similar to The San Diego County Water Authority's suggestion that a revolving fund be established for the administration of local resource and conservation funds. The proposed accounting mechanism will be designed to address concerns raised by the San Diego County Water Authority about system roll-off by creating clear linkages between the costs and benefits of investments in local resources. Once these linkages are established using the WSDM drought allocation formula to demonstrate the benefits of trading local resource development for imported water supply, the integration of local resources into a true collaborative regional planning effort between Metropolitan and the member agencies will be more complete.

Power rate

Proposal recommendations: All of the proposals imply that the variable cost of power should be recovered by a commodity charge. Wheeling parties have the choice of paying for their own power supply or to pay Metropolitan for power service, including increases in power costs associated with a transaction.

Rationale: The Composite adopts this approach. The Composite further recommends that the significant variability in Metropolitan's power costs be managed by the reserve fund system to insulate the member agencies and retail purveyors from changes in the cost of pumping water to Southern California caused by energy market conditions and Metropolitan's State Water Contract billing arrangements. The source of funds for the initial establishment of the reserve fund system would be Metropolitan's current Rate Stabilization Fund.

Uniform treatment surcharge

Proposal recommendations: The proposals put forward a range of how the costs of providing treated water service should be allocated. The range includes a uniform treatment surcharge (Member Agency Managers' proposal), which provides like service for like rates and a facilities-based approach (San Diego County Water Authority proposal). The composite uses a uniform treatment surcharge.

Rationale: In keeping with the spirit of a regional provider approach and in the interest of not disadvantaging any one party, the Composite recommends the use of a uniform treatment surcharge for all five of Metropolitan's treatment plants. The treatment surcharge should recover the costs of providing treatment plant capacity to meet annual average demands. The cost of providing capacity to meet peak demands should be allocated using an appropriate charge that reflects the use of peak treated water capacity.

Interruptible service agreements

Proposal recommendations: Several of the proposals recognized the need for interruptible service agreements to accommodate the service needs of both groundwater replenishment customers and agricultural customers.

Rationale: The Composite acknowledges the importance of interruptible service and shall in the detailed design of the rate structure provide parameters for negotiating interruptible service agreements. In general the cost of interruptible service should provide like services for like rates and reflect the value of the interruptible service to the region.

Charge(s) for new system users

Proposal recommendations: The issue of how to allocate some of the costs of providing system capacity to meet the needs of new users is an intractable problem for the Metropolitan system. The Composite follows the lead of the Member Agency Manager's proposal and The Simple Plan.

Rationale: The Composite proposes to allocate some cost of system capacity to new users. The exact method for doing so will be determined as part of the detailed rate design.

New Facility Investments

Proposal Recommendations: All of the proposals recommended a new process for deciding on new facility investments.

Rationale: The Composite requires that a new decision-making process for investments in facilities be established in order to ensure fiscal accountability and financial commitment for these investments and to promote a collaborative planning effort between Metropolitan and member agencies in the development of water projects.

Reserves

Although it is expected that Metropolitan's fixed revenues will increase under the Composite Framework, it is unknown at this time how much the aggregate regional risk of fluctuations in sales volume due to hydrology will be reduced. It is also important to recognize that some market (price) risk is being introduced. As part of the detailed rate design, the Composite will develop a reserve system governed by appropriate minimum and maximum reserve levels to ensure that an unacceptable amount of risk is not transferred to the member agencies and retail purveyors. In addition, the maximum reserve level will ensure that the Southern California rate payers are not unduly burdened with the cost of carrying reserves in excess of what is needed to mitigate the identified risks. Unneeded reserves could also be credited back to the member agencies.

Retail purveyor concerns

Throughout the Strategic Planning process staff has listened to the concerns of the retail purveyors as communicated by the member agencies that represent them and will keep these concerns in mind as the detailed rate design progresses. In summary, four common themes are being voiced by the majority of retail purveyors: (1) keep it fair (2) keep it as simple as possible (3) minimize the transfer of risk and (4) provide enough advance notice of rate structure changes that the retail purveyors can adjust their rate cycles and budgets if necessary.

The following table briefly provides a comparison of which general features from the proposed rate structure frameworks are integrated into the Composite Framework.

COMPOSITE OF PROPOSED RATE STRUCTURE FRAMEWORKS					
	Composite Framework	Member Agency Managers Proposal	Azurix: The Choice Model	SDCWA: Framework of Key Contract Terms	Directors Swan and Owen: The Simple Plan
<i>Framework Features</i>					
<i>Supply</i>					
Take or pay supply contracts	X	X	X	X	X
Two-tier pricing structure	X	X	X	X	X
Needs based allocation of supply (WSDM Plan)	X	X	X		X
Use of market mechanisms	X	X	X	X	X
<i>Conveyance and distribution (wheeling)</i>					
Contractual rights to conveyance capacity				X	
Incremental cost wheeling for conveyance above contract amount				X	
Zonal pricing for distribution and treatment				X	
Market allocation of capacity (e.g. conveyance) not under contract			X		
Uniform System Access Rate for Conveyance and Distribution (Wheeling)	X	X	X		
Other Charge(s) to recover cost of capacity for Peaking	X	X			X
<i>Local resource and conservation development</i>					
Uniform water stewardship rate	X	X	X	X	X
<i>Power (pumping)</i>					
Power rate	X	X	X	X	X

COMPOSITE OF PROPOSED RATE STRUCTURE FRAMEWORKS					
	Composite Framework	Member Agency Managers Proposal	Azurix: The Choice Model	SDCWA: Framework of Key Contract Terms	Directors Swan and Owen: The Simple Plan
<i>Treatment</i>					
Uniform treatment surcharge	X	X			X
<i>Other</i>					
Interruptible Service Agreements	X	X		X	X
Charge(s) for new system users	X	X			X

Review

Review of the Composite Rate Structure Framework Based the Board Policy Principles and Guidelines

The composite rate structure framework (Composite) provides an approach of merging the common and meritorious elements of the four rate structure proposals submitted to the Strategic Plan Steering Committee on February 23, 2000. One of the key objectives of the Composite is to meet the Board's policy principles and the Strategic Plan Steering Committee's guidelines for the rate structure. The following discussion compares the Composite these Board principles and guidelines.

Strategic Plan Policy Principles (Approved by the Board on December 16, 1999)

Regional Provider. Metropolitan is the regional provider of water for its service area. In this capacity, Metropolitan is the steward of regional infrastructure and the regional planner responsible for drought management and coordination of supply and facility investments. Regional water services should be provided to meet the needs of the member agencies. Accordingly, the equitable allocation of water supplies during droughts will be based on water needs and adhere to the principles established by the Water Surplus and Drought Management Plan.

Regional Approach: In keeping with a regional approach, rates and charges in the Composite Framework are applied on a uniform basis (postage stamp) across the service area and are not disaggregated into separate geographic areas within the service area. This approach recognizes that in the past the member agencies have collectively invested in resources and infrastructure in efforts to treat member agencies equally and provide comparable service reliability to each member agency. It is consistent with the policy objective of the Board to preserve a regional cooperative of agencies to capitalize on risk sharing and beneficial economies of scale.

Infrastructure. The Composite supports Metropolitan's role as the steward of infrastructure by ensuring that the costs of infrastructure are recovered in a manner that reflects the use or "load" placed on the conveyance system by users. . This approach is similar to the "load-based" or "demand/commodity" approaches utilized in rate structure designs in the water, electric, and gas sectors. Under the Composite, the System Access Charge, a uniform commodity rate, recovers the costs of conveying water on an annual average basis. Although the remaining system capacity is not used on an annual average basis, it accommodates deliveries to meet peak and future demands. This portion of capacity would be recovered through fixed charges, such as the readiness-to-serve charge, peaking charge, growth charge, additional tax from State Water Project (SWP) authorization, and/or others. The "load-based" approach enables Metropolitan to better manage infrastructure investments by providing the following benefits.

- (1) Rate equity by allocating a greater share of the cost of system expansion to those areas responsible for the cost;

- (2) Price incentives to invest in economical local resource development and conservation to avoid the additional costs of capacity expansion;
- (3) Price signal to encourage agencies to baseload demands on infrastructure, resulting in greater overall efficiency by using more of Metropolitan's "sunk-cost" investments and avoiding redundant future investments.
- (4) Fair access to Metropolitan's system through a uniform charge that is paid by any entity using the system to convey water from its source of origin to a delivery point within Metropolitan's service area.

Regional Planning. Under the Composite, Metropolitan is responsible for planning to meet the retail reliability goals determined by the Board. These reliability goals would ensure that no single member agency is disadvantaged or put at undue risk by unexpected supply shortages due to potential uncertainties in local resources development and developing competitive market transactions. Similar measures have been implemented by electric utilities to ensure the continuation of basic services to customers while the industry transitions towards competitive markets.

Future investments in supply and facilities would be planned jointly between Metropolitan and the member agencies and presented to the Board for consideration. The Composite requires that a new decision-making process for these investments in facilities be established in order to ensure fiscal accountability and financial commitment for investments and to promote a collaborative planning effort between Metropolitan and member agencies in the development of water projects.

Water Services. As the regional provider, Metropolitan would provide unbundled water services to offer member agencies a choice of services and to establish a clear linkage of costs and benefits for services. These water services include supply, conveyance, distribution, treatment, and power. In addition, the Composite provides for the continuation of financial support for the development of water management programs that benefit the region.

Drought Allocation (WSDM). Under the Composite, the Water Surplus and Drought Management (WSDM) Plan principles adopted by the Board govern the allocation of exchange pool supply during shortage periods. Contract supplies are the most reliable and are subject to curtailment only in the most extreme emergencies.

Financial Integrity. The Metropolitan Board will take all necessary steps to assure the financial integrity of the agency in all aspects of its operations.

Costs of Metropolitan's services are recovered through a rate structure framework composed of long-term supply contracts, market mechanisms, and standard cost of services rates and charges.

Supply. Costs would be recovered through the base supply contracts with member agencies, the insurance pool purchases, interruptible supply contracts, and the reserve funds. This approach establishes different classes of service according to varying supply reliability requirements and provides a clearer linkage between the benefits and costs of the supply services. In the event that one or more member agencies choose not to contract for supply, the Board could set a uniform rate for non-contracting agencies to recover supply costs. Non-contracting agencies would still be subject to the WSDM Plan principles established by the Board and incorporated in the contracts.

Conveyance/Distribution. Costs for the system would be recovered through a "load-based" or "modified demand/commodity" approach similar to current rate structure practices in the electric industry. The System Access Charge, a uniform commodity rate, recovers the costs of conveying water on an annual average basis. Fixed charges recover the cost of the remaining system capacity that is not used on an annual average basis, but needed to meet peak and future demands. This approach establishes a clearer linkage between the benefits and costs of delivery service according to system use or "loads".

Water Quality. It may be appropriate to unbundle the costs of source water quality improvements and allocate these costs through a separate rate or charge. In-basin treatment costs are recovered through a uniform treatment charge.

Water Management. Costs are recovered by the Water Stewardship Charge, which is paid by all users for every acre-foot of throughput in the system.

Local Resources Development. Metropolitan supports local resources development in partnership with its member agencies and by providing its member agencies with financial incentives for conservation and local projects.

The costs of continuing to provide financial support for the development of local resources and conservation would be recovered by a Water Stewardship Rate. The surcharge is applied to wheeled water as well as water sold by Metropolitan in order to ensure the continued strong regional support of local resources and conservation investments and to create a level playing field between sellers of wheeled water and Metropolitan.

Imported Water Service. Metropolitan is responsible for providing the region with imported water, meeting the committed demands of its member agencies.

Under this framework, Metropolitan would provide imported water services to meet the diverse demands of the member agencies. These services include (1) firm, base supplies to meet committed demands through contracts, (2) exchange pool supplies, as needed by member agencies to meet the fluctuating demands under drought, emergency, and competitive market conditions; and (3) interruptible deliveries for groundwater replenishment and agricultural purposes.

***Choice and Competition.** Beyond the committed demands, the member agencies may choose the most cost-effective additional supplies from either Metropolitan, local resources development and/or market transfers.*

The Composite creates choice for member agencies within and beyond their committed demands under contract. Individual member agencies may increase or decrease their long-term contracted commitments by transferring a portion of their contracted supply to another member agency.

Beyond committed demands, the member agencies have the choice and flexibility to secure additional supplies through several means.

- Exchange pool supply would be available to all member agencies at a price that is reflective of hydrologic and market conditions. In addition, market mechanisms could be used for the voluntary exchange among member agencies of new imported and local water supplies in the Exchange Pool.
- One or more agencies may request that Metropolitan secure additional supply on their behalf.
- Member agencies may develop local resources or invest in water transfers independently to meet their demands and help offset regional dependence on imported water.
- Member agencies may secure additional supply through a market process, such as on-line trading and purchases.

***Responsibility for Water Quality.** Metropolitan is responsible for advocating source water quality and implementing in-basin water quality for imported supplies provided by Metropolitan to assure full compliance with existing and future primary drinking water standards and to meet the water quality requirements for water recycling and groundwater replenishment.*

Source Water Quality. Under the Composite, Metropolitan would advocate source water quality improvements for member agencies. In addition, Metropolitan would continue to protect water quality by setting minimum standards for all water moved through the system. The Composite provides for the recovery of costs for source quality through the tiered pricing system.

In-Basin Treatment. The cost of providing treated water service would be recovered through a uniform commodity charge. Water treatment for future water supplies will be an unbundled service so that member agencies can decide whether to contract for treated water or receive raw water and provide their own treatment.

Cost Allocation and Rate Structure. The fair allocation of costs and financial commitments for Metropolitan's current and future investments in supplies and infrastructure may not be reflected in status quo conditions and will be addressed in a revised rate structure.

The Composite is based on the common, meritorious ideas found in the four proposed frameworks. See Summary of Director Timothy F. Brick, Vice-Chairman of the Strategic Plan Steering Committee, presented at the March 13-14, 2000 Workshop.

Steering Committee Guidelines Approved on January 6, 2000

"Needs-Based" Allocation. Dry year allocation should be based on need.

Exchange Pool water is allocated in a dry year using the WSDM Plan principles.

No Significant Disadvantage. Rate structure should not place any class of people in the position of significant economic disadvantage.

Fair. Rate structure should be fair.

The framework strives to be fair and avoid placing any customer class or member agency in the position of significant disadvantage by adhering to fundamental ratemaking principles.

- **Rate Equity.** A reasonable nexus between the costs of the services provided and the benefits received from those services should be developed. The framework provides this nexus through the unbundling of costs by categories of service (e.g. supply, conveyance, distribution, treatment, and power) and the allocation of infrastructure costs based on system use or "load".
- **Equal Treatment.** All water users are treated equally. Member agencies pay the same rates and charges for like classes of service. All entities pay uniform charges for system access and water stewardship

Simple. Rate structure should be reasonably simple and easy to understand.

The Composite attempts to balance the administrative complexity of a rate structure with the benefits of retaining coordinated regional planning and economies of scale, remedying customer equity issues, and facilitating market mechanisms.

Metropolitan Revenue Stability. Rate structure should be based on stability of Metropolitan's revenue and coverage of costs.

Costs of Metropolitan's services are recovered through a rate structure framework composed of long-term supply contracts, incentive pricing, and standard cost of services rates and charges.

Certainty and Predictability. Rate structure should provide certainty and predictability.

A significant driver of the Composite is the need to decrease the variability of revenues while minimizing the risk to the member agencies. The proposal recommends long-term supply contracts with member agencies and certain fixed charges designed to add predictability to Metropolitan's revenue stream. In addition, consideration has been given to concerns expressed by the member agencies and retail purveyors that an unacceptable amount of risk not be transferred to them.

Addendum

Composite Rate Structure Framework

Introduction

The following summarizes a composite rate structure framework (Composite) prepared by staff at the request of the Board. In an effort to create clear linkages between the benefits and costs of the services provided by Metropolitan, the Composite borrows heavily from the four rate structure framework proposals received by the Metropolitan Board as part of the Strategic Planning process. The Composite begins to design a rate structure composed of long-term supply contracts, market mechanisms, and standard utility industry cost of service rates and charges to recover the cost of the services that Metropolitan provides to the region. The proper rate design will allow the Southern California water market to develop as one driven by local communities looking for competitive choices and will also preserve the efficiencies of a regional approach. The proper rate design will also not place any one party at a significant disadvantage as compared to any other party.

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After hearing the presentation of each proposal and further exploring the merits of each proposal the workshop was summarized by Director Brick, vice chair of the Strategic Plan Steering committee. Director Brick's summary pointed out several ideas that were common to all four proposals including:

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- A tiered pricing approach
- The establishment of a contractual relationship between Metropolitan and the member agencies; specifically the use of the principles of a take or pay contract to dispel the uncertainty surrounding the allocation of supplies that is in part due to Preferential Rights
- The development of a fair system access fee
- The use of market mechanisms to allocate resources among agencies beyond their base contractual supplies

- A common commitment to water stewardship, conservation and better management of our water supplies.

Following the workshop the Board directed staff "...to develop a preliminary rate structure framework that integrates the meritorious elements of all four proposals..."¹ The following briefly discusses staff's initial efforts to develop a composite rate structure framework. There is a brief section for each rate structure feature (e.g. contracts) included in the Composite. The proposal(s) from which the feature was borrowed are identified and a basic rationale for the inclusion of the feature is stated.

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Rationale: In keeping with a regional approach, rates and charges in the Composite Framework are applied on a uniform basis (postage stamp) across the service area and are not broken down into separate geographic areas within the service area. This approach recognizes that in the past the member agencies have collectively invested in resources and infrastructure, including distribution facilities, in efforts to treat each member agency equally and provide comparable service reliability to each member agency. Due to these past regional investments, many of the member agencies maintain that it would be inequitable to now create significant differentials in the cost of service based upon geographic unbundling of the system. To impose a geographic or facilities based pricing approach to recover the costs of the existing system would create winners and losers within the region after the investment decisions have already been made and price cannot influence behavior to reduce cost. Zonal pricing is technically possible within Metropolitan's system, but it is not practical to apply this approach if the policy interest of the Board is to preserve a regional cooperative of agencies to capitalize on risk sharing and beneficial economies of scale.

Supply contracts

Proposal recommendations: Each of the four proposals employed the general principles of a take or pay contract to both reduce Metropolitan's reliance on variable commodity revenues and to provide greater certainty with respect to the allocation of supply.

¹ Director Grandsen's motion regarding MWD Strategic Plan workshop, March 14th 2000

Rationale: The Composite also relies on a long-term (thirty-year) take or pay contractual arrangement between Metropolitan and the member agencies. The contract would be long-term with the provision for regulated annual adjustments (e.g. modified evergreen or 30-year). The term of the contracts should provide financial commitment over a duration that recovers the costs of ~~is roughly equivalent to~~ Metropolitan's State Water Contract and long-term debt service obligations and therefore provides greater certainty. The supply contract amounts will initially be determined by the member agencies within a minimum and maximum amount. Agencies may increase and decrease their contract amounts so that the risk of signing up for a long-term supply contract can be better managed by the member agencies and retail purveyors. The member agencies have the choice of increasing and decreasing contract supplies through exchanges between agencies on an annual or long-term basis and/or the development of additional supplies independently or in cooperation with Metropolitan. Increases and decreases in contract supplies ~~would~~ be regulated to assure that the overall balance of supply and fiscal responsibility among the member agencies is maintained.

Two-tier pricing structure

Proposal recommendations: Each of the four proposals is structured around some form of a two-tiered pricing approach.

Rationale: The Composite also uses a tiered pricing approach with the supply contracts defining the first tier and an "exchange pool" defining the second tier. All services with the exception of supply are priced the same in both tiers (e.g. the cost of conveyance and distribution is the same for a unit of contract water and a unit of exchange pool water). The cost of supply differs between the tiers. The Allocation of supply cost between contract and exchange pool supply can be handled in a number of different ways. The various methods of pricing supply will be examined as part of the detailed rate design and related back to policy and financial implications. In general the pricing of supply should stabilize Metropolitan's revenues, provide an appropriate price signal that is reflective of hydrologic and market conditions and not transfer an unacceptable amount of supply cost risk to the member agencies or retail purveyors. The tiered pricing would meet four basic goals:

- No member agency should be placed in a position of significant economic disadvantage.
- Member agencies should have equal access to Metropolitan's system according to need (WSDM Plan).
- Pricing should balance the financial risks and stability between Metropolitan and the member agencies.
- Tier 1 prices should be lower than Tier 2.

The ability of Metropolitan to contract for supply is not impeded by Preferential Rights. As an assurance, the supply contracts under Tier 1 will stipulate that Water Code Sections 350 – 359 will be used as the basis for allocating our limited water supplies among member agencies.

Needs based allocation of supply (WSDM Plan)

Proposal recommendations: The Member Agency Managers's proposal, The Simple Plan, and in the event that a market fails to allocate resources The Choice Model, accommodate the use of a needs based allocation approach consistent with the guiding policy principles adopted by the Board for the Water Surplus and Drought Management (WSDM) Plan.

Rationale: In the event of a shortage the Composite relies on the use of a need based supply allocation for exchange pool water. Specifically the Composite advocates the use of the WSDM allocation formula developed in cooperation with the member agencies as part of the WSDM plan. The Board would adopt a formula as part of the WSDM Plan following approval of a new rate structure.

Use of market mechanisms

Proposal recommendations: Each of the four proposals uses market mechanisms to shift some of the cost and risk of developing new supplies to the private sector. The Choice model as proposed by Azurix advocates the development of transparent information on potential transactions to reduce transaction costs and facilitate the development of a market for water resources where local communities have greater flexibility and choice.

Rationale: As the water market develops the Composite will accommodate market mechanisms. In particular, Metropolitan can enable the accounting of transactions between willing parties that want to develop additional imported water supplies, invest in additional local resources, and increase or decrease their MWD contract supplies. To facilitate the development of a market a tremendous amount of information will need to be organized into databases that are open to all interested parties. The technology available today for this purpose, particularly the Internet, creates tremendous possibilities. In fact, The Choice Model proposes the use of an Internet based trading system. This concept would be compatible with the Composite Framework since the member agencies would be free to purchase additional supplies developed for them by Metropolitan or a third party.

Uniform system access rate and other charges for conveyance and distribution (wheeling)

Proposal recommendations: The Composite recovers the full cost of Metropolitan's conveyance and distribution capacity, as proposed by all four proposals. The Composite borrows the concept that there should be a uniform system access rate (SAR), that recovers the costs of conveying water on an annual average basis, from the proposals made by the Member Agency Managers's and Azurix. The remaining capacity accommodates deliveries to meet peak and future demands and the associated costs would be recovered through other charges, such as the readiness-to-serve charge, peaking

charge, growth charge, additional tax from State Water Project authorization, and/or others.

Rationale: The Composite's approach of recovering costs based on the use of conveyance and distribution capacity is similar to the "load-based" or "demand/commodity" approaches utilized in rate structure designs in the water, electric, and gas sectors. The SAR will recover the costs of providing conveyance and distribution capacity to meet average annual demands and will be charged to each acre-foot of water that moves through the Metropolitan system. The costs for the remaining capacity would be recovered through other charges. A uniform system wide charges ~~is~~ are proposed rather than a facilities based or zonal charges in order to avoid a situation where one party is put at a significant disadvantage due to their geographic location in the system, or historic costs incurred for facilities that provide redundancy and other advantages but not necessarily the lowest cost.

Other charge(s) to recover cost of capacity for peaking

Proposal recommendations: ~~Both the Member Agency Manager's proposal and The Simple Plan make reference to the use of another charge or charges to allocate the cost of providing capacity to meet peak demands.~~

Rationale: ~~The Composite will further develop this concept during the detailed design of the rate structure. A properly designed charge may be an appropriate way to allocate the costs of providing capacity to meet peak demands. In general, most utilities allocate the physical capacity of their systems in part to commodity charges and in part to some type of charge that allocates costs in a manner representative of the different peak loads placed on the system.~~

Uniform water stewardship rate

Proposal recommendations: Among the four proposals there was a common commitment to water stewardship through the continued support of conservation and development of local resources. This support is funded in several of the proposals by a uniform or "non-discriminatory" water stewardship fee that is charged to each acre-foot of water conveyed and distributed by Metropolitan.

Rationale: The Composite also endorses this approach to continue the financial support of local resource and conservation Best Management Practices (BMP's) development. However, the Composite proposes the use of an accounting/market mechanism similar to The San Diego County Water Authority's suggestion that a revolving fund be established for the administration of local resource and conservation funds. The proposed accounting mechanism will be designed to address concerns raised by the San Diego County Water Authority about system roll-off by creating clear linkages between the costs and benefits of investments in local resources. Once these linkages are demonstrated using the

WSDM drought allocation formula to demonstrate the benefits of trading local resource development for imported water supply, the integration of local resources into a true collaborative regional planning effort between Metropolitan and the member agencies will be more complete.

Power rate

Proposal recommendations: All of the proposals imply that the variable cost of power should be recovered by a commodity charge. Wheeling parties have the choice of paying for their own power supply or to pay Metropolitan for power service, including increases in power costs associated with a transaction.

Rationale: The Composite adopts this approach. The Composite further recommends that the significant variability in Metropolitan's power costs be managed by the reserve fund system to insulate the member agencies and retail purveyors from changes in the cost of pumping water to Southern California caused by energy market conditions and Metropolitan's State Water Contract billing arrangements. The source of funds for the initial establishment of the reserve fund system would be Metropolitan's current Rate Stabilization Fund.

Uniform treatment surcharge

Proposal recommendations: The proposals put forward a range of how the costs of providing treated water service should be allocated. The range includes a uniform treatment surcharge (Member Agency Managers's proposal), which provides like service for like rates and a facilities based approach (San Diego County Water Authority proposal). The composite uses a uniform treatment surcharge.

Rationale: In keeping with the spirit of a regional provider approach and in the interest of not disadvantaging any one party, the Composite recommends the use of a uniform treatment surcharge for all five of Metropolitan's treatment plants. The treatment surcharge should recover the costs of providing treatment plant capacity to meet annual average demands. The cost of providing capacity to meet peak demands should be allocated using an appropriate charge that reflects the use of peak treated water capacity.

Interruptible service agreements

Proposal recommendations: Several of the proposals recognized the need for interruptible service agreements to accommodate the service needs of both groundwater replenishment customers and agricultural customers.

Rationale: The Composite acknowledges the importance of interruptible service and shall in the detailed design of the rate structure provide parameters for negotiating interruptible service agreements. In general the cost of interruptible service should provide like services for like rates and reflect the value of the interruptible service to the region.

Charge(s) for new system users

Proposal recommendations: The issue of how to allocate some of the costs of providing system capacity to meet the needs of new users is an intractable problem for the Metropolitan system. The Composite follows the lead of the member agency manager's proposal and The Simple Plan.

Rationale: The Composite proposes to allocate some cost of system capacity to new users. The exact method for doing so will be determined as part of the detailed rate design.

New Facility Investments

Proposal Recommendations: All of the proposals recommended a new process for deciding on new facility investments.

Rationale: The Composite requires that a new decision-making process for investments in facilities be established in order to ensure fiscal accountability and financial commitment for these investments and to promote a collaborative planning effort between Metropolitan and member agencies in the development of water projects.

Reserves

Although it is expected that Metropolitan's fixed revenues will increase under the Composite Framework it is unknown at this time how much the aggregate regional risk of fluctuations in sales volume due to hydrology will be reduced. It is also important to recognize that some market (price) risk is being introduced. As part of the detailed rate design the Composite will develop a reserve system governed by appropriate minimum and maximum reserve levels to ensure that an unacceptable amount of risk is not transferred to the member agencies and retail purveyors. In addition the maximum reserve level will ensure that the Southern California rate payers are not unduly burdened with the cost of carrying reserves in excess of what is needed to mitigate the identified risks. Unneeded reserves could also be credited back to the member agencies.

Retail purveyor concerns

Throughout the Strategic Planning process staff has listened to the concerns of the retail purveyors as communicated by the member agencies that represent them and will keep these concerns in mind as the detailed rate design progresses. In summary four common themes are being voiced by the majority of retail purveyors (1) keep it fair, (2) keep it as simple as possible and (3) minimize the transfer of risk and (4) provide enough advance notice of rate structure changes that the retail purveyors can adjust their rate cycles and budgets if necessary.

The following table briefly provides a comparison of which general features from the proposed rate structure frameworks are integrated into the Composite Framework.

COMPOSITE OF PROPOSED RATE STRUCTURE FRAMEWORKS					
	Composite Framework	Member Agency Managers Proposal	Azurix: The Choice Model	SDCWA: Framework of Key Contract Terms	Directors Swan and Owen: The Simple Plan
<i>Framework Features</i>					
<i>Supply</i>					
Take or pay supply contracts	X	X	X	X	X
Two-tier pricing structure	X	X	X	X	X
Needs based allocation of supply (WSDM Plan)	X	X	X		X
Use of market mechanisms	X	X	X	X	X
<i>Conveyance and distribution (wheeling)</i>					
Contractual rights to conveyance capacity				X	
Incremental cost wheeling for conveyance above contract amount				X	
Zonal pricing for distribution and treatment				X	
Market allocation of capacity (e.g. conveyance) not under contract			X		
Uniform System Access Rate for Conveyance and Distribution (Wheeling)	X	X	X		
Other Charge(s) to recover cost of capacity for Peaking	X	X			X
<i>Local resource and conservation development</i>					
Uniform water stewardship rate	X	X	X	X	X
<i>Power (pumping)</i>					
Power rate	X	X	X	X	X

COMPOSITE OF PROPOSED RATE STRUCTURE FRAMEWORKS					
	Composite Framework	Member Agency Managers Proposal	Azurix: The Choice Model	SDCWA: Framework of Key Contract Terms	Directors Swan and Owen: The Simple Plan
<i>Treatment</i>					
Uniform treatment surcharge	X	X			X
<i>Other</i>					
Interruptible Service Agreements	X	X		X	X
Charge(s) for new system users	X	X			X

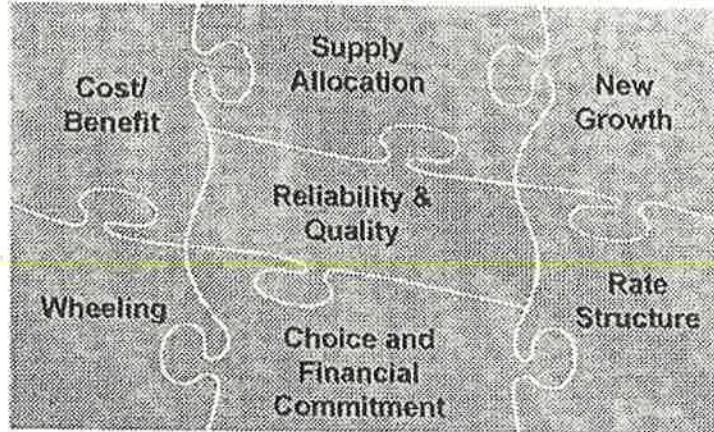


**Metropolitan Water District
of Southern California**

**STRATEGIC PLAN WORKSHOP
CONSIDERATION OF COMPOSITE
RATE STRUCTURE FRAMEWORK**

April 11, 2000

PUTTING THE PIECES TOGETHER



Office of the General Manager

April 11, 2000

BUILDING A PLATFORM FOR THE FUTURE



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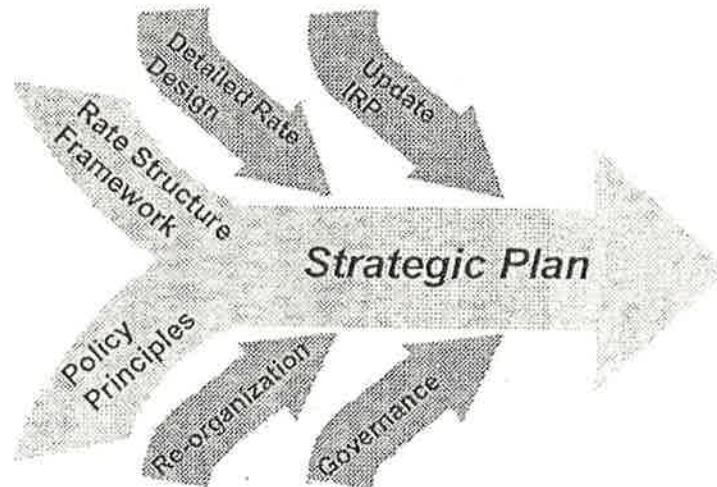
POLICY PRINCIPLES

- Regional Provider
- Financial Integrity
- Local Resources Development
- Imported Water Service
- Choice and Competition
- Responsibility for Water Quality
- Cost Allocation and Rate Structure

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UPCOMING INITIATIVES



COMPOSITE FRAMEWORK RATE STRUCTURE

COMPOSITE OF PROPOSED RATE STRUCTURE FRAMEWORKS

Supply					
	Composite Framework	Member Agency Manager's Proposal	Azurix: The Choice Model	SDCWA: Framework of Key Contract Terms	Directors Swan/ Owen: The Simple Plan
Supply contracts	X	X	X	X	X
Two-tier pricing	X	X	X	X	X
Needs based allocation (WSDM Plan)	X	X	X		X
Market mechanisms	X	X	X	X	X

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COMPOSITE OF PROPOSED RATE STRUCTURE FRAMEWORKS

Conveyance and Distribution					
	Composite Framework	Member Agency Manager's Proposal	Azurix: The Choice Model	SDCWA: Framework of Key Contract Terms	Directors Swan Owen: The Simple Plan
Contract rights to conveyance capacity				X	
Incremental wheeling costs for conveyance above contract right				X	
Zonal pricing for Distribution and Treatment				X	
Market allocation of capacity not under contract			X		
Uniform System Access Rate for wheeling	X	X	X		
Other Charges to allocate cost of capacity	X	X			X

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COMPOSITE OF PROPOSED RATE STRUCTURE FRAMEWORKS

Local Resource and Conservation Development					
	Composite Framework	Member Agency Manager's Proposal	Azurix: The Choice Model	SDCWA: Framework of Key Contract Terms	Directors Swan Owen: The Simple Plan
Uniform water stewardship rate	X	X	X	X	X

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COMPOSITE OF PROPOSED RATE STRUCTURE FRAMEWORKS

Power*					
	Composite Framework	Member Agency Manager's Proposal	Azurix: The Choice Model	SDCWA: Framework of Key Contract Terms	Directors Swan Owen: The Simple Plan
Power rate	X	X	X	X	X

*Wheeling party would pay increased cost of power

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COMPOSITE OF PROPOSED RATE STRUCTURE FRAMEWORKS

Treatment					
	Composite Framework	Member Agency Manager's Proposal	Azurix: The Choice Model	SDCWA: Framework of Key Contract Terms	Directors Swan Owen: The Simple Plan
Uniform treatment surcharge	X	X			X

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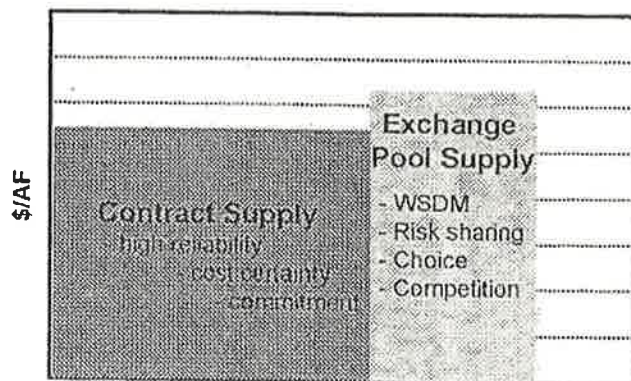
COMPOSITE OF PROPOSED RATE STRUCTURE FRAMEWORKS

	Other				
	Composite Framework	Member Agency Manager's Proposal	Azurix: The Choice Model	SDCWA: Framework of Key Contract Terms	Director's Swan Owen: The Simple Plan
Interruptible Service Agreements	X	X		X	X
Charge for new system users	X	X			X

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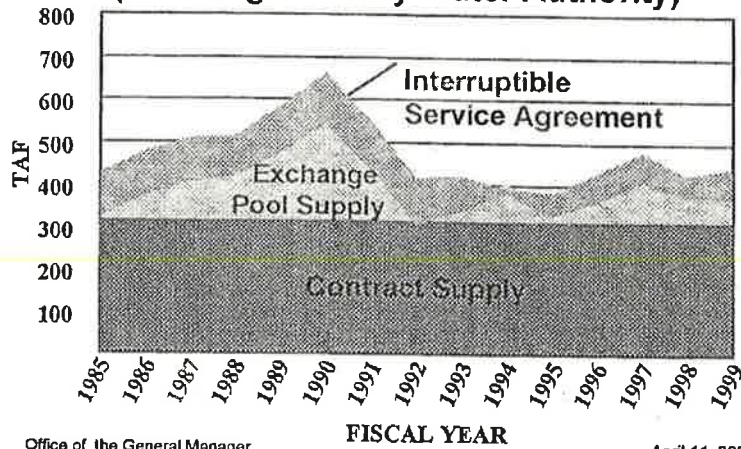
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COMPOSITE FRAMEWORK



MWD System Yield (MAF) ➔

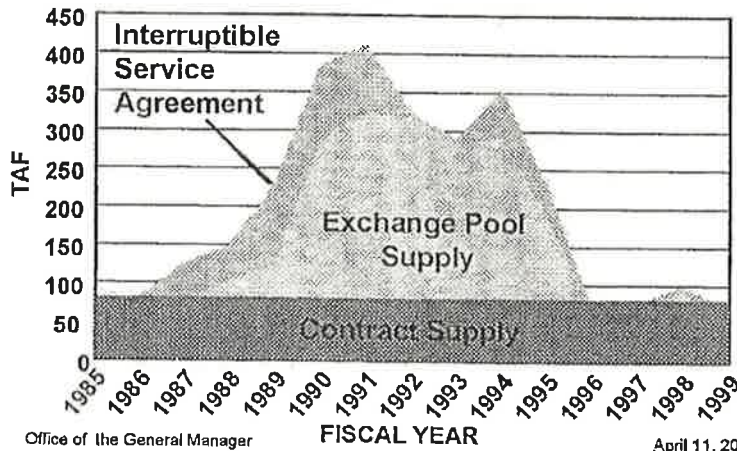
**COMPOSITE FRAMEWORK
and PAST DEMAND BEHAVIOR
(San Diego County Water Authority)**



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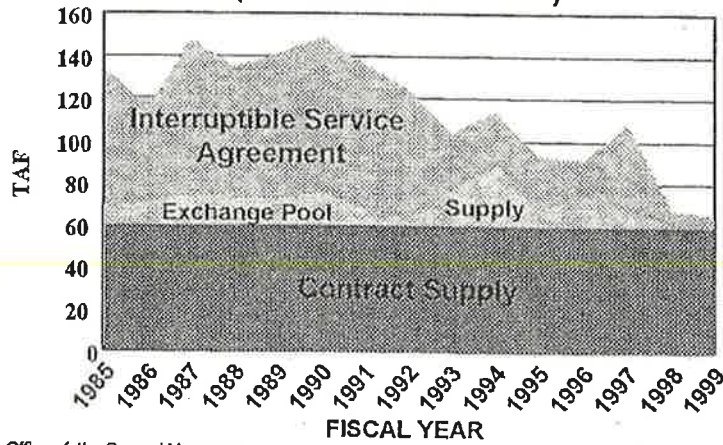
**COMPOSITE FRAMEWORK
and PAST DEMAND BEHAVIOR
(Los Angeles DWP)**



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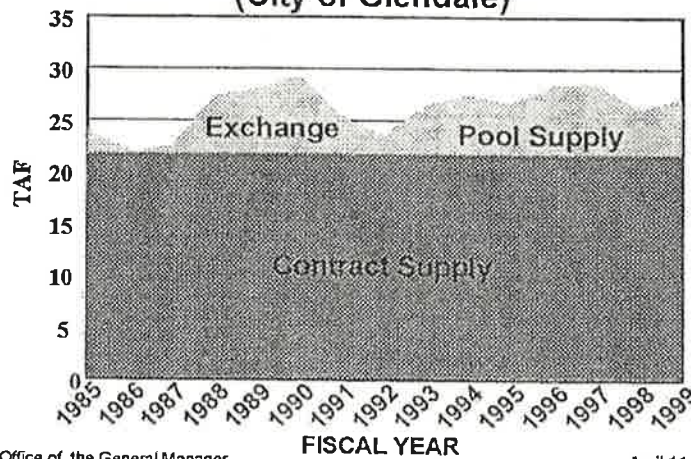
COMPOSITE FRAMEWORK and PAST DEMAND BEHAVIOR (Central Basin MWD)



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COMPOSITE FRAMEWORK and PAST DEMAND BEHAVIOR (City of Glendale)



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Composite Framework: Board Policy Principles

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Regional Provider

Regional Approach

All deliveries of a class
of service pay the same
rates and charges



Policy Implications

- Member agencies treated equally for service reliability
- Recognizes collective past investments
- Supports regional cooperative approach to share risk and gain benefits from economies of scale

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Regional Provider

Steward of Infrastructure

Recovers infrastructure costs based on the use or "load" on system capacity

- "Used" capacity for average annual use
- "Standby" capacity for peak and future demands



Policy Implications

- Greater rate equity
- Price incentive for conservation and local resources
- Efficient use of existing facilities
- Fair access to system

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Regional Provider

Regional Planning

Meet Board's retail reliability goals



Collaborative planning / New decision-making process



Policy Implications

• No member agency is significantly disadvantaged

- Fiscal accountability by MWD
- Financial commitment by member agencies

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Regional Provider

Water Service

Unbundled water service



Policy Implications

- Choice of Services
- Facilitates Competitive Mkt.
- Links costs and benefits

Drought Allocation

WSDM Principles



Policy Implications

- Priority (Highest to Lowest)
- Contract Supplies
- Exchange pool - WSDM alloc.
- Interruptible supplies

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Financial Integrity

Cost Recovery

Costs of MWD Services are recovered through:

- Supply Contracts (Tier 1)
- Exchange Pool (Tier2)
- Interruptible Service Agreements (Ag and GW)



Policy Implications

- Pricing should meet four goals:
- No member agency is significantly disadvantaged
- Equal access to supply according to WSDM
- Balance financial risks and stability between MWD and member agencies
- Tier 1 should be lower than Tier 2

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Choice and Competition

Choice and Competition

Supply choices for agencies above committed demands

- Exchange between agencies (includes trading of contract supplies)
- Assistance by MWD
- Independent investments
- Market transactions

Policy Implications

- Choice provides flexibility to meet diverse needs
- Competition promotes cost-effective supplies

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Cost Allocation and Rate Design

Cost Allocation and

Rate Structure Framework Policy Implications

- Cost-based
- Unbundling of services
- Allocation of costs to service classes
- Cost Recovery
 - Nexus between costs and benefits
 - Equal treatment

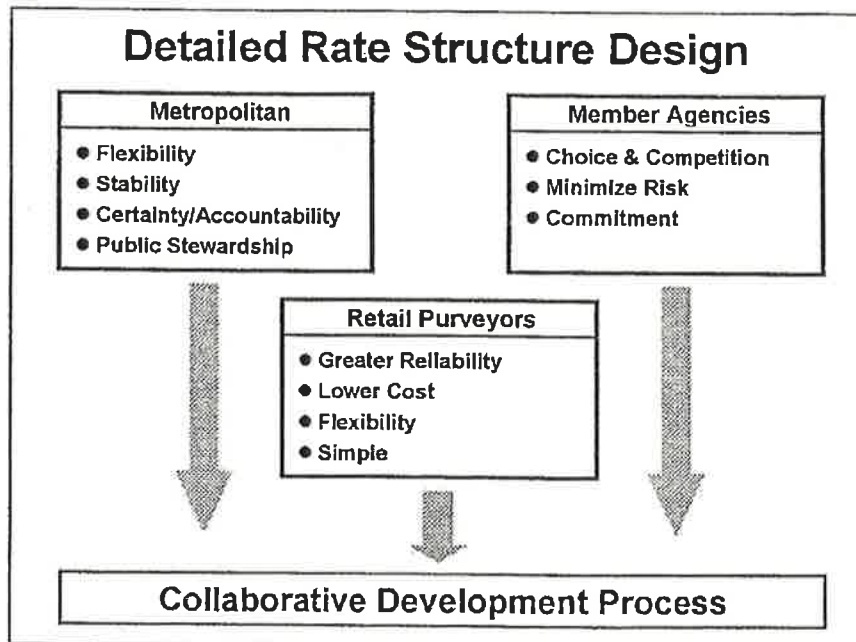
Supports MWD's multiple roles:

- Provider of regional services
- Public Steward
- Provider of choice
- Enable a competitive market

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Strategic Plan: Rate Structure Development Process



Rate Structure Development Process

