

DESCRIPTION OF MWDOC's WATER RATES INCLUDING PASS THROUGH OF CHARGES FROM METROPOLITAN WATER DISTRICT

Municipal Water District of Orange County (MWDOC) applies rates and charges to its member agencies to recover the cost of purchasing water from Metropolitan (MET) and to generate revenue in support of MWDOC's annual budget. MET's rates normally change effective January 1, and MWDOC's rates change effective July 1. Therefore, the effective rates to our member agencies change both on July 1 and January 1 of each year. The charges can be grouped into the following components:

1. Pass Through of Commodity Rates from MET for purchased water
2. Pass Through of Fixed Charges from MET
3. Pass Through of MET Penalties for Exceeding Drought Allocations (only when Drought Allocations are declared)
4. Imposition of MWDOC Charges to support the MWDOC Budget
 - Annual Retail Meter charge
 - Choice Activity charges
 - Groundwater Customer charge (OCWD only)

PASS THROUGH OF COMMODITY RATES FROM MET FOR PURCHASED WATER

MWDOC passes through the following MET rates & charges:

- Tier 1 & 2 Supply Rate – The Tier 1 supply rate recovers the costs of securing and maintaining water from the State Water Project, Colorado River Water and other supply sources to meet the needs of the member agencies. The Tier 2 Supply Rate represents the marginal cost of securing new supplies for MET via water transfers north of the Delta. The Tier 2 supply rate only applies when a MET member agency exceeds its Tier 1 allotment.
- System Access Rate – recovers the costs to support MET's water conveyance and distribution system, including capital costs associated with average demand and department O&M.
- System Power Rate – recovers MET's average cost of energy to pump water on the Colorado River Aqueduct and State Water Project.
- Water Stewardship Rate – provides revenue to support MET's Water Use Efficiency programs including Conservation and the Local Resources Program.
- Treatment Surcharge – provides revenue to support MET's five treatment plants, including all capital and O&M costs associated with treatment.

MET TIER 1/TIER 2 SUPPLY RATES

MET charges a two-tiered supply rate. Purchases are charged at the Tier 1 rate up to the member agency's Tier-1 allotment. When MET began implementing tiered supply rates in 2003, MWDOC chose to sign a Purchase Order that determined MWDOC's Tier-1 allotment (maximum allowed Tier 1 purchases), which would be equal to 90% of our base demand (357,372 AF). Currently, MWDOC's Tier-1 allotment is 321,635 AF. Water purchases in excess of the Tier-1 allotment are charged by MET at the Tier-2 rate, which is \$42/AF greater than the Tier-1 rate in 2021.

MWDOC sets a *Melded Supply* rate that adjusts the supply costs to MWDOC's agencies based on the melded cost of purchasing Tier 1 and a projected quantity of Tier 2 water based on water demand projections. MWDOC worked with its agencies to establish a Tier 2 Contingency Fund several years ago to help fund Tier 2 purchases, if and when they are needed. For the last several years, the MWDOC Melded Rate has been the same as the MET Tier 1 rate because Tier 2 purchases have not been necessary. MWDOC's Tier 1/Tier 2 melded rate is typically set annually to ensure that MWDOC will have sufficient funds in the Tier 2 Contingency Fund to pay MET for Tier 2 purchases. Today, the melded supply rate for Tier 2 purchases is set at \$0/AF.

PASS THROUGH OF FIXED CHARGES FROM MET

MET's Readiness-to-Serve (RTS) Charge:

One of the fixed charges from MET to MWDOC is the RTS. This is a fixed charge from MET to fund reliability of MET's imported water system. The costs of providing standby service, such as emergency storage capacity, standby services for conveyance, distribution, and aqueduct services are recovered by the RTS. The RTS is allocated to the MET member agencies based on each agency's proportional share of a ten-year rolling average of all Full service purchases (including treated and untreated water as well as water transfers). The purpose of the ten-year rolling average is to lead to a relatively stable RTS allocation that represents an agency's potential long-term need for standby service under different demand conditions.

There are a number of MET member agencies that chose to have a portion of their total RTS obligation offset by a standby charge collected on the property tax bills. MWDOC is one of the agencies that elected to do so. MET levies and accounts for the standby fees within MWDOC, which funds about one-third of its RTS obligation from the tax bill. MET's Standby Charge collections within MWDOC are typically \$10.09 per parcel or per acre for parcels greater than an acre (in the area of the prior Coastal MWD, the standby charge is \$12.60 per parcel or per acre for parcels greater than one acre). The amount collected by MET in each MET member agency's service area is deducted from the gross

RTS charge to determine each agency's net RTS charge. MWDOC pays MET the annual net RTS charge in 12 equal monthly payments.

The derivation of the NET RTS Charge for 2020-21 is shown below:

2020-21 MET RTS Charge to MWDOC =	\$18,521,591
Expected Standby Charge in MWDOC Service Area =	<u>\$ 7,167,010</u>
NET RTS Charge to be paid to MET via Water Rates =	\$11,354,581

MWDOC allocates the net RTS charge to each MWDOC member agency based on their 4-year rolling average of full service purchases, converted to a percentage of MWDOC's payment to MET of the net RTS charge. Agencies pay MWDOC the annual net RTS charge in 12 equal monthly payments. The MWDOC member Agencies recommended that a 4-year rolling average should be used within MWDOC so that changes in local supplies and imported water purchases would be reflected in the charge sooner than MET's 10-year rolling average.

MET Capacity Charge:

MET collects a fixed charge to recover the capital costs to help meet peak demands on the imported distribution system. MET's Capacity Charge to each member agency is based on the agency's highest one-day flow in cubic-feet-per-second (cfs) as a sum of all of their MET connections during the most recent three summers (May 1 – Sep 30), with a lag of one year (so 2017, 2018 & 2019 flows are used to calculate the 2021 charge). MET's Capacity Charge for 2020 was \$8,800/cfs on a gross basis and \$10,700/cfs for 2021. MWDOC pays to MET the annual Capacity Charge in 12 equal monthly payments.

MWDOC's Capacity Charge to each member agency is based on the agency's highest one-day flow in cfs as a sum of all of their MET connections during the most recent three summers (May 1 – Sep 30), with a lag of one year (so 2017, 2018 & 2019 flows for the 2021 charge). The agency's highest 1-day flow is converted to a percentage of the sum of the MWDOC agencies' highest 1-day flows, and the percentage is multiplied by the Capacity Charge that MWDOC must pay MET (this apportions the MET charge over the peak flows of the MWDOC agencies). The sum of the peak day flows for each of MWDOC's agencies is always higher than the single day peak flow measured on the MET system and so MWDOC's resulting Capacity Charge per cfs to its member agencies is considerably less than the charges imposed by MET.

PASS THROUGH OF MET PENALTY CHARGES FOR EXCEEDING DROUGHT ALLOCATIONS (MET & MWDOC did not implement drought allocations during FY19/20)

With respect to MWDOC Drought Allocation Penalties, the MWDOC Board of Directors adopted the policy that member agencies would be charged penalties for exceeding drought allocations only if MWDOC were required to pay penalties to MET. In addition,

they specified that only agencies that exceeded their allocations would pay a proportional share of the penalties owed by MWDOC. Under drought allocation, it is likely that penalties imposed by MWDOC would be substantially less than those imposed by MET on a per AF basis.

IMPOSITION OF MWDOC CHARGES TO SUPPORT THE BUDGET

MWDOC passes through all of the charges imposed by MET and then adds other charges to fund MWDOC's budget. MWDOC imposes the following charges:

1. Retail Meter Charge
2. Choice Activity Charges
3. Groundwater Customer Charge (OCWD only)

MWDOC's Retail Meter Charge provides the primary revenue to fund the MWDOC budget (excluding the Choice components). MWDOC's Retail Meter Charge for FY20/21 is \$12.20/meter per year, and is charged to the agencies based on the number of retail meters in service as of January 1 of each year as certified by the agencies. The Retail Meter Charge is billed in July of each year.

MWDOC's CHOICE activities began being charged directly to the MWDOC member agencies and the cities of Anaheim, Fullerton and Santa Ana (3 Cities) in July 2011. These charges are based on activities that each member agency selects. The budgeted amount for all of the Choice activities for FY20/21 totals \$1,574,100 million (including the 3 Cities). MWDOC will invoice for these charges in July each year.

MWDOC's Groundwater Customer Charge imposed on OCWD for Core services provided by MWDOC for FY20/21 is \$595,323.

TAXES SHOWING ON ANNUAL PROPERTY TAX BILLS

There are two charges that will appear on the annual property tax statements for Orange County property owners. Both of these charges are imposed by MET. MWDOC has not levied any taxes since 1969. The two charges are:

1. **Standby Charge** per parcel or per acre for parcels greater than an acre. As previously discussed, this revenue recovers the capital costs of providing emergency and standby services for imported water. The revenue collected reduces MWDOC's RTS charge from MET.
2. **Ad Valorem Tax Assessment**: Generally, MET has constitutional and statutory authority, as well as voter authorization, to levy *ad valorem* property taxes as needed to pay its outstanding general obligation bonds and State Water Contract payments. With the exception of the past three years, MET's *ad valorem* taxes were applied solely to pay MET's general obligation bonds and the Burns-Porter Bonds, pursuant to MET's Act limiting property tax collections to "the amount necessary to pay annual debt service on

MET's general obligation bonds plus the portion of its State Water Contract payment obligation attributable to the debt service on State general obligation bonds for facilities benefitting MET that were outstanding as of 1990-91." Under this requirement, MET's *ad valorem* property tax revenue has been decreasing, and will continue to decrease, as the bonds are paid off. However, the MET Act permits MET to suspend the prescribed reduction in the tax rate if the MET Board makes a finding that suspending the decrease is essential to the fiscal integrity of MET. In essence, demonstrating that the tax revenues are needed to recover MET's fixed obligation costs of the State Water Project. The tax rate since FY2013/14 has remained flat at 0.0035 percent of assessed valuation; which translates into a collection of approximately \$14 per year for a single family residence at an assessed value of \$400,000.

The average cost of the charges described in this paper, for both MET and MWDOC, are presented in the table below on a unit per AF basis, even though that is not necessarily how the charges are billed. This table is for presentation purposes to help understand the magnitude of the various charges:

Average Cost of MET Water Across MWDOC in 2021		
		Per AF or Equivalent Charges
MET Tier 1 Supply Rate		\$243.00
MET Delta Supply Surcharge		\$0.00
MET System Access Rate		\$373.00
MET System Power Rate		\$161.00
MET Water Stewardship Rate		\$0.00
MET Water Treatment Rate		\$327.00
Typical Rate from MET - Tier 1		\$1,104.00
MWDOC Supply Rate for Tier 2⁽¹⁾		\$0.00
Total MWDOC Melded Commodity Rate		\$1,104.00
<u>Equivalent Per AF Charges</u>		
MET RTS to MWDOC (varies by retail agency)	\$7,437,219	\$38.82
MET Capacity Charge to MWDOC (varies by retail agency)	\$3,547,481	\$18.52
MWDOC Retail Meter Charge (\$12.20 per retail meter per year beginning July 1, 2021)	\$7,837,792	\$40.91
Sum of MWDOC's Choice Programs (varies by retail agency)	\$1,155,108	\$6.03
MWDOC & MET Equivalent Charges on a Per AF Basis		\$104.28
MWDOC Sales less OCWD (AF) to develop equivalent charges⁽²⁾	191,599	
Total of all charges averaged across MWDOC		\$1,208.28

(1) Tier 2 charges added by MET for sales over 321,635 AFY to MWDOC = \$42 per AF

(2) MWDOC budgeted AF sales reduced by OCWD's purchases, and OCWD's portion of total RTS, Capacity Charges and Choice program removed for calculation of equivalent charge for the other MWDOC Agencies. The new MWDOC Groundwater Customer Charge to OCWD is \$595,323 for FY20/21. The projected Choice does not include the 3 Cities Choice amounts.