

IRVINE RANCH WATER DISTRICT POLICY POSITION
MUNICIPAL WATER DISTRICT OF ORANGE COUNTY (MWDOC)
RATE STRUCTURE

October 2004

Issue Summary:

IRWD worked in close coordination with the Municipal Water District of Orange County (MWDOC) on the development and implementation of Metropolitan Water District's (MWD's) tiered rate structure. The MWD rate structure was carefully designed to utilize a "cost-of-service" approach and to provide a two-tiered supply pricing signal that was intended to encourage local resource development and conservation.

IRWD has, and continues to have, reservations regarding MWDOC's implementation of the MWD rate structure by melding the tiered supply component. It has been IRWD's position that MWDOC's melded rate structure not only abandons the conservation and local resource development pricing signal, but has created increasingly serious inequities between basin and non-basin agencies in the current short-term environment of diminishing groundwater supplies. The possible further lowering of the basin production percentage by the Orange County Water District in the next fiscal year will exacerbate these inequities. In the long term, growth in demands for imported water in the non-basin areas of the county could also result in inequities under the melded rate structure where Tier 2 water needed to serve a specific agency or group of agencies is being melded into the rates for all of MWDOC's customers. It has been the district's position that a tiered structure would eliminate the potential for these inequities and preserve the pricing signal for local resource development and conservation that was intended in the formulation of the MWD tiered rate structure.

A key to successfully implementing a tiered rate structure is to ensure the allocation methodology is fair and equitable. Because of unusual past purchasing patterns some of the MWDOC member agencies would be "winners or losers" if the MWD allocation was arbitrarily passed through. MWDOC staff examined five different Tier 1 allocation methodologies, including a two-year take or pay subscription method. This subscription method allows retailers to adjust their allocation every other year based on projected demand. IRWD staff has concluded that if a tiered structure is implemented, the take or pay subscription method is preferable. It is our understanding that this option under the tiered rate structure is favored by most agencies because it represents a reasonable compromise between the melded and tiered rates. Furthermore, it results in the lowest over-collection of revenues by MWDOC.

Implementation of any of the tiered rate structure alternatives has the potential to result in the over-collection of Tier 2 revenue by MWDOC. In light of this, IRWD recommends that MWDOC work with its member agencies to develop an equitable method to address the disposition of any over-collected Tier 2 revenue. Specifically, we believe this revenue should provide funding for re-investment in conservation and local water

resource projects to minimize the need for Tier 2 purchases, and compensate those retail agencies that have made, and continue to make, investments in these programs.

Policy Principles:

- IRWD supports Metropolitan Water District of Southern California's (MWD's) adoption of a tiered rate structure that uses a cost of service approach to allocate costs of supply, transmission and storage, treatment, and water resource management. This includes the division of MWD's supply component into two tiers to reflect existing lower cost supplies and higher cost marginal supplies, respectively.
- The MWD two tier rate structure was specifically designed to encourage water conservation and local resource development by sending a pricing signal to discourage increased demands on MWD.
- Consistent with the intent of MWD, the MWD rate structure including the tiered rate approach for selling water to its member agencies should be implemented by the Municipal Water District of Orange County (MWDOC).
- MWDOC's method for implementing the tiered rate structure and allocating lower cost Tier 1 water should be fair and equitable to its member agencies and correct for abnormal past purchase patterns, where appropriate.
- MWDOC's method for implementing the tiered rate structure should minimize the over-collection of Tier 2 revenue from its member agencies.
- MWDOC shall work with its member agencies to develop an equitable method to address the disposition of any over-collected Tier 2 revenue that will: 1) provide funding for re-investment in conservation and local projects to minimize the need for Tier 2 purchases, and 2) reward retail agencies that have, and continue, to make investments in these programs.
- Once adopted, the implementation methodology for MWDOC's tiered rates should be reviewed periodically with its member agencies and Board to identify and correct any unanticipated inequities.