



Water Rates & Charges

This section discusses Central Basin's Water Rates & Charges



7.1 Overview

The residential water bill in southern California is most likely the least expensive of a typical household's major utility bills. In fact, tap water can be purchased for much less than a penny per gallon- remarkable considering investments by water utilities into regulatory compliance, water use efficiency, infrastructure, and other reliability programs. This paradox applies to Central Basin's service area as well, although residential water bills vary from retail water agency to retail water agency depending primarily on the mix of source water purchased and/or produced.

Retail agencies that serve exclusively groundwater, for example, tend to have water rates that are lower than those that serve all imported water or a mix of groundwater and imported water. Imported water purchased from Central Basin and provided by MWD, carries not only the cost of acquiring importing, purifying (treating) and distributing the commodity throughout the region, but also a long-term action plan for ensuring adequate supplies to meet growing demands through conservation, education, and new locally produced supplies.

7.2 MWD Rate Structure

In 2002, the MWD Board adopted a new rate structure to support its strategic planning vision as a regional provider of services, encourage the development of local supplies like recycled water and conservation, and ensure a reliable supply of imported water. To achieve these objectives, MWD called for voluntary purchase orders from its member agencies, unbundled its water rates, established a tiered supply rate system, and added a capacity charge. In all, these new rate structure components provide a better opportunity for MWD and its member agencies to manage their water supplies and proactively plan for future demands.

7.2.1 Purchase Orders

One of the important changes in the new rate structure was the call for voluntary purchase orders among MWD's member agencies. The Purchase Order is an agreement between MWD and a member agency, whereby the member agency agrees to purchase a minimum amount (60% of their highest year's delivery of non-interruptible water times ten) of non-interruptible water over a ten-year period - "Purchase Commitment." The economic incentive for a Purchase Commitment is that it entitles the member agency to purchase annually a set amount of non-interruptible water (Tier 1



Annual Maximum) at the lower Tier 1 rate, which is 90% of its highest year’s delivery of non-interruptible water.

In the case of Central Basin, the highest delivery of non-interruptible water was 80,700 AF in 1990. As shown below in Table 7-1, Central Basin’s Tier 1 Annual Maximum is 72,360 AF with a Purchase Commitment of 482,400 AF by the end of 2013.

Table 7-1
Central Basin
Purchase Order Terms

Initial Base Allocation	Tier 1 Annual Maximum (90% of Base)	Purchase Commitment (60% of Base x 10)
80,400 AF	72,360 AF	482,400 AF

Since signing a Purchase Order with MWD, Central Basin has remained below its Tier 1 Annual Maximum and has been on track to meet its Purchase Commitment by the year 2013.

7.2.2 Unbundled Rates and Tier 1& 2

In order to clearly justify the different components of the costs of water on a per acre foot basis, MWD unbundled its full service water rate. Among the components MWD established are:

Supply Rate Tier 1 – Reflects the average supply cost of water from the Colorado River and State Water Project.

Supply Rate Tier 2 – Reflects the MWD costs associated with developing new supplies, which is assessed when an agency exceeds its Tier 1 limit of firm deliveries.

System Access Rate – Recovers a portion of the costs associated with the conveyance and distribution system, including capital and operating and maintenance costs.

Water Stewardship Rate – Recovers MWD’s cost of providing incentives to member agencies for conservation, water recycling, groundwater recovery, and other water management programs approved by the MWD Board.

System Power Rate – Recovers MWD’s electricity-related costs, such as the pumping of water through the conveyance and distribution system.

Treatment Surcharge – Recovers the treatment cost and is assessed only for treated water deliveries, whether firm or non-firm.



The unbundled MWD water rates for calendar year (CY) 2006 are displayed in Table 7-2.

**Table 7-2
Metropolitan Water District
Unbundled Water Rate Components
Adopted for 2006**

Category of Water	\$/AF
Supply Rate Tier 1	\$73
Supply Rate Tier 2	\$169
System Access Rate	\$152
Water Stewardship Rate	\$25
System Power Rate	\$81
Treatment Surcharge	\$122
Total Tier 1 Treated Rate	\$453
Total Tier 2 Treated Rate	\$549

7.2.3 Replenishment Service

Although a majority of the MWD water sold is full service at the Tier 1 rate, there is imported water sold at a discounted rate, better known as Replenishment Service Water. This type of water is used for groundwater storage and/or replenishment. There are two main types of replenishment water – treated and untreated. Because the replenishment water can be interrupted at anytime, MWD has provided a discount to the rates. However, these rates are not tied to the unbundled rate structure illustrated above. These rates are established by MWD to provide the best incentive to replenish the groundwater basins. Replenishment Service rates for 2006 are shown in Table 7-3.

**Table 7-3
Metropolitan Water District
Replenishment Service Rate
Adopted for 2006**

Category of Water	\$/AF
Replenishment Water Rate Untreated	\$238
Treated Replenishment Water Rate	\$335

7.2.4 MWD Capacity Charge

MWD’s new rate structure also established a new charge labeled “Capacity Charge.” This charge was developed to recover the costs of providing distribution capacity use during peak summer demands. The aim of this new charge is to encourage member agencies to reduce peak day demands during the summer months (May 1 thru



September 30) and shift usages to the winter months (October 1 thru April 30), which will result in more efficient utilization of MWD’s existing infrastructure and defers capacity expansion costs. Currently, MWD’s Capacity Charge for 2006 is set at \$6,800/cubic feet per second (cfs).

The Capacity Charge is assessed by multiplying Central Basin’s maximum usage by the rate. The maximum usage is determined by a member agency’s highest daily average usage (per cfs) for the past three summer periods, as shown below for Central Basin’s maximum usage for 2006 – 149.6 cfs.

**Table 7-4
Metropolitan Water District
Capacity Charge for 2006**

	Peak Flow 2002	Peak Flow 2003	Peak Flow 2004	3-Year Max
Central Basin	128.3 cfs	133.4 cfs	149.6 cfs	149.6 cfs

Note: These peak flows are based upon Central Basin’s coincident peak of all its MWD connections.

7.2.5 Readiness-to-Serve Charge

The Readiness-to-Serve Charge (RTS) recovers a portion of MWD’s debt service costs associated with regional infrastructure improvements. The RTS charge is a fixed charge assessed to each member agency regardless of the amount of imported water delivered in the current year. Rather, it is determined by the member agencies’ firm imported deliveries for the past ten years. Central Basin elected to have MWD collect the majority of the RTS obligation through a “Standby Charge” assessed on all parcels within its service area. The remainder is collected as a surcharge on Central Basin’s commodity rates.

7.2.6 MWD Standby Charge

In 1992, the State Legislature authorized MWD to levy a standby charge that recognized that there are economic benefits to lands that have access to a water supply, whether or not such lands are using it. A fraction of the value of the benefit accruing to all landowners in MWD’s service territory can therefore be recovered through the imposition of a standby charge. MWD assessed this charge only within the service area of the member agencies that requested such a parcel charge to help fund a member agency’s RTS obligation. Within Central Basin, the MWD Standby Charge is currently \$10.44 per parcel.

7.3 Central Basin’s Imported Water Rates

As MWD adopted a new rate structure so did Central Basin. In 2003, Central Basin passed through MWD’s Purchase Order by offering customer agencies voluntary



purchase agreements and assessing MWD's new Capacity Charge. Central Basin also revised the administrative surcharge to be applied uniformly to all classes of imported

water sold. Described below are elements of the rate structure that Central Basin applies to the delivery of imported water.

7.3.1 Purchase Agreements

In order to meet the Purchase Order Commitment with MWD, Central Basin established its own purchase contract policy with its customer agencies. Central Basin's Imported Water Purchase Agreements mimic the MWD version in terms of an Annual Tier 1 Maximum and Total Purchase Commitment, but offer more flexibility to the customer. Central Basin requires only a five-year commitment, as opposed to a ten-year term. Furthermore, customer agencies have the option to adjust their Tier 1 and Purchase Commitment amounts annually if certain conditions are favorable, and can also reduce their commitment amounts by offsetting imported water demand with recycled water purchased from Central Basin. For purchases above the Tier 1 limit, or in the absence of a Purchase Agreement, the customer agency pays the Tier 2 rate (currently \$81/AF above the Tier 1 rate).

Out of the 24 cities, water agencies and private water companies that have an imported water connection, seven (7) do not currently have a purchase agreement with Central Basin.

7.3.2 Administrative Surcharge

One of the main revenue sources for Central Basin is the Administrative Surcharge applied to all imported water sold. In 2003, Central Basin revised the Administrative Surcharge to be uniformly applied to all imported water regardless of the type delivered. Revenue from the surcharge recovers Central Basin's administrative costs including planning, outreach and education, and conservation efforts. As of July 1, 2005, Central Basin's Administrative Surcharge is \$38/AF.

In 2004, Central Basin and the WRD entered into a five-year purchase agreement for untreated replenishment water (Seasonal Spreading). This agreement replaces Central Basin's Administrative Surcharge rate of \$37 per acre-foot to an annual fixed payment (\$800,000). As a result, this agreement provided Central Basin with a predictable revenue stream and gave WRD a price discount for replenishment purchases above the baseline quantity (21,622 AF).

7.3.3 Readiness-to-Service Surcharge

As described above, MWD levies to Central Basin a RTS charge to recover a portion of its debt service costs, which is covered mostly by the MWD Standby Charge. However, the remaining balance is collected on the commodity rate. This RTS surcharge is



added to Central Basin's commodity rates for only non-interruptible water. As of January 1, 2006, Central Basin's RTS surcharge is \$8/AF.

7.3.4 Water Service Charge

Water utility revenue structures benefit from a mix of fixed and variable sources. Central Basin's Water Service Charge recovers a portion of the agency's fixed administrative costs, but is a relatively small portion of its overall revenue from water rates. As of July 1, 2005, the Water Service Charge is \$30/cfs of a customer agency's meter capacity for imported water meters.

7.3.5 Central Basin's Capacity Charge

This charge, as described above in Section 7.2.4, is intended to encourage customers to reduce peak day demands during the summer months, which will result in more efficient utilization of MWD's existing infrastructure. Central Basin has passed through this MWD charge to its customer agencies by mimicking MWD's methodology. Each customer's Capacity Charge is determined from their highest daily average usage (per cfs) for the past three summer periods. However, because MWD assesses Central Basin on the coincident daily peak of all the connections and aggregate of all its customers' daily peak is the non-coincident peak, Central Basin is able to lower the Capacity Charge to its customers from \$6,800/cfs to \$5,300/cfs.

7.4 Recycled Water Rates

Central Basin's recycled water program is comprised of two distribution systems: the E. Thornton Ibbetson Century Recycled Water Project and the Esteban Torres Rio Hondo Recycled Water Project with over 70 miles of pipeline and three pump stations. Since 1992, Central Basin has encouraged the maximum use of recycled water to industries, cities, and landscape irrigation sites through the economic incentive of its rates and charges. Below is a description of Central Basin's recycled water rates and charges.

7.4.1 Recycled Water Rates

Central Basin commodity rates cover the operation & maintenance and labor and power costs associated with the delivery of recycled water. These rates are set up in a declining tiered structure, so they may further encourage the use of recycled water. Furthermore, these rates are wholesaled at a significant reduction to imported rates to promote the usage of recycled water. Central Basin's recycled water rates for FY 2005-06 are shown in Table 7-5.



Table 7-5
Recycled Water Rates
Fiscal Year 2005-06

Volume (AF/month)	Central Basin Service Area	Outside of Central Basin Service Area
0-25	\$308/AF	\$328/AF
25-50	\$286/AF	\$306/AF
50-100	\$266/AF	\$286/AF
100+	\$244/AF	\$264/AF

As shown in Table 7-5, the “out of service area” rate is assessed to customers outside of Central Basin’s service boundaries which pay an additional \$20/AF for each tier. This additional charge is applied to make up for the recycled water Standby Charge they are not levied on their parcels.

7.4.2 Recycled Water Standby Charge

In addition to the MWD Standby Charge, there is a recycled water standby charge that is levied by Central Basin to each parcel within the service area. A \$10 per parcel charge is administered by Central Basin to provide a source of non-potable water completely independent of drought-sensitive supplies. The revenue collected from this charge is used to pay the debt service obligations on Central Basin’s water recycling facilities. Each year the Board holds a public hearing where they adopt Central Basin’s Engineer’s Report and Resolution to assess this charge.

7.5 Future Water Rate Projections

As the demand for water increases in southern California so does the cost to administer, treat, and distribute imported and recycled water. However, Central Basin has worked diligently to ensure that stable and predictable rates are managed for the future. Below are discussions of imported and recycled water rate trends over the next ten years.

7.5.1 Imported Water Rate Projections

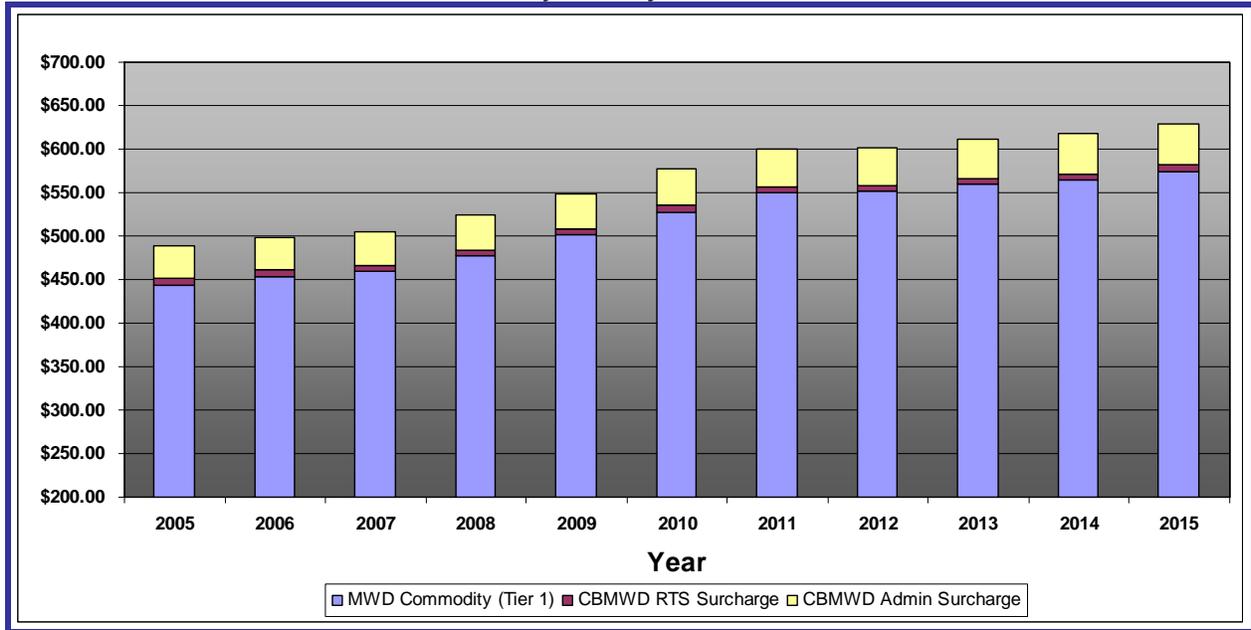
In 2004, the MWD Board adopted its Long Range Financial Plan. This plan was developed to forecast future costs and revenues necessary to support its operations and capital investments. Furthermore, it lays out the financial policy MWD will pursue over the next ten years. According to projected MWD sales, with investments into local resources, MWD estimates imported water rates will increase 4-6% annually.

Central Basin’s Administrative Surcharge is projected to increase at an annual average rate of 3%-4%. This increase is determined by Central Basin’s Long Range Financial analysis and the budget’s revenue requirements.



Figure 7-1 displays Central Basin’s imported water rate projections for the next ten years.

**Figure 7-1
Central Basin Imported Water Rates
10-year Projections**



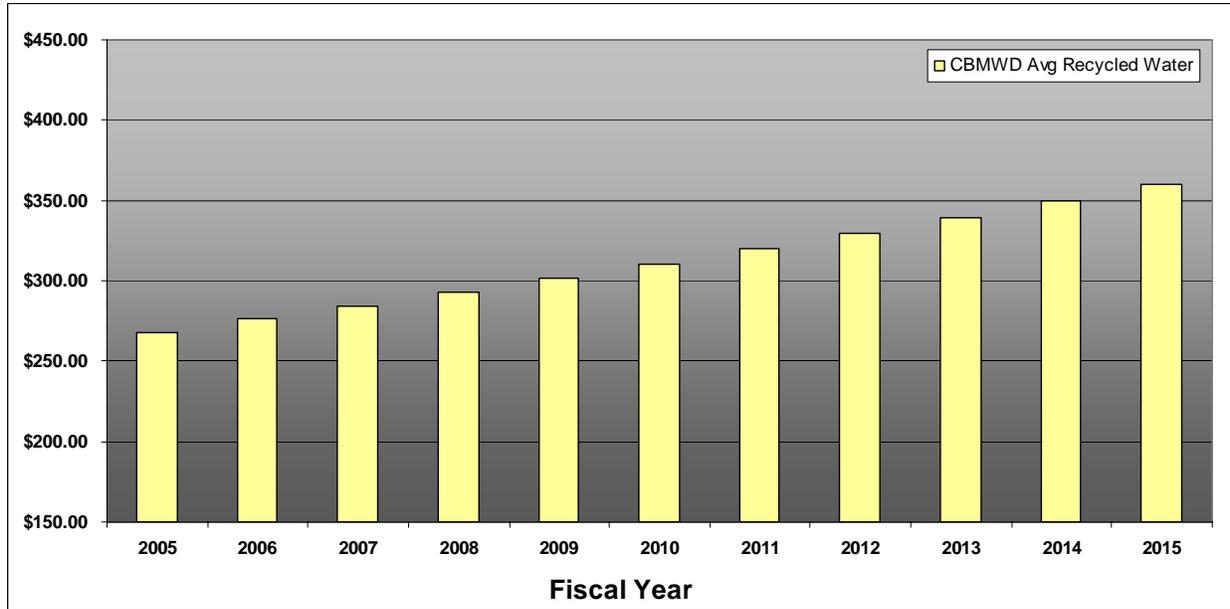
Source: MWD 2004 Long Range Financial Plan & Central Basin’s Financial Plan.

7.5.2 Recycled Water Rate Projections

Similar to imported water rates, recycled water rates are expected to increase because of higher treatment, maintenance, and power costs. However, Central Basin believes in setting the rate of recycled water at a competitive level to help offset imported water. In order to achieve this economic incentive, recycled water rates have been projected by Central Basin to increase at a slightly lower level than imported water. The recommended rate increases are projected to be 3% annually. As shown in Figure 7-2, Central Basin’s average recycled water rate will be at a competitive level versus imported water rates over the next ten years.



**Figure 7-2
Central Basin Recycled Water Rates
10-year Projections**



Source: Central Basin Financial Plan for the average recycled water rates for within "service area".