San Diego County Water Authority

Metropolitan Water District's 2010/11 Proposed Rates and Charges

Imported Water Committee
January 28, 2010

MWD 2010/11 Budget

San Diego County Water Authority

- MWD sales and exchanges
  - 2010: 1.9 maf, includes 150 taf SDCWA exchanged water
  - 2011: 2.0 maf, includes 160 taf SDCWA exchanged water
- Proposed expenditures: $1.74 Billion
  - $328M for capital projects ($90M PAYG proposed to reduce long-term costs and to reach debt service coverage target)
- Rising revenue requirements ($1.28 Billion) due to increased SWP delivery costs, debt service, PAYGO capital funding, and power costs on the Colorado River

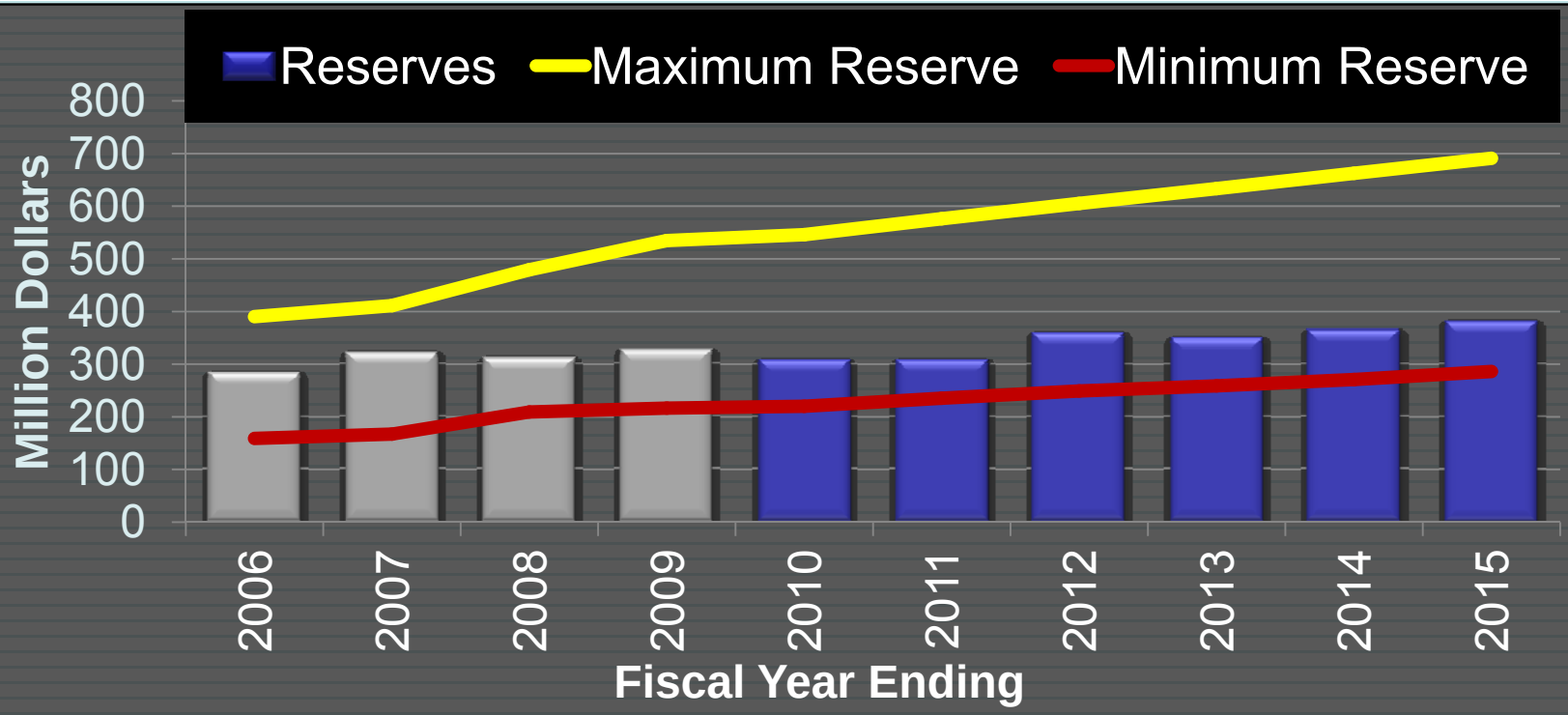
Two Rate Scenarios presented

Sales & exchanges of 1.9 maf for CY 2010; 2.0 maf for CY 2011

San Diego County Water Authority

- Single-year rate increase
  - Recovers full cost of service in 2010/11
  - “Average” increase of 12.6% on 1/1/11
- Two-year rate increase
  - Recovers full cost of service in 2011/12
  - Adopts a two-year rates/charges
  - Requires draws from reserves in 2010/11
  - “Average” increase of 7.5% each in 2011 and again in 2012

Single-Year Rate Increase



AVG RATE INCREASE	2%	3%	6%	14%	20%	12.6%	2%	4%	6%	6%
PAYGO, $M	88	95	43	30	37	95	125	125	125	125
REV BOND CVG	1.8	2.2	1.8	1.8	1.6	1.9	2.1	1.9	2.0	2.0
FIXED CHG CVG.	1.3	1.7	1.3	1.3	1.1	1.3	1.5	1.3	1.3	1.3

Single-Year Rate Increase
(Based On Existing COS Method)

San Diego County Water Authority

Rates and Charges Effective January 1				
	2010	2011	Change $	Change %
Full Service Untreated Volumetric Cost ($/AF)				
Tier 1	$484	$558	$74	15.3
Tier 2	$594	$675	$81	13.6
Replenishment Water Rate Untreated ($/AF)	$366	$440	$74	20.2
Interim Agricultural Water Program Untreated ($/AF)	$416	$513	$97	23.3
Full Service Treated Volumetric Cost ($/AF)				
Tier 1	$701	$775	$74	10.6
Tier 2	$811	$892	$81	9.9
Replenishment Water Rate Treated ($/AF)	$558	$632	$74	13.3
Interim Agricultural Water Program Treated ($/AF)	$615	$718	$103	16.7
Untreated Wheeling/Exchange Rate	$314	$395	$81	25.8

Single-Year Rate Increase

Individual Rate Elements

San Diego County Water Authority

Rates and Charges Effective January 1				
	2010	2011	Change $	Change %
Tier 1 Supply Rate ($/AF)	$101	$112	$11	10.9
Delta Supply Surcharge ($/AF)	$69	$51	$(18)	-24.1
Tier 2 Supply Rate ($/AF)	$280	$280	-	-
System Access Rate ($/AF)	$154	$217	$63	40.9
Water Stewardship Rate ($/AF)	$41	$43	$2	4.9
System Power Rate ($/AF)	$119	$135	$16	13.4
Treatment Surcharge ($/AF)	$217	$217	-	-
Readiness-to-Serve Charge ($M)	$114	$135	$21	18.4
Capacity Charge ($/cfs)	$7,200	$7,200	-	-

Impact to Water Authority

San Diego County Water Authority

- "Average" rate increase at MWD ≠ increase to Water Authority
- MWD services Water Authority purchases: treated water, untreated water, IAWP, and exchange (wheeling)
- MWD rate proposal disproportionately impacts exchange (wheeling) rate
  - "Exchange rate" increase is 25.8% under single-year rate increase

Impact to the Water Authority (cont.)

San Diego County Water Authority

- CRACA Committee's findings used as basis for developing Water Authority's FYs 2010 and 2011 budget
- Adopted multi-year budget incorporated MWD's average rate increase of 19.7 percent effective on September 1, 2009 and a forecasted average rate increase of 20 percent for CY 2011
- One-time 2011 MWD average rate increase of 12.6% to Water Authority in 2011 is consistent with underlying assumptions of the rate forecast presented in the adopted multi-year budget (~20%)
- Two-year MWD average rate increase of 7.5% per year to Water Authority is slightly less than assumed in the adopted multi-year budget

Reduced Sales Represent Risk

San Diego County Water Authority

- If sales decreased by 100 taf
  - Single-year rate increase of 16.0% in 2011
  - Two-year rate increase of 10.5% per year in 2011 and 2012
- If sales decreased by 300 taf
  - Showed a rate increase scenario of 7.5% increase per year in 2011 and 2012
    - Sharply reduced PAYG expenditures to minimum for FYs 2011 – 2013
    - Significant rate increase in CY 2013 (29%) still not enough
    - Increased reserve draws resulting in reserves falling below minimum levels in FYs 2011 – 2014

Next Steps

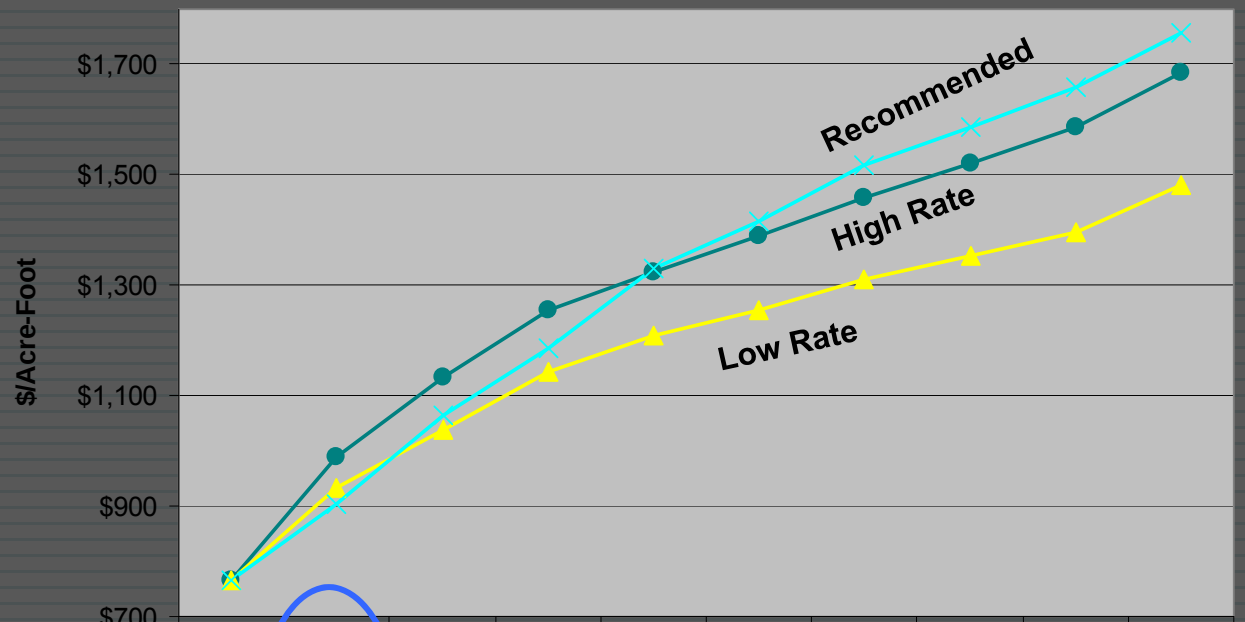
San Diego County Water Authority

- MWD board budget workshops: January 26 & February 23
- Public hearing on rates: March 8
- Budget, rates and allocation adoptions: April 13
- Water Authority jointly funded study with the cities of Long Beach and Los Angeles and Calleguas Municipal Water District to review MWD's 2010/11 budget
- Following the conclusion of IRP strategic policy discussion, a comprehensive rate structure review and cost of service adjustment will follow
- Staff to continue to provide updates on actions taken

San Diego County Water Authority

CRACA "Lite" Rate Forecasts

"All-in" Treated Water Rate

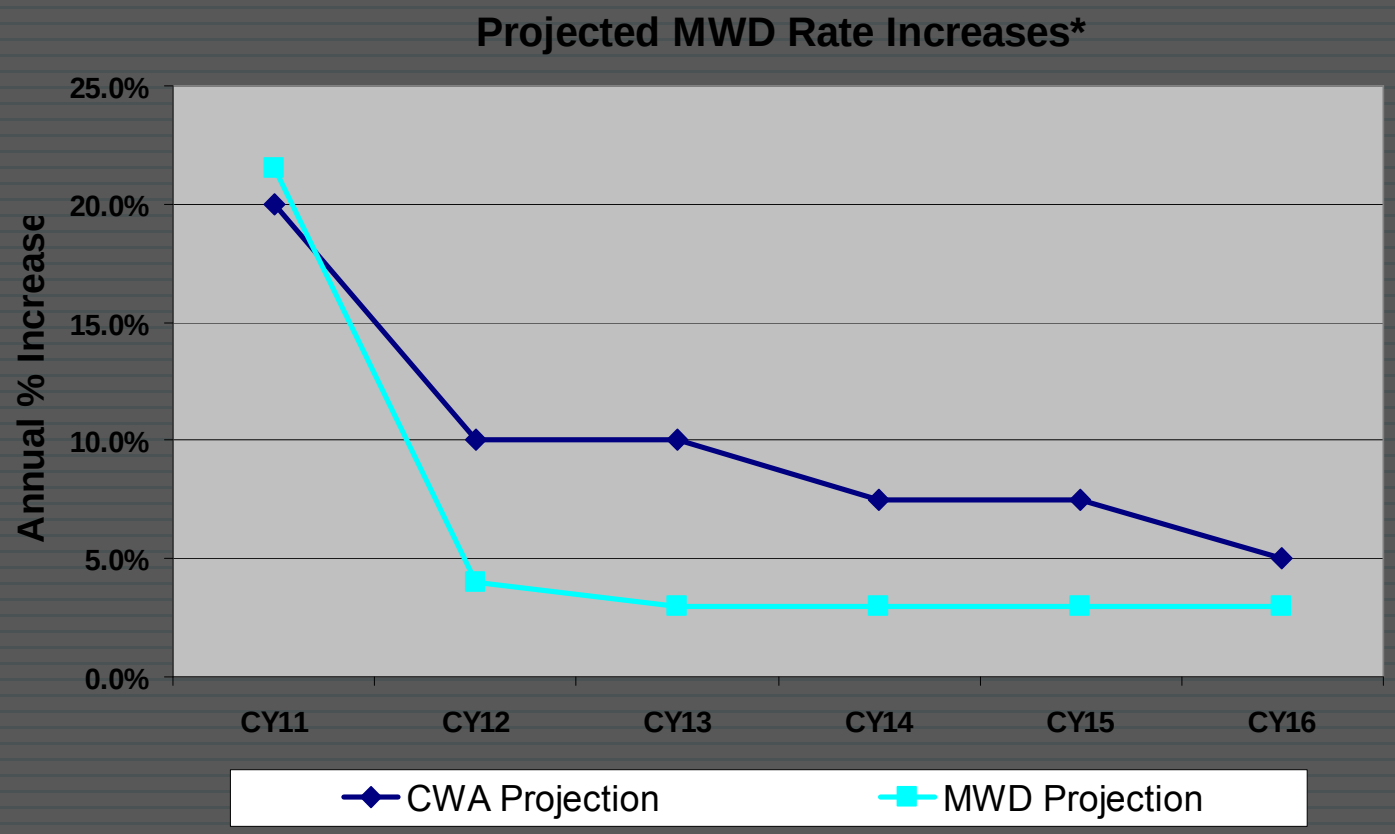


	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
CRACA High Rate	$766	$990	$1,133	$1,254	$1,324	$1,389	$1,458	$1,522	$1,587	$1,686
CRACA High % Change	11.9%	29.3%	14.4%	10.7%	5.6%	4.9%	5.0%	4.3%	4.3%	6.2%
CRACA Low Rate	$766	$932	$1,039	$1,144	$1,210	$1,255	$1,311	$1,355	$1,398	$1,480
CRACA Low % Change	11.9%	21.6%	11.6%	10.0%	5.8%	3.7%	4.5%	3.4%	3.2%	5.9%
Recommended	$766	$905	$1,063	$1,185	$1,329	$1,416	$1,516	$1,587	$1,660	$1,757
Recommended % Change	11.9%	18.1%	17.5%	11.5%	12.1%	6.6%	7.1%	4.6%	4.6%	5.9%

Calendar Year

RECOMMENDATION

MWD Supply Rate Forecast



* MWD projections from 2/24/09 budget presentation

RECOMMENDATION

MWD Budget Assumptions

San Diego County Water Authority

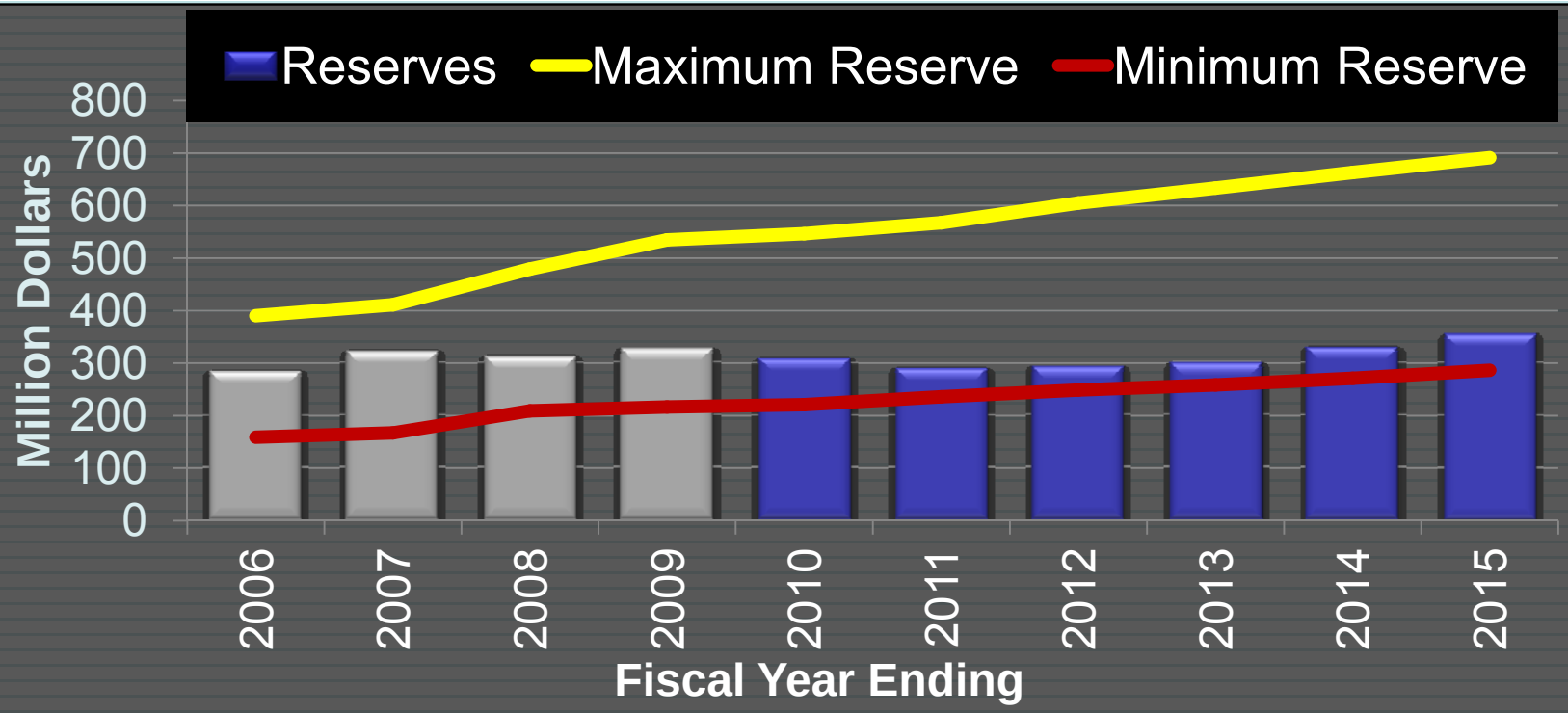
- Water sales and exchanges of 1.93 MAF
- State Water Project allocation of 35 percent
- Colorado River Aqueduct Deliveries of 1.2 MAF
- Continued discontinuance of replenishment sales and interim agricultural water sales curtailment

Revenue Requirements

San Diego County Water Authority

- Revenues required from rate and charges: $1.39 Billion
  - $68.9M higher than 2009/10 budget, $148.3M higher than 09/10 projected
  - $77M lower than forecasted in 2009/10 as needed for 2010/11
    - Lower projected expenditures in 2009/10 resulting in higher reserves
    - Lower debt service projection
    - Reductions in supply program cost assumptions: lower Drought Water Bank purchases, lower LRP yield from 5-year action plan

Impact of Two-Year Rate Increase



Avg Rate Increase	2%	3%	6%	14%	20%	7.5%	7.5%	5%	5%	5%
PAYGO, $M	88	95	43	30	37	95	125	125	125	125
Rev Bond Cvg	1.8	2.2	1.8	1.8	1.6	1.9	2.0	2.0	2.0	2.0
Fixed Chg Cvg.	1.3	1.7	1.3	1.3	1.1	1.2	1.4	1.4	1.4	1.4

Potential Rates under Two-Year Increase
(Based on existing COS method)

San Diego County Water Authority

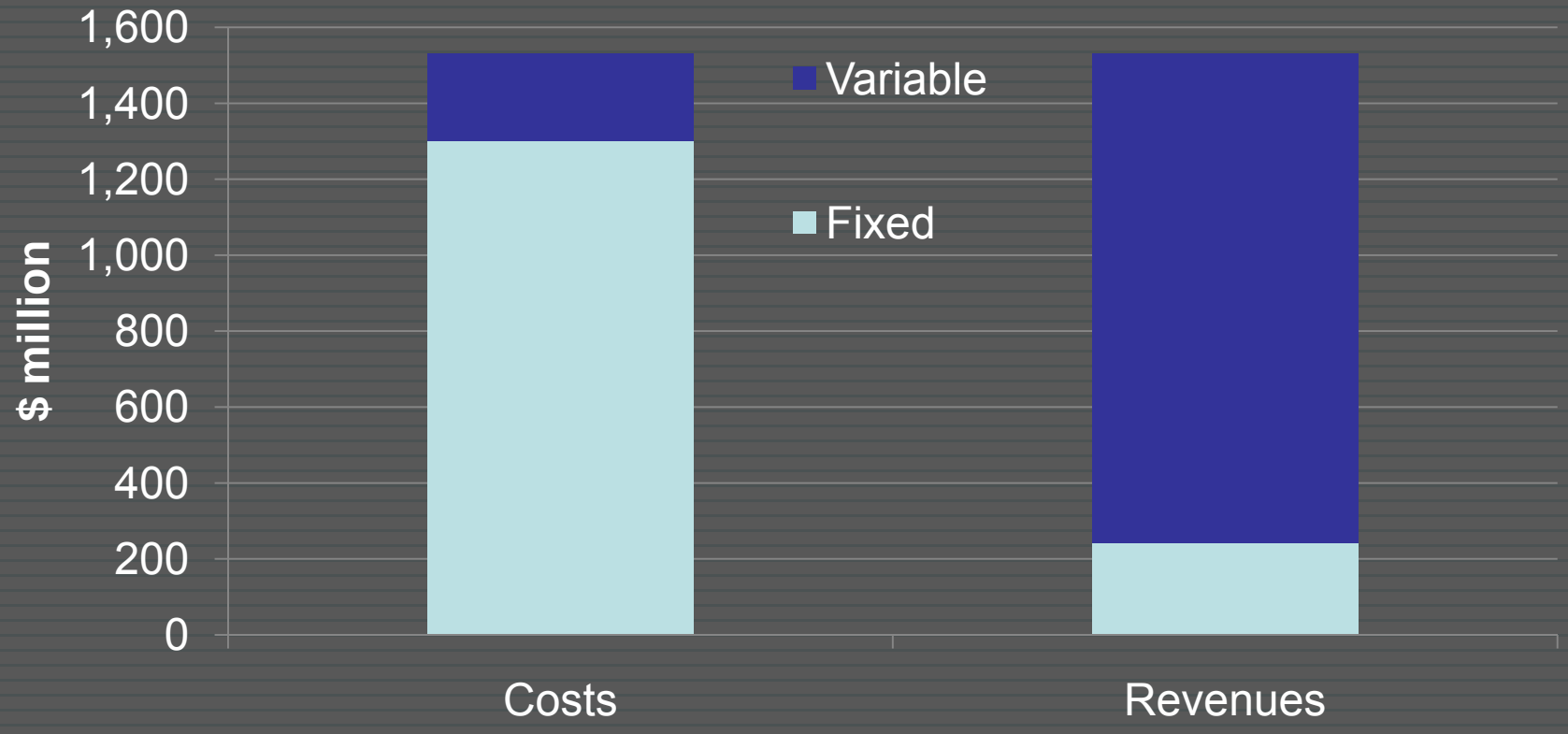
Rates and Charges Effective January 1			
	2010	2011	2012
Full Service Untreated Volumetric Cost ($/AF)			
Tier 1	$484	$532	$560
Tier 2	$594	$657	$686
Replenishment Water Rate Untreated ($/AF)	$366	$414	$442
Interim Agricultural Water Program Untreated ($/AF)	$416	$487	$537
Full Service Treated Volumetric Cost ($/AF)			
Tier 1	$701	$739	$794
Tier 2	$811	$864	$920
Replenishment Water Rate Treated ($/AF)	$558	$596	$651
Interim Agricultural Water Program Treated ($/AF)	$615	$682	$795
Untreated Wheeling/Exchange Rate	$314	$377	$396

Potential Rates under Two-Year Increase
(Based on existing COS method)

San Diego County Water Authority

Rates and Charges Effective January 1				
	2010	2011	2012	Change % 2010-12
Tier 1 Supply Rate ($/AF)	$101	$104	$106	5
Delta Supply Surcharge ($/AF)	$69	$51	$58	-15.9
Tier 2 Supply Rate ($/AF)	$280	$280	$290	3.6
System Access Rate ($/AF)	$154	$207	$217	40.9
Water Stewardship Rate ($/AF)	$41	$41	$43	4.8
System Power Rate ($/AF)	$119	$129	$136	14.3
Treatment Surcharge ($/AF)	$217	$207	$234	7.8
Readiness-to-Serve Charge ($M)	$114	$128	$146	28.0
Capacity Charge ($/cfs)	$7,200	$7,200	$7,400	2.8

FY2010/11 projected Costs and Revenues



- **Fixed Revenues include RTS, CC, and Taxes/Annexations**
- **Variable Costs includes SWP Variable Power, Variable Treatment, and Supply Programs**

MWD Budget Revenues and Expenditures

San Diego County Water Authority

Budget Summary -- Total Expenditures (Dollars in Millions)						
					Change from:	
	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Proposed	2009/10 Budget	2009/10 Projected
Expenditures	$	$	$	$	$	$
State Water Contract	394.7	478.8	452.7	501.0	22.2	48.3
Supply Programs	84.1	125.5	113.8	103.2	(22.3)	(10.7)
Colorado River Power	37.4	49.8	46.3	59.6	9.8	13.3
Debt Service	287.1	330.7	305.0	348.1	17.4	43.1
Demand Management	75.6	59.8	76.9	58.2	(1.6)	(18.6)
Departmental O&M	291.5	289.3	294.2	295.5	6.2	1.4
Treatment Chemicals, Solids & Power	28.4	32.8	29.5	26.5	(6.3)	(3.0)
Other O&M	24.8	18.7	16.6	15.9	(2.8)	(0.6)
Subtotal Expenditures	1,223.6	1,385.5	1,334.9	1,408.1	22.6	73.2
Capital Investment Plan	416.7	412.1	346.7	327.6	(84.5)	(19.1)
Fund Deposits	88.8	228.3	80.4	295.3	67.0	214.9
TOTAL	$ 1,729.1	$ 2,025.8	$ 1,762.0	$ 2,030.9	$ 5.1	$ 268.9

Rates and Charges

San Diego County Water Authority

Rates and Charges			
	Effective Jan 1, 2010*	Effective Jan 1, 2011	Percent Increase/ (Decrease)
Tier 1 Supply Rate ($/AF)	$101	$112	2.8%
Delta Supply Surcharge ($/AF)	$69	$51	(26.1%)
Tier 2 Supply Rate ($/AF)	$280	$280	--
System Access Rate ($/AF)	$154	$217	40.9%
Water Stewardship Rate ($/AF)	$41	$43	4.8%
System Power Rate ($/AF)	$119	$135	13.4%
Treatment Surcharge ($/AF)	$217	$217	--
Readiness-to-Serve Charge ($M)	$114	$135	18.4%
Capacity Charge ($/cfs)	$7,200	$7,200	--

*Most rates effective Sept 1, 2009

Supplies Drive MWD's Rates

San Diego County Water Authority

$	$$	$$$	$$$$
Colorado River	State Water Project	Spot Water Transfers	Loss of Sales (Shortage)
<2003	2003-2007	2008>	2009-10..

"Metropolitan's cost structure has been permanently altered by the shift in water supplies resulting from dry conditions, legislation, litigation and regulation." – Status of the 2008 Long Range Finance Plan, MWD Board memo, Dec. 9, 2008, Item 9-2