



**SAN ELIJO
JOINT POWERS AUTHORITY**



UPDATED FINANCIAL ASSESSMENT FOR THE RECYCLED WATER PROGRAM

October 2009

Prepared by:

**Winzler & Kelly
4180 Ruffin Road, San Diego, CA**

San Elijo Joint Powers Authority
Updated Financial Assessment
for
the Recycled Water Program

October 2009

Prepared by:

Winzler & Kelly
4180 Ruffin Road, San Diego, CA

TABLE OF CONTENTS

Background	1
Goals and Process for the Updated Financial Assessment	2
Current Financial Situation	3
Recent Revenue and Expenditure History	4
Assumptions and Projections for the Status Quo.....	4
Potential Risks and Risk Mitigation Strategies for the Current Program....	5
Benefits of the Current Program.....	8
Summary Conclusions	8
Future Planning Scenarios, Assumptions and Results.....	9
Drivers for Investing in the Recycled Water Program	9
Planning Scenarios	10
Assumptions	13
Summary of Results.....	16

Appendix

1. Santa Fe Irrigation District Letter and San Dieguito Water District Resolution
2. Metropolitan Staff Report
3. Regional Board Correspondence

Background

The San Elijo Joint Powers Authority (SEJPA) owns and operates a recycled water utility which wholesales recycled water to the Santa Fe Irrigation District (SFID), the San Dieguito Water District (SDWD) and the City of Del Mar. The SEJPA financed, permitted and constructed the recycled water treatment, storage and distribution system, which became operational in September 2000. The SEJPA's recycled water program (program) currently delivers approximately 1,300 acre-feet per year (afy) of recycled water to its retail partners.

Much like a business venture, the early years of the program were financially challenging. During the first six years of operations, the program's expenditures exceeded revenues. However, as water sales grew and the value of water increased, the program became financially secure. For the past three years revenues have exceeded expenditures and the program has built-up a dedicated repair-replacement reserve of \$630,000. In addition, the program has an operating fund balance of approximately \$2.3 million, which can be used to fund capital improvements and to bridge budget shortfalls, should they reappear in the future.

The program has long-term debt in the form of a State Revolving Fund (SRF) loan with an estimated balance of \$8.5 million. At the current rate of repayment, this debt is projected to be paid off in 14 years. The program has an internal debt to the SEJPA member agencies¹ of approximately \$4.7 million.

At the present time, the program is at a crossroads. It is financially successful at its current size, but state and regional water supply restrictions are placing pressure on the retail water suppliers and creating an environment in which it may be very attractive to expand the volume of water delivered. Additionally, while the program provides recycled water that meets Title 22 standards for unrestricted use, the program is struggling to meet Total Dissolved Solids (TDS) limits as required by the San Diego Regional Water Quality Control Board (San Diego Water Board) and by contractual requirement with the water districts that purchase the recycled water. Proactively

¹ The member agencies are the cities of Encinitas and Solana Beach.

pursuing demineralization treatment would benefit SEJPA, its retailers and ultimately the customers. In order to better understand the program's ability to support new capital debt associated with adding demineralization treatment and other system improvements to increase recycled water production, SEJPA has requested an update to its July 2005 Financial Assessment.

Goals and Process for the Updated Financial Assessment

SEJPA requested an updated financial assessment that:

- provides a third party review of the program's current financial situation including observations and recommendations that stem from the review; and
- includes a financial analysis of future planning scenarios in order to guide decisions around investments in proposed capital improvement activities.

The primary goals of the updated financial assessment are to:

- provide decision makers with information on the cost of providing recycled water service relative to revenues generated from the program;
- provide decision makers with information regarding the estimated future financial condition of the program; and
- provide an economic justification for proposed improvements to the recycled water system.

In order to accomplish these goals, SEJPA worked with its consultant to develop a draft technical memorandum which was presented to the SEJPA Board of Directors in July 2009. The Board provided initial comments on the draft technical memorandum and requested that the staff coordinate with engineering and financial staff from each of the member agencies. Staff received no formal comments from the member agencies and this final Updated Financial Assessment incorporates responses to questions and comments raised by the Board of Directors.

Current Financial Situation

SEJPA's program has two major sources of revenue: recycled water sales and incentive funding provided by both the Metropolitan Water District of Southern California (Metropolitan) and the San Diego County Water Authority (Authority). Recycled water is sold at 85% of the potable water rate which means the recycled water rate is slightly different in each of the three retail water service areas. The current (FY 2009-10) revenue structure for SEJPA is illustrated Table 1 below.

Table 1 FY 2009-10 Revenue Structure

	Recycled Water Rate (AFY)	Volume of Recycled Water Purchased (AF)	Total Revenue
Santa Fe Irrigation District	\$1,071	510	\$546,210
City of Del Mar	\$922	150 ¹	\$138,300
San Dieguito Water District	\$1,003 ²	710	\$712,130
Incentives (Metropolitan & Authority)	\$450	1,300 ³	\$585,000
Total Revenue			\$1,981,640
Notes: 1. The City of Del Mar has a take-or-pay agreement with the SEJPA for 150 afy. The estimated Del Mar use for FY 2009-10 is 80 afy. The 22nd Agricultural District of California is responsible for paying the difference. 2. The San Dieguito Water District has two rates at which recycled water is sold at (\$922 afy and \$1,125 afy). Sales are roughly split 60/40 between the two rates which produces an average rate of \$1,003 afy. 3. Incentives are paid on actual water deliveries which are estimated to be 510 afy to SFID, 80 afy to Del Mar and 710 afy to SDWD for a total of 1,300 afy.			

SEJPA has two major categories of expenditure: debt service on the SRF loan used to construct the system and operating costs. The current (FY 2009-10) budgeted expenditures for the program are outlined in Table 2.

Table 2 FY 2009-10 Operational Cost Summary

Budgeted Operating Costs	
Debt Service on SRF Loan	\$834,675
Personnel	\$420,130
Supplies & Services	\$522,090
Contingency	\$42,040
Total Expenditures	\$1,818,935

Recent Revenue and Expenditure History

While SEJPA struggled financially with its recycled water utility in the early years, recent financial performance has been quite solid. Table 3 shows a trend of improving financial performance for the recycled water program.

Table 3 Summary of Financial Trends FY 2004-05 through 2008-09

	2004-05	2005-06	2006-07	2007-08	2008-09
Total Revenues	\$ 1,311,080	\$ 1,450,720	\$1,748,725	\$ 1,818,136	\$ 1,998,371
Total Expenditures	\$ 1,451,475	\$ 1,589,727	\$ 1,601,753	\$ 1,701,029	\$ 1,750,935
Program Cash Flow	\$ (140,395)	\$ (139,007)	\$ 146,972	\$ 117,107	\$ 247,436
Running Fund Balance¹	\$ 2,802,213	\$ 2,817,739	\$ 2,630,389	\$ 2,890,694	\$ 2,960,587

1 Running fund balance includes accrued interest and reserves

Assumptions and Projections for the Status Quo

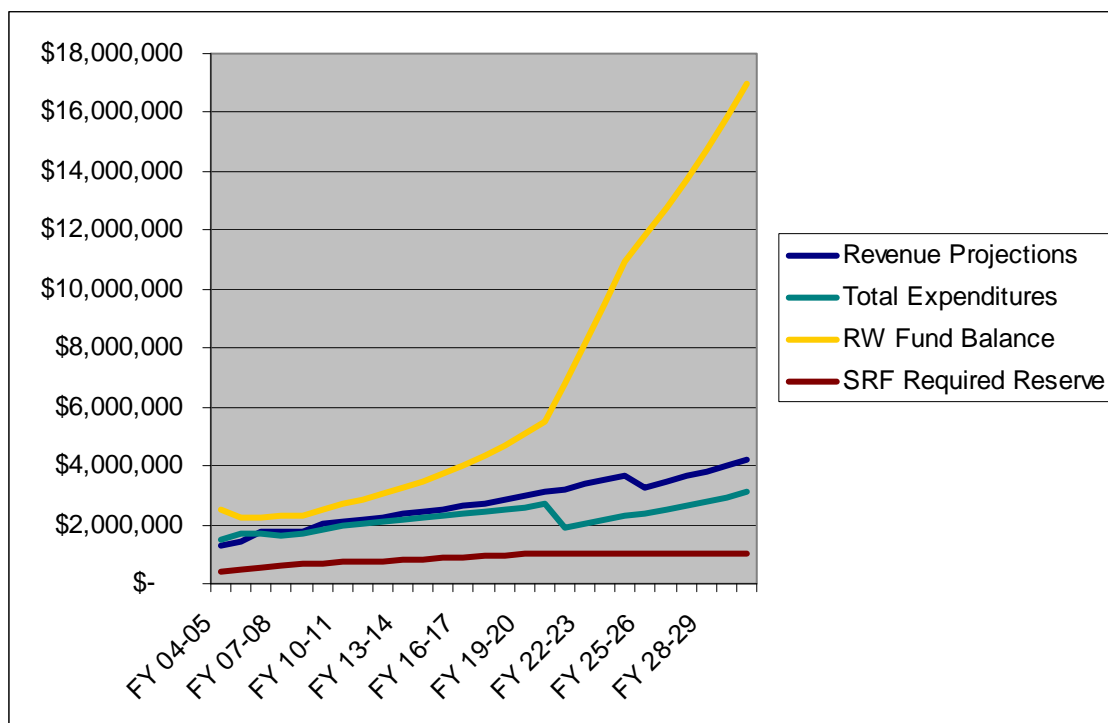
In order to understand the program's ability to support new capital investments, the current revenue and expenditure pattern was projected forward to the year 2030 using the following assumptions:

- No increase in recycled water deliveries;
- No addition of demineralization treatment, which could be required in the future;
- 5% increase in water rates annually;
- 5% increase in program operating costs annually (debt service and debt service reserve requirements remain fixed);
- SRF loan pay-off in FY 2020-21; and
- Metropolitan and Authority incentives end in FY 2025-26.

The Figure 1 illustrates the results of this modeling and illustrates that the program is financially solvent. In the out-years, as SRF debt is retired, the program is on a path to accumulate substantial fund balances. However, in the Status Quo scenario, the issue of TDS compliance is ignored. Although this is the current situation, there is a strong possibility that the San Diego Water Board could require the SEJPA to comply with the TDS limits in its permit or force the program offline. Also, the water purveyors that purchase recycled water from the SEJPA could seek to renegotiate the terms of the agreements if SEJPA does not meet the contracted water quality objectives. Therefore, it may not be realistic to assume that the SEJPA could continue the Status Quo

indefinitely. Both regulatory and customer service threats could force investments or reduce revenues, or both. It is for these reasons that it is not recommended to pursue the Status Quo or to assume that the Status Quo is a feasible option in future years. Furthermore, since the financial implications of these threats are difficult to quantify, and would only be a guess at this point, Figure 1, Projected Financial Trends – Status Quo, does not include all potential negative impacts, though several of the modeled scenarios attempt to bracket potential effects from mandated investment and no program growth..

Figure 1 Projected Financial Trends – Status Quo



Potential Risks and Risk Mitigation Strategies for the Current Program

While the recycled water program appears to be financially stable under current conditions, SEJPA actively monitors potential risks to the system and works to mitigate those risks. Potential risks and mitigation strategies are discussed below.

Risk: Recycled water contracts with retail agencies expire and are not renewed

As noted, SEJPA has contracts with three retail agencies which purchase recycled water for use in their service areas. While these contracts are subject to regular renewals the risk of cancellation of these agreements is not large for several reasons. First, prior to committing to constructing the

system, SEJPA negotiated “take-or-pay” agreements with each retailer assuring that it could sell a minimum amount of recycled water and cover its costs. As illustrated in Table 1, SEJPA currently enforces the “take-or-pay” agreement with the City of Del Mar.

In addition to the agreements, current water supply conditions are favorable to recycled water. The San Dieguito and Santa Fe Water Districts and the City of Del Mar all receive water supply from the Authority, which in turn imports water from Metropolitan. Current drought conditions declared by the Authority have caused many retail agencies to declare a Level 2 water shortage which is encouraging recycled water use. In May 2009, the Santa Fe Irrigation District delivered a letter of inquiry to SEJPA about expanded recycled water service. In September 2009, the San Dieguito Water District adopted a Demand Offset Fee Program that is premised on the development of over 140 afy of new recycled water demands. Both Santa Fe Irrigation District’s letter and San Dieguito Water District’s Demand Offset Fee Resolution are included in Appendix 1.

Finally, while the current hydrologic drought is receiving significant attention, Metropolitan’s water supply has also been impacted by regulatory actions. In 2008, and as result of concerns about ecosystem health in the Sacramento-San Joaquin Delta, a federal court ordered the largest water supply cutback in the history of the State Water Project, which is a major source of imported water. Metropolitan estimates that this has resulted in a reduction of more than one-third of its State Water Project supply. This court action has triggered renewed interest in conservation, recycling and other local supplies in order to offset the regulatory reductions. Metropolitan expects these regulatory reductions to be long term. Appendix 2 contains a staff report from Metropolitan’s January 13, 2009 Board meeting which details the water supply reductions and the cost implications of managing these reductions.

Because of the large pressures on the imported water supply, it is reasonable to conclude that the risk of water purveyors cancelling or not renewing the existing agreements is very remote. Recycled water has become an important part of their portfolio. One caveat is that the recycled water quality must be maintained or it loses its value to the purveyor.

Risk: The drought cycle ends reducing demand for recycled water

As noted above Metropolitan is experiencing water supply curtailments as a result of regulatory decisions as well as drought. Even when climatic conditions return to normal, water supplies will still

be subject to constraints because of ecosystems concerns in the Sacramento-San Joaquin Delta. This regulatory condition favors the development of local water supplies, including recycled water supplies.

Risk: Water rate increases could be lower than assumed for modeling purposes

The financial model assumes water rates increasing at a rate of 5 percent per year. The same rate is assumed for inflation. SEJPA staff and consultants believe this assumption is conservative because of the larger issues affecting the wholesale water supplies for San Diego County. As noted above, wholesale water supplies to Metropolitan have been constrained. As described in detail in Appendix 2, these constraints have caused Metropolitan to incur higher costs for purchasing drought supplies and for participating in ongoing technical and environmental work focused on developing a long-term solution to the habitat and ecosystem conditions that have caused regulatory reductions of water supply. Metropolitan expects wholesale water costs to increase 25 to 35 percent over the next several years and on January 13, 2009, the Board approved a 20.7 percent rate increase for Fiscal Year 2009-10. This rate increase will impact local retailers and necessitate increases in their water rates. Because of the large impending increases in wholesale water supply costs, the water rate increases assumed for this model are likely quite conservative.

Risk: SEJPA costs could escalate faster than assumed for modeling purposes

While SEJPA is not subject to the same kind of cost pressures experienced by local water agencies, it is possible that future inflation rates could exceed the 5% per year included in the model. However, it is important to note that approximately 50% of SEJPA's costs are fixed debt service payments on its SRF loan and therefore not subject to inflation at all. Because such a large percentage of SEJPA's annual costs are not subject to inflation, the effects of assumptions about inflation do not have substantial impacts on the overall financial model.

Risk: Recycled water quality could degenerate causing customer and/or regulatory compliance problems

Recycled water has an incrementally higher Total Dissolved Solids (TDS) load than potable water and TDS levels above 1100 mg/liter can limit the use of recycled water for landscape irrigation. SEJPA's agreements with its retail agencies contain limits on TDS (ranging between 1,000 and 1,100 mg/liter) and currently the recycled water can exceed this level. The TDS loading in SEJPA's recycled water is of concern and is the greatest risk identified to the viability of the program. On

numerous occasions, the TDS loadings have exceeded permit limits as set forth by the San Diego Water Board, which has given the SEJPA a notice of violation for exceeding TDS loadings. This notice is included as Appendix 3.

TDS loading in the recycled water is a major risk to the program, but one that can be managed with the addition of demineralization treatment. One of the main purposes of this financial assessment is to assess the program's ability to carry new debt to finance the construction of demineralization treatment. If this issue is not addressed, then the San Diego Water Board could require SEJPA to take corrective action and this could include violation fines and a prescribed time-schedule for compliance.

Undertaking corrective action, such as a demineralization project, with a time schedule, could limit SEJPA's ability to seek partners and obtain attractive financing.

Benefits of the Current Program

The recycled water program provides local water supply benefits and the analysis of the Status Quo illustrates that recycled water rates are currently covering the costs of recycled water service.

However the recycled water program also provides some modest benefits to the sewer system rate payers. Pumping and maintenance costs associated with using the effluent outfall are avoided when water is recycled. In addition, the water recycling program provides enhanced reliability to the sewer system because there is more than one option for effluent disposal. While difficult to quantify economically, enhanced reliability helps avoid the risk of ocean outfall system overflows and accompanying fines. Finally the program provides SEJPA with benefits in the form of community relations. Environmental groups such as Surfrider Foundation, San Elijo Lagoon Conservancy and the San Diego Coastkeeper all support SEJPA's efforts to recycle water and minimize ocean disposal. San Dieguito Water District's recent ability to manage its Level 2 drought restrictions on building permits, through a creative recycled water offset program, is an example of how SEJPA's program contributes to the broader community.

Summary Conclusions

The recycled water program's recent history indicates that it is in a good financial position. Revenues outpace costs and the available fund balance exceeds annual expenses. Because approximately one-half of the program's expenditures (debt service) are a fixed cost, inflation-based increases to water

rates are likely to outpace inflation-based increases to expenditures. In addition, regional and statewide pressures on imported water supplies are combining to enhance the value of local water supplies, which strengthens the motivation of SEJPA's partner agencies to continue to include recycled water as part of their supply portfolio. This combination of facts suggests that the program has some capacity to make careful, planned investments.

Future Planning Scenarios, Assumptions and Results

The analysis of current conditions indicates that the recycled water program has some capacity to pursue new capital projects that can improve and expand the existing program. In order to understand the impacts of these investments, a spreadsheet based financial model was developed to study and analyze the impacts of various planning scenarios on the financial health of the program. A range of assumptions regarding size of the program, the scope of infrastructure investments, inflation rates and financing plans were developed with the SEJPA staff and modeled by the consultant. The intent of this modeling effort was to bracket a reasonable range of assumptions and assist decision makers in targeting an appropriate level of investment while maintaining an overall fiscally sound recycled water utility.

Drivers for Investing in the Recycled Water Program

There are two primary drivers for investing in the recycled water program: water quality and water supply.

Water Quality

As noted above, the TDS in SEJPA's recycled water is approaching or at unacceptable levels. The SEJPA is currently pursuing the design of a demineralization treatment system to maintain TDS levels well within the 1000 mg/l threshold. The preliminary design report is expected to be completed in December 2009, with the final design expected to be completed by fall 2010. If the SEJPA seeks to move the project to construction, financing may be arranged by early 2011 and the project constructed in that same year.

In addition, the State Water Resource's Control Board's newly adopted Recycled Water Policy is clear that water quality must be addressed when recycled water is part of a local water supply. Long-term use of incrementally saltier water can result in groundwater degradation. In order to balance water supply and water quality concerns, the Recycled Water Policy calls for the development of

regional salt and nutrient management plans in the next five to seven years. The Authority is beginning exploratory efforts around regional salinity management and conducted a workshop on October 6, 2009 to help scope the local effort. There are several areas in California where regional salt and nutrient management have been developed: the Santa Ana Watershed Project Authority and the Callegus watershed are notable local examples. In both of these cases, demineralization strategies are part of the long-term suite of solutions that preserve water quality.

Proactive investments in improving water quality will anticipate future regulatory requirements, allowing SEJPA to make these improvements on its own schedule rather than on a regulatory compliance schedule.

Water Supply

The Authority's 2005 Urban Water Management Plan (UWMP), which is consistent with Metropolitan's Integrated Resources Plan, recognizes the need for diversified local supplies in order to enhance water supply reliability and reduce the impacts of drought, climate change and regulatory uncertainties around the imported water supply. The Authority's 2005 UWMP identifies the need to develop 14,000 afy in new recycled water supplies by the year 2030 to meet dry year water needs.

Currently, the Authority has all of its member agencies under Drought Alert, which includes a requirement for 20% mandatory conservation. Water recycling is a very effective conservation practice resulting in a 100% offset of potable water demands.

Finally, in addition to the current hydrologic drought, Metropolitan's water supply is increasingly subject to legal restrictions imposed to protect fish species in the Sacramento-San Joaquin Delta, Metropolitan's primary source of supply. These restrictions have curtailed water deliveries, even when the water is hydrologically available, highlighting the fact imported water supplies within Metropolitan's service area may be restricted well into the foreseeable future.

Planning Scenarios

Five planning scenarios have been developed to model a range of future conditions that SEJPA may experience. These scenarios were designed to help SEJPA understand how future risks or opportunities could affect the program's long-term financial position. The planning scenarios are:

- Scenario 1a No growth (recycled water sales stay at 1300 afy) with demineralization improvements financed by a zero interest loan: this scenario involves construction of demineralization improvements to meet current demands and improve the quality of water delivered to customers. This scenario addresses current water quality concerns and models no growth, the low range of future probable costs and a favorable assumption about borrowing rates.
 - Scenario 1b No growth (recycled water sales stay at 1300 afy) with demineralization improvements financed by a market-rate bond sale: this scenario involves construction of demineralization improvements to meet current demands and improve the quality of water delivered to customers. This scenario addresses current water quality concerns and models no growth, the low range of future probable costs and a conservative assumption about borrowing rates.
 - Scenario 2a Slow growth with demineralization improvements financed by a zero interest loan: this scenario involves construction of demineralization improvements to serve a maximum system demand of 1,600 afy. It also assumes that the system will slowly build-out to capacity by Fiscal Year 2019-20. This scenario addresses current water quality concerns and also takes into account potential water supply needs. It models slow growth, a low range of future probable costs and a favorable assumption about borrowing rates.
 - Scenario 2b Slow growth with demineralization improvements financed by an SRF loan: this scenario involves construction of demineralization improvements to serve a maximum system demand of 1600 afy. It also assumes that the system will slowly build-out to capacity by Fiscal Year 2019-20. This scenario addresses current water quality concerns and also takes into account potential water supply needs. This scenario models slow growth, a low range of future probable costs and a moderate assumption about borrowing rates.
 - Scenario 2c Slow growth with demineralization improvements financed by a market rate bond sale: this scenario involves construction of demineralization improvements to serve a maximum system demand of 1600 afy. It also assumes that the system will slowly build-out to capacity by Fiscal Year 2019-20. This scenario addresses current water quality concerns
-

and also takes into account potential water supply needs. This scenario models slow growth, a low range of future probable costs and a conservative assumption about borrowing rates.

- Scenario 3 Rapid near-term growth with demineralization, storage and pumping improvements financed by a zero interest loan: this scenario assumes that the current drought conditions will result in contracts for 150 afy of new recycled water use by Fiscal Year 2011-12, with slower build-out to full system capacity by Fiscal Year 2019-20. This scenario assumes investments in demineralization, storage and pumping improvements to meet these new demands. This scenario models moderate growth, driven by a demand for reliable water supply and supported by favorable borrowing rates. Achieving the conditions modeled by this scenario will require active, cooperative work between SEJPA and the retail water agencies to secure the commitments for increased recycled water use and access attractive financing.
- Scenario 4 Rapid near-term growth with demineralization, storage, pumping and distribution improvements financed by an SRF loan: this scenario assumes that the current drought conditions will result in contracts for 150 afy of new recycled water use by Fiscal Year 2011-12, with slower build-out to full system capacity by Fiscal Year 2019-20. This scenario assumes investments in demineralization, storage, pumping and distribution improvements to meet these new demands. This scenario models moderate growth, driven by a demand for reliable water supply and more conservative estimates about project costs and financing rates.

The assumptions and drivers for each scenario are illustrated in Table 4 below. Detailed discussion supporting the various assumptions follows in the next sub-section.

Table 4 Planning Scenario Summary

	Scenario 1a	Scenario 1b	Scenario 2a	Scenario 2b	Scenario 2c	Scenario 3	Scenario 4
Current Sales	1300 afy						
Future Sales	1300 afy	1300 afy	1600 afy by 2019-20	1600 afy by 2019-20	1600 afy by 2019-20	1450 afy by 2012-13 and 1600 afy by 2019-20	1450 afy by 2012-13 and 1600 afy by 2019-20
CIP	Treatment	Treatment	Treatment	Treatment	Treatment	Treatment Pumping Storage	Treatment Pumping Storage Distribution
Drivers for CIP	Water Quality	Water Quality	Water Quality Water Supply	Water Quality Water Supply	Water Quality Water Supply	Water Supply Water Quality	Water Supply Water Quality
CIP Budget	\$2.8 M	\$2.8 M	\$3.8 M	\$3.8 M	\$3.8 M	\$5.8 M	\$7.8 M
SEJPA Contribution	\$1.0 M	\$1.0 M	\$1.0 M	\$1.0 M	\$1.0 M	\$1.0 M	\$1.0 M
Water Rate Increases	5% per year						
Inflation	5% per year						
Interest on Fund Balance	2% per year						
Borrowing Rates and Terms	0% for 20 years	6% for 30 years	0% for 20 years	3.5% for 20 years	6% for 30 years	0% for 20 years	3.5% for 20 years
Increase in O&M	\$60,000	\$60,000	\$75,000	\$75,000	\$75,000	\$105,000	\$135,000

Assumptions

The following assumptions are reflected in the each of the scenarios modeled. The goal of the analysis is to assist decision makers in bracketing a reasonable range of deliveries. All cost estimates are “order of magnitude” cost estimates with expected accuracy of +30% to -15%.

Recycled Water Sales

SEJPA currently retails approximately 510 afy to Santa Fe Irrigation District, approximately 710 afy to San Dieguito Water District and approximately 80 afy to the City of Del Mar. However, the City of Del Mar is required to pay for 150 afy regardless of use.

A variety of assumptions about future recycled water sales have been modeled in order to understand how the assumptions related to future program growth affect the program financials. The goal is bracket a range of potential future conditions. These assumptions are described below.

- Scenario 1 assumes that there are no increases in future recycled water sales.
- Scenario 2 assumes future sales grow slowly in the Santa Fe Irrigation District and San Dieguito Water District service areas until the system reaches build-out capacity (1600 afy) in Fiscal Year 2019-20.
- Scenarios 3 and 4 assumes that Santa Fe Irrigation District and San Dieguito Water District each add 75 afy of new demand in the next 3 years as a result of drought pressures and then grow slowly to buildout by year Fiscal Year 2019-20.

Water Rate Increases

All scenarios assume that water rates increase at 5% per year. This increase in water rates is based on the fact that Metropolitan, the wholesale water supplier, is budgeting for steep increases in water rates (approximately 20% in 2010 and 12% in 2011). These increases in wholesale water pricing will influence retail rates.

Inflation Increases

All scenarios assume that SEJPA's operation costs will also increase at a rate of 5% per year.

Interest on Fund Balance

All scenarios assume that SEJPA will earn a 2% interest rate on its invested fund balance.

Borrowing Rates and Terms

The scenarios assume a range of borrowing conditions.

Under the most favorable assumptions the SEJPA would use the State Water Resources Control Board's "match" program. This program allows an agency to borrow money at a 0% interest rate, which is the rate at which the State borrows fund from the federal government, provided that the agency provides a 20% match to project costs, which is the match that the State must provide the federal government to access SRF Funds.

The scenarios also evaluate the impacts of using the State Water Resources Control Board's Revolving Fund Loan Program (SRF) conventional borrowing program to construct facilities. The conventional borrowing program allows agencies to borrow money at half the current state general obligation rate.

Finally the scenarios evaluate the use of market rate financing. This could occur if SEJPA were required to undertake the demineralization improvements on a compliance schedule dictated by the regional board and because of this did not have the opportunity to secure the most favorable financing package.

All scenarios assume that repayments on new loans begin in Fiscal Year 2012-13 (i.e. one year after the completion of construction).

CIP Improvements and Budget

Scenario 1 assumes the SEJPA constructs minimum capacity demineralization facilities at a cost of \$2.8 million. Scenario 2 assumes that SEJPA constructs demineralization facilities with a capacity of up to 1600 afy at a cost of \$3.8 million. Scenario 3 assumes that SEJPA constructs full capacity demineralization facilities and improvements to its pumping and storage facilities at a cost of \$5.8. Scenario 4 assumes construction of demineralization, pumping and storage improvements together with a distribution system extension at a total cost of \$7.8 million.

Increase in O&M Costs

It is assumed that SEJPA's non-fixed operating costs (labor, energy, chemicals, repair parts, etc.) will increase proportionally to water sales and demineralization operations. All scenarios assume that the demineralization facilities come on-line in Fiscal Year 2011-12. For Scenario 1, it is assumed that the SEJPA's operating costs increase by \$60,000. For Scenario 2, it is assumed that the SEJPA's operating costs increase by \$75,000. For Scenario 3, it is assumed that the SEJPA's operating costs

increase by \$105,000. For Scenario 4, it is assumed that the SEJPA's operating costs increase by \$135,000.

Repair and Replacement Fund

It is recommended that SEJPA consider implementing a Repair and Replacement Funding Policy to provide for the eventual repair and replacement of the program's infrastructure. SEJPA's recycled water infrastructure has a relatively long useable life (40 to 60 years in most cases). Targeting an annual repair and replacement reserve contribution of 2% ($100\%/50 \text{ years} = 2\%$) of the system's total construction cost (book value) would provide a funding stream capable of supporting repair and replacement work as the system components approach the end of their useable life. As new improvements are added to the recycled water system, the total book value of the system increases and the annual reserve contribution would also increase. Table 5 presents the annual repair and replacement (R/R) contribution for each scenario, assuming a goal of funding 2% of the system costs annually.

Table 5 Repair and Replacement Funding Summary

	Status Quo	Scenario 1a and 1b	Scenario 2a, 2b and 2c	Scenario 3	Scenario 4
Existing System Value	\$16,500,000	\$16,500,000	\$16,500,000	\$16,500,000	\$16,500,000
Value of New Improvements	\$0	\$2,800,000	\$3,800,000	\$5,800,000	\$7,800,000
Total System Value	\$16,500,000	\$19,300,000	\$20,300,000	\$22,300,000	\$24,300,000
2% Annual Contribution	\$320,000	\$386,000	\$406,000	\$446,000	\$486,000

For the purposes of the financial modeling, funding the repair and replacement contribution begins in FY 2012-13, the year after SEJPA's completes its anticipated \$1 million contribution to the demineralization project. A contribution is made in the amount that revenues exceed expenses, up until the contribution equals the 2% target funding level.

Summary of Results

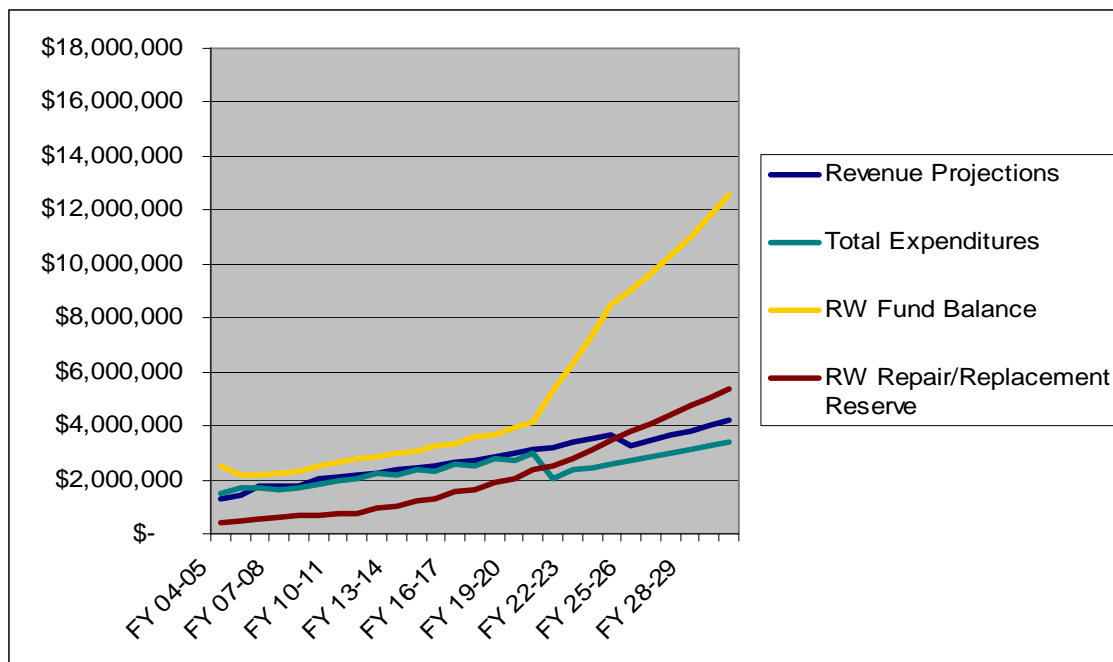
The spreadsheet model was used to analyze the impacts of each of the proposed scenarios on SEJPA's cash flow, unrestricted fund balance and R/R fund balance. In each case, the program cash-flow and unrestricted fund balance recover after the initial investment in system construction. In most cases the recovery is quite rapid, indicating that the program has the financial capacity to

make these investments. The slowest recovery is for Scenario 4, the most expensive scenario, indicating that a \$7.8 million investment is quite substantial for program of SEJPA's size.

Status Quo with Repair and Replacement Contribution

This scenario illustrates the effects of making a dedicated R/R contribution under current conditions (no demineralization improvements). The contribution begins in FY 2012-13, with available funds. SEJPA is able to fully fund the recommended \$320,000 annually beginning in FY 2022-23. In 2030-31, the end of the modeling period, SEJPA will have funded a total contribution of \$5.37 million to its R/R fund and will carry an unrestricted fund balance of \$12.5 million. The program's projected revenues, expenditures and fund balances for this scenario are illustrated in Figure 2 below.

Figure 2 – Status Quo with Repair and Replacement Contribution

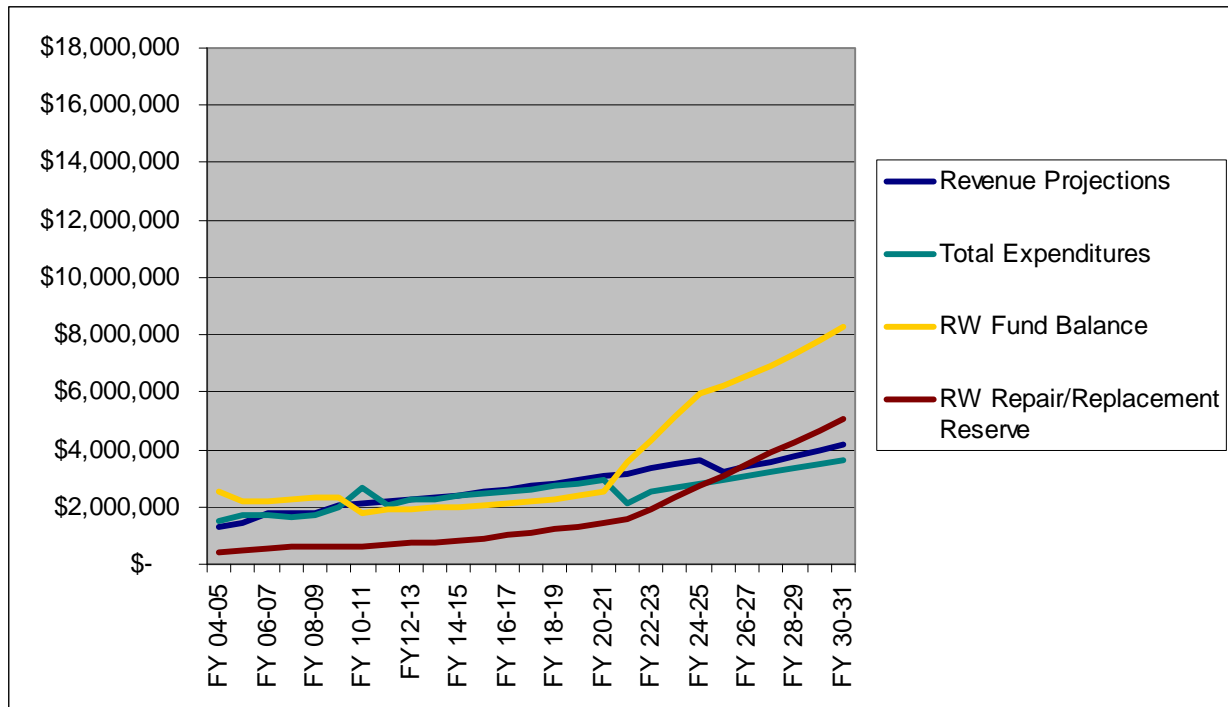


Scenario 1a

This scenario maintains positive cash flow, except in Fiscal Years 2009-10 and 2010-11 when the initial \$1 million investment is made. This no-growth scenario produces a relatively static fund balance until FY 2020-21, when the system's initial SRF loan is paid off. In accordance with the recommended policy, this scenario models capitalizing a repair and replacement reserve in FY 2012-13, with available funds. SEJPA is able to fully fund the recommended \$386,000 annually beginning

in FY 2022-23. In 2030-31, the end of the modeling period, SEJPA will have funded a total contribution of \$5.12 million to its R/R fund and will carry an unrestricted fund balance of \$8.1 million, approximately \$4.1 million less than the Status Quo with R/R funding. The program's projected revenues, expenditures and fund balances for Scenario 1a are illustrated in Figure 3 below.

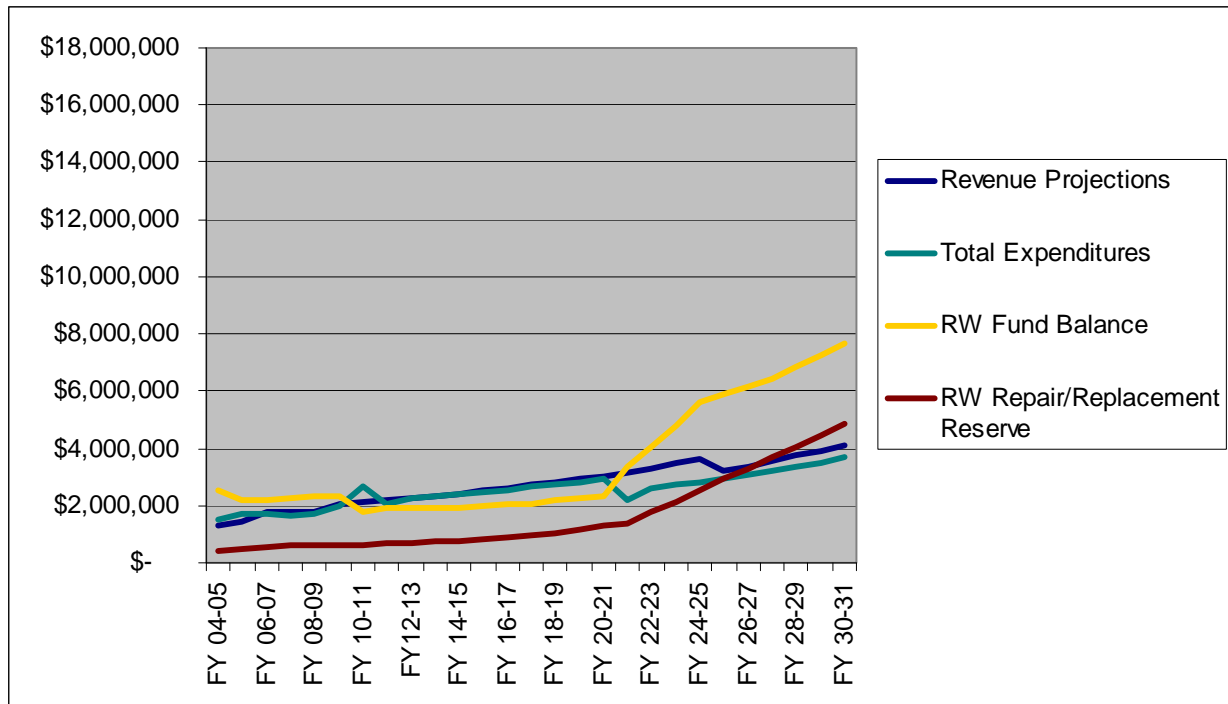
Figure 3 – Scenario 1a Financial Summary



Scenario 1b

This scenario is very similar to Scenario 1a. The program maintains positive cash flow, except in Fiscal Years 2009-10 and 2010-11 when the initial \$1 million investment is made. Because of the higher interest rates paid on market rate bonds, the program has less available cash flow each year and makes smaller contributions to its R/R fund, until FY 2022-23, when it is able to fully fund it R/R program. In 2030-31, the end of the modeling period, SEJPA will have funded a total contribution of \$4.9 million to its R/R fund and will carry an unrestricted fund balance of \$7.6 million, approximately \$4.9 million less than the Status Quo with R/R funding. The program's projected revenues, expenditures and fund balance for Scenario 1b are illustrated in Figure 4 below.

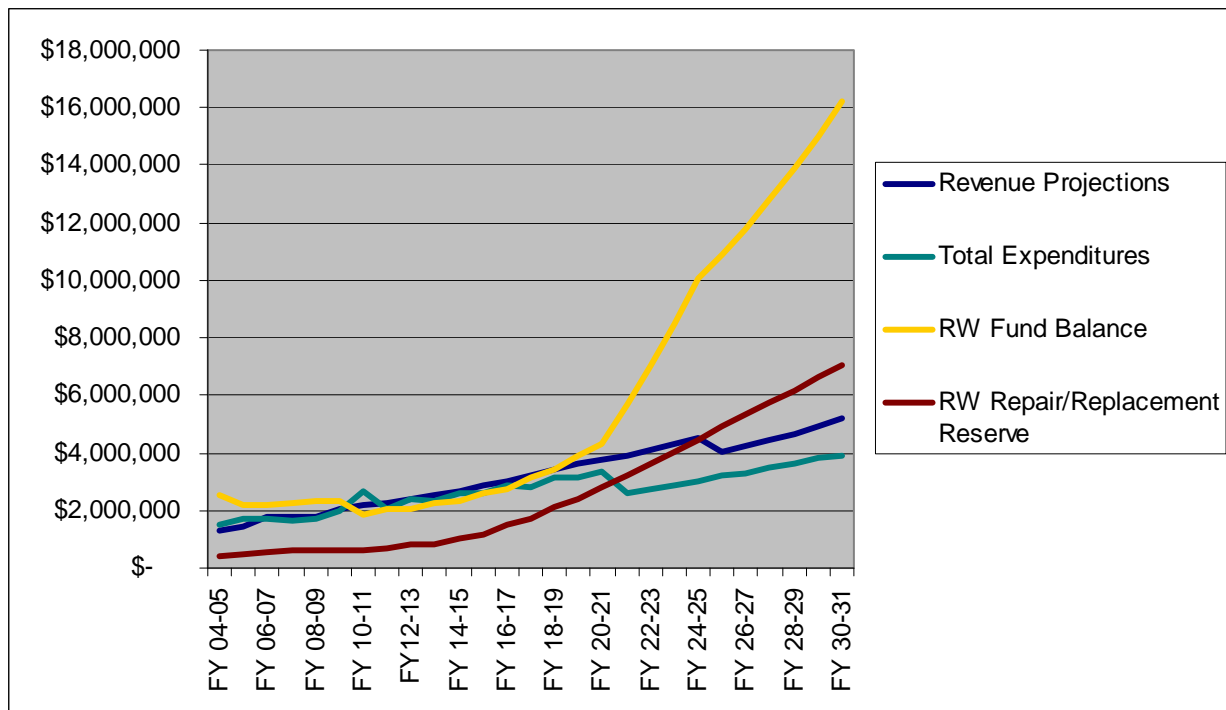
Figure 4 – Scenario 1b Financial Summary



Scenario 2a

This scenario maintains positive cash flow, except in Fiscal Years 2009-10 and 2010-11 when the initial \$1 million investment is made. In accordance with the recommended policy, the scenario models capitalizing a repair and replacement reserve in FY 2012-13, with available funds. SEJPA is able to fully fund the recommended \$406,000 annually beginning in FY 2020-21, slightly earlier than with the no growth scenarios. In 2030-31, the end of the modeling period, SEJPA will have funded a total contribution of \$7.1 million to its R/R fund and will carry an unrestricted fund balance of \$16.2 million, approximately \$3.7 million more than the Status Quo with R/R funding. This scenario outperforms the status quo and could fully fund recommended R/R reserve levels, depending on decisions regarding use of the unrestricted fund balance. The program's projected revenues, expenditures and fund balances for Scenario 2a are illustrated in Figure 5 below.

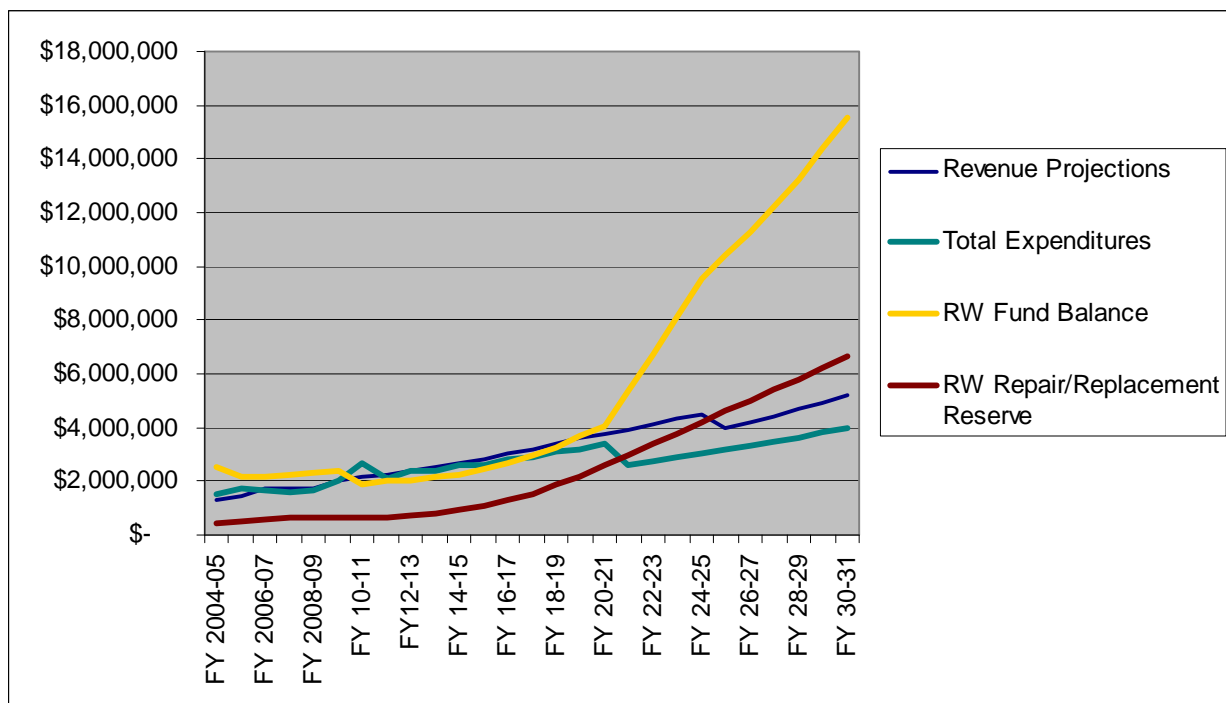
Figure 5– Scenario 2a Financial Summary



Scenario 2b

This scenario maintains positive cash flow, except in Fiscal Years 2009-10 and 2010-11 when the initial \$1 million investment is made. In accordance with the recommended policy, the scenario models capitalizing a repair and replacement reserve in FY 2012-13, with available funds. SEJPA is able to fully fund the recommended \$406,000 annually beginning in FY 2022-23. This is slightly later than for Scenario 2a, because the borrowing terms modeled in this scenario constrain cash flow. In 2030-31, the end of the modeling period, SEJPA will have funded a total contribution of \$6.7 million to its R/R fund and will carry an unrestricted fund balance of \$15.5 million, approximately \$3 million more than the Status Quo with R/R funding. This scenario outperforms the status quo and could fully fund recommended R/R reserve levels, depending on decisions regarding use of the unrestricted fund balance. The program's projected revenues, expenditures and fund balances for Scenario 2b are illustrated in Figure 6 below.

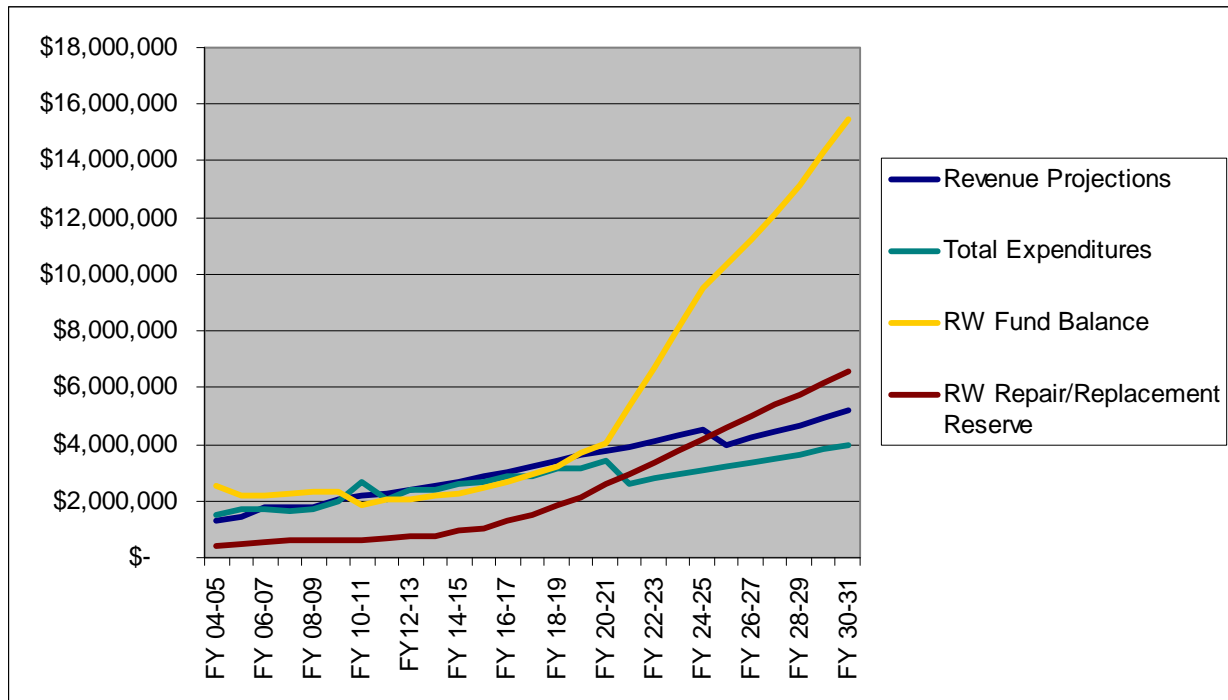
Figure 6 – Scenario 2b Financial Summary



Scenario 2c

This scenario is very similar to Scenario 2b because the annual payments on a “market rate” loan with a 30-year term are very similar to the annual payments on an SRF loan with a 20-year term. The program maintains positive cash flow, except in Fiscal Years 2009-10 and 2010-11 when the initial \$1 million investment is made. In accordance with the recommended policy, the scenario models capitalizing a repair and replacement reserve in FY 2012-13, with available funds. SEJPA is able to fully fund the recommended \$406,000 annually beginning in FY 2022-23. In 2030-31, the end of the modeling period, SEJPA will have funded a total contribution of \$6.6 million to its R/R fund and will carry an unrestricted fund balance of \$15.4 million, approximately \$2.9 million more than the Status Quo with R/R funding. This scenario outperforms the status quo and could fully fund recommended R/R reserve levels, depending on decisions regarding use of the unrestricted fund balance. The program’s projected revenues, expenditures and fund balances for Scenario 2c are illustrated in Figure 7 below.

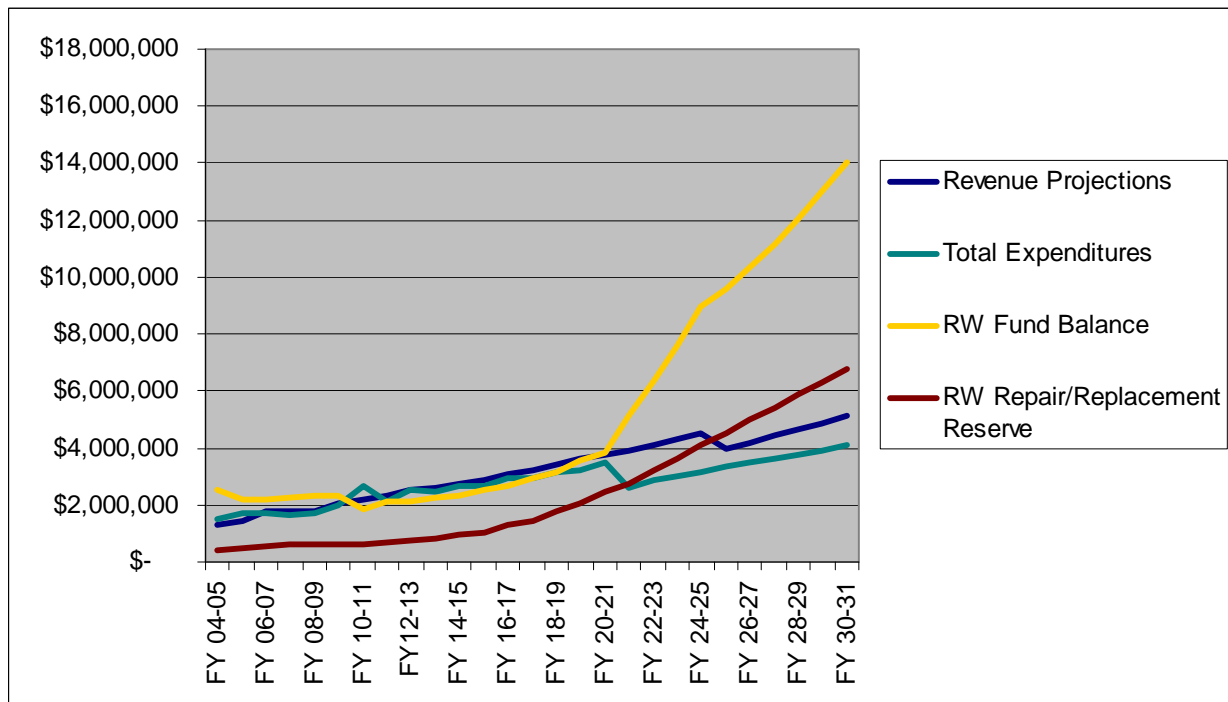
Figure 7 – Scenario 2c Financial Summary



Scenario 3

This scenario also maintains positive cash flow, except in Fiscal Years 2009-10 and 2010-11 when the initial \$1 million investment is made. In accordance with the recommended policy, the scenario models capitalizing a repair and replacement reserve in FY 2012-13, with available funds. SEJPA is able to fully fund the recommended \$446,000 annually beginning in FY 2022-23. In 2030-31, the end of the modeling period, SEJPA will have funded a total contribution of \$6.8 million to its R/R fund and will carry an unrestricted fund balance of \$13.9 million, approximately \$1.4 million more than the Status Quo with R/R funding. This scenario outperforms the status quo but does not perform quite as well as Scenario 2, where borrowing is more modest. However the program maintains healthy fund balances and could fund recommended R/R reserve levels, depending on decisions regarding use of the unrestricted fund balance. The program's projected revenues; expenditures and fund balance under Scenario 3 are illustrated in Figure 8 below.

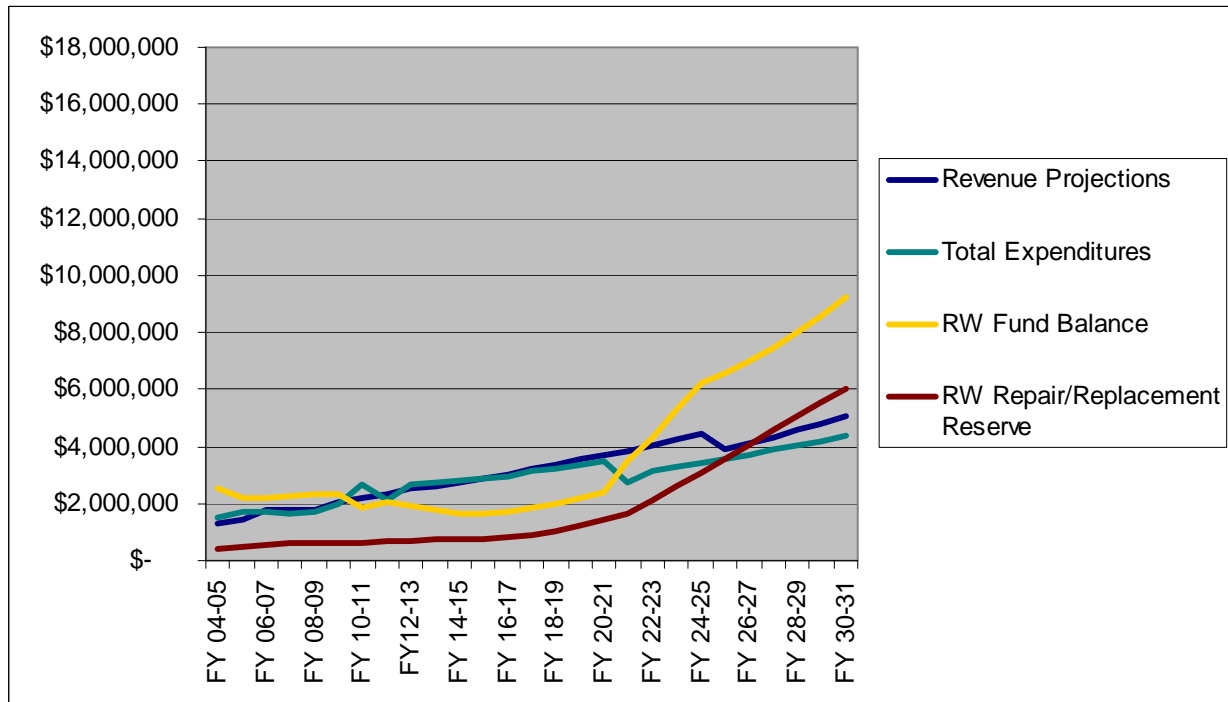
Figure 8 – Scenario 3 Financial Summary



Scenario 4

This scenario presents the greatest near-term challenges to SEJPA's cash flow because it models the most aggressive near-term investments. Unlike Scenarios 2 and 3, the program's growth is not enough to quickly offset the increased expenditure levels. In accordance with the recommended policy, the scenario models capitalizing a repair and replacement reserve in FY 2012-13, with available funds. SEJPA is able to fully fund the recommended \$486,000 annually beginning in FY 2022-23. In 2030-31, the end of the modeling period, SEJPA will have funded a total contribution of \$6.1 million to its R/R fund and will carry an unrestricted fund balance of \$9.2 million, approximately \$3.3 million less than the Status Quo with R/R funding. While this scenario is not as financially challenging as Scenario 1, it is more financially challenging than Scenarios 2 and 3 where smaller capital investments are made. The program's projected revenues; expenditures and fund balance under Scenario 4 are illustrated in Figure 9 below.

Figure 9 – Scenario 4 Financial Summary



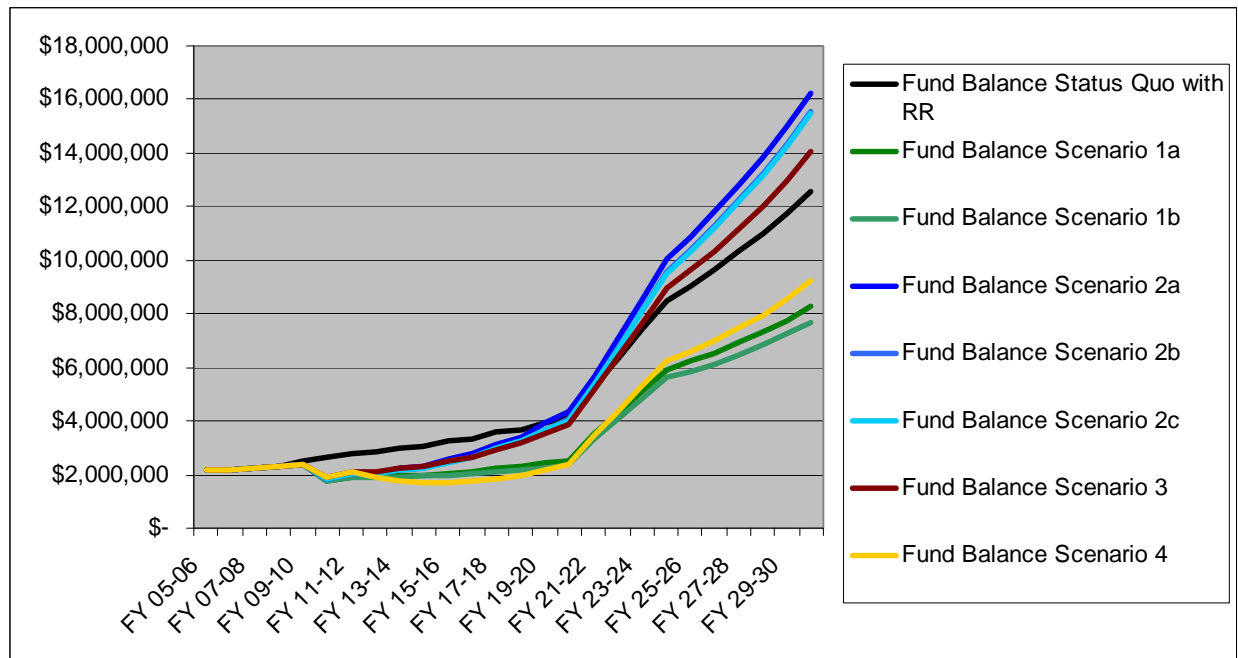
Comparative Summary

Figure 10, below, presents the unrestricted fund balance trends for the Status Quo and each of the modeled scenarios. The Status Quo with R/R investments, shown with a black solid line, has solid near-term performance. However the Status Quo with R/R scenario does not address the greatest present risk to the program (TDS loadings) and, as such, may not be an accurate indicator of actual future conditions.

Scenarios 2a, 2b, 2c and 3 all begin to outperform the Status Quo with R/R investments in approximately 2020, illustrating that program growth can support capital improvements and enhance the performance of the program under a range of investment and borrowing scenarios. Since the proposed demineralization improvements will enhance water quality and result in a more attractive product for customers, the investment should support modest growth.

Scenarios 1a, 1b and 4 perform more poorly than the Status Quo with R/R investments. This suggests two things. First, the program should not shy away from making investments that will encourage customers to connect to the recycled water system. Scenarios 1a and 1b model what could occur with a regulatory mandate to enhance water quality but no increased customer demand. Second, the program should be careful of over-investing: the \$5.8 million capital program modeled in Scenario 3 performs well, while the \$7.8 million capital program modeled in Scenario 4 may be a little too large for SEJPA's projected rate base, unless additional outside assistance or matching funds from partner agencies can be secured. Based on the modeling and analysis, all scenarios can be supported financially by SEJPA; however scenarios with reasonable investment and targeted growth produce the best value for the recycled water utility.

Figure 10 – Comparative Summary – Unrestricted Fund Balance All Scenarios



Appendix

Appendix 1

Santa Fe Irrigation District Letter

San Dieguito Water District Resolution

CC:GL
RECEIVED
SANTA FE IRRIGATION DISTRICT
SAN ELIJO
JOINT POWERS AUTHORITY

2009 MAY -8 AM 8:51



May 6, 2009

Mr. Mike Thornton
General Manager
San Elijo Joint Powers Authority
PO Box 1077
Cardiff by the Sea, CA 92007-7077

Dear Mike:

As you know, SFID is currently working with SEJPA to expand the recycled water distribution system in SFID's western service area. In order to finalize SFID's implementation approach for the eastern service area we need to know the estimated wholesale cost of the recycled water supply, if the source of the water is the San Elijo Water Reclamation Facility.

Western Service Area - The pipelines and pumping facilities required to expand SEJPA's recycled water distribution system to meet SFID recycled water demands in the western part of SFID's service area have been clearly defined in various planning studies. It is anticipated that SEJPA's Water Reclamation Facility (SEWRF) would provide the recycled water supply to SFID's western service area customers. A project is being proposed in SFID's FY 09/10 capital budget to extend the existing recycled water distribution system to serve the remaining portion of San Dieguito Park, and other users in the vicinity of the park.

Per our discussions, the cost for the pipeline extension and the cost for the additional supply from the SEWRF would be covered under the current provisions of the recycled water agreement. However, in order to expedite implementation, SFID will be constructing the pipeline and the costs will be transferred to SEJPA through a reduction in the cost for recycled water. It is our understanding that the specific terms for the transfer of pipeline construction costs will be mutually determined in the next few months. In addition, SFID has also been working with various customers adjacent to the existing recycled water distribution system to help advance the implementation of on-site retrofits and connection to the recycled water system. We are moving to expand the use of recycled water in the western portion of our service area as soon as possible, and anticipate a total demand increase of 100 to 140 acre/feet per year before the end of FY 09/10.

Eastern Service Area - SFID's eastern service area presents a variety of technical issues that complicate the question regarding the most viable source of the recycled water supply. Due to the proximity and elevation of our eastern customers, other recycled water sources that would not be viable for our western customers may prove viable for our eastern customers. Our approach for serving the east will be different than the approach for the west. SFID will construct, own, and operate the recycled distribution system in the east. We will purchase recycled water from the most viable supplier who will deliver the supply to a point from which SFID will distribute the supply to the users.

Supply viability will be determined based upon cost, quality, and reliability. Building upon prior studies, we have been working with multiple potential suppliers to determine their estimated supply cost.

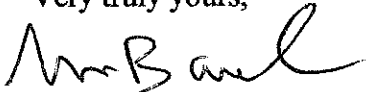
As we described in our previous meetings, we are at a point where we need to make a decision regarding the apparent most viable recycled water supply alternative. Therefore, we request SEJPA's estimated recycled water supply cost as soon as possible. Per our discussions, it can be assumed that the initial demand in the eastern service area would be 300 acre-feet per year (RSF Golf Course and adjacent users). The demand would expand to approximately 800 acre-feet per year. Per previous discussions, our recently completed Asset Management Master Plan assumed that improvements to the SEWRF would include the construction of primary equalization and 3.0 million gallons of tertiary storage for increased delivery and 1.0 MGD of reverse osmosis capacity to increase quality. Please identify the actual improvements required.

The attached figure presents the distribution system scenario using the SEWRF as the supply. Please identify a preferred delivery point as close as possible to the SEWRF that best meets your needs. We also need to know the proposed quality and any other assumptions.

SFID's next Water Resources Committee is May 26. We would like to have your estimated supply cost per acre foot, and any assumptions used to develop the cost, prior to the May Water Resources Committee meeting. In order to effectively solicit funding support for eastern service area improvements, we need to finalize our approach as soon as possible.

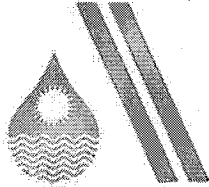
We look forward to working with you to expand recycled water use in the west, and discussing the potential of supplying recycled water for the east.

Very truly yours,



Michael J. Bardin, General Manager

Cc: Bill Hunter, Engineering Manager



SAN DIEGUITO WATER DISTRICT

AGENDA REPORT

Meeting Date: September 23, 2009

TO: Board Members

VIA: Phil Cotton, District Secretary
Lawrence A. Watt, General Manager
Jennifer Smith, Director of Finance

2009.09.17
09:00:41
-0700'

FROM: Victor R. Graves, Assistant General Manager

SUBJECT:

Public Hearing to Consider Adoption of Resolution No. 2009-07, establishing a Water Demand Offset Fee of \$4,283 per acre-foot during mandatory drought conditions and authorize an amount not to exceed \$250,000 from capital reserves to provide loans for converting to recycled water use.

BACKGROUND:

On August 27, 2008, the Board adopted Drought Ordinance No. 2008-01 that established regulations to be implemented during times of declared water shortages or a declared water shortage emergency. When moving to a Level 2 drought response or higher, the issuance of new water meters is prohibited unless the water demand is offset prior to issuance of the meter.

At the March 25, 2009 meeting, the Board reconvened the Drought Ordinance Subcommittee comprised of Board members Barth and Bond to assist staff in developing a water demand offset requirement when moving to a Level 2 drought response. Staff and the Board Subcommittee have been working on a demand offset program designed to match customers placing new demands on the water supply with irrigation sites that can be converted to recycled water.

ANALYSIS: The goal of the Water Demand Offset Program is to encourage existing potable water customers to convert to recycled water which then frees up potable water and allows for the issuance of new water meters during a Level 2 or higher drought condition. During discussions with the subcommittee, the following assumptions were incorporated into the District's Offset Program:

- Water Demand Offset Requirements should be simple to implement and easily understood.
- Water Demand Offset must take place within District service area.
- Water Demand Offset must take place prior to issuance of new meter.
- Recycled water projects will be utilized to meet Water Demand Offset Requirements.
- Creating a Water Demand Offset Fee does not preclude an owner/applicant from proposing to implement a project which demonstrates long term water savings to the District and can be quantified.

- Any offset fee created needs to have a reasonable nexus between the fee and new water supply created.

At the May 27, 2009 Board meeting, staff received authorization to utilize the engineering firm of Winzler & Kelly to assist with development of the Demand Offset Program. Winzler & Kelly was tasked with: 1) Assessing the feasibility of converting District-identified customers to recycled water, 2) Developing a cost estimate for making the feasible conversions, and 3) Developing an offset fee per acre-foot that would allow new development to fund the recycled water conversions.

Attachment "A" is the Executive Summary by Winzler and Kelly that documents the steps taken in determining a Water Demand Offset Fee. A full copy of the Water Demand Offset Study can be found on the San Dieguito Water District website. The fee was based on the estimate of conversion costs including planning, design, permitting, construction and regulatory compliance. For the eleven selected conversion sites, a \$4,283/acre foot offset fee is being recommended. For a single-family residential demand (SFD), an offset fee of \$1,885 is being recommended based on a District average annual consumption of 0.44 acre-foot per single family home. For a multi-family residential unit demand (MFD), an offset fee of \$685 per dwelling unit is being recommended based on a District average annual consumption of 0.16 acre-foot per dwelling unit. For all other uses, the applicant will be required to submit water demand calculations that will be verified by the District and multiplied by the \$4,283/acre foot offset fee.

In order to assist with the conversion to recycled water, staff is recommending the Board consider authorization of \$250,000 out of the District's Capital Reserve Fund to make available for loans to those site owners needing financial assistance. The Capital Reserve Fund balance is currently \$7,254,065. All loans will be paid back on an agreed upon payment schedule, supplemented by any offset fees received through the Water Demand Offset Program. Terms of the loan repayment, including the loan amount, interest rate and length of loan, will be brought to the Board for review and approval. We will be proposing the loan payment be included with the monthly recycled water bill, which currently receives a 15 percent discount from potable rates.

Also included, as Attachment "B", is a list of Frequently Asked Questions (FAQ's) that was developed to answer questions posed by staff, subcommittee members and owners/managers of the conversion sites.

FISCAL AND STAFF IMPACTS: The Water Demand Offset Program will require an increase in staff assistance in order to expedite the process. A transfer of \$250,000 from capital reserves is recommended to provide loans if needed by the owners of the recycled conversion sites. If approved, the Capital Reserve Fund could be reduced from \$7,254,065 to \$7,004,065.

RECOMMENDATION: Receive public testimony, review and discuss the information presented, and adopt Resolution No. 2009-07, establishing a Water Demand Offset Fee of \$4,283 per acre-foot during mandatory drought conditions and authorize an amount not-to-exceed \$250,000 from capital reserves to provide loans for converting to recycled water use

ATTACHMENTS:

Resolution No. 2009-07

Attachment A

Attachment B

RESOLUTION NO. 2009-07

A RESOLUTION OF
THE BOARD OF DIRECTORS OF THE SAN DIEGUITO WATER DISTRICT
ESTABLISHING A WATER DEMAND OFFSET FEE

WHEREAS, on August 27, 2008 the Board of Directors of the San Dieguito Water District (District) conducted a duly noticed Public Hearing to receive and consider public comments on an Ordinance Adopting a Drought Response Conservation Program;

WHEREAS, on July 1, 2009, in accordance with the adopted Drought Response Conservation Program and in response to notification from the San Diego County Water Authority, the District declared a Drought Response Level 2;

WHEREAS, under Drought Response Level 2, the District prohibits the installation of new potable water service unless the applicant demonstrates:

- A. A valid, unexpired building permit;
- B. The project is necessary to protect the public's health, safety and welfare; or
- C. Substantial evidence of an enforceable commitment that the water demands will be offset;

WHEREAS, the District, in partnership with the San Elijo Joint Powers Authority, has recycled water available to provide offsets for new potable water demands in a manner that is consistent with the District's Drought Response Conservation Program;

WHEREAS, the *San Dieguito Water District - Water Demand Offset Fee Study (Demand Offset Fee Study)* outlines potable water uses that can be converted to recycled water which will provide documented, available demand offsets and is hereby incorporated herein in its entirety by reference;

WHEREAS, it is to the benefit of new development to be able to utilize these documented, available demand offsets during the Drought Response Level 2;

WHEREAS, the District is considering a Demand Offset Fee, consistent with California Government Code Section 66000 et. seq., to support the cost of converting existing potable water uses to recycled water and such a fee meets the definition of a "capacity charge" as outlined in California Government Code Section 66013;

WHEREAS, the Board of Directors finds and determines as follows:

- A. The *Demand Offset Fee Study* complies with California Government Code Section 66013 by:
 - 1. identifying the benefits provided to new development;
 - 2. identifying the facilities that provide the benefit;
 - 3. identifying the cost of the facilities;
 - 4. identifying the method for calculating the demand offset fee; and
 - 5. demonstrating that the proposed demand offset fee is limited to the reasonable costs of constructing the facilities which provide benefit.
- B. The fees collected pursuant to this Resolution shall be used to finance the recycled water conversions described in the *Demand Offset Fee Study*.
- C. After considering the specific project descriptions and cost estimates identified in the *Demand Offset Fee Study*, the Board of Directors approves such project descriptions and cost estimates and finds them reasonable as the basis for calculating and imposing a Demand Offset Fee.
- D. The *Demand Offset Fee Study* is categorically exempt from environmental review pursuant to the

California Environmental Quality Act guidelines section 15061(b)(3). The intent of the Demand Offset Fee Program, is to provide one means of mitigating potential environmental impacts.

NOW, THEREFORE, it is hereby resolved by the Board of Directors of the San Dieguito Water District, that:

- A. **Amount of Fee.** The Demand Offset Fee for various classes of land use is set forth in Attachment 1.
- B. **Use of Fee.** The fee shall be solely used:
 - 1. for the purposes described in the Demand Offset Fee Study;
 - 2. for reimbursing the District for the development's fair share of those capital improvements already constructed by the District; or
 - 3. for reimbursing property owners who have constructed public facilities described in the *Demand Offset Fee Study*.
- C. **Fee Review.** Annually, as part of the budget process, the District Manager shall review the estimated cost of the described facilities, the continued need for those facilities and the reasonable relationship between such needs and the impacts of the various types of development pending or anticipated and for which this fee is charged. The District Manager shall report his or her findings to the Board of Directors at a noticed public hearing and recommend any adjustment to this fee or other action as may be needed.
- D. **Judicial Action to Challenge this Resolution.** Any judicial action or proceeding to attack, review, set aside, void or annul this Resolution shall be brought within 120 days of the date of adoption of this Resolution.
- E. **Severability.** If any provision or clause, or paragraph of this Resolution or the imposition of a Demand Offset Fee for any project, or the application thereof to any person or circumstance shall be held invalid, such invalidity shall not affect the other provisions of this resolution or other fees levied by this Resolution which can be given effect without the invalid provisions or application of fees, and to this end the provisions of the Resolution are declared to be severable.
- F. **Effective Date.** This Resolution shall take effect immediately after its adoption.

DULY AND REGULARLY ADOPTED by the Board of Directors of the San Dieguito Water District this 23rd day of September, 2009 by the following vote:

AYES:

NOES:

ABSENT:

ASBSTAIN:

ATTACHMENT 1

Water Demand Offset Fee September 2009

User Class	Fee
Multifamily Dwellings	\$685 per unit
Single Family Dwellings	\$1,885 per unit
All Other Uses	\$4,283 per acre-foot*

*Demand calculations to be submitted by applicant for verification by District

Appendix 2

Metropolitan Staff Report



- **Board of Directors**
Business and Finance Committee

January 13, 2009 Board Meeting

8-1

Subject

Determine water revenue requirements; set a public hearing date; and adopt resolutions giving notice of intention to impose charges for calendar year 2010

Description

SUMMARY

Metropolitan staff has been working with the member agencies through the Long Range Finance Plan (LRFP) process to analyze different scenarios for Metropolitan's costs and revenues. In three of the last four years Metropolitan has not collected sufficient revenues to cover its costs. Instead, in an effort to mitigate rate increases, Metropolitan has been utilizing its reserves to fund expenditures. At the same time, the largest court ordered supply cutback in the history of the State Water Project (SWP) occurred in 2008. With the Delta smelt Biological Opinion issued by the U.S. Fish and Wildlife service on December 15, 2008, cutbacks are expected to continue into the future. This reduction of more than one-third of Metropolitan's SWP supplies has triggered development and acquisition of new supplies and conservation efforts at costs higher than supplies from the SWP. In light of past under-collections, projected water supply cost increases, and reductions to future water sales, staff has estimated that Metropolitan will likely need to raise rates approximately 25 to 35 percent over the next two years. Further, these cutbacks increase the likelihood that Metropolitan will need to allocate supplies in the coming years putting additional pressure on future water rates.

Metropolitan's costs are expected to increase significantly in 2009/10 primarily due to the following factors:

- Purchased water cost.** Due to dry conditions and the court-imposed cutback in State Water Project deliveries from the Sacramento-San Joaquin Delta, Metropolitan has lost a substantial portion of its SWP water allocation. As a result, Metropolitan will need to acquire additional water transfers in 2009/10 and beyond. As part of the 2009/10 budget and this rate action, it is projected that 200,000 acre-feet of supplies will be purchased through the Governor's Drought Water Bank and other Northern California sources in calendar years 2009 and 2010 at approximately \$300 per acre-foot. These purchases will result in expenditures of approximately \$54 million on Drought Water Bank supplies in fiscal year 2009/10. In addition, draws on existing agreements and programs will result in higher water supply costs. These additional water supply costs in 2009/10 are estimated to be approximately \$48 million higher than in 2008/09, and almost \$88 million higher than expenditures on such water supplies in 2007/08.
- Higher costs for State Water Project deliveries.** The cost payable under the State Water Contract is estimated to be almost \$53 million higher than costs in 2007/08, and about \$48 million higher than in 2008/09. These cost increases are primarily driven by increases in variable power and capital costs, as well as Metropolitan's share of the environmental work and preliminary engineering of the Delta Habitat Conservation and Conveyance Program (DHCCP).
- Debt service.** The financing costs for Metropolitan's ongoing \$3.85 billion capital program will result in an increase of about \$39 million in debt service from 2008/09. A significant portion of the capital program is to improve treatment processes and to upgrade and repair Metropolitan's aging water delivery and treatment system.

In order to mitigate impacts on water ratepayers, the 2009/10 departmental operating budget will be held flat compared to the 2008/09 budget. This will be done in the face of significant increases in the cost of chemicals

used in Metropolitan's treatment processes and the Quagga Mussel Control Program. To offset these increases staff proposes a number of cost management actions to produce a flat budget, including a reduction of 31 full-time equivalent positions and maintaining an average vacancy rate equal to approximately 5.4 percent of salaries.

RATE OPTIONS

Two options have been analyzed and prepared for the Board's review and consideration:

Option 1. Under this option, overall rates and charges would increase by 20.7 percent, based on water sales of 2.12 million acre-feet. This rate increase, if in effect for the full fiscal year, would fully recover Metropolitan's cost of service. Implementing this rate increase on January 1, 2010, however, will require a draw on reserves of \$139 million during 2009/10 to meet expenditures. This draw on reserves accounts for the fact that only four months of the fiscal year will see revenues at the higher rates. Reserve levels are projected to end the year at \$103 million, significantly below the Board's minimum objectives. Current projections show rates increasing an additional 12 percent in 2011, followed by a 10 percent increase in 2012.

Option 2. This option considers water sales that are 100,000 acre-feet lower than Option 1. In order to maintain the same reserve levels as Option 1, overall rates and charges would need to increase by 35.6 percent, effective January 1, 2010.

CAPITAL FINANCING AND RESERVES

In all cases, for cost-of-service analysis, it is assumed that Metropolitan would continue to fund \$95 million of its capital program on a Pay-as-you-go (PAYG) basis from revenues. Staff will continue to evaluate different capital funding mechanisms to minimize draws on the Water Rate Stabilization Fund in the coming year. In order to preserve liquidity, it may be preferable to fund more of the CIP through bonds, with only short-lived and other small capital projects to be funded from revenues. It is currently estimated that approximately \$30 million will be spent on such projects in 2008/09 and \$40 million in 2009/10. Figure 1 shows reserve balances under Option 1, given that Metropolitan reduces PAYG funding of the CIP in 2008/09 from \$95 million down to \$30 million in order to help maintain reserve levels, but continues to fund \$95 million of its CIP through PAYG in 2009/10. Reserve balances at the end of fiscal year 2009/10 would still be below the Board's minimum targets.

REVENUE REQUIREMENTS

The revenue requirements for 2009/10 are estimated to be \$1.43 billion. As shown in Table 1, this is about \$209 million more than the estimated revenue requirements in the current fiscal year.

Costs are projected to increase from about \$1.38 billion in 2008/09 to about \$1.59 billion in 2009/10. Taxes, interest income, power, and miscellaneous income are expected to generate about \$159 million, reducing the revenue requirement from rates and charges in 2009/10 to about \$1.43 billion.

There are three main drivers causing increasing costs for 2009/10; the cost of water transfers, capital financing costs, and State Water Project payments. Supply program costs are expected to increase by approximately \$48 million in 2009/10 because of the anticipated purchase of supplies through the Drought Water Bank. The cost of financing Metropolitan's CIP is expected to increase by \$39 million as debt service increases for outstanding bonds, and additional bonds are issued to fund the ongoing CIP. The year-over-year increase shown in Table 1 is also due to the fact that the 2008/09 costs reflect a \$65 million reduction in the PAYG funding of the CIP from \$95 million down to \$30 million. Costs in 2009/10 reflect PAYG funding of the CIP at \$95 million. In addition, payments for the State Water Project are expected to increase by \$48 million due to the higher variable power and capital costs, discussed in more detail below.

Table 1. Revenue Requirements for FY 2009/10 compared to prior year costs

	\$ Millions			2009/10 Change from:	
	2007/08 Actuals	2008/09 Estimate	2009/10 Test Year	2007/08	2008/09
Departmental & Other O&M (w/o Variable Treatment)	\$ 323.7	\$ 315.6	\$ 312.0	\$ (11.7)	\$ (3.5)
Chemicals, Sludge & Power for Treatment	27.4	34.7	36.8	9.4	2.1
State Water Project (without Variable Power)	298.8	381.5	389.7	90.9	8.2
SWP Variable Power	165.5	78.2	118.3	(47.2)	40.1
CRA Power	18.9	43.7	49.8	30.9	6.1
Supply Programs paid from O&M	52.1	92.1	140.5	88.4	48.4
Demand Management	49.3	62.8	59.8	10.5	(3.0)
Debt Service	272.9	291.8	330.7	57.9	39.0
PAYGO	42.9	30.0	95.0	52.1	65.0
Change in Required Reserves	70.7	46.7	52.9	(17.8)	6.2
Sub-total expenditures	1,322.2	1,377.0	1,585.6	263.5	208.6
Revenue Offsets	195.1	159.3	159.3	(35.7)	0.0
Total Revenue Requirement	\$ 1,127.1	\$ 1,217.8	\$ 1,426.3	\$ 299.2	\$ 208.6

Totals may not foot due to rounding

A more detailed description of the major assumptions and cost drivers follows.

MAJOR ASSUMPTIONS - REVENUE REQUIREMENTS FOR FY 2009/10

Water Sales

2.12 million acre-feet

Cash year water sales (including Tier 1, Tier 2, agricultural, and wheeling) are projected to be about 2.12 million acre-feet in fiscal year 2009/10. This forecast is based on expected demands under average weather conditions. If water sales are less than anticipated, reserve levels will decrease more rapidly. Treated water sales are expected to be about 1.27 million acre-feet or 60 percent of total sales. About 1.74 million acre-feet are expected to be sold at the Tier 1 rate, 0.21 million acre-feet are expected to be sold at the higher Tier 2 rate, 0.08 million acre-feet will be sold through the Interim Agricultural Water Program. Replenishment sales are expected to be curtailed through 2010.

State Water Project (including SWP power)

\$508 million

Total costs for 2009/10 under the State Water Project are estimated to be approximately \$508 million, including about \$118 million for variable power costs, net of projected credits. Costs for OMP&R and capital are expected to be \$8.2 million higher than in 2008/09. Variable power costs for the State Water Project are expected to be \$40.1 million higher than in 2008/09, due to a higher projected power rate on the State Water Project. Cost estimates are based on projected water pumping of about 1.25 million acre-feet in 2009/10. Supplies delivered through the SWP include contract deliveries, increases and decreases in storage accounts, and the use of water transfers. State Water Contract costs in 2009/10 also include \$14.4 million to fund Metropolitan's share of the environmental work and preliminary engineering of the DHCCP.

Colorado River Power Costs

\$49.8 million

The revenue requirement incorporates costs associated with pumping approximately 1.04 million acre-feet from the Colorado River in 2009/10. Power from Metropolitan's share of Hoover and Parker, plus energy under the contract with Southern California Edison will not be sufficient to move these supplies. It is expected that around \$27.2 million of power from the open market will be procured in 2009/10. Costs for pumping are estimated to be about \$49.8 million.

Supply and Storage Programs

\$140.5 million

Total expenditures for water transfer and storage programs are estimated to be about \$140.5 million in 2009/10. Colorado River Supply Program expenditures include \$25.6 million for the Palo Verde Irrigation District (PVID) Program, \$9.7 million for the Imperial Irrigation District/Metropolitan Conservation Program, and \$17.1 million for various other supply programs. Supply program costs along the State Water Project total \$77.1 million and include approximately \$53.5 million in Drought Water Bank purchases, \$5.8 million for the Arvin-Edison Water Storage

Program, \$2.8 million for the Kern Delta Program, \$14.5 million for the Semitropic Water Storage Program and \$0.5 million for the San Bernardino Program. An additional \$11 million will be used to fund ongoing operating costs for in-basin supply projects including conjunctive use programs within Metropolitan's service area.

Drought Water Bank costs reflect expenditures for transfers that will be delivered in both calendar years 2009 and 2010. It is anticipated that 200 thousand acre-feet of transfer water will be purchased through the Drought Water Bank for calendar year 2009. Payments for these transfers will be split between fiscal years 2008/09 and 2009/10. Approximately \$38.5 million of the projected \$53.5 million in Drought Water Bank expenditures in 2009/10 will be for water delivered in calendar year 2009. The remaining \$15 million represents the initial deposit to the California Department of Water Resources for transfer purchases in calendar year 2010.

Demand Management Programs

\$59.8 million

Demand management program payments made to the member agencies in support of local resources development and active conservation efforts are expected to total \$59.8 million in 2009/10. This reflects incentive payments, but does not include other costs associated with these programs, including labor, administration, and public information and outreach costs of almost \$17.8 million, which are included in O&M estimates. Recycling and groundwater recovery projects supported by Metropolitan are expected to increase annual production by about 43 thousand acre-feet over current year estimates of about 184 thousand acre-feet. Projected expenditures reflect Metropolitan's ongoing commitment to water conservation, local recycling, and groundwater cleanup. These estimates are consistent with efforts to develop local water supplies in cooperation with the member agencies and other local agencies based on the Integrated Resources Plan.

Capital Financing Program

\$425.7 million

Capital Financing Program costs include \$267 million of water revenue bond debt service payments on approximately \$4.2 billion of outstanding Water Revenue Bond debt as of December 31, 2008. This represents an increase of approximately \$39 million above 2008/09 projected payments, due in part to the issuance of water revenue bonds in 2008/09 and 2009/10 to finance the ongoing CIP.

Additional capital financing costs include \$48.5 million of general obligation bond debt service which are paid by ad valorem property taxes, \$14.7 million for debt administration expenses for remarketing broker-dealer and administrative costs associated with Metropolitan's variable rate debt program and State Revolving Loan payments, and \$95 million in PAYG funding of the CIP from revenues.

Operations and Maintenance

\$348.8 million

The revenue requirement includes \$348.8 million for operations and maintenance, including labor and benefits, professional services, chemicals, power, and solids handling. This estimate is \$1.4 million or 0.4 percent lower than projected 2008/09 costs. A detailed breakdown of departmental budgets is provided in the 2009/10 Budget.

Adjustments in Reserves

\$52.9 million

Required reserve balances are estimated to increase by \$52.9 million from June 30, 2009 to June 30, 2010 in accordance with board policies contained in Metropolitan's Administrative Code for the State Water Contract Fund, and Revenue Remainder Fund, and in accordance with bond covenants for the Operations and Maintenance Fund, and Revenue Bond Reserve Funds.

Other Revenues

\$159.3 million

To determine the rates and charges revenue requirement, the total estimated obligations of \$1.59 billion are reduced by revenue from ad valorem property taxes, interest income, hydropower revenues, CRA power sales and miscellaneous revenues. Ad valorem property taxes levied at the current tax rate of 0.0043 percent of assessed valuations are estimated to be \$90.4 million. Annexation charges are expected to provide \$1 million. Power recoveries, interest on investments and miscellaneous revenue are expected to produce \$67.9 million in 2009/10. Based on the projected expenditure estimates described above, total revenues required from rates and charges in 2009/10 are projected to be \$1.43 billion.

RECOMMENDED RATES AND CHARGES FOR FY 2009/10

Metropolitan Water District Administrative Code Section 4304 requires the General Manager to present recommendations for water rates and charges for the next calendar year based on the Business and Finance Committee's determination of revenue requirements, and for the Business and Finance Committee to set a time for a hearing at which interested parties may present input on the recommended rates to the Committee. The cost-of-service analysis supporting the recommended rates and charges is detailed in [Attachment 1](#), "Metropolitan Water District of Southern California, Fiscal Year 2009/10 Cost of Service", and is consistent with the cost-of-service process used since the Board adopted the current rate structure in 2002.

The General Manager's recommended alternatives for water rates and charges for the coming fiscal year are shown in Table 2, "Recommended Alternative Rates and Charges." Under Option 1, the overall increase in the effective rate is estimated to be 20.7 percent. However, this rate increase does not go into effect until January 1, 2010, and thus is not sufficient to recover the revenue requirements in 2009/10. As a result reserves are expected to decrease to \$103 million. Revenue bond coverage is estimated to be just under 1.5 times, while fixed charge coverage will be approximately one times in 2009/10. The rates and charges for 2009/10 were determined based on a total revenue requirement of \$1.43 billion. The existing rates, which are effective through December 31, 2009, and the rates under the 20.7 percent option, which are effective January 1, 2010, would generate combined revenue of \$1.27 billion. This assumes total sales of 2.12 million acre-feet. Given the rates and sales assumptions it is estimated that about \$139 million would be withdrawn from reserves to meet obligations during 2009/10. Due to the continuing need to acquire water transfers, Metropolitan will maintain the Water Supply Surcharge to fund these purchases. It is anticipated that the Water Supply Surcharge will be in effect at least through 2010. The Water Supply Surcharge can be expected to decrease over time if a near-term Delta solution is realized which results in increased SWP deliveries, however, any drop in the water supply surcharge may be offset by an increase in supply rates to pay for the costs of near-term Delta improvements.

Water Supply Allocation Contingency

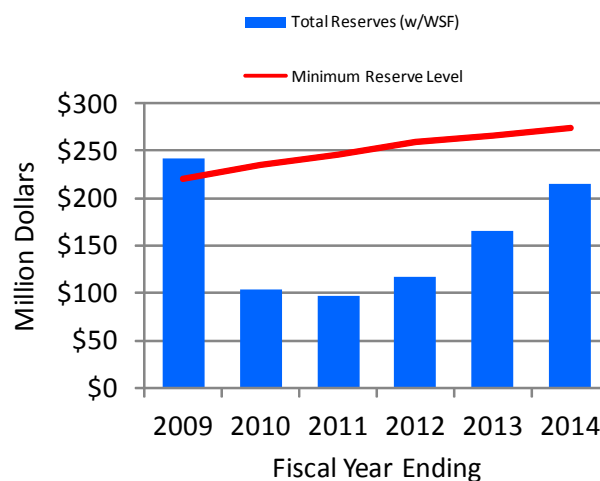
Metropolitan's Board adopted the Water Supply Allocation Plan (WSAP) in February 2008. Metropolitan staff has been working with its member agencies to develop a process to implement the WSAP if necessary. Analysis of conditions in 2009 suggests a potential need to declare an allocation in April 2009. If a supply allocation is declared in 2009, water sales will likely be lower than the 2.12 million acre-feet projected under Option 1. In the event that an allocation is declared, it is possible that an additional rate increase would be required to collect fixed costs which are not recovered due to the reduction in sales caused by the allocation. Option 2 illustrates the need for a greater rate increase, effective January 1, 2010, if water sales are 100 thousand acre-feet lower than projected. It is conceivable, however, that dry conditions and Delta pumping constraints due to regulatory action to protect species could force Metropolitan to declare an allocation, effective July 1, 2009, resulting in significant demand reductions. As an example, if sales dropped to 1.8 million acre-feet, then it may not be feasible to wait until January 1, 2010 to implement a water rate increase. In order to maintain the same reserve levels as Option 1, then Metropolitan could implement a rate increase that would be effective in conjunction with the water supply allocation. A mid-year rate increase of 14.4 percent effective on July 1, 2009, followed by a second increase of 14.2 percent on January 1, 2010 would generate enough revenues to leave reserves at \$103 million at the end of 2009/10, consistent with Option 1. This total rate increase would be 28.6 percent, but a large portion of the increase would occur on July 1, 2010, resulting in higher revenues for all but two months of fiscal year 2009/10. While staff does not expect water sales of 1.8 million acre-feet, this example illustrates the potential impact of low water sales that could result from a water supply allocation.

Table 2. Recommended Alternative Rates and Charges

	Effective January 1, 2009	Option 1 January 1, 2010	Option 2 January 1, 2010
Tier 1 Supply Rate (\$/AF)	\$109	\$135	\$155
Tier 2 Supply Rate (\$/AF)	\$250	\$300	\$300
Water Supply Surcharge (\$/AF)	\$25	\$25	\$25
System Access Rate (\$/AF)	\$143	\$180	\$205
Water Stewardship Rate (\$/AF)	\$25	\$38	\$43
System Power Rate (\$/AF)	\$110	\$125	\$142
Full Service Untreated Volumetric Cost (\$/AF)			
Tier 1	\$412	\$503	\$570
Tier 2	\$528	\$643	\$690
Replenishment Water Rate Untreated (\$/AF)	\$294	\$385	\$452
Interim Agricultural Water Program Untreated (\$/AF)	\$322	\$435	\$502
Treatment Surcharge (\$/AF)	\$167	\$192	\$214
Full Service Treated Volumetric Cost (\$/AF)			
Tier 1	\$579	\$695	\$784
Tier 2	\$695	\$835	\$904
Treated Replenishment Water Rate (\$/AF)	\$436	\$552	\$641
Treated Interim Agricultural Water Program (\$/AF)	\$465	\$609	\$698
Readiness-to-Serve Charge (\$M)	\$92	\$111	\$121
Capacity Charge (\$/cfs)	\$6,800	\$7,400	\$8,100

The detailed cost-of-service discussion and support for rates and charges are included in [Attachment 1](#) – Fiscal Year 2009/10 Cost-of-Service.

Figure 1 shows the projected reserve levels under Option 1. Reserve fund balances include the Revenue Remainder Fund, the Water Rate Stabilization Fund, and the Water Stewardship Fund.

Figure 1. Option 1 – Reserve Fund Balances

SUMMARY AND RECOMMENDATIONS

This letter requests that the Board determine water revenue requirements, set a time for a public hearing of the Business and Finance Committee at which interested parties may present their views regarding the General Manager's recommendations for rates and charges, and that the Board adopt resolutions of Metropolitan's intention to: (1) impose the Readiness-to-Serve Charge (including the Water Standby Charge) for 2010; and (2) impose the Capacity Charge for 2010.

Policy

Metropolitan Water District Administrative Code Section 4304: Apportionment of Revenues and Setting of Water Rates and Charges to Raise Firm Revenues

California Environmental Quality Act (CEQA)

CEQA determination for Options #1, #2, and #3:

The proposed actions are not defined as a project under CEQA, because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed actions are not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

Board Options

Option #1

Adopt the CEQA determination and

- a. Determine that revenues required from rates and charges during FY 2009/10 should not be less than \$1.43 billion, and use this determination in establishing water rates and charges to be effective January 1, 2010;
- b. Set a time for a public hearing of the Business and Finance Committee at which interested parties may present their views regarding the General Manager's recommendation for rates and charges to be effective January 1, 2010; and
- c. Adopt the following resolutions:
 1. Resolution of intention to impose the Readiness-to-Serve Charge in the form shown as [Attachment 2](#) to this letter, declaring the Board's intention (i) at its March 10, 2009 meeting to consider and act upon the General Manager's recommendation to impose a Readiness-to-Serve Charge and (ii) at its May 12, 2009 meeting to consider and act upon the General Manager's recommendation to impose standby charges within the service territories of member agencies that have requested that charge as a means of collecting all or a portion of their RTS Charge.
 2. Resolution of intention to impose a Capacity Charge in the form shown as [Attachment 3](#) to this letter, declaring the Board's intention at its March 10, 2009 meeting to consider and act upon the General Manager's recommendation to impose a Capacity Charge.

Fiscal Impact: Revenues from rates and charges of \$1.27 billion in 2009/10, and an increase in the effective rate of 20.7 percent if the rates and charges are adopted as recommended.

Option #2

Adopt the CEQA determination and

- a. Determine that revenues required from rates and charges during FY 2009/10 should not be less than \$1.43 billion, and use this determination in establishing water rates and charges to be effective January 1, 2010;

- b. Set a time for a public hearing of the Business and Finance Committee at which interested parties may present their views regarding the General Manager's recommendation for rates and charges to be effective January 1, 2010; and
- c. Adopt the following resolutions:
 1. Resolution of intention to impose the Readiness-to-Serve Charge in the form shown as **Attachment 2** to this letter, declaring the Board's intention (i) at its March 10, 2009 meeting to consider and act upon the General Manager's recommendation to impose a Readiness-to-Serve Charge and (ii) at its May 12, 2009 meeting to consider and act upon the General Manager's recommendation to impose standby charges within the service territories of member agencies that have requested that charge as a means of collecting all or a portion of their RTS Charge.
 2. Resolution of intention to impose a Capacity Charge in the form shown as **Attachment 3** to this letter, declaring the Board's intention at its March 10, 2009 meeting to consider and act upon the General Manager's recommendation to impose a Capacity Charge.

Fiscal Impact: Revenues from rates and charges of \$1.27 billion in 2009/10, and an increase in the effective rate of 35.6 percent if the rates and charges are adopted as recommended.

Option #3

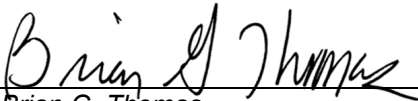
Adopt the CEQA determination and

- a. Determine that revenues required from rates and charges during FY 2009/10 should not be less than \$1.43 billion, and direct the General manager to revise the recommended rates and charges as appropriate;
- b. Set a time for a public hearing of the Business and Finance Committee at which interested parties may present their views regarding the General Manager's recommendation for rates and charges to be effective January 1, 2010; and
- c. Adopt the following resolutions:
 1. Resolution of intention to impose the Readiness-to-Serve Charge in the form shown as **Attachment 2** to this letter, declaring the Board's intention (i) at its March 10, 2009 meeting to consider and act upon the General Manager's recommendation to impose a Readiness-to-Serve Charge and (ii) at its May 12, 2009 meeting to consider and act upon the General Manager's recommendation to impose standby charges within the service territories of member agencies that have requested that charge as a means of collecting all or a portion of their RTS Charge.
 2. Resolution of intention to impose a Capacity Charge in the form shown as **Attachment 3** to this letter, declaring the Board's intention at its March 10, 2009 meeting to consider and act upon the General Manager's recommendation to impose a Capacity Charge.

Fiscal Impact: Unknown

Staff Recommendation

Option #1

	12/30/2008
Brian G. Thomas	Date
Chief Financial Officer	

	12/30/2008
Jeffrey Kightlinger	Date
General Manager	

Attachment 1 – Metropolitan Water District of Southern California, FY 2009/10 Cost of Service

Attachment 2 – Resolution of Intent (Readiness-to-Serve Charge)

Attachment 3 – Resolution of Intent (Capacity Charge)

BLA #6331

Metropolitan Water District of Southern California
Fiscal Year 2009/10 Cost of Service

December, 2008

Table of Contents

1	Cost of Service	4
1.1	Cost of Service Process.....	4
1.2	Revenue Requirements	6
1.3	Service Function Costs	9
1.3.1	Functional Allocation Bases	10
	(a) Direct assignment	12
	(b) Work-In-Progress; Net Book Value Plus Work-In-Progress	12
	(c) Prorating in proportion to other allocations.....	14
	(d) Manager analyses	14
1.4	Classified Costs.....	17
2	Rates and Charges	23
2.1	System Access Rate (SAR).....	26
2.2	Water Stewardship Rate (WSR)	26
2.3	System Power Rate (SPR)	26
2.4	Treatment Surcharge.....	26
2.5	Capacity Charge.....	27
2.6	Readiness-to-Serve Charge.....	28
2.7	Purchase Order.....	31
2.8	Tier 2 supply rate	33
2.9	Tier 1 supply rate	33
2.10	Replenishment and agricultural water rates.....	34
3	Sales	34
4	Proof of Revenue	35

List of Schedules and Tables

Schedule 1. Revenue Requirements (by budget line item)	8
Schedule 2. Summary of Functional Allocations by Type of Allocation Basis	11
Schedule 3. Net Book Value and Work in Progress Allocation Base	13
Schedule 4. Revenue Requirement (by service function)	15
Schedule 5. Service Function Revenue Requirements (by budget line item)	16
Schedule 6. Classification Percentages	20
Schedule 7. Service Function Revenue Requirements (by classification category)	22
Schedule 8. Classified Service Function Revenue Requirements (by rate design element)	24
Schedule 9. Rates and Charges Summary	25
Schedule 10. Calendar Year 2010 Capacity Charge	28
Schedule 11. Readiness-to-Serve Charge (by member agency)	30
Schedule 12. Purchase Order Commitment Quantities (acre-feet)	32
Schedule 13. FY 2009/10 Proof of Revenue if Rates Effective for Full Test Year (\$ millions)	36
Schedule 14. FY 2009/10 Proof of Revenue if Rates Effective January 1 (\$ millions)	36

1 Cost of Service

Prior to discussing the specific rates and charges that make up the rate structure, it is important to understand the cost of service process that supports the rates and charges. The purpose of the cost of service process is to: (1) identify which costs should be recovered through rates and charges; (2) organize Metropolitan's costs into service functions; and (3) classify service function costs on the basis for which the cost was incurred. The purpose of sorting Metropolitan's costs in a manner that reflects the type of service provided (e.g. supply vs. conveyance), the characteristics of the cost (e.g. fixed or variable) and the reason why the cost was incurred (e.g. to meet peak or average demand) is to create logical cost of service "building blocks". The building blocks can then be arranged to design rates and charges with a reasonable nexus between costs and benefits.

1.1 Cost of Service Process

The general cost of service process involves the four basic steps outlined below.

Step 1 - Development Of Revenue Requirements

In the revenue requirement step, the costs that Metropolitan must recover through rates and charges, after consideration of revenue offsets, are identified. The cash needs approach, an accepted industry practice for government-owned utilities, has historically been used in identifying Metropolitan's revenue requirements and was applied for the purposes of this study. Under the cash needs approach, revenue requirements include operating costs and annual requirements for meeting financed capital items (debt service, funding of replacement and refurbishment from operating revenues, etc.).

Step 2 – Identification of Service Function Costs

In the functional allocation step, revenue requirements are allocated to different categories based on the operational functions served by each cost. The functional categories are identified in such a way as to allow the development of logical allocation bases. The functional categories used in the cost of service process include:

- Supply
- Conveyance and Aqueduct
- Storage
- Treatment
- Distribution
- Demand Management
- Administrative and General
- Hydroelectric

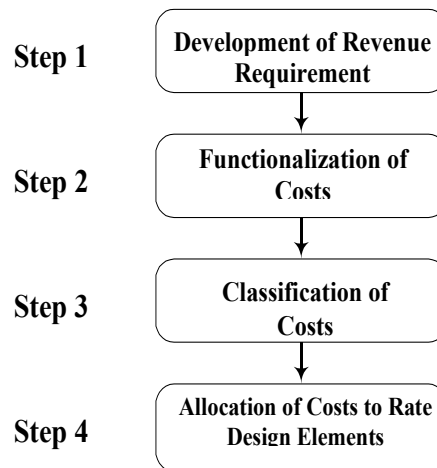
In order to permit functional allocation at the level of accuracy required, many of these functional categories are subdivided into more detailed sub-functions in the cost of service process. For example, costs for the Supply and Conveyance and Aqueduct functions are further subdivided into the sub-functions State Water Project (SWP), Colorado River Aqueduct (CRA), and Other. Similarly, costs in the Storage function are broken down into the sub-functions Emergency Storage, Drought Carryover Storage, and Regulatory Storage.

Step 3 - Classification Of Costs

In the cost classification step, functionalized costs are separated into categories according to their causes and behavioral characteristics. Proper cost classification is critical in developing a rate structure that recovers costs in a manner consistent with the causes and behaviors of those costs. Under American Water Works Association (AWWA) guidelines, cost classification may be done using either the Base/Extra-Capacity approach or the Commodity/Demand approach. In the simplest sense, these approaches offer alternative means of distinguishing between utility costs incurred to meet average or base demands and costs incurred to meet peak demands. The Commodity/Demand approach was modified for its application to Metropolitan's rate structure by adding a separate cost classification for costs related to providing standby service. Analysis of system operating data indicated that a modified Commodity/Demand approach was the most appropriate for developing Metropolitan's cost of service classification bases.

Step 4 - Allocation Of Costs To Rate Design Elements

The allocation of costs to the rate design elements depends on the purpose for which the cost was incurred and the manner in which the member agencies use the Metropolitan system. For example, costs incurred to meet average system demands are typically recovered by dollar per acre-foot rates and are allocated based on the volume of water purchased by each agency. Rates that are levied on the amount or volume of water delivered are commonly referred to as volumetric rates as the customer's costs vary with the volume of water purchased. Costs incurred to meet peak demands (referred to in this report as demand costs) are recovered through a peaking charge (the Capacity Charge) and are allocated to agencies based on their peak demand behavior. Costs incurred to provide standby service in the event of an emergency are referred to here as standby costs. Differentiating between costs for average usage and peak usage is just one example of how the cost of service process allows for the design of rates and charges that improves overall customer equity and efficiency. Figure 1 summarizes the cost of service process.

Figure 1. The Cost of Service Process

1.2 Revenue Requirements

The estimated revenue requirements presented in this report are for FY 2009/10. Throughout the report, FY 2009/10 is used as the “test year” to demonstrate the application of the cost of service process. Schedule 1 summarizes the FY 2009/10 revenue requirement by the major budget line items used in Metropolitan’s budgeting process. Current estimates indicate Metropolitan’s annual cash expenditures (including capital financing costs, but not construction outlays financed with bond proceeds) will total approximately \$1.586 billion in FY 2009/10.

The rates and charges do not have to cover this entire amount. Metropolitan generates a significant amount of revenue from interest income, hydroelectric power sales and miscellaneous income. These internally generated revenues are referred to as revenue offsets and are expected to generate about \$67.8 million in FY 2009/10. It is expected that Metropolitan will also generate about \$91.5 million in ad valorem property tax revenues and annexation charges. Property tax revenues are used to pay for a portion of Metropolitan’s general obligation bond debt service, and a portion of Metropolitan’s obligation to pay for debt service on bonds issued to fund the State Water Project. The total revenue offsets for FY 2009/10 are estimated to be \$159.3 million. Therefore, the revenue required from rates and charges is the difference between the total costs and the revenue offsets, or \$1.426 billion. Approximately \$139 million from the Water Rate Stabilization and Water Stewardship Funds will be used to fund a portion of Metropolitan’s expenditures during 2009/10. Given an effective date of January 1, 2010, the rates and charges recommended in this report, combined with rates and charges effective through December 31, 2008, will generate a total of \$1.274 billion in 2009/10.

All of Metropolitan’s costs fall under the broad categories of Departmental Costs or General District Requirements. Departmental Costs include budgeted items identified with specific organizational

groups. General District Requirements consist of requirements associated with the Colorado River Aqueduct, State Water Project, the capital financing costs associated with the Capital Investment Program (CIP), and Water Management Programs. General District Requirements also include reserve fund transfers required by bond covenants and Metropolitan's Administrative Code.

When considered in total, General District Requirements make up approximately 72 percent of the absolute value of the allocated costs. The largest component of the revenue requirement relates to SWP expenditures, which make up approximately 29 percent of Metropolitan's FY 2009/10 revenue requirements. Metropolitan's SWP contract requires Metropolitan to pay its allocated share of the capital, minimum operations, maintenance, power and replacement costs incurred to develop and convey its water supply entitlement, irrespective of the quantity of water Metropolitan takes delivery of in any given year. Metropolitan's capital financing program is the second largest component of the revenue requirement, constituting approximately 24 percent of the revenue requirement.

Departmental O&M costs make up 19 percent of the total revenue requirement in FY 2009/10. Water System Operations is the largest single component of the Departmental Costs and accounts for 11 percent of the revenue requirements. Water System Operations responsibilities include operating and maintaining Metropolitan's pumping, storage, treatment, and hydroelectric facilities, as well as the Colorado River Aqueduct and other conveyance and supply facilities.

Schedule 1. Revenue Requirements (by budget line item)

	Fiscal Year Ending 2010	% of Revenue Requirements (1)
Departmental Operations & Maintenance		
Office of the General Manager & Human Resources	\$ 14,237,400	0.8%
External Affairs	18,236,700	1.0%
Water System Operations	196,021,600	11.2%
Chief Financial Officer	5,846,600	0.3%
Corporate Resources	50,896,100	2.9%
Real Property Development & Mgmt	11,150,700	0.6%
Water Resource Management	19,500,500	1.1%
Ethics Department	483,700	0.0%
General Counsel	7,699,900	0.4%
Audit Department	2,058,700	0.1%
Total	326,131,900	18.7%
General District Requirements		
State Water Project	508,034,702	29.1%
Colorado River Aqueduct	49,751,247	2.9%
Supply Program Costs paid from operating revenues	140,480,461	8.1%
Water Management Programs	59,844,024	3.4%
Capital Financing Program	425,748,027	24.4%
Other O&M	22,733,145	1.3%
Increase (Decrease) in Required Reserves	52,900,000	3.0%
Total	1,259,491,605	72.2%
Revenue Offsets	(159,311,969)	9.1%
Net Revenue Requirements	\$ 1,426,311,536	100.0%

(1) Given as a percentage of the absolute values of total dollars allocated.
Totals may not foot due to rounding

1.3 Service Function Costs

Several major service functions result in the delivery of water to Metropolitan's member agencies. These include the supply itself, the conveyance capacity and energy used to move the supply, storage of water, distribution of supplies within Metropolitan's system, and treatment of these supplies. Metropolitan's rate structure recovers the majority of the cost of providing these functions through rates and charges.

The functional categories developed for Metropolitan's cost of service process are consistent with the American Water Works Association rate setting guidelines, a standard chart of accounts for utilities developed by the National Association of Regulatory Commissioners (NARUC), and the National Council of Governmental Accounting. Because all water utilities are not identical, the rate structure reflects Metropolitan's unique physical, financial, and institutional characteristics.

A key goal of functional allocation is to maximize the degree to which rates and charges reflect the costs of providing different types of service. For functional allocation to be of maximum benefit, two criteria must be kept in mind when establishing functional categories.

- The categories should correlate charges for different types of service with the costs of providing those different types of service; and
- Each function should include reasonable allocation bases by which costs may be allocated.

Each of the functions developed for the cost of service process is described below.

- *Supply.* This function includes costs for those SWP and CRA facilities and programs that relate to maintaining and developing supplies to meet the member agencies' demands. For example, Metropolitan's supply related costs include investments in the Conservation Agreement with the Imperial Irrigation District and the Palo Verde Irrigation District (PVID) Program from the Colorado River. The SWP programs include the Drought Water Bank purchases, and transfer programs such as Semitropic Water Storage Program, Kern Delta Program, and the Arvin-Edison Water Storage Program. Costs for groundwater conjunctive use programs within Metropolitan's service area, such as the North Las Posas Groundwater Basin Conjunctive Use Agreement are also included.
- *Conveyance and Aqueduct.* This function includes the capital, operations, maintenance, and overhead costs for SWP and CRA facilities that convey water through Metropolitan's internal distribution system. Variable power costs for the SWP and CRA are also considered to be Conveyance and Aqueduct costs but are separately reported under a "power" sub-function. Conveyance and Aqueduct facilities can be distinguished from Metropolitan's other facilities primarily by the fact that they do not typically include direct connections to the member agencies. For purposes of this study, the Inland Feeder Project functions as an extension of the SWP East Branch and is therefore considered a Conveyance and Aqueduct facility as well.
- *Storage.* Storage costs include the capital financing, operating, maintenance, and overhead costs for Diamond Valley Lake, Lake Mathews, Lake Skinner, and five smaller regulatory reservoirs within the distribution system. Metropolitan's larger storage facilities are operated to provide (1) emergency storage in the event of an earthquake or similar system outage; (2) drought storage that produces additional supplies during times of shortage; and (3) regulatory storage to balance system demands and supplies and provide for operating

flexibility. To reasonably allocate the costs of storage capacity among member agencies, the storage service function is categorized into sub-functions of emergency, drought, and regulatory storage.

- *Treatment.* This function includes capital financing, operating, maintenance, and overhaul costs for Metropolitan's five treatment plants and is considered separately from other costs so that treated water service may be priced separately.
- *Distribution.* This function includes capital financing, operating, maintenance, and overhead costs for the "in-basin" feeders, canals, pipelines, laterals, and other appurtenant works. The "in-basin" facilities are distinguished from Conveyance and Aqueduct facilities at the point of connection to the SWP, Lake Mathews, and other major turnouts along the CRA facilities.
- *Demand Management.* A separate demand management service function has been used to clearly identify the cost of Metropolitan's investments in local resources like conservation, recycling, and desalination.
- *Administrative and General (A&G).* These costs occur in each of the Groups' departmental budgets and reflect overhead costs that cannot be directly functionalized. The cost-of-service process allocates A&G costs to the service functions based on the labor costs of non-A&G dollars allocated to each function.
- *Hydroelectric.* Hydroelectric costs include the capital financing, operating, maintenance, and overhead costs incurred to operate the 16 small hydroelectric plants located throughout the water distribution system.

1.3.1 Functional Allocation Bases

The functional allocation bases are used to allocate a cost to the various service functions. The primary functional allocation bases used in the cost-of-service process are listed below.

- Direct assignment
- Work-In-Progress or Net Book Value plus Work-In-Progress
- Prorating in proportion to other allocations
- Manager analysis

Schedule 2 summarizes the amounts of total cost allocated using each of the above types of allocation bases.

Schedule 2. Summary of Functional Allocations by Type of Allocation Basis

Primary Functional Allocation Bases	Estimated for FY 2010	% of Allocated Dollars
Direct Assignment	\$ 983,867,503	56.4%
Work in Progress/Net Book Value	457,059,372	26.2%
Prorating	136,208,603	7.8%
Manager Analysis	27,319,200	1.6%
Other	\$ 140,480,461	8.1%
Total Dollars Allocated	\$ 1,744,935,139	100.0%
Portion of Above Allocations Relating to:		
Revenue Requirements before Offsets	1,585,623,505	
Revenue Offsets	159,311,633	
Total Dollars Allocated	\$ 1,744,935,139	

Totals may not foot due to rounding

Each of the primary allocation bases is discussed in detail in the remainder of this section. Discussion of each allocation basis includes examples of costs allocated using that particular basis.

(a) Direct assignment

Direct assignment makes use of a clear and direct connection between a revenue requirement and the function being served by that revenue requirement. Directly assigned costs typically include: costs associated with specific treatment plants, purely administrative costs, and certain distribution and conveyance departmental costs. Examples of costs that are directly assigned to specific functional categories are given below.

- * Water System Operations Group departmental costs for treatment plants are directly assigned to treatment.
- * Transmission charges for State Water Contract are directly assigned to conveyance SWP.

(b) Work-In-Progress; Net Book Value Plus Work-In-Progress

Capital financing costs, including debt service and funding replacements and refurbishments from operating revenues, comprise about 27 percent of Metropolitan's annual revenue requirements. One approach would be to allocate payments on each debt issue in direct proportion to specific project expenditures made using bond proceeds. But, this approach would result in a high degree of volatility in relative capital cost allocations from year to year. The approach used in this analysis is one widely used in water industry cost of service studies. Capital and debt-related costs (including repair and replacement costs paid from current revenues) are allocated on the basis of the relative net book values of fixed assets within each functional category. This approach produces capital cost allocations that are consistent with the functional distribution of assets. Also, since the allocation basis is tied to fixed asset records rather than debt payment records, the resulting allocations are more reflective of the true useful lives of assets. Use of net book values as an allocation basis provides an improved matching of functional costs with asset lives. A listing of fixed asset net book values summarized by asset function is shown in Schedule 3.

Schedule 3. Net Book Value and Work in Progress Allocation Base

Functional Categories	NBV for FY 2010	% of Total NBV
Source of Supply	\$ 74,727,487	1.0%
Conveyance & Aqueduct	1,404,623,477	18.0%
Storage	2,314,129,287	29.7%
Treatment	2,457,444,547	31.6%
Distribution	1,149,431,651	14.8%
Administrative & General	271,665,552	3.5%
Hydroelectric	112,091,231	1.4%
Total Fixed Assets Net Book Value	\$ 7,784,113,232	100.0%

Totals may not foot due to rounding

In most instances, the cost-of-service process uses net book value *plus* work-in-progress to develop allocation bases for debt and capital costs. For organizational units handling current construction activity, however, allocations are based on work-in-progress alone. For these organizational units, exclusion of net book value from the allocation basis is done because the costs being allocated relate directly to work in progress not yet reflected in the completed assets records.

Examples of revenue requirements allocated using these net book value and work-in-progress allocations are shown below.

- * General Obligation and Revenue Bond Debt Service: *allocated using Work In Progress plus Net Book Value.*
- * Annual deposit of operating revenue to replacement and refurbishment fund: *allocated using Work In Progress plus Net Book Value.*

To calculate the relative percentage of fixed assets in each functional category Metropolitan staff conducted a detailed analysis of historical accounting records and built a database of fixed asset accounts that contains records for all facilities currently in service and under construction. Each facility was sorted into the major service function that best represented the facilities primary purpose and was then further categorized into the appropriate sub-functions described earlier.

(c) Prorating in proportion to other allocations

Utility cost of service studies frequently contain line items for which it would be difficult to identify an allocation basis specific to that line item. In these cases, the most logical allocation basis is often a prorata blend of allocation results calculated for other revenue requirements in the same departmental group, or general category. Reasonable prorata allocations are based on a logical nexus between a cost and the purpose which it serves. For example: Human Resources Section costs are allocated using all labor costs, since Human Resources spends its time and resources attending to the labor force.

(d) Manager analyses

The functional interrelationships of some organizational units are so complex and/or dynamic that reliable allocation bases can only be developed with extensive input from the organization's managers. In these cases, managers use their first-hand knowledge of the organization's internal operations to generate a functional analysis of departmental costs. An example of revenue requirements allocated based on manager analyses is: Water System Operations Group: Operations Planning Unit.

A summary of the functional allocation results is shown in Schedules 4 and 5. Schedule 4 provides a breakdown of the revenue requirement for FY 2009/10 into the major service functions and sub-functions prior to the re-distribution of administrative and general costs. Schedule 5 serves as a cross-reference summarizing how the budget line items are distributed among the service functions. The largest functional component of Metropolitan's revenue requirement is the Conveyance and Aqueduct function, which constitutes approximately 36 percent of the allocated revenue requirement.

Schedule 4. Revenue Requirement (by service function)

Functional Categories	Fiscal Year Ending 2010	% of Allocated Dollars (1)
Source of Supply		
CRA	\$ 57,962,936	4.0%
SWP	165,333,233	11.3%
Other Supply	22,753,730	1.6%
Total	246,049,899	16.8%
Conveyance & Aqueduct		
CRA		
<i>CRA Power (net of sales)</i>	54,340,439	3.7%
<i>CRA All Other</i>	38,930,681	2.7%
SWP		
<i>SWP Power</i>	193,715,579	13.2%
<i>SWP All Other</i>	181,982,732	12.4%
Other Conveyance & Aqueduct	57,881,663	4.0%
Total	526,851,095	36.0%
Storage		
Storage Costs Other Than Power		
<i>Emergency</i>	65,295,844	4.5%
<i>Drought</i>	53,402,483	3.7%
<i>Regulatory</i>	13,098,378	0.9%
Wadsworth plant pumping/generation	(687,572)	0.0%
Total	131,109,133	9.1%
Treatment		
Jensen	41,599,453	2.8%
Weymouth	36,986,029	2.5%
Diemer	47,285,764	3.2%
Mills	43,559,390	3.0%
Skinner	57,174,958	3.9%
Total	226,605,594	15.5%
Distribution	116,564,209	8.0%
Demand Management	70,350,276	4.8%
Hydroelectric	(17,228,602)	1.2%
Administrative and general	126,009,933	8.6%
Total Functional Allocations:	\$ 1,426,311,536	100.0%

(1) Given as a percentage of the absolute values of total dollars allocated.

Totals may not foot due to rounding

Schedule 5. Service Function Revenue Requirements (by budget line item)

	Source of Supply	Conveyance & Aqueduct	Storage	Treatment	Distribution	Demand Management	Hydro Electric	Administrative & General	Total \$ Allocated
Departmental Operations & Maintenance									
Office of the General Manager & Human Resources	\$ 1,053,880	\$ 1,391,544	\$ 732,105	\$ 3,176,450	\$ 2,341,197	\$ 326,204	\$ 167,196	\$ 5,048,823	\$ 14,237,400
External Affairs	-	-	-	-	-	5,360,873	-	12,875,827	18,236,700
Water System Operations	11,500,145	28,437,162	3,429,132	95,683,995	51,823,085	9,020	3,583,729	1,555,331	196,021,600
Chief Financial Officer	-	-	-	-	-	-	-	5,846,600	5,846,600
Corporate Resources	2,137,748	5,978,855	6,952,271	11,837,996	7,125,709	605,790	581,395	15,676,337	50,896,100
Real Property Development & Mgmt	-	-	11,150,700	-	-	-	-	-	11,150,700
Water Resource Management	12,158,748	14,404	-	186,862	1,415,055	5,505,295	-	220,135	19,500,500
Ethics Department	-	-	-	-	-	-	-	483,700	483,700
General Counsel	-	-	-	-	-	-	-	7,699,900	7,699,900
Audit Department	-	-	-	-	-	-	-	2,058,700	2,058,700
Total Departmental O&M	26,850,521	35,821,966	22,264,208	110,885,303	62,705,047	11,807,182	4,332,319	51,465,355	326,131,900
General District Requirements									
State Water Project	81,326,604	426,708,098	-	-	-	-	-	-	508,034,702
Colorado River Aqueduct	-	49,751,247	-	-	-	-	-	-	49,751,247
Water Transfers and Storage Programs	140,480,461	-	-	-	-	-	-	-	140,480,461
Demand Management	-	-	-	-	-	59,844,024	-	-	59,844,024
Capital Financing Program	3,621,783	68,077,238	112,157,836	134,408,652	88,883,156	-	5,432,674	13,166,689	425,748,027
Other Operating Costs	725,869	958,438	504,244	2,187,807	1,612,519	224,676	115,157	16,404,435	22,733,145
Increase (Decrease) in Required Reserves	-	-	-	-	-	-	-	52,900,000	52,900,000
Total General District Requirements	226,154,716	545,495,020	112,662,080	136,596,459	90,495,675	60,068,700	5,547,831	82,471,124	1,259,491,605
Revenue Offsets	(6,955,338)	(54,465,891)	(3,817,155)	(20,876,168)	(36,636,513)	(1,525,605)	(27,108,752)	(7,926,546)	(159,311,969)
Net Revenue Requirements	\$ 246,049,899	\$ 526,851,095	\$ 131,109,133	\$ 226,605,594	\$ 116,564,209	\$ 70,350,276	\$ (17,228,602)	\$ 126,009,933	\$ 1,426,311,536

Totals may not foot due to rounding

1.4 Classified Costs

In the cost classification step, functionalized costs are further categorized based on the causes and behavioral characteristics of these costs. An important part of the classification process is identifying which costs are incurred to meet average demands vs. peak demands and which costs are incurred to provide standby service. As with the functional allocation process, the proposed classification process is consistent with AWWA guidelines, but has been tailored to meet Metropolitan's specific operational structure and service environment.

In the cost of service process, cost classification is done using a hybrid of two methods discussed in the AWWA M1 Manual, Principles of Water Rates, Fees and Charges. These two methods are the Commodity/Demand method and the Base/Extra Capacity method.

The Commodity/Demand method allocates costs that vary with the amount of water produced to the commodity category with all other costs associated with water production allocated to the demand category. In the Base/Extra Capacity method costs related to average demand conditions are allocated to the base category and capacity costs associated with meeting above average demand conditions are allocated to the extra capacity category.

The approach used to classify Metropolitan's costs differs from the Base/Extra Capacity method by the fact that costs are separated into a variable category and a fixed category. The Base/Extra Capacity method does not separate these costs into two categories but rather combines them into one category referred to as base costs. The approach used to classify Metropolitan's costs differs from the Commodity/Demand method in the fact that demand costs are separated into fixed commodity and fixed demand costs. The Commodity/Demand method would not make this distinction, but would combine these costs into the demand category. By using the hybrid method, costs are disaggregated to a lower level of detail, providing greater visibility to costs. Under the hybrid classification method, functional cost categories are reallocated into demand, commodity, or standby categories, which are discussed below. Classification of costs into these categories depends on an analysis of system capacity as well as actual system operating data.

Classification categories used in the analysis include:

- Fixed demand costs
- Fixed commodity costs
- Fixed standby costs
- Variable commodity costs
- Hydroelectric costs

Demand costs are incurred to meet peak demands. Only the direct capital financing costs were included in the demand classification category. A portion of capital financing costs was included in the demand cost category because in order to meet peak demands additional physical capacity is designed into the system and, therefore, additional capital costs are incurred. Commodity costs are generally associated with average system demands. Variable commodity costs include costs of chemicals, most power costs, and other cost components that increase or decrease in relation to the volume of water supplied. Fixed commodity costs include fixed operations and maintenance and capital financing costs that are not related to accommodating peak demands or standby service.

Standby service costs relate to Metropolitan's role in ensuring system reliability during emergencies such as an earthquake or an outage of a major facility like the Colorado River Aqueduct. The two principal components of the standby costs were identified as the emergency storage capacity within the system and the standby capacity within the State Water Project conveyance system.

An additional component used in Metropolitan's cost classification process is the hydroelectric component. While not a part of most water utilities' cost classification procedures, the hydroelectric classification component is necessary to segregate revenue requirements carried from the hydroelectric function established in the functional allocation process. Hydroelectric revenue requirements are later embedded in the distribution function. Any net revenues generated by the hydroelectric operations offset the distribution costs and reduce the System Access Rate. All users of the distribution system benefit proportionately from the revenue offset provided by the sale of hydroelectric energy.

Schedule 6 provides the classification percentages used to distribute the service function costs into demand, commodity and standby service classification categories. All of the supply costs are classified as fixed commodity costs. Because these particular supply costs have been incurred to provide an amount of annual reliable system yield and not to provide peak demand delivery capability or standby service they are reasonably treated as fixed commodity costs.

Costs for the Conveyance and Aqueduct (C&A) service function are classified into demand, commodity, and standby categories. Because the capital costs for C&A were incurred to meet all three classification categories, an analysis of C&A capacity usage for the ten years ending June 2009 was used to determine that 68 percent of the available conveyance capacity has been used to meet member agency demands on an average annual basis. A system peak factor¹ of 1.5 was applied to the average annual usage to determine that 32 percent of available capacity is used to meet peak monthly deliveries to the member agencies. The same classification percentages are applied to the CRA, SWP, and Other (Inland Feeder) Conveyance and Aqueduct sub-functions. The classification shares reflect the system average use of conveyance capacity and not the usage of individual facilities. All of the Conveyance and Aqueduct energy costs for pumping water to Southern California are classified as variable commodity costs and, therefore, are not shown in Schedule 6 because they carry through the classification step.

Storage service function costs for emergency, drought and regulatory storage are also distributed to the classification categories based on the type of service provided. Emergency storage costs are classified as 100 percent standby related. Emergency storage is a prime example of a cost Metropolitan incurs to ensure the reliability of deliveries to the member agencies. In effect, through the emergency storage capacity in the system, Metropolitan is "standing by" to provide service in the event of a catastrophe such as a major earthquake that disrupts regional conveyance capacity for an extended period of time. Drought carryover storage serves to provide reliable supplies by carrying over surplus supplies from periods of above normal precipitation and snow pack to drought periods when supplies decrease. Drought storage creates supply and is one component of the portfolio of resources that result in a reliable amount of annual system supplies. As a result, drought storage is classified as a fixed commodity cost, in the same manner as Metropolitan's supply costs. Regulatory storage within the Metropolitan system provides operational flexibility in meeting peak demands and flow requirements, essentially increasing the physical distribution capacity. Therefore, regulatory storage is classified in the same manner as distribution costs.

¹ Peak monthly deliveries to the member agencies average about 50 percent more than the average monthly deliveries.

Distribution service function costs were classified using daily flow data for the three calendar years ending December 2007. During this period, the average annual volume of deliveries to the member agencies used 53 percent of the peak distribution capacity. The difference between the average flow and system capacity, or 47 percent of the distribution capacity, was used to meet peak day demands in excess of average annual flows. Although the Metropolitan distribution system has a great deal of operational flexibility, the total amount of distribution capacity was limited to the peak non-coincident² 24-hour daily flow of all the member agencies.

As presented in Schedule 6, treatment service function costs were also classified using daily flow data of deliveries to the member agencies for the ten years ending December 2009. Total treated water capacity of 4,204 cfs, the total design capacity of all the treatment plants, was used in the calculation. Schedule 7 summarizes the service function revenue requirements by classification category. Administrative and general costs have been allocated to the classification categories by service function based on the ratio of classified non-A&G service function costs to total non-A&G service function costs.

² The term “non-coincident” means that the peak day flow for each agency may or may not coincide with the peak day system flow. Both non-coincident and coincident approaches to measuring peak demands are used in rate design approaches. A non-coincident approach is used in the rate design to capture the different operating characteristics of the member agencies (e.g., the distribution system is designed to meet peak demands in different load areas within the System that have non-coincident demands due to each member agencies unique operating characteristics).

Schedule 6. Classification Percentages

Function	Classification Percentages			Total % Classified	Comments
	Fixed				
	Commodity	Demand	Standby		
Source of Supply					
Colorado River Aqueduct	100%	0%	0%	100%	Supply costs classified as commodity
State Water Project	100%	0%	0%	100%	Supply costs classified as commodity
Conveyance & Aqueduct					
Colorado River Aqueduct	68%	32%	0%	100%	Demand (peaking) percentage represents application of system monthly peak factor of 1.5 to average monthly flow. Commodity percentage represents average flows. Remainder of capacity is for standby (expected growth). SWP and CRA are treated the same due to application of system wide uniform price.
State Water Project	68%	32%	0%	100%	
Other	68%	32%	0%	100%	
Storage					
Emergency	0%	0%	100%	100%	Standby service (recovered by RTS)
Drought	100%	0%	0%	100%	Recovered by Supply Contract
Regulatory	53%	47%	0%	100%	See distribution (below)
					Demand percentage represents amount of system treatment capacity used to meet peak day flows in excess of average. Commodity percentage represents amount of capacity used to meet average flows. Standby percentage is estimated as remaining total capacity. The same classification is applied to all five treatment plants due to the use of a uniform system wide treatment surcharge.
Treatment	45%	55%	0%	100%	Demand percentage represents amount of system distribution capacity used to meet peak day flows in excess of average. Commodity percentage represents amount of capacity used to meet average flows. The same classification is applied to all distribution facilities due to the use of a system wide uniform system access rate.
Distribution	53%	47%	0%	100%	

Totals may not foot due to rounding

A summary of cost classification results is shown in Schedule 7. The classification of the service function costs results in about 9 percent, or \$133 million of the total revenue requirements, being allocated to the demand classification category. This amount represents a reasonable estimate of the annual fixed capital financing costs incurred to meet peak demands (plus the allocated administrative and general costs). A portion of Metropolitan's property tax revenue is allocated to C&A fixed demand costs and offsets the amount that is recovered through rates. The taxes are used to pay for the general obligation bond debt service allocated to the C&A costs.

Schedule 7. Service Function Revenue Requirements (by classification category)

Functional Categories (by sub-Function)	Fixed Demand	Commodity	Standby	Variable Commodity	Hydroelectric	Total Classified
Source of Supply						
CRA	\$ -	\$ 64,263,882	\$ -	\$ -	\$ -	\$ 64,263,882
SWP	-	183,306,025	-	-	-	183,306,025
Other Supply	-	25,227,207	-	-	-	25,227,207
Subtotal: Source of Supply	-	272,797,115	-	-	-	272,797,115
Conveyance & Aqueduct						
CRA						
CRA Power	-	6,394,753	-	51,311,445	-	57,706,198
CRA All Other	3,202,986	39,907,153	-	-	-	43,110,139
SWP						
SWP Power	-	14,922	-	204,623,997	-	204,638,918
SWP All Other	16,819,607	184,669,824	-	-	-	201,489,431
Other Conveyance & Aqueduct	17,574,687	46,310,695	-	-	-	63,885,382
Subtotal: Conveyance & Aqueduct	37,597,280	277,297,348	-	255,935,442	-	570,830,069
Storage						
Storage Costs Other Than Power						
Emergency	-	-	70,840,226	-	-	70,840,226
Drought	-	59,207,679	-	-	-	59,207,679
Regulatory	5,836,804	8,589,673	-	-	-	14,426,477
Storage Power	-	-	-	(726,341)	-	(726,341)
Subtotal: Storage	5,836,804	67,797,351	70,840,226	(726,341)	-	143,748,041
Water Quality						
CRA	-	-	-	-	-	-
SWP	-	-	-	-	-	-
Other	-	-	-	-	-	-
Subtotal: Water Quality	-	-	-	-	-	-
Treatment	60,678,214	144,720,327	-	42,728,551	-	248,127,092
Distribution	28,602,473	100,163,668	-	-	-	128,766,140
Demand Management	-	77,997,806	-	-	-	77,997,806
Hydroelectric	-	-	-	-	(15,954,728)	(15,954,728)
Total Costs Classified	\$ 132,714,771	\$ 940,773,615	\$ 70,840,226	\$ 297,937,652	\$ (15,954,728)	\$ 1,426,311,536

Totals may not foot due to rounding

About 66 percent of the revenue requirement (\$941 million) is classified as “fixed commodity”. These fixed capital and operating costs are incurred by Metropolitan to meet annual average service needs and are typically recovered by a combination of fixed charges and volumetric rates. Fixed capital costs classified to the “Standby” category total about \$71 million and account for about 5 percent of the revenue requirements. Standby service costs are commonly recovered by a fixed charge allocated on a reasonable representation of a customer’s need for standby service. The variable commodity costs for power on the conveyance and aqueduct systems, and power, chemicals and solids handling at the treatment plants change with the amount of water delivered to the member agencies. These costs are classified as variable commodity costs, total about \$298 million, and account for about 21 percent of the total revenue requirement. Because of the variable nature of these costs, it is appropriate to recover them through volumetric rates.

2 Rates and Charges

Schedule 8 provides a cross-reference between the classified service function costs and their allocation to the rate design elements. The specifics of each rate design element are discussed in detail in the following section. Schedule 9 summarizes the rates and charges to be effective January 1, 2010. Average costs by member agency will vary depending upon an agency’s RTS allocation, capacity charge and relative proportions of treated and untreated Tier 1, Tier 2, Replenishment, and Interim Agricultural Water Program purchases.

Schedule 8. Classified Service Function Revenue Requirements (by rate design element)

Service Function by Classification Category	Rate Design Elements							Total Costs Allocated
	Supply Rates	System Access Rate	Water Stewardship Rate	System Power Rate	Capacity Charge	Readiness-to-Serve Charge	Treatment Surcharge	
Supply								
Fixed Demand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Commodity	272,797,115	-	-	-	-	-	-	272,797,115
Fixed Standby	-	-	-	-	-	-	-	-
Variable Commodity	-	-	-	-	-	-	-	-
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Supply	272,797,115	-	-	-	-	-	-	272,797,115
Conveyance and Aqueduct								
Fixed Demand	-	-	-	-	-	37,597,280	-	37,597,280
Fixed Commodity	-	277,297,348	-	-	-	-	-	277,297,348
Fixed Standby	-	-	-	-	-	-	-	-
Variable Commodity	-	-	-	255,935,442	-	-	-	255,935,442
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Conveyance and Aqueduct	-	277,297,348	-	255,935,442	-	37,597,280	-	570,830,069
Storage								
Fixed Demand	-	-	-	-	5,836,804	-	-	5,836,804
Fixed Commodity	59,207,679	8,589,673	-	-	-	-	-	67,797,351
Fixed Standby	-	-	-	-	-	70,840,226	-	70,840,226
Variable Commodity	(726,341)	-	-	-	-	-	-	(726,341)
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Storage	58,481,338	8,589,673	-	-	5,836,804	70,840,226	-	143,748,041
Water Quality								
Fixed Demand	-	-	-	-	-	-	-	-
Fixed Commodity	-	-	-	-	-	-	-	-
Fixed Standby	-	-	-	-	-	-	-	-
Variable Commodity	-	-	-	-	-	-	-	-
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Water Quality	-	-	-	-	-	-	-	-
Treatment								
Fixed Demand	-	-	-	-	-	-	60,678,214	60,678,214
Fixed Commodity	-	-	-	-	-	-	144,720,327	144,720,327
Fixed Standby	-	-	-	-	-	-	-	-
Variable Commodity	-	-	-	-	-	-	42,728,551	42,728,551
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Treatment	-	-	-	-	-	-	248,127,092	248,127,092
Distribution								
Fixed Demand	-	-	-	-	28,602,473	-	-	28,602,473
Fixed Commodity	-	100,163,668	-	-	-	-	-	100,163,668
Fixed Standby	-	-	-	-	-	-	-	-
Variable Commodity	-	-	-	-	-	-	-	-
Hydroelectric	-	(15,954,728)	-	-	-	-	-	(15,954,728)
Subtotal: Distribution	-	84,208,940	-	-	28,602,473	-	-	112,811,412
Demand Management								
Fixed Demand	-	-	-	-	-	-	-	-
Fixed Commodity	-	-	77,997,806	-	-	-	-	77,997,806
Fixed Standby	-	-	-	-	-	-	-	-
Variable Commodity	-	-	-	-	-	-	-	-
Hydroelectric	-	-	-	-	-	-	-	-
Subtotal: Demand Management	-	-	77,997,806	-	-	-	-	77,997,806
Total								
Fixed Demand	-	-	-	-	34,439,277	37,597,280	60,678,214	132,714,771
Fixed Commodity	332,004,794	386,050,688	77,997,806	-	-	-	144,720,327	940,773,615
Fixed Standby	-	-	-	-	-	70,840,226	-	70,840,226
Variable Commodity	(726,341)	-	-	255,935,442	-	-	42,728,551	297,937,652
Hydroelectric	-	(15,954,728)	-	-	-	-	-	(15,954,728)
Total	\$ 331,278,453	\$ 370,095,960	\$ 77,997,806	\$ 255,935,442	\$ 34,439,277	\$ 108,437,506	\$ 248,127,092	\$ 1,426,311,536

Totals may not foot due to rounding

Schedule 9. Rates and Charges Summary

	Effective January 1, 2009	Option 1 January 1, 2010	Option 2 January 1, 2010
Tier 1 Supply Rate (\$/AF)	\$109	\$135	\$155
Tier 2 Supply Rate (\$/AF)	\$250	\$300	\$300
Water Supply Surcharge (\$/AF)	\$25	\$25	\$25
System Access Rate (\$/AF)	\$143	\$180	\$205
Water Stewardship Rate (\$/AF)	\$25	\$38	\$43
System Power Rate (\$/AF)	\$110	\$125	\$142
Full Service Untreated Volumetric Cost (\$/AF)			
Tier 1	\$412	\$503	\$570
Tier 2	\$528	\$643	\$690
Replenishment Water Rate Untreated (\$/AF)	\$294	\$385	\$452
Interim Agricultural Water Program Untreated (\$/AF)	\$322	\$435	\$502
Treatment Surcharge (\$/AF)	\$167	\$192	\$214
Full Service Treated Volumetric Cost (\$/AF)			
Tier 1	\$579	\$695	\$784
Tier 2	\$695	\$835	\$904
Treated Replenishment Water Rate (\$/AF)	\$436	\$552	\$641
Treated Interim Agricultural Water Program (\$/AF)	\$465	\$609	\$698
Readiness-to-Serve Charge (\$M)	\$92	\$111	\$121
Capacity Charge (\$/cfs)	\$6,800	\$7,400	\$8,100

2.1 System Access Rate (SAR)

The SAR is a volumetric³ system-wide rate levied on each acre-foot of water that moves through the MWD system. All system users (member agency or third party) pay the SAR to use Metropolitan's conveyance and distribution system. It is recommended that the SAR increase from its current level of \$143 per acre-foot to \$180 per acre-foot. The SAR recovers the cost of providing conveyance and distribution capacity to meet average annual demands. Current estimates indicate that the SAR revenue requirement will be about \$370 million in FY 2009/10, or 26 percent of the total revenue requirement.

2.2 Water Stewardship Rate (WSR)

It is recommended that the WSR increase from its current level of \$25 per acre-foot to \$38 per acre-foot. The WSR recovers the costs of providing financial incentives for existing and future investments in local resources including conservation and recycled water. These investments or incentive payments are identified as the "demand management" service function in the cost of service process. Demand management costs are classified as 100 percent fixed commodity costs and are estimated to be about \$78 million in FY 2009/10, about 5.5 percent of the revenue requirement. The WSR is a volumetric rate levied on each acre-foot of water that moves through the Metropolitan system. All system users (member agency or third parties) will pay the same proportional costs for existing and future conservation and recycling investments.

2.3 System Power Rate (SPR)

The recommended SPR increases from \$110 per acre-foot to \$125 per acre-foot in 2010. The SPR is a volumetric rate that recovers the costs of pumping water to Southern California. The SPR recovers the cost of power for both the SWP and CRA. In FY 2009/10 the revenue requirement for the SPR is estimated to be about \$256 million, about 18 percent of the total revenue requirement.

2.4 Treatment Surcharge

It is recommended that the treatment surcharge be increased from its current level of \$167 per acre-foot to \$192 per acre-foot effective January 1, 2010. The treatment surcharge is a system-wide volumetric rate set to recover the cost of providing treated water service. The treatment surcharge revenue requirement is expected to be about \$248 million in FY 2009/10, almost 17 percent of the total revenue requirement. The treatment surcharge recovers all costs associated with providing treated water service, including commodity, demand and standby related costs. The increase in the treatment surcharge is necessary to cover capital financing costs allocated to the treatment surcharge. Significant capital improvements at Metropolitan's five treatment plants, such as the Ozone Retrofit Program, Skinner Filtration Plant Expansion Project, and improvement programs at all five treatment plants result in additional capital financing costs being allocated to the treatment surcharge.

³ A volumetric rate is a charge applied to the actual amount of water delivered.

2.5 *Capacity Charge*

It is recommended that the Capacity Charge increase from its current level of \$6,800 per cubic-foot-second to \$7,400 per cubic-foot-second of capacity used effective January 1, 2010. The capacity charge is levied on the maximum summer day demand placed on the system between May 1 and September 30 for a three-calendar year period. The three-year period ending December 31, 2008 is used to levy the capacity charge effective January 1, 2010 through December 31, 2010. Demands measured for the purposes of billing the capacity charge include all firm demand and agricultural demand, including wheeling service and exchanges. Replenishment service is not included in the measurement of peak day demand for purposes of billing the capacity charge.

The capacity charge is intended to pay for the cost of peaking capacity on Metropolitan's system, while providing an incentive for local agencies to decrease their use of the Metropolitan system to meet peak day demands and to shift demands into lower use time periods particularly October through April. Over time, a member agency will benefit from local supply investments and operational strategies that reduce its peak day demand on the system in the form of a lower total capacity charge. The estimated capacity charge to be paid by each member agency in calendar year 2010 (as of December 2008) is included in Schedule 10.

Schedule 10. Calendar Year 2010 Capacity Charge

AGENCY	Peak Day Demand (cfs) (May 1 through September 30) Calendar Year				Calendar Year 2010 Capacity Charge (\$7,400/cfs)
	2006	2007	2008	3-Year Peak	
Anaheim	36.6	37.9	36.1	37.9	\$ 280,460
Beverly Hills	33.2	33.9	32.9	33.9	\$ 250,860
Burbank	35	33.7	34.2	35.0	\$ 259,000
Calleguas	253.5	260.8	250	260.8	\$ 1,929,920
Central Basin	130.7	125.9	102.7	130.7	\$ 967,180
Compton	7.3	7.1	4.9	7.3	\$ 54,020
Eastern	248.6	303.8	260.1	303.8	\$ 2,248,120
Foothill	25.3	25.4	21.5	25.4	\$ 187,960
Fullerton	32.7	36.9	27.1	36.9	\$ 273,060
Glendale	57	54.6	55.7	57.0	\$ 421,800
Inland Empire	113.8	176.2	125.8	176.2	\$ 1,303,880
Las Virgenes	44.8	45.3	45.3	45.3	\$ 335,220
Long Beach	56.5	61.3	68.1	68.1	\$ 503,940
Los Angeles	540.7	768.5	821.9	821.9	\$ 6,082,060
MWDOC	456.3	469.2	453.7	469.2	\$ 3,472,080
Pasadena	66.9	58.5	55.6	66.9	\$ 495,060
San Diego ¹	1056.9	1177.5	929.2	1,296.0	\$ 9,590,400
San Fernando	0.1	6.5	0.1	6.5	\$ 48,100
San Marino	8.3	5.2	5.2	8.3	\$ 61,420
Santa Ana	30.7	29.7	14.5	30.7	\$ 227,180
Santa Monica	27.8	27.6	26.2	27.8	\$ 205,720
Three Valleys	155.7	171.4	168.1	171.4	\$ 1,268,360
Torrance	41.8	41.6	35.5	41.8	\$ 309,320
Upper San Gabriel	42.3	63.8	36.9	63.8	\$ 472,120
West Basin	275.8	262.3	243.3	275.8	\$ 2,040,920
Western	291.1	287.4	271.9	291.1	\$ 2,154,140
Total	4,069.4	4,572.0	4,126.5	4,789.5	\$ 35,442,300

(1) San Diego capacity set at 1,296 cfs per surface storage operating agreement terms

Totals may not foot due to rounding

2.6 Readiness-to-Serve Charge

The costs of providing standby service, such as emergency storage, are recovered by the RTS. Metropolitan's cost for providing emergency storage capacity within the system are estimated to be about \$70.8 million in FY 2009/10. In addition, to simplify the rate design by reducing the number of separate charges, the demand and standby related costs identified for the conveyance and aqueduct service function are also allocated to the RTS. These costs are estimated to be about \$37.6 million in FY 2009/10. Currently the RTS recovers \$92 million, an amount that represents a portion of the capital financing costs for facilities that serve existing users. It is recommended that the RTS be increased to \$111 million in calendar year 2010 to recover the additional costs associated with emergency storage and conveyance.

The RTS is allocated to the member agencies based on each agency's proportional share of a ten-year rolling average of all firm deliveries (including water transfers and exchanges that use Metropolitan system capacity). The ten-year rolling average will not include replenishment service and interim agricultural deliveries because these deliveries will be the first to be curtailed in the event of an emergency. A ten-year rolling average leads to a relatively stable RTS allocation that reasonably represents an agency's potential long-term need for standby service under different demand conditions. Member agencies that so choose may have a portion of their total RTS obligation offset by standby charge collections levied by Metropolitan on behalf of the member agency. Schedule 11 provides an estimate as of December 2008 of each agency's total RTS obligation for calendar year 2010.

Schedule 11. Readiness-to-Serve Charge (by member agency)

Member Agency	Rolling Ten-Year Average Firm Deliveries (Acre- Feet) FY1998/99 - FY2007/08	RTS Share	12 months @ \$111 million per year (1/10-12/10)
Anaheim	20,228	1.10%	\$ 1,222,634
Beverly Hills	12,912	0.70%	780,441
Burbank	12,912	0.70%	780,429
Calleguas MWD	111,866	6.09%	6,761,591
Central Basin MWD	64,106	3.49%	3,874,801
Compton	3,346	0.18%	202,262
Eastern MWD	87,810	4.78%	5,307,567
Foothill MWD	11,280	0.61%	681,828
Fullerton	9,389	0.51%	567,529
Glendale	24,721	1.35%	1,494,195
Inland Empire Utilities Agency	57,203	3.11%	3,457,565
Las Virgenes MWD	22,851	1.24%	1,381,214
Long Beach	37,275	2.03%	2,253,015
Los Angeles	277,002	15.08%	16,742,992
Municipal Water District of Orange County	227,051	12.36%	13,723,746
Pasadena	22,682	1.24%	1,370,975
San Diego County Water Authority	486,716	26.50%	29,418,822
San Fernando	119	0.01%	7,169
San Marino	995	0.05%	60,111
Santa Ana	12,711	0.69%	768,292
Santa Monica	12,759	0.69%	771,181
Three Valleys MWD	72,197	3.93%	4,363,844
Torrance	20,975	1.14%	1,267,828
Upper San Gabriel Valley MWD	15,491	0.84%	936,325
West Basin MWD	143,381	7.81%	8,666,428
Western MWD	68,448	3.73%	4,137,216
MWD Total	1,836,424	100.00%	\$ 111,000,000

Totals may not foot due to rounding

2.7 *Purchase Order*

The rate structure relies on a Purchase Order to establish a financial commitment from the member agency to Metropolitan. In return for providing a financial commitment to Metropolitan the member agency may purchase more of its supply at the lower Tier 1 Supply Rate than had it not provided the commitment.

The Purchase Order is voluntarily submitted by the member agency to Metropolitan. Through the Purchase Order the member agency commits to purchase a fixed amount of supply from Metropolitan (the Purchase Order Commitment). The Purchase Order Commitment is determined as a portion of the member agency's historical demands on the Metropolitan system and the term of the Purchase Order.

Term

The Purchase Order is for a ten-year term beginning January 1, 2003. Ten years was chosen as a balance between the long-term investments Metropolitan makes to secure water supply (many of the supply development agreements Metropolitan commits to are for 20 years or more) and a shorter period that would require less of a commitment from the member agencies. In addition, a ten-year period will most likely allow sufficient time for high and low demand years to average, reducing the likelihood that a member agency will pay for unused water.

Initial base demand

The maximum annual firm demands since FY 1989/90 through June 30, 2002 are used to establish each member agency's "initial base demand". Firm demands are defined as all deliveries through the Metropolitan system to a member agency excluding replenishment service, interim agricultural service, deliveries made under the interruptible service program and deliveries made to cooperative and cyclic storage accounts at the time water was put into the accounts.

Purchase Order Commitment

The Purchase Order Commitment is limited to a portion of a member agency's initial base demand. The Purchase Order Commitment is defined as ten times 60 percent of the member agency's initial base demand. The ten times reflects the ten-year term of the Purchase Order and the 60 percent was chosen to balance risk transferred to the member agencies with the need for a financial commitment to Metropolitan.

Two factors influenced the use of the 60 percent demand level. First, there is substantial fluctuation in demands as a result of weather. During cool, wet weather, member agencies use less imported supply from Metropolitan's system. As a result, the Purchase Order Commitment was set at a level that would accommodate these annual fluctuations in weather driven demands, while helping to ensure that member agencies would have a reasonable opportunity to utilize all of the water during the ten-year Purchase Order term. Second, the 60 percent level was selected in consultation with member agency representatives and represents a sufficient incentive to utilize Metropolitan's supplies and provide a base financial commitment to the regional system. Since the Purchase Order Commitment is voluntary, no member agency is required to commit to the minimum level. But, in exchange for the commitment, the member agency may purchase more Metropolitan water supply (up to 90 percent of its Base Demand) at the lower Tier 1 Supply Rate. The Purchase Order Commitment quantity and the Tier 1 Annual Limit for all member agencies are shown in Schedule 12.

Schedule 12. Purchase Order Commitment Quantities (acre-feet)

	Tier 1 Annual Limit	Purchase Order Commitment (acre-feet)
Anaheim	22,240	148,268
Beverly Hills	13,380	89,202
Burbank	16,336	108,910
Calleguas	103,801	692,003
Central Basin	72,361	482,400
Compton	5,058	33,721
Eastern	75,700	504,664
Foothill	10,997	73,312
Fullerton	11,298	75,322
Glendale	26,221	174,809
Inland Empire	59,752	398,348
Las Virgenes	20,565	137,103
Long Beach	39,471	263,143
Los Angeles	304,970	2,033,132
MWDOC	222,924	1,486,161
Pasadena	21,180	141,197
San Diego	501,386	3,342,571
San Fernando	630	-
San Marino	1,199	-
Santa Ana	12,129	80,858
Santa Monica	11,483	74,062
Three Valleys	70,400	469,331
Torrance	20,967	139,780
Upper San Gabriel	16,512	110,077
West Basin	156,874	1,045,825
Western	58,769	391,791
Total	1,876,601	12,495,989

Totals may not foot due to rounding

2.8 *Tier 2 supply rate*

The Tier 2 Supply Rate is set at Metropolitan's cost of developing long-term firm supplies to encourage the member agencies and their customers to maintain existing local supplies and develop cost-effective local supply resources and conservation. The Tier 2 Supply Rate also recovers a greater proportion of the cost of developing additional supplies from member agencies that have increasing demands on the Metropolitan system. Because of the uncertainty about supply and critically dry conditions, Metropolitan will have to purchase more than 200 thousand acre-feet of water transfers in 2009/10, at an expected average cost of \$300 per acre-foot. Hence, it is recommended that the Tier 2 Supply Rate effective January 1, 2010 increase from its current level of \$250 per acre-foot, to \$300 per acre-foot in order to reflect the much higher costs of acquiring the additional supply.

The total revenue requirement for the supply service function is about \$331 million in FY 2009/10. At an expected average sales level of 2.12 million acre-feet it is estimated that about 205 thousand acre-feet will be sold at the Tier 2 Supply Rate, resulting in about \$51 million in revenues at the \$250 per acre-foot rate in effect during 2009. Tier 2 revenues at the higher rate will not be realized until fiscal year 2009/10. The remaining supply costs are recovered by the Tier 1 Supply Rate and by the replenishment rate and agricultural water rate discussed below.

The two-tier pricing approach is closely linked to the Purchase Order and a base level of demand. The initial base demand (IBD) is defined as the maximum annual firm demands on the Metropolitan system for the 13 years ending June 30, 2002. Firm demands are defined as all deliveries through the Metropolitan system to a member agency excluding: (1) replenishment service; (2) interim agricultural service; (3) deliveries made under the interruptible service program and (4) deliveries made from cooperative, cyclic and conjunctive use storage accounts not certified under the replenishment program.

Member agencies that submitted a Purchase Order may purchase up to 90 percent of the IBD at the lower Tier 1 Supply Rate. For supply purchases in excess of 90 percent of the IBD the member agency will be charged the higher Tier 2 Supply Rate. Member agencies that do not submit a Purchase Order are charged the higher Tier 2 Supply Rate for supplies that exceed 60 percent of the IBD. Over time the IBD will be compared to a rolling ten-year average of firm demands (not including water transfers and exchanges). The greater of the IBD and the rolling ten-year average of firm demands will be used to set the breakpoint between supply purchases made at the Tier 1 and Tier 2 Supply Rates.

2.9 *Tier 1 supply rate*

It is recommended that the Tier 1 Supply Rate effective January 1, 2010 increase from its current level of \$109 per acre-foot, to \$135 per acre-foot. This increase is due to the substantial additional costs of the required additional water transfers, caused by the critically dry conditions and a court imposed cutback in State Water Project deliveries. The Tier 1 Supply Rate recovers the majority of the supply revenue requirement. The Tier 1 Supply Rate is simply calculated as the amount of the total supply revenue requirement that is not recovered by the Tier 2 Supply Rate and a portion of the revenues from the replenishment water rate and agricultural water rate divided by the estimated

amount of Tier 1 water sales. At an expected demand level of about 2.12 million acre-feet it is estimated that Metropolitan will sell about 1.7 million acre-feet at the Tier 1 Supply Rate in 2009/10.

2.10 Replenishment and agricultural water rates

Metropolitan currently provides interruptible service for long-term replenishment operations and agricultural deliveries through the replenishment program and the interim agricultural water program (IAWP). Because of the critically dry conditions and uncertainty about supply, replenishment deliveries will be curtailed in 2009/10. In October 2008, the Board approved a five-year phase out of the IAWP. In 2009/10 certified agricultural deliveries are expected to be about 82 thousand acre-feet. However, if water supply conditions improve and surplus water becomes available, Metropolitan will make Replenishment service available to its member agencies at the recommended rates of \$385 per acre-foot for untreated, and \$552 per acre-foot for treated water. Since the additional water transfers in 2009/10 are not purchased for Replenishment purposes, the Replenishment rate will not include the Water Supply Surcharge.

3 Sales

Staff estimates of water sales used for developing the rate recommendation were based on current member agency demands and information and an expectation that demands will trend to levels expected under normal weather conditions. Since 1989/90, total sales have averaged about 2.00 million acre-feet per year, ranging from a high of around 2.5 million acre-feet in 1989/90 to a low of about 1.5 million acre-feet in 1997/98. In 2008/09 water sales are projected to be around 2.15 million acre-feet. Water sales in 2009/10 are expected to be about 2.12 million acre-feet.

4 Proof of Revenue

Based on expected sales of 2.12 MAF the expected revenues would be about \$29 million greater than the total revenue requirement if the rates and charges were in effect the entire test year period. However, because the recommended rates do not take effect until January 1, 2010 the expected revenues for 2009/10 will be about \$153 million (11 percent) less than the total revenue requirement in 2009/10. The total revenue requirement includes a \$14 million increase in the required reserves for the Revenue Remainder Fund. As a result, the required draw from reserves is about \$139 million.

Schedule 13. FY 2009/10 Proof of Revenue if Rates Effective for Full Test Year (\$ millions)

	Revenues if Rates Effective May 1	Revenue Requirements	Difference	% Over Collected
Supply	341.9	331.3	10.6	3%
System Access Rate	380.4	370.1	10.3	3%
Water Stewardship Rate	80.3	78.0	2.3	3%
System Power Rate	264.1	255.9	8.2	3%
Treatment Surcharge	242.5	248.1	(5.6)	-2%
Readiness-to-serve Charge	111.0	108.4	2.6	2%
Capacity Charge	35.2	34.4	0.8	2%
Total	1,455.4	1,426.3	29.1	2%

Totals may not foot due to rounding

Schedule 14. FY 2009/10 Proof of Revenue if Rates Effective January 1 (\$ millions)

Rate Elements	Revenues if Rates Effective January 1st	Revenue Requirements	Difference	% Over (Under) Collected
Supply	298.5	331.3	(32.8)	-10%
System Access Rate	321.5	370.1	(48.6)	-13%
Water Stewardship Rate	59.8	78.0	(18.2)	-23%
System Power Rate	240.0	255.9	(16.0)	-6%
Treatment Surcharge	218.8	248.1	(29.3)	-12%
Readiness-to-serve Charge	101.5	108.4	(6.9)	-6%
Capacity Charge	33.8	34.4	(0.6)	-2%
Total	1,273.8	1,426.3	(152.5)	-11%

Totals may not foot due to rounding

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION ____

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
GIVING NOTICE OF INTENTION TO IMPOSE
A READINESS-TO-SERVE CHARGE FOR CALENDAR YEAR 2010**

WHEREAS, at its meeting on October 16, 2001, the Board of Directors ("Board") of The Metropolitan Water District of Southern California ("Metropolitan") approved a rate structure proposal described in Board Letter 9-6 dated October 16, 2001, including a readiness-to-serve charge; and

WHEREAS, providing firm revenue sources is a goal of such rate structure; and

WHEREAS, the amount of revenue to be raised by the readiness-to-serve charge shall be as determined by the Board and allocation of the readiness-to-serve charge among member public agencies shall be in accordance with the method established by the Board; and

WHEREAS, the readiness-to-serve charge is a charge imposed by Metropolitan upon its member agencies, and is not a fee or charge imposed upon real property or upon persons as an incident of property ownership; and

WHEREAS, Metropolitan has legal authority to impose such readiness-to-serve charge as a water rate pursuant to Section 134 of the Metropolitan Water District Act (the "Act"), and as an availability of service charge pursuant to Section 134.5 of the Act; and

WHEREAS, under authority of Sections 133 and 134 of the Act, the Board has the authority to fix the rate or rates for water as will result in revenue which, together with other revenues, will pay Metropolitan's operating expenses and provide for payment of other costs, including payment of the interest and principal of Metropolitan's non-tax funded bonded debt; and

WHEREAS, pursuant to Resolution 8329, adopted by the Board on July 9, 1991, proceeds of the readiness-to-serve charge and other revenues from the sale or availability of water are pledged to the payment of Metropolitan's outstanding revenue bonds issued and revenue bonds to be issued pursuant to Resolution 8329; and

WHEREAS, under authority of Section 134.5 of the Act, a readiness-to-serve charge imposed as an availability of service charge may be collected from the member public agencies within Metropolitan, or may be imposed as a standby charge against individual parcels within Metropolitan's service area; and

WHEREAS, under such authority, the water standby charge may be imposed on each acre of land or each parcel of land less than an acre within Metropolitan to which water is made available for any purpose by Metropolitan, whether the water is actually used or not; and

WHEREAS, certain member public agencies of Metropolitan have opted in prior years to provide collection of all or a portion of their readiness-to-serve charge obligation through a Metropolitan water standby charge imposed on parcels within those member agencies; and

WHEREAS, Metropolitan is willing to comply with the requests of member public agencies opting to have Metropolitan continue to levy water standby charges within their respective territories, on the terms and subject to the conditions contained herein; and

WHEREAS, the provisions of the Uniform Standby Charge Procedures Act ("USCPA"), Sections 54984-54984.9 of the Government Code, are available to any local agency authorized by law to provide water or water service, and authorized to fix, levy, or collect any standby or availability charge or assessment in connection with the provision of that service; and

WHEREAS, the readiness-to-serve charge applicable to each member public agency, the method of its calculation, and the specific data used in its determination are as specified in the Engineer's Report dated December 2008 (the "Engineer's Report"), on file with the Board Executive Secretary, a copy of which is attached as Exhibit 1.

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California does hereby resolve, determine and order as follows:

Section 1. That Metropolitan should develop a reliable source of revenues less susceptible to seasonal and annual variation, through imposition of a readiness-to-serve charge to be collected from Metropolitan's member public agencies.

Section 2. That said readiness-to-serve charge should be in an amount sufficient to provide for payment of debt service and other appropriately allocated costs, for capital expenditures for projects needed to provide standby and emergency storage service needs.

Section 3. That such readiness-to-serve charge for January 1, 2010 through and including December 31, 2010 shall be a water rate equal to \$60.44 per acre-foot, which shall be charged on a historic basis for each acre-foot of water, excluding water used for purposes of replenishing local storage and agriculture as defined by the Administrative Code, included in Metropolitan's average water deliveries to its member agencies for the applicable ten-year period identified in Section 8 below. The aggregate readiness-to-serve charge for calendar year 2010 shall be \$111,000,000.

Section 4. That this Board finds that the proposed readiness-to-serve charge is necessary for the purpose of financing construction costs of public utility facilities furnished by Metropolitan, and does not exceed the proportionate share of the cost of the public utility facilities of benefit to each person or property charged, based upon the proportionate share of the use of those facilities as shown on the Engineer's Report.

Section 5. That in the alternative, and without duplication, the readiness-to-serve charge shall be an availability of service charge pursuant to Section 134.5 of the Act.

Section 6. That notice is hereby given to the public and to each member public agency of Metropolitan of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held March 10, 2009 (or such other date as the Board shall hold its regular meeting), on the General Manager's recommendation to impose a readiness-to-serve charge for calendar year 2010.

Section 7. That the readiness-to-serve charge for calendar year 2010 shall be allocated among the member public agencies in proportion to the average of deliveries through Metropolitan's system (in acre-feet) to

each member public agency during the ten-year period ending June 30, 2008. Metropolitan sales of reclaimed water under the Local Projects Program, groundwater under the Groundwater Recovery Program, and deliveries under the Replenishment and Interim Agricultural Water Service Programs are not included in the readiness-to-serve charge water sales calculation. The allocation of the readiness-to-serve charge among member agencies is based on sales data recorded by Metropolitan and shall be conclusive in the absence of manifest error.

The proposed amount of the readiness-to-serve charge to be imposed on each member public agency effective January 1, 2010, is as follows:

Table 1
Calendar Year 2010 Readiness-To-Serve Charge

Member Agency	Rolling Ten-Year Average Firm Deliveries (Acre- Feet) FY1998/99 - FY2007/08	RTS Share	12 months @ \$111 million per year (1/10-12/10)
Anaheim	20,228	1.10%	\$ 1,222,634
Beverly Hills	12,912	0.70%	780,441
Burbank	12,912	0.70%	780,429
Calleguas MWD	111,866	6.09%	6,761,591
Central Basin MWD	64,106	3.49%	3,874,801
Compton	3,346	0.18%	202,262
Eastern MWD	87,810	4.78%	5,307,567
Foothill MWD	11,280	0.61%	681,828
Fullerton	9,389	0.51%	567,529
Glendale	24,721	1.35%	1,494,195
Inland Empire Utilities Agency	57,203	3.11%	3,457,565
Las Virgenes MWD	22,851	1.24%	1,381,214
Long Beach	37,275	2.03%	2,253,015
Los Angeles	277,002	15.08%	16,742,992
Municipal Water District of Orange County	227,051	12.36%	13,723,746
Pasadena	22,682	1.24%	1,370,975
San Diego County Water Authority	486,716	26.50%	29,418,822
San Fernando	119	0.01%	7,169
San Marino	995	0.05%	60,111
Santa Ana	12,711	0.69%	768,292
Santa Monica	12,759	0.69%	771,181
Three Valleys MWD	72,197	3.93%	4,363,844
Torrance	20,975	1.14%	1,267,828
Upper San Gabriel Valley MWD	15,491	0.84%	936,325
West Basin MWD	143,381	7.81%	8,666,428
Western MWD	68,448	3.73%	4,137,216
MWD Total	1,836,424	100.00%	\$ 111,000,000

Totals may not foot due to rounding

Section 8. That the allocation of the readiness-to-serve charge among member agencies set forth in Section 7 above is consistent with the per-acre-foot water rates imposed pursuant to Section 3 above.

Section 9. That it is the intent of the Board that water conveyed through Metropolitan's system for the purposes of water transfers, exchanges or other similar arrangements shall be included in the calculation of a member agency's rolling ten-year average firm demands used to allocate the readiness-to-serve charge.

Section 10. That the proposed readiness-to-serve charge and the amount applicable to each electing member public agency, the method of its calculation, and the specific data used in its determination are as specified in the General Manager's recommendation on rates and charges to be effective January 1, 2010, which forms the basis of the readiness-to-serve charge. Such recommendation is on file and available for review by interested parties at Metropolitan's headquarters.

Section 11. That except as provided in Section 17 below with respect to any readiness-to-serve charge collected by means of a Metropolitan water standby charge, the readiness-to-serve charge shall be due monthly, quarterly or semiannually as agreed upon by Metropolitan and the member agency.

Section 12. That such readiness-to-serve charge may, at the request of any member agency which elected to utilize Metropolitan's standby charge as a mechanism for collecting its readiness-to-serve charge obligation in FY 1996/97, be collected by reimposition of the Metropolitan water standby charge at the same rates imposed in FY 1996/97 upon land within Metropolitan's (and such member public agency's) service area to which water is made available by Metropolitan for any purpose, whether such water is used or not.

Section 13. That the rates of any standby charge proposed to be levied to collect all or a portion of a member public agency's readiness-to-serve charge, per acre of land, or per parcel of land less than an acre, as shown in the Engineer's Report, may vary by member public agency, and shall not exceed the amount of Metropolitan's 1995/96 standby charge for the member public agency. The proposed standby charge applicable to each electing member public agency, the method of its calculation, and the specific data used in its determination are as specified in the Engineer's Report attached to this Resolution which was prepared under the supervision of a registered professional engineer certified by the state of California.

Section 14. The proposed water standby charge includes the reimposition of water standby charges on parcels with respect to which water standby charges have been imposed in FY 1996/97 and annually thereafter ("pre-1997 standby charges") and the levy of standby charges on parcels annexed to Metropolitan and to an electing member agency after January 1997 ("annexation standby charges"). Only land within each electing member public agency with respect to which standby charges were imposed in FY 1996/97 will be subject to the reimposition of pre-1997 standby charges for FY 2009/10. Only land annexed to Metropolitan and to an electing member public agency with respect to which standby charges were approved in accordance with the procedures of Article XIID, Section 4 of the California Constitution will be subject to the imposition or reimposition, as the case may be, of annexation standby charges for FY 2009/10. The Engineer's Report lists parcels annexed, or to be annexed, to Metropolitan and to electing member agencies during FY 2009/10, such parcels being subject to the annexation standby charge upon annexation. Parcels annexed after January 1997 and prior to FY 2009/10 are subject to annexation standby charges as described in the Engineer's Report for the fiscal year of their annexation. Parcels that are subject to the pre-1997 standby charges are identified in a listing filed with the Board Executive Secretary.

Section 15. That the amount of the proposed standby charge, per parcel or per acre, applicable to eligible land within each electing member public agency as allocated in the Engineer's Report shall be as follows:

Proposed FY 2009/10 Standby Charge

<u>Member Agency</u>	<u>Amount</u>
Anaheim	\$ 8.55
Beverly Hills	-0-
Burbank	14.20
Calleguas MWD	9.58
Central Basin MWD	10.44
Coastal MWD*	11.60
Compton	8.92
Eastern MWD	6.94
Foothill MWD	10.28
Fullerton	10.71
Glendale	12.23
Inland Empire Utilities Agency	7.59
Las Virgenes MWD	8.03
Long Beach	12.16
Los Angeles	-0-
MWD of Orange Co.**	10.09
Pasadena	11.73
San Diego CWA	11.51
San Fernando	7.87
San Marino	8.24
Santa Ana	7.88
Santa Monica	-0-
Three Valleys MWD	12.21
Torrance	12.23
Upper San Gabriel Valley MWD	9.27
West Basin MWD	-0-
Western MWD	9.23

Section 16. That with respect to annexation standby charges, the Engineer's Report separates the special benefits from the general benefits and identifies each of the parcels on which a special benefit is conferred. No annexation standby charge on any parcel exceeds the reasonable cost of the proportional special benefit conferred on that parcel, as shown in the Engineer's Report.

Section 17. That the proposed water standby charge, if imposed, shall be collected on the tax rolls, together with the *ad valorem* property taxes which are levied by Metropolitan for the payment of pre-1978 voter-approved indebtedness. Any amounts so collected shall be applied as a credit against the applicable member agency's obligation to pay a readiness-to-serve charge. After such member agency's readiness-to-serve charge allocation is fully satisfied, any additional collections shall be credited to other outstanding obligations of such member agency to Metropolitan or future readiness-to-serve obligations of such agency. Notwithstanding the provisions of Section 12 above, any member agency requesting to have all or a portion of its readiness-to-serve charge obligation collected through standby charge levies within its territory as provided herein shall pay any portion not collected through net standby charge collections to Metropolitan within 50 days after

* Applicable to parcels in MWD of Orange County which were included within territory of former Coastal MWD.

** Exclusive of parcels included within territory of former Coastal MWD.

Metropolitan issues an invoice for remaining readiness-to-serve charges to such member agency, as provided in Administrative Code Section 4507.

Section 18. That notice is hereby given to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held March 10, 2009 (or such other date as the Board shall hold its regular meeting in such month), on the General Manager's recommendation to impose a readiness-to-serve charge for calendar year 2010 as provided in this Resolution. The Business and Finance Committee of Metropolitan's Board shall hold a public hearing at which interested parties may present their views regarding the proposed readiness-to-serve charge, to be held prior to its regular March meeting pursuant to Section 4304(e) of Metropolitan's Administrative Code. The Board reserves the right to make any changes to the readiness to serve charge, including but not limited to the basis on which such charges shall be imposed by Metropolitan, as a result of comments received at the public hearing.

Section 19. That notice is hereby given to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held May 12, 2009 (or such other date as the Board shall hold its regular meeting in such month), on the General Manager's recommendation to impose a water standby charge for FY 2009/10 under authority of Section 134.5 of the Act on land within Metropolitan at the rates, per acre of land, or per parcel of land less than an acre, specified in Section 15 above. Any such water standby charge will be imposed as a means of collecting the readiness-to-serve charge.

Section 20. That the following exemption procedures apply with respect to pre-1997 standby charges:

(a) It is the intent of the Board that the following lands shall be exempt from the pre-1997 water standby charge: (1) lands owned by the Government of the United States, the State of California, or by any political subdivision thereof or any entity of local government; (2) lands permanently committed to open space and maintained in their natural state that are not now and will not in the future be supplied water; (3) lands not included in (1) or (2) above, which the General Manager, in his discretion, finds do not now and cannot reasonably be expected to derive a benefit from the projects to which the proceeds of the water standby charge will be applied; and (4) lands within any member public agency, subagency, or city if the governing body of such public entity elects and commits to pay out of funds available for that purpose, in installments at the time and in the amounts established by Metropolitan, the entire amount of the water standby charge which would otherwise be imposed upon lands within those public entities. However, no exemption from the pre-1997 water standby charge shall reduce the applicable member agency's readiness-to-serve charge obligation. The General Manager may develop and implement additional criteria and guidelines for exemptions in order to effectuate the intent expressed herein.

(b) The General Manager shall establish and make available to interested applicants procedures for filing and consideration of applications for exemption from the water standby charge pursuant to subsections (2) and (3) of Section 21(a) above. All applications for such exemption and documents supporting such claims must be received by Metropolitan in writing on or before December 31, 2009. The General Manager is further directed to review any such applications for exemption submitted in a timely manner to determine whether the lands to which they pertain are eligible for such exemption and to allow or disallow such applications based upon those guidelines. The General Manager shall also establish reasonable procedures for the filing and timing of the appeals from his determination.

(c) The Business and Finance Committee shall hear appeals from determinations by the General Manager to deny or qualify an application for exemption from the pre-1997 water standby charge. The Business and Finance Committee shall consider such appeals and make recommendations to the Board to affirm or reverse

the General Manager's determinations. The Board shall act upon such recommendations and its decision as to such appeals shall be final.

Section 21. That no failure to collect, and no delay in collecting, any standby charges shall excuse or delay payment of any portion of the readiness-to-serve charge when due. All amounts collected as water standby charges pursuant to this Resolution shall be applied solely as credits to the readiness-to-serve charge of the applicable member agency, with any excess collections being carried forward and credited against other outstanding obligations of such member agency to Metropolitan.

Section 22. That the readiness-to-serve charge is imposed by Metropolitan as a rate or charge on its member agencies, and is not a fee or charge imposed upon real property or upon persons as incidents of property ownership, and the water standby charge is imposed within the respective territories of electing member agencies as a mechanism for collection of the readiness-to-serve charge. In the event that the water standby charge, or any portion thereof, is determined to be an unauthorized or invalid fee, charge or assessment by a final judgment in any proceeding at law or in equity, which judgment is not subject to appeal, or if the collection of the water standby charge shall be permanently enjoined and appeals of such injunction have been declined or exhausted, or if Metropolitan shall determine to rescind or revoke the water standby charge, then no further standby charge shall be collected within any member agency and each member agency which has requested reimposition of Metropolitan water standby charges as a means of collecting its readiness-to-serve charge obligation shall pay such readiness-to-serve charge obligation in full, as if reimposition of such water standby charges had never been sought.

Section 23. That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 24. That this Board finds that the proposed readiness-to-serve charge and other charges provided in this Resolution are not defined as a Project from the provisions of the California Environmental Quality Act ("CEQA") since they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

Section 25. That if any provision of this Resolution or the application to any member agency, property or person whatsoever is held invalid, that invalidity shall not affect other provisions or applications of this Resolution which can be given effect without the invalid portion or application, and to that end the provisions of this Resolution are severable.

Section 26. That the General Manager is hereby authorized and directed to take all necessary action to satisfy relevant statutes requiring notice by mailing or by publication.

Section 27. That the Board Executive Secretary is hereby directed to transmit a certified copy of this Resolution to the presiding officer of the governing body of each member public agency.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on January 13, 2009.

Board Executive Secretary
The Metropolitan Water District
of Southern California

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
ENGINEER'S REPORT**

**PROGRAM TO LEVY READINESS-TO-SERVE CHARGE,
INCLUDING LOCAL OPTION FOR STANDBY CHARGE,
DURING FISCAL YEAR 2009/10**

December 2008

BACKGROUND

The Metropolitan Water District of Southern California is a public agency with a primary purpose to provide imported water supply for domestic and municipal uses at wholesale rates to its member public agencies. More than 18 million people reside within Metropolitan's service area, which covers over 5,000 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. Metropolitan currently provides over 50 percent of the water used within its service area.

REPORT PURPOSES

As part of its role as an imported water supplier, Metropolitan builds capital facilities and implements water management programs that ensure reliable high quality water supplies throughout its service area. The purpose of this report is to: (1) identify and describe those facilities and programs which will be financed in part by Metropolitan's readiness-to-serve (RTS) charge in fiscal year 2009/10, and (2) describe the method and basis for levying Metropolitan's standby charge for those agencies electing to collect a portion of their RTS obligation through Metropolitan's standby charge. Because the standby charge is levied and collected on a fiscal year basis the calculations in this report also are for the fiscal year, even though the RTS charge is imposed on a calendar year basis. The RTS charge for calendar year 2009 was adopted by Metropolitan's Board on March 11, 2008 and the RTS charge for 2010 will be considered by the Board on March 10, 2009.

Metropolitan levies the RTS charge on its member agencies to recover a portion of the debt service on bonds issued to finance capital facilities needed to meet existing demands on Metropolitan's system. The standby charge is levied on parcels of land within certain of Metropolitan's member agencies as a method of collecting part or all of such member agency's RTS charge obligation. The RTS charge will partially pay for the facilities and programs described in this report. The standby charge, if levied, will be utilized solely for capital payments and debt service on the capital facilities identified in this report.

METROPOLITAN'S RESPONSE TO INCREASING WATER DEMANDS

To respond to increasing demands for water, Metropolitan and its member agencies collectively examined the available local and imported resource options in order to develop a least-cost plan that meets the reliability and quality needs of the region. The product of this intensive effort was an Integrated Resources Plan (IRP) for achieving a reliable and affordable water supply for Southern California. The major objective of the IRP was to develop a comprehensive water resources plan that ensures (1) reliability, (2) affordability, (3) water quality, (4) diversity of supply, and (5) adaptability for the region, while recognizing the environmental, institutional, and political constraints to resource development. As these constraints change over time, the IRP is periodically revisited and updated by Metropolitan and the member agencies to reflect current conditions. To meet the water supply needs of existing and future customers within its service area, Metropolitan continues to identify and

develop additional water supplies to maintain the reliability of the imported water supply and delivery system. These efforts include the construction of capital facilities and implementation of demand management programs.

Capital Facilities

The capital facilities include the State Water Project (SWP), the Colorado River Aqueduct (CRA), storage facilities including the recently completed Diamond Valley Lake (DVL), and additional conveyance and distribution system components. The benefits of these capital facilities are both local and system-wide, as the facilities directly contribute to the reliable delivery of water supplies throughout Metropolitan's service area.

State Water Project Benefits

In 1960, Metropolitan contracted with the California Department of Water Resources (DWR) to receive SWP supplies. Under this contract, Metropolitan is obligated to pay its portion of the construction and operation and maintenance costs of the SWP system through at least the year 2035, regardless of the quantities of project water Metropolitan takes. Metropolitan is entitled to 1.9 million acre-feet of the total SWP entitlements of 4.2 million acre-feet. All Metropolitan member agencies benefit from the SWP supplies, which are distributed to existing customers and are available to future customers throughout Metropolitan's service area. The potential benefit of the SWP allocable to the RTS charge in fiscal year 2009/10 is shown in Table 1.

System Storage Benefits

The Metropolitan system, for purposes of meeting demands during times of shortage, regulating system flows, and to ensure system reliability in the event of a system outage, provides over 1,000,000 acre-feet of system storage capacity. DVL provides 800,000 acre-feet of storage capacity for water from the Colorado River Aqueduct and SWP, effectively doubling Southern California's previous surface water storage capacity. Water stored in system storage during above average supply conditions (surplus) provides a reserve against shortages when supply sources are limited or disrupted. System storage also preserves Metropolitan's capability to deliver water during scheduled maintenance periods, when conveyance facilities must be removed from service for rehabilitation, repair, or maintenance. The potential benefit of system storage in fiscal year 2009/10 is shown in Table 1.

Conveyance and Distribution System Benefits

Metropolitan has an ongoing commitment, through physical system improvements and the maintenance and rehabilitation of existing facilities, to maintain the reliable delivery of water throughout the entire service area. System improvement projects include additional conveyance and distribution facilities to maintain the dependable delivery of water supplies, provide alternative system delivery capacity, and enhance system operations. Conveyance and distribution system improvement benefits also include projects to upgrade obsolete facilities or equipment, or to rehabilitate or replace facilities or equipment. These projects are needed to enhance system operations, comply with new regulations, and maintain a reliable distribution system. A list of conveyance and distribution system facilities is provided in Table 3 along with the fiscal year 2009/10 estimated conveyance and distribution system benefits.

Demand Management Program Benefits

Demand management programs that could be financed by the RTS charge and standby charge include Metropolitan's participation in providing financial incentives to local agencies for the construction and development of local resource programs and conservation projects. Investments in demand side management programs like conservation, water recycling and groundwater recovery reduce the need to provide additional

imported water supplies and help defer the need for additional conveyance, distribution, and storage facilities. A summary of the estimated benefits of the demand management programs as measured by Metropolitan's anticipated expenditures for these programs in fiscal year 2009/10 is shown in Table 1.

Local Resources Program

In 1998, Metropolitan's Board adopted the Local Resources Program (LRP) with the goal of developing local water resources in a cost-efficient manner. Financial incentives of up to \$250 per acre-foot are provided to member agency-sponsored projects that best help the region achieve its local resource production goals of restoring degraded groundwater resources for potable use and developing recycled supplies. In both instances, the programs provide new water supplies, which help defer the need for additional regional conveyance, distribution and storage facilities.

Combined production from participating recycling and groundwater recovery projects is expected to yield approximately 227,000 acre-feet of water for fiscal year 2009/10 with financial incentive payments of about \$40 million. Regional recycling, recovered groundwater, and desalinated seawater production are projected to be about 750,000 acre-feet per year, by year 2025. An estimate of potential benefits as measured by Metropolitan's estimated incentive payments for recycling and groundwater recovery projects is shown in Table 2.

Water Conservation

Metropolitan actively promotes water conservation programs within its service area as a cost-effective strategy for ensuring the long-term reliability of supplies and as a means of reducing the need to expand system conveyance, distribution and treatment capacity. Through the Conservation Credits Program, Metropolitan reimburses local agencies for a share of their costs of implementing conservation projects. Since fiscal year 1990/91, Metropolitan has spent over \$223 million in financial incentives to support local conservation projects.

In 1991, Metropolitan agreed to implement conservation "Best Management Practices" (BMPs). By signing the California Urban Water Conservation Council's *Memorandum of Understanding Regarding Urban Water Conservation* (amended March 10, 2004), Metropolitan committed to implement proven and reliable water conserving technologies and practices within its jurisdiction. Based on Metropolitan's IRP, the Conservation Credits Program, in conjunction with plumbing codes and other conservation efforts, has saved over 1,137,000 acre-feet through fiscal year 2007/08. By 2025, it is estimated that conservation practices will save over one million acre-feet, reducing Metropolitan's total water requirements by about 15 percent. Conservation is a critical element of Metropolitan's demand management program, effectively increasing the reliability of existing water supplies by lessening the need to import additional water while at the same time deferring the need to expand system capacity. An estimate of the potential benefits of water conservation projects as measured by Metropolitan's incentive payments is given in Table 2.

LONG-RANGE FINANCIAL PLANNING

Metropolitan's major capital facilities are financed largely from the proceeds of revenue bond issues, which are repaid over future years. The principal source of revenue for repayment of these bonds is water sales, which is currently Metropolitan's largest source of revenue. In addition, *ad valorem* property taxes provide an additional limited revenue source, which is used to pay pre-1978 voter-approved indebtedness.

Since the passage of Article XIII A of the California Constitution, Metropolitan has necessarily relied more on water sales revenue than on *ad valorem* property taxes for the payment of debt. Water sales have become the dominant source of revenue, not only for operation and maintenance of the vast network of facilities supplying water to Southern California, but also for replacement and improvement of capital facilities.

The increased reliance on highly variable water sales revenue increases the probability of substantial rate swings from year to year mainly resulting from changing weather patterns. The use of water rates as a primary source of revenue has placed an increasing burden on ratepayers, which might more equitably be paid in part by assessments on land that in part derives its value from the availability of water. In December 1993, Metropolitan's Board approved a revenue structure that included additional charges to establish a commitment to Metropolitan's capital improvement program and provide revenue stability. This revenue structure included the RTS charge.

Readiness-To-Serve Charge

As noted above, Metropolitan levies the RTS charge on its member agencies to recover a portion of the debt service on bonds issued to finance capital facilities needed to meet existing demands on Metropolitan's system. The estimated potential benefits that could be paid by an RTS charge in fiscal year 2009/10 are about \$324 million as shown in Table 1.

Although the RTS charge could be set to recover the entire potential benefit amount, the General Manager is recommending that the RTS charge only recover a portion of the total potential benefit. For fiscal year 2009/10, this amount is estimated to be \$101,500,000. These funds, when combined with Metropolitan's overall financial resources, will result in greater water rate stability for all users throughout Metropolitan's service area. Consistent with the rate structure approved by the Board in October of 2001, the RTS charge for fiscal year 2009/10 is allocated to each member agency on the basis of a ten-year rolling average of historic water purchases from Metropolitan ending June 30, 2008. This average includes all deliveries used to meet firm demand (consumptive municipal industrial demands), including water transfers and exchanges. The estimated fiscal year 2009/10 RTS for each member agency is shown in Table 4.

Standby Charge Option

Metropolitan's standby charge is authorized by the State Legislature and has been levied by Metropolitan since fiscal year 1992/93. The standby charge recognizes that there are economic benefits to lands that have access to a water supply, whether or not such lands are using it. Utilization of the standby charge transfers some of the burden of maintaining Metropolitan's capital infrastructure from water rates and *ad valorem* taxes to all the benefiting properties within the service area. A fraction of the value of this benefit and of the cost of providing it can be effectively recovered, in part, through the imposition of a standby charge. The projects to be supported in part by a standby charge are capital projects that provide both local and Metropolitan-wide benefit to current landowners as well as existing water users. The estimated potential benefits system-wide are several times the amount to be recovered by means of the standby charge.

Metropolitan will levy standby charges only within the service areas of the member agencies that request that the standby charge be utilized. The standby charge for each acre or parcel of less than an acre will vary from member agency to member agency, as permitted under the legislation establishing Metropolitan's standby charge. The water standby charge for each member agency will be the same as that imposed by Metropolitan in fiscal year 1996/97 and is shown in Table 5.

The proposed standby charge includes the reimposition of water standby charges on: (1) parcels which water standby charges have been imposed in fiscal year 1996/97 and annually thereafter ("pre-1997 standby charges") and (2) parcels annexed to Metropolitan and to an electing member agency after January 1997 ("annexation standby charges"). Only land within member agencies which standby charges were imposed in fiscal year 1996/97 will be subject to the reimposition of pre-1997 standby charges for FY 2009/10. Only land annexed to Metropolitan and to an electing member public agency with respect to which standby charges were approved in accordance with the procedures of Article XIID, Section 4 of the California Constitution will be subject to the imposition or reimposition, as applicable, of annexation standby charges for fiscal year 2009/10. Table 6 lists

parcels annexed, or to be annexed, to Metropolitan and to electing member agencies during FY 2009/10, such parcels being subject to the annexation standby charge upon annexation. Parcels annexed prior to FY 2009/10 are subject to annexation standby charges as described in the Engineer's Report for the fiscal year of their annexation. These parcels and parcels that are subject to the pre-1997 standby charges are identified in a listing filed with the Executive Secretary.

The estimated potential benefits of Metropolitan's water supply program, which could be paid by a standby charge, is approximately \$324 million for fiscal year 2009/10, as shown in Table 1. An average total standby charge of about \$74.68 per acre of land or per parcel of less than one acre would be necessary to pay for the total potential program benefits. Benefits in this amount will accrue to each acre of property and parcel within Metropolitan, as these properties are eligible to use water from the Metropolitan system. Because only properties located within Metropolitan's boundaries may receive water supplies from Metropolitan (except for certain contractual deliveries as permitted under Section 131 of the Metropolitan Water District Act), any benefit received by the public at large or by properties outside of the proposed area to be annexed is merely incidental.

Table 5 shows that the distribution of standby charge revenues from the various member agencies would provide net revenue flow of approximately \$43.6 million for fiscal year 2009/10. This total amount is less than the estimated benefits shown in Table 1. Metropolitan will use other revenue sources, such as water sales revenues, readiness-to-serve charge revenues (except to the extent collected through standby charges, as described above), interest income, and revenue from sales of hydroelectric power, to pay for the remaining program benefits. Thus, the benefits of Metropolitan's investments in water conveyance, storage, distribution and supply programs far exceed the recommended standby charge.

Equity

The RTS charge is a firm revenue source. The revenues to be collected through this charge will not vary with sales in the current year. This charge is levied on Metropolitan's member agencies and is not a fee or charge upon real property or upon persons as an incident of property ownership. It ensures that agencies that only occasionally purchase water from Metropolitan but receive the reliability benefits of Metropolitan's system pay a greater share of the costs to provide that reliability. Within member agencies that elect to pay the RTS charge through Metropolitan's standby charges, the standby charge results in lower water rates than would otherwise be necessary due to the amount of revenue collected from lands which benefit from the availability of Metropolitan's water supply. With the standby charge, these properties are now contributing a more appropriate share of the cost of importing water to Southern California.

Metropolitan's water supply program increases the availability and reliable delivery of water throughout Metropolitan's service area. Increased water supplies benefit existing consumers and land uses through direct deliveries to consumers and properties, and through the replenishment of groundwater basins and reservoir storage as reserves against shortages due to droughts, natural emergencies, or scheduled facility shutdowns for maintenance. The benefits of reliable water supplies from the SWP, CRA, DVL, and system improvements accrue to more than 250 cities and communities within Metropolitan's six-county service area. Metropolitan's regional water system is interconnected, so water supplies from the SWP and CRA can be used throughout most of the service area and therefore benefit water users and properties system-wide.

Additional Metropolitan deliveries required in the coming fiscal year due to the demands of property development will be reduced by the implementation of demand management projects, including water conservation, water recycling, and groundwater recovery projects. As with the SWP, CRA and DVL and the conveyance and distribution facilities, demand management programs increase the future reliability of water supplies. In addition, demand management programs provide system-wide benefits by effectively decreasing the demand for imported water, which helps to defer construction of additional system conveyance and distribution capacity. However, the

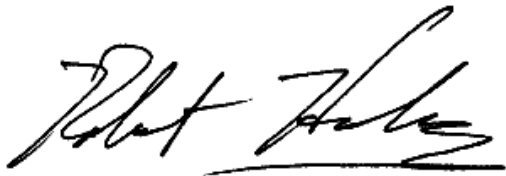
abilities of each member agency to implement these projects under Metropolitan's financial assistance programs vary and are generally represented by the historic use of imported Metropolitan water.

A major advantage of a firm revenue source, such as a RTS charge, is that it contributes to revenue stability during times of drought or low water sales. It affords Metropolitan additional security, when borrowing funds, that a portion of the revenue stream will be unaffected by drought or by rainfall. This security will help maintain Metropolitan's historically high credit rating, which results in lower interest expense to Metropolitan, and therefore, lower overall cost to the residents of its service area.

SUMMARY

The foregoing and the attached tables describe the current benefits provided by the projects listed as mainstays to the water supply system for Metropolitan's service area. Benefits are provided to both water users and property owners. The projects represented by this report provide both local benefits as well as benefits throughout the entire service area. It is recommended, for fiscal year 2009/10, that the RTS charge be imposed with an option for local agencies to request that a standby charge be imposed on lands within Metropolitan's service area as a credit against such member agency's RTS, up to the standby charge per acre or parcel of less than one acre levied by Metropolitan within the applicable member agency for fiscal year 2009/10. The maximum standby charge would not exceed \$15 per acre of land or per parcel of less than one acre. The benefits described in this Engineer's Report exceed the recommended charge. A listing of all parcels in the service area and the proposed 2009/10 standby charge for each is available in the office of the Chief Financial Officer.

Prepared Under the Supervision of:



Robert L. Harding, RCE C50185
Unit Manager V
Water Resource Management

Prepared Under the Supervision of:



Brian G. Thomas
Assistant General Manager/
Chief Financial Officer



TABLE 1

**ESTIMATED DISTRIBUTION OF BENEFITS OF WATER SUPPLY
PAYABLE BY STANDBY CHARGE**

Water Conveyance, Storage, Distribution and Supply Program	Estimated Potential Program Benefits for FY2009/10	Dollars Per Parcel of 1 Acre or Less
Net Capital Payments to State Water Project (less portion paid by property taxes)	\$31,240,999	\$7.20
Non Tax Supported Debt Service Costs for System Storage ¹	\$112,157,836	\$25.84
Non Tax Supported Debt Service Costs for Conveyance and Distribution System ²	\$120,881,239	\$27.85
Sub-Total Capital Payments	\$264,280,075	\$60.89
less Estimated Standby Charge Revenues	(\$43,600,497)	(\$10.05)
Remaining capital payments	\$220,679,578	\$50.85
Demand Management Programs: Water Recycling, Groundwater Recovery, and Water Conservation Projects	\$59,844,024	\$13.79
Sub-Total Capital Financing and Demand Management Programs Costs not Paid by Standby Charge Revenues	\$280,523,602	\$64.64
Total Benefits: Capital Financing and Demand Management Programs	\$324,124,099	\$74.68

Notes:

[1] System storage includes Diamond Valley Lake, Lake Mathews, Lake Skinner and several other smaller surface reservoirs which provide storage for operational purposes.

[2] Conveyance and Distribution facilities include the Colorado River Aqueduct and the pipelines, laterals, feeders and canals that distribute water throughout the service area.

Totals may not foot due to rounding

TABLE 2 WATER RECYCLING, GROUNDWATER RECOVERY AND CONSERVATION PROJECTS	
Project Name	FY 2009/10 Payment
Water Recycling Projects	\$28,357,308
Alamitos Barrier Reclaimed Water Project	
Burbank Reclaimed Water System Expansion Project	
Calabasas Reclaimed Water System Expansion	
Capistrano Valley Non-Domestic Water System Expansion	
Century Reclamation Program	
Cerritos Reclaimed Water Expansion Project	
City of Industry Regional Water System - Rowland	
City of Industry Regional Water System - Suburban	
City of Industry Regional Water System - Walnut	
Conejo Creek Diversion Project	
Decker Canyon WRP	
Development of Non-Domestic Water Sys. Exp. Ladera	
Direct Reuse Project Phase IIA	
Dry Weather Runoff Reclamation Facility	
Eastern Recycled Water Pipeline Reach 16	
Eastern Regional Reclaimed Water System	
EMWD Reach I Phase II	
Encina Basin Water Rec. Prog - Phases I and II	
Encina Water Pollution Control Facility Recl. Project	
Escondido Regional Reclaimed Water Project	
Fallbrook Reclamation Project	
Glendale Brand Park Reclaimed Water Project	
Glendale Verdugo-Scholl Canyon Recl. Water Project	
Glendale Water Reclamation Expansion Project	
Green Acres Reclamation Project - Coastal	
Green Acres Reclamation Project - MWDOC	
Green Acres Reclamation Project - Santa Ana	
Groundwater Replenishment System Talbert Seawater Intrusion Barrier Component	
Hansen Area Water Recycling Project Phase 1	
Hansen Area Water Recycling Project Phase 2	
Harbor Water Recycling Project	
IEUA Regional Recycled Water Dist. System	
Irvine Ranch Reclamation Project	
IRWD Recycled Water System Upgrade	
Lakewood Water Reclamation Project	
Las Virgenes Reclamation Project	

TABLE 2 (Continued) WATER RECYCLING, GROUNDWATER RECOVERY AND CONSERVATION PROJECTS	
Project Name	FY 2009/10 Payment
Water Recycling Projects (continued)	
Long Beach Reclamation Expansion Phase I	
Long Beach Reclamation Project	
Los Angeles Greenbelt Project	
Moulton Niguel Phase 4 Reclamation System Expansion	
Moulton Niguel Reclamation Project	
North City Water Reclamation Project	
Oak Park/North Ranch Water Reclamation Project	
Oceanside Water Reclamation Project	
Olivenhain Recycled Project - SE Quadrant	
Otay Recycled Water System	
Otay Water Reclamation Project	
Padre Dam Reclaimed Water System Phase I	
Ramona/Santa Maria Water Reclamation Project	
Rancho California Reclamation Expansion	
Rancho Santa Fe Reclaimed Water System	
RDDMWD Recycled Water Program	
Recycled Water Distribution Line Extension	
Rio Hondo Water Reclamation Program	
San Clemente Water Reclamation Project	
San Elijo Water Reclamation System	
San Pasqual Reclamation Project	
Santa Margarita Reclamation Expansion Project	
Sepulveda Basin Water Reclamation Project	
Sepulveda Basin Water Recycling Project Phase IV	
Shadowridge Reclaimed Water System	
South Laguna Reclamation Expansion Project	
South Laguna Reclamation Project	
South Valley Water Recycling Project	
Trabuco Canyon Reclamation Expansion Project	
Walnut Valley Reclamation Expansion Project	
West Basin Water Reclamation Program	

TABLE 2 (Continued) WATER RECYCLING, GROUNDWATER RECOVERY AND CONSERVATION PROJECTS	
Project Name	FY 2009/10 Payment
Groundwater Recovery Projects	\$10,986,835
Arlington Desalter	
Beverly Hills Desalter	
Burbank Lake Street GAC Plant	
Capistrano Beach Desalter	
Chino Basin Desalter No. 1 - IEUA	
Chino Basin Desalter No. 1 - Western	
Glenwood Nitrate	
Irvine Desalter	
Juan Well Filter Facility	
Lower Sweetwater Desalter Phase 1	
Madrona Desalter (Goldsworthy)	
Menifee Basin Desalter	
Mesa Consolidated Colored Water Treatment Facility	
Oceanside Desalter Phase I	
Oceanside Desalter Phase I and II	
Pomona Well # 37	
Rowland GW Treatment Project	
San Juan Desalter	
Santa Monica GW Treatment Plant	
Sepulveda Desalter	
Tapo Canyon Water Treatment Plant	
Temescal Basin Desalting Facility	
Tustin Desalter	
Wells # 7&8 - NF Water Treatment Facility	
West Basin Desalter No. 1	
Westlake Wells - Tapia WRF Intertie	
Other 5-year Supply Plan Local Projects	\$1,352,881
Conservation Projects	\$19,147,000
Commercial Retrofits	
High Efficiency Clothes Washers	
Commercial Landscape	
Ultra-low-flush/High-Efficiency Toilet Retrofits	
Weather-Based Irrigation Controllers	
Water Savings Performance Program	
Public Sector Demonstration Program	
Turf Replacement Program	
Total	\$59,844,024

TABLE 3

CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS

Description

Conveyance and Aqueduct Facilities

ALL PUMPING PLANTS - 230 KV & 69 KV DISCONNECTS REPLACEMENT
 ACCESS STRUCTURE, TRANSITION STRUCTURE AND MANHOLE COVER REPLACEMENT
 ALL PUMPING PLANTS - BRIDGE CRANES
 ALL PUMPING PLANTS - TRANSFORMER BANK BRIDGE
 ALLEN MCCOLLOCH PIPELINE - RIGHT OF WAY
 ALLEN MCCOLLOCH PIPELINE - UPDATE / MODIFY ALL BOYLE ENGINEERING DRAWINGS
 AQUEDUCT & PUMPING PLANT ISOLATION / ACCESS FIXTURES - STUDY
 AQUEDUCT & PUMPING PLANT ISOLATION GATES
 ARROWHEAD EAST TUNNEL CONSTRUCTION
 ARROWHEAD TUNNELS CLAIMS COST
 ARROWHEAD TUNNELS CONNECTOR ROAD
 ARROWHEAD TUNNELS CONSTRUCTION
 ARROWHEAD TUNNELS ENGINEERING
 ARROWHEAD TUNNELS RE-DESIGN
 ARROWHEAD WEST TUNNEL CONSTRUCTION
 AULD VALLEY CONTROL STRUCTURE AREA FACILITIES UPGRADE STUDY
 AUXILIARY POWER SYSTEM REHABILITATION / UPGRADES STUDY
 BACHELOR MOUNTAIN COMMUNICATION SITE ACQUISITION
 BACHELOR MOUNTAIN TELECOM SITE IMPROVEMENTS
 BANK TRANSFORMERS REPLACEMENT STUDY
 BLACK METAL MOUNTAIN - COMMUNICATIONS FACILITY UPGRADE
 CABAZON RADIAL GATE FACILITY IMPROVEMENTS
 CATHODIC PROTECTION STUDY - DESIGN AND CONSTRUCTION
 CCRP - BLOW-OFF VALVES PHASE 4 PROJECT
 CCRP - CONTINGENCY
 CCRP - EMERGENCY REPAIR
 CCRP - HEADGATE OPERATORS & CIRCUIT BREAKERS REHAB.
 CCRP - PART 1 & 2
 CCRP - SAND TRAP CLEANING EQUIPMENT & TRAVELING CRANE STUDY
 CCRP - TRANSITION & MAN-WAY ACCESS COVER REPLACEMENT - STUDY & DESIGN
 CCRP - TUNNELS STUDY
 CEPSRP - 230 KV SYSTEM SYNCHRONIZERS
 CEPSRP - ALL PUMPING PLANTS - CONTINGENCY & OTHER CREDITS
 CEPSRP - ALL PUMPING PLANTS - REPLACE 6.9 KV TRANSFORMER BUSHINGS
 CEPSRP - ALL PUMPING PLANTS - REPLACE 230KV , 69 KV & 6.9 KV LIGHTENING ARRESTERS
 CEPSRP - ALL PUMPING PLANTS - REPLACE 230KV TRANSFORMER PROTECTION
 CEPSRP - SWITCHYARDS & HEAD GATES REHABILITATION
 CEPSRP- ALL PUMPING PLANTS - IRON MOUNTAIN - 230KV BREAKER SWITCH. INST.
 COLORADO RIVER AQUEDUCT - PUMPING
 CONTROL SYSTEM DRAWING UPGRADE STUDY (PHASE 1) - STUDY
 COPPER BASIN AND GENE DAM OUTLET WORKS REHABILITATION (STUDY & DESIGN)
 COPPER BASIN INTERIM CHLORINATION SYSTEM
 COPPER BASIN OUTLET GATES RELIABILITY
 COPPER BASIN POWER & PHONE LINES REPLACEMENT
 CORROSION CONTROL OZONE MATERIAL TEST FACILITY
 CRA - CIRCULATING WATER SYSTEM STRAINER REPLACEMENT
 CRA - CONTROL SYSTEM IMPLEMENTATION PHASE CLOSE OUT
 CRA - CUT & COVER FORNAT WASH EXPOSURE STUDY
 CRA - DISCHARGE CONTAINMENT PROGRAM - INVESTIGATION
 CRA - ELECTRICAL/ POWER SYST REL. PROG. - IRON MTN - 230KV BREAKER SWITC. INST.
 CRA - INVESTIGATION OF SIPHONS AND RESERVOIR OUTLETS
 CRA - LAKEVIEW SIPHON FIRST BARREL - REPAIR DETERIORATED JOINTS

TABLE 3

CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS

Description

Conveyance and Aqueduct Facilities (continued)

CRA - MAIN PUMP MOTOR EXCITERS
 CRA - MAIN PUMP STUDY
 CRA - PUMPING PLANT RELIABILITY PROGRAM CONTINGENCY
 CRA - PUMPING PLANTS VULNERABILITY ASSESSMENT
 CRA - PUMPING WELL CONVERSION
 CRA - QUAGGA MUSSEL BARRIERS
 CRA - RELIABILITY PROGRAM 230 KV & 69 KV DISCONNECTS REPLACEMENT STUDY (5 PLANTS)
 CRA - RELIABILITY PROGRAM INVESTIGATION
 CRA - RELIABILITY PHASE II CONTINGENCY
 CRA - SERVICE CONNECTION DWCV-2T VALVES REPLACEMENT AND STRUCTURE CONSTRUCTION
 CRA - SERVICE CONNECTION DWCV-4 A, B, C, & D PLUG VALVES REPLACEMENT
 CRA - SIPHONS, TRANSITIONS, CANALS, AND TUNNELS REHABILITATION AND IMPROVEMENTS
 CRA - SUPERVISORY CONTROL AND DATA ACQUISITION (SCADA) SYSTEM
 CRA - WEST PORTAL UPGRADE - REHAB OF STILLING WELL, SLIDE GATE OPERATORS AND RADIAL GATES
 CRA CANAL CRACK REHAB AND EVALUATION
 CRA CIRCULATING WATER SYSTEM STRAINER REPLACEMENT
 CRA CONVEYANCE RELIABILITY PROGRAM (CCRP) - BLOW-OFF REPAIR
 CRA CONVEYANCE RELIABILITY PROGRAM PART 1 & PART 2
 CRA DESERT AIRFIELDS IMPROVEMENT
 CRA DISCHARGE CONTAINMENT PROGRAM - CONTINGENCY
 CRA DISCHARGE CONTAINMENT PROGRAM - GENE & IRON DRAIN SYSTEMS
 CRA DISCHARGE CONTAINMENT PROGRAM - INVESTIGATION
 CRA DISCHARGE CONTAINMENT PROGRAM - OIL & CHEMICAL UNLOADING PAD CONTAINMENT
 CRA ELECTRICAL / POWER SYSTEM RELIABILITY PROGRAM (CEPSRP)
 CRA PUMPING PLANT RELIABILITY PROGRAM - HIGH PRESSURE COMPRESSOR REPLACEMENT
 CRA PUMPING PLANT RELIABILITY PROGRAM - SUCTION & DISCHARGE LINES EXPANSION JOINT STUDY
 CRA PUMPING PLANTS VULNERABILITY ASSESSMENT
 CRA PUMPING WELL CONVERSION
 CRA QUAGGA MUSSEL BARRIERS
 CRA RELIABILITY PROGRAM - DISCHARGE VALVE LUBRICATORS
 CRA RELIABILITY PROGRAM - MOTOR BREAKER FAULTY CURRENT STUDY (5 PLANTS)
 CRA RELIABILITY PROGRAM PHASE 6 (AQUEDUCT PHASE 6 REHAB.) - SPEC 1568
 CRA SERVICE CONNECTION DWCV-2T VALVES REPLACEMENT AND STRUCTURE CONSTRUCTION
 CRA SERVICE CONNECTION DWCV-4 VALVES REPLACEMENT
 CRA SIPHONS, TRANSITIONS, CANALS, AND TUNNELS REHABILITATION AND IMPROVEMENTS
 DAM SLUICeways AND OUTLETS REHABILITATION
 DANBY TOWER FOOTER REPLACEMENT
 DANBYTOWER FOOTER REPLACEMENT
 DESERT FACILITIES FIRE PROTECTION SYSTEMS UPGRADE
 DESERT LAND ACQUISITIONS
 DESERT PUMP PLANT OIL CONTAINMENT
 DESERT ROADWAY IMPROVEMENT
 DESERT SEPTIC SYSTEM
 DESERT SEWER SYSTEM REHABILITATION
 DESERT WATER TANK ACCESS - FIRE WATER, CIRCULATING WATER, DOMESTIC WATER- STUDY
 DIEMER FILTRATION PLANT - METROPOLITAN/SCE HELIPAD LAND SITE
 DISCHARGE LINE ISOLATION BULKHEAD COUPLINGS
 DISCHARGE LINE ISOLATION BULKHEAD COUPLINGS
 DISTRIBUTION SYSTEM FACILITIES - REHABILITATION PROGRAM
 DISTRIBUTION SYSTEM FACILITIES REHABILITATION PROGRAM - MAINTENANCE & STORAGE SHOP (PC-1)
 DISTRIBUTION SYSTEM RELIABILITY PROGRAM - PHASE 2
 E. THORNTON IBBETSON GUEST QUARTERS

<p style="text-align: center;">TABLE 3</p> <p style="text-align: center;">CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS</p>
<p>Description</p> <p><u>Conveyance and Aqueduct Facilities (continued)</u></p> <p>EAGLE AND HINDS EQUIPMENT WASH AREA UPGRADE</p> <p>EAGLE KITCHEN UPGRADE</p> <p>EAGLE MOUNTAIN PUMPING PLANT SCADA SYSTEM</p> <p>EAGLE MOUNTAIN SAND TRAPS STUDY</p> <p>EAGLE MOUNTAIN SIPHONS SEISMIC VULNERABILITY STUDY</p> <p>EAGLE MTN SAND TRAPS STUDY</p> <p>EAGLE ROCK ASPHALT REPAIR PROJECT</p> <p>EAGLE ROCK MAIN ROOF REPLACEMENT</p> <p>ETIWANDA RESERVOIR LINER REPAIR</p> <p>FUTURE SYSTEM RELIABILITY PROJECTS</p> <p>GARVEY RESERVOIR - AUTOMATED DATA ACQUISITION SYSTEM</p> <p>GARVEY RESERVOIR AUTOMATED DATA ACQUISITION SYSTEM</p> <p>GARVEY RESEVOIR AUTOMATED DATA ACQUISITON SYSTEM REPLACEMENT</p> <p>GENE & INTAKE PUMPING PLANTS - REPLACE UNDER FREQUENCY PROTECTION RELAY</p> <p>GENE AIR CONDITION</p> <p>GENE PUMPING PLANT - AIR STRIP EXTENSION PROJECT</p> <p>GENE PUMPING PLANT - HEAVY EQUIPMENT SERVICE PIT</p> <p>GENE PUMPING PLANT - PEDDLER SUBSTATION REPLACEMENT</p> <p>GENE PUMPING PLANT - SCADA SYSTEM</p> <p>GENE PUMPING PLANT MAIN TRANSFORMER AREA</p> <p>GENE STORAGE WAREHOUSE REPLACEMENT</p> <p>HEADGATE OPERATORS & CIRCUIT BREAKERS REHAB.</p> <p>HINDS PUMPING PLANT SCADA SYSTEM</p> <p>INLAND FEEDER CONTINGENCY</p> <p>INLAND FEEDER COST OF LAND AND RIGHT OF WAY</p> <p>INLAND FEEDER ENVIRONMENTAL MITIGATION</p> <p>INLAND FEEDER GROUNDWATER MONITORING</p> <p>INLAND FEEDER HIGHLAND PIPELINE CLAIMS COST</p> <p>INLAND FEEDER HIGHLAND PIPELINE CONSTRUCTION</p> <p>INLAND FEEDER HIGHLAND PIPELINE DESIGN</p> <p>INLAND FEEDER MENTONE PIPELINE CONSTRUCTION</p> <p>INLAND FEEDER MENTONE PIPELINE DESIGN</p> <p>INLAND FEEDER MENTONE PIPELINE RUSD CONSTRUCTION</p> <p>INLAND FEEDER OWNER CONTROLLED INSURANCE PROGRAM</p> <p>INLAND FEEDER PROJECT MANAGEMENT SUPPORT</p> <p>INLAND FEEDER PURCHASE OF LAND AND RIGHT OF WAY</p> <p>INLAND FEEDER REVERSE OSMOSIS PLANT</p> <p>INLAND FEEDER RIVERSIDE BADLANDS TUNNEL CONSTRUCTION</p> <p>INLAND FEEDER RIVERSIDE NORTH PIPELINE DESIGN</p> <p>INLAND FEEDER RUSD CLAIMS DEFENSE</p> <p>INLAND FEEDER STUDIES</p> <p>INLAND FEEDER UNDERGROUND STORAGE TANK REMOVAL & ABOVEGROUND STORAGE TANK INSTALLATION</p> <p>INSULATION JOINT TEST STATIONS</p> <p>INTAKE PPLANT - POWER & COMMUNICATION LINE REPLACEMENT</p> <p>INTAKE PUMPING PLANT - COOLING AND REJECT WATER DISCHARGE TO LAKE HAVASU</p> <p>INTAKE PUMPING PLANT AUTOMATION PROGRAMMING</p> <p>INTAKE PUMPING PLANT INSTRUMENTATION REPLACEMENT & AUTOMATION</p> <p>INTAKE PUMPING PLANT INSTRUMENTATION REPLACEMENT & AUTOMATION (4 PLANTS)</p> <p>INTAKE PUMPING PLANT POWER & COMMUNICATION LINE REPLACEMENT</p> <p>INTAKE PUMPING PLANT SCADA SYSTEM</p> <p>IRON MOUNTAIN PUMPING PLANT</p> <p>IRON MOUNTAIN PUMPING PLANT SCADA SYSTEM</p>

<p style="text-align: center;">TABLE 3</p> <p style="text-align: center;">CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS</p>
<p>Description</p> <p><u>Conveyance and Aqueduct Facilities (continued)</u></p> <p>LAKE MATHEWS FOREBAY & HEADWORK FACILITY & EQUIPMENT</p> <p>LAKE MATHEWS FOREBAY WALKWAY REPAIRS</p> <p>LAKE MATHEWS ICS</p> <p>LAKE MATHEWS INTERIM CHLORINATION SYSTEM</p> <p>LAKE SKINNER - OUTLET CONDUIT FLOWMETER INSTALLATION</p> <p>LAKE SKINNER OUTLET CONDUIT</p> <p>LAVERNE FACILITIES - EMERGENCY GENERATOR</p> <p>LAVERNE FACILITIES - MATERIAL TESTING</p> <p>MAGAZINE CANYON OIL & WATER SEPARATOR</p> <p>MAGAZINE CANYON OIL/WATER SEPARATOR</p> <p>MAPES LAND ACQUISITION</p> <p>MILE 12 POWER LINE & FLOW MONITORING EQUIP. STUDY</p> <p>MILE 12 POWER LINE & FLOW MONITORING EQUIPMENT STUDY</p> <p>MILLS FILTRATION PLANT - MODULE NO. 1 FILTER BED</p> <p>MOTOR BREAKER FAULTY (5 PPLANTS)</p> <p>NEWHALL TUNNEL - REPAIR STEEL LINER</p> <p>NEWHALL TUNNEL - UPGRADE LINER SYSTEM</p> <p>OC 44 SERVICE CONNECTIONS & EOC#2 METER ACCESS ROAD REPAIR</p> <p>OC 88 PUMP PLANT FIRE PROTECTION STUDY</p> <p>OLINDA PCS FACILITY REHABILITATION AND UPGRADE</p> <p>OLINDA PRESSURE CONTROL STRUCTURE FACILITY REHABILITATION AND UPGRADE</p> <p>ORANGE COUNTY 44 SERVICE CONNECTIONS & EOC#2 METER ACCESS ROAD REPAIR</p> <p>ORANGE COUNTY 88 PUMP PLANT FIRE PROTECTION STUDY</p> <p>PALO VERDE VALLEY LAND PURCHASE - 16,000 ACRES</p> <p>PALOS VERDES FEEDER REHABILITATION OF DOMINGUEZ CHANNEL</p> <p>PALOS VERDES RESERVOIR SPILLWAY MODIFICATION</p> <p>PUDDINGSTONE RADIAL GATE REHABILITATION</p> <p>QUAGGA MUSSEL STUDY</p> <p>REPAIR UPPER FEEDER LEAKING EXPANSION JOINT</p> <p>REPAIRS TO TUNNELS</p> <p>RIALTO FEEDER REPAIR OF ANOMALOUS PIPE SECTION</p> <p>RIVERSIDE BRANCH - ALESSANDRO BLVD. LEFT LAND TURN LANE</p> <p>RIVERSIDE BRANCH - CONSTRUCTION OF CONTROL PANEL DISPLAY WALL</p> <p>RIVERSIDE NORTH PIPELINE DESIGN & CONSTRUCTION</p> <p>RIVERSIDE SOUTH PIPELINE CONSTRUCTION</p> <p>SAN DIEGO PIPELINE REPAIR AT STATION 1268+57</p> <p>SAN FERNANDO TUNNEL STATION 778+80 VALVE REPLACEMENT</p> <p>SAN GABRIEL TOWER SEISMIC ASSESSMENT</p> <p>SAN GABRIEL TOWER SLIDE GATE REHABILITATION</p> <p>SAN JACINTO TUNNEL, WEST PORTAL</p> <p>SAN JOAQUIN RESERVOIR - NEW DESIGN</p> <p>SAN JOAQUIN RESERVOIR IMPROVEMENT- FLOATING COVER</p> <p>SAN JOAQUIN RESERVOIR IMPROVEMENTS</p> <p>SAN JOAQUIN RESERVOIR IMPROVEMENTS STUDY</p> <p>SAND TRAP CLEANING EQUIPMENT AND TRAVELING CRANE STUDY</p> <p>SANTA ANA RIVER BRIDGE SEISMIC RETROFIT</p> <p>SANTIAGO TOWER ACCESS ROAD UPGRADE</p> <p>SANTIAGO TOWER PATROL ROAD REPAIR</p> <p>SD5 REPAIR</p> <p>SECOND LOWER FEEDER CARBON FIBER REPAIRS</p> <p>SECURITY FENCING AT OC-88 PUMPING PLANT</p> <p>SEISMIC PROGRAM</p>

TABLE 3		
CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS		
Description		
<u>Conveyance and Aqueduct Facilities (continued)</u>		
SEISMIC UPGRADE OF 11 FACILITIES OF THE CONVEYANCE & DISTRIBUTION SYSTEM		
SERVICE CONNECTION & EOCF #2 METER ACCESS ROAD UPGRADE & BETTERMENT		
SKINNER FILTRATION PLANT - 1P2		
SKINNER FILTRATION PLANT HELIPAD UPGRADE		
SUCTION & DISCHARGE LINES EXPANSION JOINT STUDY		
SWITCHYARDS AND HEAD GATES REHAB		
TEMESCAL HYDRO-ELECTRIC PLANT ACCESS ROAD UPGRADE		
TRANSFORMER OIL & CHEMICAL UNLOADING PAD CONTAINMENT		
U.S. BUREAU OF LAND MANAGEMENT LAND ACQUISITION		
UPPER FEEDER CATHODIC PROTECTION SYSTEM		
UPPER FEEDER LEAKING EXPANSION JOINT REPAIR		
UPPER FEEDER SCHEDULES 2S		
VALLEY BRANCH - PIPELINE CORROSION TEST STATION		
WEST VALLEY FEEDER #2 CATHODIC PROTECTION SYSTEM REHABILITATION		
WEYMOUTH FILTRATION PLANT CHLORINE UNLOADING		
WHITEWATER SIPHON PROTECTION STRUCTURE		
Sub-total Conveyance and Aqueduct facilities benefits	\$	65,172,266

TABLE 3

CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS

Description**Distribution Facilities**

ACCUSONIC FLOW METER UPGRADE
 ALAMEDA CORRIDOR PIPELINE
 ALL FACILITIES - WATER DISCHARGE ELIMINATION
 ALL FACILITIES INSPECTION AND REPLACEMENT OF CRITICAL VACUUM VALVES
 ALL PUMPING PLANTS - INSTALL HYPOCHLORINATION STATIONS
 ALLEN MCCOLLOCH PIPELINE INTERCONNECTIONS
 ALLEN MCCOLLOCH PIPELINE LOCAL CONTROL MODIFICATIONS
 ALLEN MCCOLLOCH PIPELINE REPAIR
 ALLEN MCCOLLOCH PIPELINE REPAIR - CARBON FIBER LINING REPAIR
 ALLEN MCCOLLOCH PIPELINE REPAIR - SERVICE CONNECTIONS UPGRADES
 ALLEN MCCOLLOCH PIPELINE REPAIR - STATION 276+63
 ALLEN MCCOLLOCH PIPELINE REPAIR - SURGE SUPPRESSION SYSTEM AT OC88A
 ALLEN MCCOLLOCH PIPELINE REPAIR - VALVE ACTUATOR REPLACEMENTS
 ALLEN MCCOLLOCH PIPELINE REPAIR SERVICE CONNECTIONS SIMPLIFICATION
 ALLEN MCCOLLOCH PIPELINE STRUCTURE - ROOF SLAB REPAIRS
 ALLEN-MCCOLLOCH PIPELINE
 AMP -SERVICE CONNECTIONS UPGRADES
 AMP -VALVE ACTUATOR REPLACEMENTS
 AMR - RTU UPGRADE - PHASE 2
 ANODE WELL REPLACEMENT FOR ORANGE COUNTY AND RIALTO FEEDERS
 ASPHALT REPAIRS TO PERIMETER OF SEPULVEDA PCS
 ASSESS THE CONDITION OF METROPOLITAN'S PRESTRESSED CONCRETE CYLINDER PIPE
 ASSESS THE CONDITIONS OF MET'S
 AUTOMATED RESERVOIR WATER QUALITY MONITORING
 AUTOMATIC METER READING SYSTEM - RTU UPGRADE PHASE 2
 AUTOMATIC METER READING SYSTEM UPGRADE
 AUTOMATION COMMUNICATION UPGRADE
 AUTOMATION DOCUMENTATION SURVEY F/A
 BAR 97- ENHANCED AREA VEHICLE TESTING
 BLACK METAL MOUNTAIN ELECTRICAL TRANSFORMER
 BOX SPRINGS FEEDER BROKEN BACK REPAIR
 BOX SPRINGS FEEDER BROKEN BACK REPAIR PHASE I
 BOX SPRINGS FEEDER REPAIR - PHASE II
 C&D CRANE INSTALLATION AT OC-88 PUMPING PLANT
 CALABASAS FEEDER CARBON FIBER /BROKEN BACK REPAIR
 CALABASAS FEEDER INTERFERENCE MITIGATION
 CAPITAL PROJECTS COSTING LESS THAN \$250,000 FOR FY2008-09
 CASA LOMA AND SAN DIEGO CANAL LINING STUDY - PART 2
 CATHODIC PROTECTION SYSTEM UPGRADES
 CDSRP - DISCHARGE ELIMINATION
 CDSRP - ENTRAINED AIR IN UPPER FEEDER PIPELINE STUDY
 CDSRP - SEPULVEDA FEEDER REPAIRS
 CDSRP - SEPULVEDA TANKS RECOATING
 CENTRAL POOL AUGMENTATION - TUNNEL AND PIPELINE & RIGHT-OF-WAY ACQUISITION
 CENTRAL POOL AUGMENTATION AND WATER QUALITY PROJECT (CPAWQP)
 CHEMICAL INVENTORY AND USAGE REWRITE AND ELECTRICAL SYSTEM LOG
 CHEMICAL UNLOADING FACILITY RETROFIT
 CHEVALIER FALCON MILLING MACHINE
 COASTAL JUNCTION REVERSE FLOW BYPASS
 COMMUNICATIONS STRUCTURE ALARM MONITORING
 COMPREHENSIVE INFORMATION SECURITY ASSESSMENT PHASE III
 CONSTRUCTION PHASE 2

<p style="text-align: center;">TABLE 3</p> <p style="text-align: center;">CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS</p>
<p>Description</p> <p><i>Distribution Facilities (continued)</i></p> <p>CONTRACT & LITIGATION TASKS -CONTRACT # 1396</p> <p>CONTROL SYSTEM DATA STORAGE AND REPORTING</p> <p>CONTROL SYSTEM DRAWING & DOCUMENTATION UPDATE</p> <p>CONTROL SYSTEM ENHANCEMENT PROGRAM (CSEP) - DIGITAL SUBNET STANDARDIZATION</p> <p>CONTROL SYSTEMS AUTOMATION COMMUNICATION UPGRADE</p> <p>CONTROLS COMMUNICATIONS FRAME RELAY CONVERSION - APPROPRIATED</p> <p>CONVERSION OF DEFORMATION SURVEY MONITORING AT GENE WASH, COPPER BASIN, AND DIEMER BASIN 8</p> <p>CONVEYANCE AND DISTRIBUTION SYSTEM REHABILITATION PROGRAM (CDSRP) - CURRENT DRAIN STATIONS</p> <p>COPPER BASIN ICS</p> <p>COPPER BASIN SEWER SYSTEM</p> <p>CORROSION MATERIALS TESTING FACILITY SCADA UPGRADE</p> <p>COVINA PRESSURE CONTROL FACILITY</p> <p>COVINA PRESSURECONTROL FACILITY</p> <p>CPA PIPELINE & TUNNEL ALIGNMENT - NON FUNDED PORTION</p> <p>CPA PIPELINE & TUNNEL ALIGNMENT - STUDY</p> <p>CPA WATER TREATMENT PLANT - NON FUNDED PORTION</p> <p>CPA WATER TREATMENT PLANT - RIGHT OF WAY - PHASE 2</p> <p>CPA WATER TREATMENT PLANT - STUDY</p> <p>CPAWQP - PHASE 2</p> <p>CPAWQP - STUDY AND LAND ACQUISITION - CONTINGENCY</p> <p>CPAWQP - STUDY AND LAND ACQUISITION - PIPELINE & TUNNEL ALIGNMENT - STUDY</p> <p>CPAWQP - STUDY AND LAND ACQUISITION - RIGHT-OF-WAY-ACQUISITION</p> <p>CPAWQP - STUDY AND LAND ACQUISITION - WATER TREATMENT PLANT - RIGHT OF WAY - PHASE 2</p> <p>CPAWQP - STUDY AND LAND ACQUISITION - WATER TREATMENT PLANT - STUDY</p> <p>CRA CABAZON & POTRERO SHAFT COVERS</p> <p>CRA CONTROL INTEGRATION</p> <p>CSEP - ELECTRONIC SYSTEM LOG (ESL)</p> <p>CSEP - ENERGY MANAGEMENT SYSTEM PHASE II</p> <p>CSEP - ENHANCED DISTRIBUTION SYSTEM CONTROL PROJECT</p> <p>CSEP - IMPLEMENTATION</p> <p>CSEP - OPERATIONS & BUSINESS DATA INTEGRATION PILOT</p> <p>CSEP - PLANT INFLUENT REDUNDANT FLOW METERING AND SPLITTING</p> <p>CSEP - PLC PHASE 2 - LIFE-CYCLE REPLACEMENT</p> <p>CSEP - PLC STANDARDIZATION</p> <p>CSEP - PLC STANDARDIZATION PHASE II</p> <p>CSEP - POWER MANAGEMENT SYSTEM</p> <p>CSEP - WATER PLANNING APPLICATION</p> <p>CSEP IMPLEMENTATION</p> <p>CSEP- SMART OPS (FORMERLY REAL TIME OPERATIONS SIMULATION)</p> <p>CURRENT DRAIN STATIONS</p> <p>DAM REHABILITATION & SAFETY IMPROVEMENTS ST. JOHN'S CANYON CHANNEL EROSION MITIGATION</p> <p>DANBY TOWER FOUNDATION INVESTIGATION AND SHORT TERM MITIGATION</p> <p>DEODERA PCS PAVEMENT UPGRADE & BETTERMENT</p> <p>DESERT BRANCH PUMP PLANT AUXILIARY (STATION SERVICE)</p> <p>DESERT BRANCH, PURCHASE & INSTALL 5 PORT VIDEO CONFERENCING</p> <p>DESERT FACILITIES DOMESTIC WATER GAC SYSTEM INSTALLATION</p> <p>DESERT HIGH VOLTAGE TRANSMISSION TOWERS - REPLACE COPPER GROUND WIRES ON</p> <p>DFP - ELIMINATE BACKUP GENERATOR TIE-BUS & INSTALL MANUAL TRANSFER SWITCH FOR CHLORINE SCRUBBER</p> <p>DIEMER AREA & PLANT - REPLACEMENT OF AREA CONTROL SYSTEMS</p> <p>DIEMER FILTRATION PLANT - AIR COMPRESSORS REPLACEMENT</p> <p>DIEMER FILTRATION PLANT - ASPHALT</p> <p>DIEMER FILTRATION PLANT - ASPHALT ROAD REPAIRS</p>

<p style="text-align: center;">TABLE 3</p> <p style="text-align: center;">CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS</p>
<p>Description</p> <p><i>Distribution Facilities (continued)</i></p> <p>DIEMER FILTRATION PLANT - EMERGENCY POWER FEED</p> <p>DIEMER FILTRATION PLANT - NORTH STORM DRAIN REPLACEMENT</p> <p>DIEMER FILTRATION PLANT - ON-LINE TURBIDITY</p> <p>DIEMER FILTRATION PLANT - SLOPE REPAIR</p> <p>DIEMER FILTRATION PLANT - SLUDGE DEWATERING/DISPOSAL STUDY</p> <p>DIEMER FILTRATION PLANT - SLUDGE LINE & STORM</p> <p>DIEMER FILTRATION PLANT - USED WASHWATER RETURN PUMP CHECK VALVES UPGRADE</p> <p>DIEMER FILTRATION PLANT - WASTE WATER DISCHARGE SYSTEM</p> <p>DISCHARGE ELIMINATION</p> <p>DISTRIBUTION SYSTEM - STANDPIPE STRENGTHENING PROGRAM</p> <p>DISTRIBUTION SYSTEM - STATIONARY CORROSION REFERENCE</p> <p>DISTRIBUTION SYSTEM CONTROL & EQUIP UPGRADE - ENHANCED DISTRIB. SYSTEM AUTOMATION PHASE I</p> <p>DISTRIBUTION SYSTEM EQUIPMENT & INSTRUMENTATION UPGRADES</p> <p>DISTRIBUTION SYSTEM REHABILITATION PROGRAM - ASSESS THE STATE OF MWD'S DISTRIBUTION SYSTEM</p> <p>DISTRIBUTION SYSTEM REPLACEMENT OF AREA CONTROL SYSTEMS - WILLOWGLEN RTUS ADMINISTRATION</p> <p>DISTRIBUTION SYSTEM REPLACEMENT OF AREA CONTROL SYSTEMS (DSRACS)</p> <p>DISTRICT WIDE - ENHANCED VAPOR RECOVERY PHASE 2 GASOLINE DISPENSING</p> <p>DSRACS - OPERATIONS CONTROL CENTER - CONTRACT #1396</p> <p>DSRACS - SKINNER AREA</p> <p>DSRACS - SOFTWARE DEVELOPMENT COST</p> <p>DSRACS - WEYMOUTH</p> <p>DVL & CONTROL SYSTEM REPLACEMENT INVESTIGATION & PREPARATION FOR PRELIMINARY DESIGN</p> <p>EAGLE EQUIPMENT WASH AREA UPGRADE</p> <p>EAGLE ROCK - ASPHALT REHABILITATION</p> <p>EAGLE ROCK LATERAL INTERCONNECTION REPAIR</p> <p>EAGLE ROCK MAIN BUILDING ROOF REPLACEMENT - STUDY</p> <p>EAGLE ROCK OCC - REHAB CONTROL ROOM</p> <p>EAGLE ROCK OPERATIONS CONTROL CENTER</p> <p>EAGLE ROCK RESIDENCE CONVERSION</p> <p>EAGLE ROCK TOWER SLIDEGATE REHABILITATION</p> <p>EAST INFLUENT CHANNEL REPAIR PROJECT</p> <p>EAST ORANGE COUNTY FEEDER #2 REPAIR</p> <p>EASTERN AND DESERT REGIONS PLUMBING RETROFIT</p> <p>E-DISCOVERY STORAGE MANAGEMENT SYSTEM UPGRADE</p> <p>ELECTRONIC SYSTEM LOG (ESL)</p> <p>ENERGY MANAGEMENT SYSTEM - PHASE 2</p> <p>ENHANCED DISTRIBUTION SYSTEM AUTOMATION PHASE I</p> <p>ETIWANDA / RIALTO PIPELINE INTER-TIE CATHODIC PROTECTION</p> <p>ETIWANDA CAVITATION TEST FACILITY COMMUNICATION AND CONTROL SYSTEM REPLACEMENT</p> <p>ETIWANDA HEP NEEDLE VALVE OPERATORS</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - RIGHT OF WAY</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - AS BUILTS</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - CATHODIC PROTECTION</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - EMERGENCY DISCHARGE CONDUITS</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - LANDSCAPING AND IRRIGATION</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - RESIDENCES</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - RIALTO FEEDER TO UPPER PIPELINE</p> <p>ETIWANDA RESERVOIR - EXTEND OUTLET STRUCTURE</p> <p>FACILITY AND PROCESS RELIABILITY ASSESSMENT</p> <p>FILTER ISOLATION GATE AND BACKWASH CONTROL WEIR COVERS MODULES 1- 6</p> <p>FILTER ISOLATION GATE AND BACKWASH CONTROL WEIR COVERS MODULES 1-6</p> <p>FLOWMETER MODIFICATION - LAKE SKINNER INLET, ETIWANDA EFFLUENT & WADSWORTH CROSS CHANNEL</p>

TABLE 3

CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS

Description***Distribution Facilities (continued)***

FLOWMETER MODIFICATION - LK SKINNER INLET, EDIWANDA EFFLUENT & WADSWORTH CROSS CHANNEL
 FOOTHILL FEEDER ADEN AVE. REHABILITATION
 FOOTHILL FEEDER ADEN AVE. REHABILITATION
 FOOTHILL FEEDER CARBON FIBER REPAIR
 FOOTHILL FEEDER CATHODIC PROTECTION
 FOOTHILL FEEDER POWER PLANT EXPANSION
 FOOTHILL FEEDER REPAIR @ SANTA CLARITA RIVER
 FOOTHILL HYDROELECTRIC RUNNER REPLACEMENT
 FOOTHILL PCS - UNINTERRUPTIBLE POWER SOURCE SYSTEMS INSTALLATION
 FOOTHILL PCS FLOOD PUMP INSTALLATION DESIGN DOCUMENTATION
 FUTURE SYSTEM RELIABILITY PROGRAM
 GARVEY RESERVOIR - HYPOCHLORITE FEED SYSTEM
 GARVEY RESERVOIR - INSTALL HYPOCHLORINATION STATIONS
 GARVEY RESERVOIR - LOWER ACCESS PAVING ROAD & DRAINS
 GARVEY RESERVOIR HYPOCHLORITE FEED SYSTEM
 GENE & IRON POOLS
 GENE AIR CONDITIONING SYSTEM REPLACEMENT
 GENE MESS HALL AIR CONDITIONING UNIT
 GENE SPARE PARTS WAREHOUSE IMPROVEMENTS
 GREG AVENUE CONTROL STRUCTURE VALVE REPLACEMENT
 GREG AVENUE PCS CONTROL BUILDING INTERIOR REHABILITATION
 HINDS GARAGE ASBESTOS SHEETING REPLACEMENT
 HYDROELECTRIC PLANT CARBON DIOXIDE (CO2) FIRE SUPPRESSION SYSTEM MODIFICATIONS
 IAS PROJECTS - CPA
 IAS PROJECTS - DVL-SKINNER
 IAS PROJECTS - MILLS SUPPLY RELIABILITY
 INLAND PCSUST REMOVAL & AST INSTALLATION
 INSTALL MOTION SENSORS IN NEW EXPANSION
 INSTALL TEST LEADS AT FOUR LOCATIONS
 INSULATION JOINT TEST STATIONS
 IRON MOUNTAIN - TRANSFORMER OIL TANK RELOCATION
 JENSEN DISTRIBUTION SYSTEM - REPLACEMENT OF AREA CONTROL SYSTEMS - CONTRACT # 1396
 JENSEN FILTRATION PLANT - AUTOMATION OF EXISTING WASHWATER/SLUDGE PROCESSING
 JENSEN FILTRATION PLANT - EJECTOR NOISE ABATEMENT
 JENSEN FILTRATION PLANT - FIRE SYSTEM FOR NAOI SYSTEM
 JENSEN FILTRATION PLANT - FIRE WATER LOOP PRESSURE UPGRADE
 JENSEN FILTRATION PLANT - ICC ASBESTOS ABATEMENT
 JENSEN FILTRATION PLANT - INSTALL INFLUENT SCUPPER GATES
 JENSEN FILTRATION PLANT - MODIFICATIONS AT WASHWATER INTERCONNECTION
 JENSEN FILTRATION PLANT - PRESSURE INDICATION AT COOLING WATER PUMPS
 JENSEN FILTRATION PLANT - RELOCATE AMMONIA
 JENSEN FILTRATION PLANT - REPLACE ADMINISTRATION BUILDING AIR CONDITIONING
 JENSEN FILTRATION PLANT - ROAD RECONSTRUCTION
 JENSEN FILTRATION PLANT - SANDBLASTING BOOTH PURCHASE & INSTALLATION
 JENSEN FILTRATION PLANT - TRAVELING BRIDGE RETROFIT MODULE 2 & 3
 JENSEN FILTRATION PLANT - WTP PROTECTION BOLLARDS
 LA VERNE FACILITIES - BRIDGEPORT E-2-PATH
 LA VERNE FACILITIES - ENERGY CONSERVATION ECM1 - 10
 LA VERNE FACILITIES - EXPANSION OF THE SANITARY SEWER
 LA VERNE FACILITIES - HAZARDOUS WASTE STORAGE
 LA VERNE FACILITIES - MAIN TRANSFORMERS REPLACEMENT
 LA VERNE FACILITIES - MATERIALS TESTING LABORATORY

TABLE 3

CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS

Description

Distribution Facilities (continued)

LA VERNE FACILITIES - REPLACEMENT OF FLOCCULATOR STUB SHAFT - BASINS 1 & 2
 LA VERNE MACHINE SHOP - AIR CONDITIONING UNIT REPLACEMENT
 LA VERNE MACHINE SHOP - REPAIR HORIZONTAL BORING MILL
 LA-35 DISCHARGE STRUCTURE REPAIRS
 LAKE MATHEWS - CONSTRUCTION OF BACKUP COMPUTER FACILITIES
 LAKE MATHEWS - DIVERSION TUNNEL WALKWAY REPAIR
 LAKE MATHEWS - FACILITY WIDE EMERGENCY WARNING AND PAGING SYSTEM
 LAKE MATHEWS - FOREBAY MCC ROOF IMPROVEMENT
 LAKE MATHEWS - MAIN DAM TOE SEEPAGE COLLECTION
 LAKE MATHEWS - MULTIPLE SPECIES MANAGER'S OFFICE & RESIDENCE
 LAKE MATHEWS - RENOVATION OF BLDGS. 8 & 15, GENERAL ASSEMBLY & ADMIN. BLDG. OFFICE AREAS
 LAKE MATHEWS - RETROFIT LOWER ENTRANCE GATE SWING ARM
 LAKE MATHEWS FOREBAY MCC ROOF IMPROVEMENT
 LAKE MATHEWS MAIN DAM TOE SEEPAGE COLLECTION
 LAKE MATHEWS RETROFIT LOWER ENTRANCE GATE SWING ARM
 LAKE PERRIS EMERGENCY STANDBY GENERATOR AND TRANSFER SWITCH REPLACEMENT
 LAKE SKINNER - AERATOR AIR COMPRESSOR REPLACEMENT
 LAKE SKINNER - OUTLET TOWER VALVE REHABILITATION
 LAKE SKINNER - REPLACEMENT AERATOR RING
 LAKE SKINNER AERATOR AIR COMPRESSOR REPLACEMENT
 LAKEVIEW PIPELINE - REPLACE VACUUM/AIR RELEASE
 LAKEVIEW PIPELINE CATHODIC PROTECTION SYSTEM
 LOWER FEEDER - CATHODIC PROTECTION
 MAPES LAND ACQUISITION
 MICROWAVE COMMUNICATION SITES BUILDING UPGRADE
 MIDDLE CROSS FEEDER CATHODIC PROTECTION
 MIDDLE FEEDER - CATHODIC PROTECTION SYSTEMS
 MIDDLE FEEDER - NORTH CATHODIC PROTECTION SYSTEM
 MIDDLE FEEDER NORTH CATHODIC PROTECTION SYSTEM
 MILLS COMBINED FILTER EFFLUENT MIXING BAFFLE WALL RETROFIT
 MILLS FILTRATION PLANT - ADMINISTRATION BUILDING INSTALL
 MILLS FILTRATION PLANT - CONSTRUCT V DITCH
 MILLS FILTRATION PLANT - INFLUENT CONTROL STRUCTURE LADDER UPGRADE
 MILLS FILTRATION PLANT - INVESTIGATION TO RELOCATE ACCESS ROAD
 MILLS FILTRATION PLANT - MAINTENANCE CENTER BACKUP GENERATOR RELOCATION
 MILLS FILTRATION PLANT - REPLACEMENT OF AREA CONTROL SYSTEMS
 MINOR CAP 08/09 PLACEHOLDER
 MINOR CAPITAL PROJECTS PROGRAM 07/08 - REMAINING FUNDS
 MWD ROAD GUARDRAIL
 NORTH REACH CONSTRUCTION/ASBUILT
 OC FEEDER STA 1920+78 BLOWOFF STRUCTURE & RIP-RAP REPAIRS
 OC-88 - SECURITY FENCING AT PUMP PLANT
 OC-88 PUMP PLANT AIR COMPRESSOR UPGRADE
 OLINDA PRESSURE CONTROL STRUCTURE
 ON-CALL RESOURCES MANAGEMENT APPLICATION
 OPERATIONS CONTROL CENTER AT EAGLE ROCK
 ORANGE COUNTY - 88 PUMP PLANT AIR COMPRESSOR UPGRADE
 ORANGE COUNTY - 88 SECURITY FENCING AT PUMP PLANT
 ORANGE COUNTY FEEDER INSPECTION
 ORANGE COUNTY FEEDER INTERNAL INSPECTION STUDY
 ORANGE COUNTY FEEDER PRESSURE CONTROL STRUCTURES
 ORANGE COUNTY FEEDER STA 1920+78 BLOWOFF STRUCTURE & RIP-RAP REPAIRS

TABLE 3

CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS

Description***Distribution Facilities (continued)***

ORANGE COUNTY RESERVOIR - INSTALL HYPOCHLORINATION STATIONS
 ORANGE COUNTY RESERVOIR - PIEZOMETERS & SEEPAGE MONITORING AUTOMATION
 OXIDATION DEMONSTRATION PLANT CONTROL SYSTEM REPLACEMENT
 PALOS ALTOS FEEDER - 108TH ST.
 PALOS VERDES FEEDER PCS - VALVE REPLACEMENT
 PALOS VERDES RESERVOIR - INSTALL HYPOCHLORINATION STATIONS
 PC-1 EFFLUENT OPEN CHANNEL TRASH RACK
 PC-1 EFFLUENT OPEN CHANNEL TRASH RACK PROJECT
 PERIMETER FENCING AT PLACERITA CREEK
 PERMANENT LEAK DETECTION/PIPELINE MONITORING SYSTEM
 PERRIS PCS - UNINTERRUPTIBLE POWER SOURCE SYSTEMS INSTALLATION
 PERRIS PUMPBACK COVER
 PERRIS VALLEY PIPELINE - DESIGN-BUILD (EMWD)
 PERRIS VALLEY PIPELINE - GENERAL
 PERRIS VALLEY PIPELINE - NORTH REACH
 PERRIS VALLEY PIPELINE - RESERVED FOR STAGE II DESIGN / BUILD
 PERRIS VALLEY PIPELINE - SOUTH REACH
 PERRIS VALLEY PIPELINE - STUDY
 PERRIS VALLEY PIPELINE - TIE-IN (WMWD)
 PERRIS VALLEY PIPELINE - VALVES
 PERRIS VALLEY PIPELINE DESIGN-BUILD (EMWD)
 PERRIS VALLEY PIPELINE NORTH REACH
 PERRIS VALLEY PIPELINE SOUTH REACH
 PERRIS VALLEY PIPELINE TIE-IN (WMWD)
 PERRIS VALLEY PIPELINE VALVES
 PLACENTIA RAILROAD LOWERING PROJECT
 PLANT INFLUENT REDUNDANT FLOW METERING AND SPLITTING
 PRESTRESSED CONCRETE CYLINDER PIPE - PHASE 2
 PRESTRESSED CONCRETE CYLINDER PIPE -PHASE 2
 PUDDINGSTONE SPILLWAY CROSS CONNECTION
 RED MOUNTAIN HEP FLOOD DAMAGE
 RELOCATION OF ORANGE COUNTY FEEDER
 RELOCATION OF PORTION OF ORANGE COUNTY FEEDER (MWD'S SHARE)
 REMAINING PORTIONS
 REPAIRS TO THE LA-35 DISCHARGE STRUCTURE
 REPLACE 2 FIRE & DOMESTIC WATER SYSTEM
 REPLACE COMMUNICATION LINE TO THE SAN GABRIEL CONTROL TOWER
 REPLACE COPPER GROUNDWIRES ON DESERT HIGH VOLTAGE TRANSMISSION TOWERS
 REPLACE VALVE POSITION INDICATORS
 RIALTO FEEDER BROKEN BACK REPAIR
 RIALTO FEEDER VALVE STRUCTURE
 RIALTO FEEDER, REPAIRS AT SELECT LOCATIONS, STUDY
 RIALTO PIPELINE - CONSTRUCTION PHASE 1
 RIALTO PIPELINE - CONSTRUCTION PHASE 1
 RIALTO PIPELINE - CONSTRUCTION PHASE 2
 RIALTO PIPELINE IMPROVEMENTS - CONSTRUCTION
 RIALTO PIPELINE IMPROVEMENTS - CONSTRUCTION PHASE III
 RIALTO PIPELINE IMPROVEMENTS - DESIGN PHASE 2
 RIALTO PIPELINE IMPROVEMENTS - DESIGN PHASE 3
 RIALTO PIPELINE IMPROVEMENTS - FINAL DESIGN
 RIALTO PIPELINE IMPROVEMENTS - VALVE PROCUREMENT
 RIALTO PIPELINE IMPROVEMENTS PHASE 1 FINAL DESIGN

TABLE 3

CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS

Description***Distribution Facilities (continued)***

RIALTO PIPELINE REPAIRS AT STATION 3198+44
 ROBERT B. DIEMER FILTRATION PLANT - LAND ACQUISITION
 ROOF REPLACEMENT AT SOTO ST. FACILITY
 SAN DIEGO CANAL - EAST & WEST BYPASS SCREENING STRUCTURES STUDY
 SAN DIEGO CANAL - ELECTRICAL VAULT & CONDUCTOR REPLACEMENT
 SAN DIEGO CANAL - FENCING
 SAN DIEGO CANAL - INSTALL ACOUSTIC FLOW METER
 SAN DIEGO CANAL - PIEZOMETER
 SAN DIEGO CANAL - REPLACE SODIUM BISULFATE TANK
 SAN DIEGO CANAL - SEEPAGE STUDY
 SAN DIEGO CANAL SEEPAGE STUDY
 SAN DIEGO CANAL WEST BYPASS TRASH RACK
 SAN DIEGO PIPELINE #4 VALVE REPLACEMENT
 SAN DIEGO PIPELINE 1 BLOW-OFF VALVE REPLACEMENT
 SAN DIEGO PIPELINE 5 & LAKE SKINNER OUTLET REPAIR
 SAN DIEGO PIPELINE NO. 3 BYPASS
 SAN DIEGO PIPELINE NO. 6 - RIVERSIDE BRANCH - ETIWANDA FACILITY/DROP INLET STRUCTURE
 SAN DIEGO PIPELINE NO. 6 - RIVERSIDE BRANCH - PLEASANT PEAK, COMMUNICATIONS
 SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL CONSTRUCTION - AS BUILT
 SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL COST OF RIGHT OF WAY (OPTIONAL PORTAL SITE)
 SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL ENVIRONMENTAL CONSTRUCTION
 SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL ENVIRONMENTAL PRELIMINARY DESIGN
 SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL PRELIMINARY DESIGN
 SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL PROGRAM MANAGEMENT
 SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL RIGHT OF WAY PRELIMINARY DESIGN
 SAN DIEGO PIPELINE NO. 6 - CONTRACT NO.1 SAN DIEGO CANAL TO MOUNT OLYMPUS
 SAN DIEGO PIPELINE NO. 6 - CONTRACT NO.2 MOUNT OLYMPUS TUNNEL & PORTALS
 SAN DIEGO PIPELINE NO. 6 - NORTH REACH CONSTRUCTION - AS BUILT
 SAN DIEGO PIPELINE NO. 6 - NORTH REACH ENVIRONMENTAL - CONSTRUCTION
 SAN DIEGO PIPELINE NO. 6 - NORTH REACH ENVIRONMENTAL PRELIMINARY DESIGN
 SAN DIEGO PIPELINE NO. 6 - NORTH REACH FINAL DESIGN & ADV/NTP
 SAN DIEGO PIPELINE NO. 6 - NORTH REACH POST DESIGN
 SAN DIEGO PIPELINE NO. 6 - NORTH REACH PRELIMINARY DESIGN
 SAN DIEGO PIPELINE NO. 6 - NORTH REACH PROGRAM MANAGEMENT - CONSTRUCTION
 SAN DIEGO PIPELINE NO. 6 - NORTH REACH PROGRAM MANAGEMENT - DESIGN
 SAN DIEGO PIPELINE NO. 6 - NORTH REACH RIGHT OF WAY FINAL DESIGN
 SAN DIEGO PIPELINE NO. 6 - NORTH REACH RIGHT OF WAY PRELIMINARY DESIGN
 SAN DIEGO PIPELINE NO. 6 - NORTHERN PIPELINE COST OF RIGHT OF WAY
 SAN DIEGO PIPELINE NO. 6 - NORTHERN REACH ENVIRONMENTAL FINAL DESIGN
 SAN DIEGO PIPELINE NO. 6 - PIPELINE/TUNNEL STUDY - DESIGN
 SAN DIEGO PIPELINE NO. 6 - PIPELINE/TUNNEL STUDY - ENVIRONMENTAL
 SAN DIEGO PIPELINE NO. 6 - PIPELINE/TUNNEL STUDY - PROJECT MANAGEMENT
 SAN DIEGO PIPELINE NO. 6 - PIPELINE/TUNNEL STUDY - RIGHT OF WAY
 SAN DIEGO PIPELINE NO. 6 - PROJECT MANAGEMENT
 SAN DIEGO PIPELINE NO. 6 - RIGHT OF WAY
 SAN DIEGO PIPELINE NO. 6 - SOUTH REACH - PROGRAM MANAGEMENT
 SAN DIEGO PIPELINE NO. 6 - SOUTH REACH / TUNNEL STUDY
 SAN DIEGO PIPELINE NO. 6 - SOUTH REACH CONSTRUCTION / AS BUILT
 SAN DIEGO PIPELINE NO. 6 - SOUTH REACH COST OF RIGHT OF WAY
 SAN DIEGO PIPELINE NO. 6 - SOUTH REACH ENVIRONMENTAL - CONSTRUCTION
 SAN DIEGO PIPELINE NO. 6 - SOUTH REACH ENVIRONMENTAL FINAL DESIGN
 SAN DIEGO PIPELINE NO. 6 - SOUTH REACH ENVIRONMENTAL PRELIMINARY DESIGN

<p style="text-align: center;">TABLE 3</p> <p style="text-align: center;">CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS</p>
<p>Description</p> <p><i>Distribution Facilities (continued)</i></p> <p>SAN DIEGO PIPELINE NO. 6 - SOUTH REACH FINAL DESIGN/ADV</p> <p>SAN DIEGO PIPELINE NO. 6 - SOUTH REACH PRELIMINARY DESIGN</p> <p>SAN DIEGO PIPELINE NO. 6 - SOUTH REACH RIGHT OF WAY FINAL DESIGN</p> <p>SAN DIEGO PIPELINE NO. 6 - SOUTH REACH RIGHT OF WAY PRELIMINARY DESIGN</p> <p>SAN DIEGO PIPELINE NO. 6 - SOUTH REACH TUNNEL ALIGNMENT ANALYSIS</p> <p>SAN DIEGO PIPELINE NO. 6 AREA STUDY</p> <p>SAN DIEGO PIPELINE NO. 6 ENVIRONMENTAL MITIGATION</p> <p>SAN DIEGO PIPELINE NO.4 & AULD VALLEY PIPELINE CARBON FIBER REPAIR STUDY</p> <p>SAN DIEGO PIPELINE NOS.1AND 3 - VALVE REPLACEMENT</p> <p>SAN DIMAS HEP BATTERY BANK AND GENERATOR BREAKER</p> <p>SAN DIMAS PCS - UNINTERRUPTIBLE POWER SOURCE SYSTEMS INSTALLATION</p> <p>SAN FRANCISQUITO PIPELINE BLOW OFF STRUCTURE, STA 287+70, ACCESS ROAD CONSTRUCTION</p> <p>SAN GABRIEL TOWER SLIDE GATE REHABILITATION</p> <p>SAN GABRIEL TOWER SLIDE GATE REHABILITATION</p> <p>SAN JACINTO #1 AND #2 CASA LOMA FAULT CROSSING STRUCTURE UPGRADE</p> <p>SAN JOAQUIN RELIEF STRUCTURE FOR EASTERN ORANGE COUNTY FEEDER #2</p> <p>SAN JOAQUIN RELIEF STRUCTURE FOR EASTR OC FDR #2</p> <p>SAN JOAQUIN RESERVOIR, INSTALL BULKHEAD</p> <p>SANTA MONICA FEEDER RELOCATION</p> <p>SANTA MONICA FEEDER STATION 495+10 REHABILITATION</p> <p>SANTIAGO LATERAL REPLACE MOTOR - OPERATED VALVE</p> <p>SANTIAGO LATERAL REPLACE MOTOR-OPERATED VALVE</p> <p>SCADA SYSTEM HARDWARE UPGRADE</p> <p>SCADA SYSTEM NT SOFTWARE UPGRADE</p> <p>SCADA SYSTEM SUPPORT PROGRAMS</p> <p>SD CANAL EAST & WEST BYPASS SCREENING STRUCTURES STUDY</p> <p>SD CANAL REPLACE SODIUM BISULFITE TANK</p> <p>SECOND LOWER & SEPULVEDA FEEDERS SCI DRAIN STATIONS</p> <p>SECOND LOWER CROSS FEEDER - VALVE PROCUREMENT</p> <p>SECOND LOWER CROSS FEEDER CONSTRUCTION</p> <p>SECOND LOWER CROSS FEEDER FINAL DESIGN</p> <p>SECOND LOWER FEEDER - INSTALL LINER</p> <p>SECOND LOWER FEEDER PCCP REPAIRS</p> <p>SELECTED PRESSURE REPLACE VALVE POSITION INDICATORS</p> <p>SEPULVEDA PCS - PERIMETER ASPHALT REPAIRS</p> <p>SKINNER BRANCH - AIR INJECTION MODIFICATIONS TO RED MOUNTAIN POWER PLANT</p> <p>SKINNER BRANCH - CASA LOMA CANAL</p> <p>SKINNER BRANCH - CASA LOMA SIPHON BARREL ONE</p> <p>SKINNER BRANCH - CATWALK FOR TRAVELING MAINTENANCE BRIDGE FOR</p> <p>SKINNER BRANCH - FABRICATE & REPLACE THE STEMS, NUTS & KEYS</p> <p>SKINNER BRANCH - REPAIR MODULE 1 AND 2 FLOCCULATORS BRIDGES</p> <p>SKINNER DISTRIBUTION SYSTEM - CONTRACT # 1396</p> <p>SKINNER FILTRATION PLANT - CHLORINE MASS FLOW METERS</p> <p>SKINNER FILTRATION PLANT - EFFLUENT WATER QUALITY BLDG</p> <p>SKINNER FILTRATION PLANT - ELEVATED SLAB IN SERVICE BLDG 1</p> <p>SKINNER FILTRATION PLANT - FERRIC CHLORIDE RETROFIT</p> <p>SKINNER FILTRATION PLANT - INSULATING FLANGES AT PLANT 1 BUTTERFLY VALVES</p> <p>SKINNER FILTRATION PLANT - LOADING RAMPS AT AND PC-1</p> <p>SKINNER FILTRATION PLANT - MODULES 1 & 2 TRAVELING BRIDGES SOLIDS PUMPS</p> <p>SKINNER FILTRATION PLANT - ON-LINE FILTER PROCESS</p> <p>SKINNER FILTRATION PLANT - PERIMETER FENCING</p> <p>SKINNER FILTRATION PLANT - REPLACE AIR COMPRESSOR</p>

<p style="text-align: center;">TABLE 3</p> <p style="text-align: center;">CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS</p>
<p>Description</p> <p><i>Distribution Facilities (continued)</i></p> <p>SKINNER FILTRATION PLANT - REPLACEMENT FOR WETCELL BATTERY AND INVERTER</p> <p>SKINNER FILTRATION PLANT - REPLACEMENT OF AREA CONTROL SYSTEMS</p> <p>SKINNER FILTRATION PLANT - SAMPLE LINE FOR INFLUENT CONDUIT # 2</p> <p>SKINNER FILTRATION PLANT - SCADA SERVERS RELOCATION</p> <p>SKINNER FILTRATION PLANT - THICKENERS PUMPS REPLACEMENT</p> <p>SKINNER FILTRATION PLANT SEISMIC</p> <p>SKINNER INSULATING FLANGES AT PLANT 1 BUTTERFLY VALVES</p> <p>SKINNER REPLACEMENT FOR WETCELL BATTERY AND INVERTER</p> <p>SKINNER SCADA SERVERS RELOCATION</p> <p>SKINNER SOLIDS HANDLING SYSTEM CONVEYOR ACCESS STAIRS</p> <p>SKINNER WTP PERIMETER FENCING</p> <p>SMART-OPS (FORMERLY RTOS)</p> <p>SOTO STREET FACILITY - BUILDING SEISMIC UPGRADE</p> <p>SOTO STREET FACILITY - REPLACE HEATING</p> <p>SOTO STREET FACILITY - ROOF REPLACEMENT</p> <p>SOUTH REACH / TUNNEL STUDY</p> <p>SPECIAL SERVICE BRANCH - REPLACE PLATE BENDING</p> <p>ST. JOHN'S CANYON CHANNEL EROSION MITIGATION</p> <p>SYSTEM RELIABILITY PROGRAM</p> <p>TWO-WAY RADIO ENHANCEMENT - EMERGENCY SERVICES, FIRE CONTROL, EVACUATION & BLDG. MAINT.</p> <p>TWO-WAY RADIO ENHANCEMENT FOR EMERGENCY SERVICES, FIRE CONTROL, EVACUATION AND BLDG. MAINTENANCE</p> <p>UNDER GROUND STORAGE TANK DISPENSER SPILL CONTAINMENT & REMEDIATION</p> <p>UPGRADE SUNSET GARAGE</p> <p>UPPER FEEDER - SANTA ANA RIVER BRIDGE REPAIRS</p> <p>UPS SYSTEMS INSTALLATION AT FOOTHILL PCS</p> <p>UPS SYSTEMS INSTALLATION AT PERRIS CONTROL STRUCTURE</p> <p>UPS SYSTEMS INSTALLATION AT SAN DIMAS PCS</p> <p>UTILITY BUSINESS ARCHITECTURE (OBJECT MAPPING/MODELING)</p> <p>VALLEY & LOS ANGELES DISTRIBUTION VALVE POSITION DISPLAY UPGRADE</p> <p>VALVE PROCUREMENT</p> <p>VIDEO CONFERENCE SYSTEM UPGRADE</p> <p>VIDEOCONFERENCING UPGRADE</p> <p>WADSWORTH PUMPING PLANT CONDUIT REPAIR AND PROTECTION</p> <p>WATER DELIVERY SYSTEM AUTOMATION</p> <p>WATER PLANNING APPLICATION</p> <p>WATER QUALITY - REMOTE MONITORING</p> <p>WATER QUALITY LABORATORY BUILDING EXPANSION</p> <p>WATER TREATMENT PROCESS OPTIMIZATION</p> <p>WEST COAST FEEDER - CATHODIC PROTECTION SYSTEMS</p> <p>WEST VALLEY AREA STUDY</p> <p>WEST VALLEY FEEDER NO. 1 ACCESS ROADS AND STRUCTURES IMPROVEMENTS</p> <p>WEST VALLEY FEEDER NO. 1 VALVE STRUCTURE MODIFICATIONS</p> <p>WESTERN REGION PLUMBING RETROFIT</p> <p>WEYMOUTH DISTRIBUTION SYSTEM - REPLACEMENT OF AREA CONTROL SYSTEMS - CONTRACT #1396</p> <p>WEYMOUTH FILTRATION PLANT - 140" EFFLUENT CONDUIT ROOF REPAIR</p> <p>WEYMOUTH FILTRATION PLANT (WFP) - AREA CONTROL SYSTEM REPLACEMENT</p> <p>WFP - ASPHALT REHABILITATION</p> <p>WFP - BASIN SLUDGE PUMP FLUSHING</p> <p>WFP - COMPRESSED AIR SYSTEM IMPROVEMENT</p> <p>WFP - DOMESTIC WATER PUMP UPGRADE</p> <p>WFP - DRY POLYMER</p> <p>WFP - EFFLUENT CHLORINE INJECTION</p>

[illegible]

TABLE 4 FISCAL YEAR 2009/10 ESTIMATED READINESS-TO-SERVE CHARGE REVENUE	
Member Agency	Amount
Anaheim	\$ 1,143,527
Beverly Hills	728,629
Burbank	723,625
Calleguas MWD	6,200,169
Central Basin MWD	3,609,014
Compton	192,540
Eastern MWD	4,776,487
Foothill MWD	623,437
Fullerton	519,795
Glendale	1,399,930
Inland Empire Utilities Agency	3,140,787
Las Virgenes MWD	1,262,577
Long Beach	2,093,759
Los Angeles	14,712,497
Municipal Water District of Orange County	12,687,842
Pasadena	1,251,115
San Diego County Water Authority	27,097,926
San Fernando	6,670
San Marino	57,130
Santa Ana	723,962
Santa Monica	714,084
Three Valleys MWD	4,018,782
Torrance	1,181,596
Upper San Gabriel Valley MWD	831,421
West Basin MWD	8,071,561
Western MWD	3,731,137
Total	\$ 101,500,000

TABLE 5
FISCAL YEAR 2009/10
ESTIMATED STANDBY CHARGE REVENUE

Member Agencies	Total Parcel Charge	Number Of Parcels Or Acres	Gross Revenues (Dollars) ¹
Anaheim	\$ 8.55	69,174	\$ 591,440
Beverly Hills	-	-	-
Burbank	14.20	28,939	410,931
Calleguas MWD	9.58	256,678	2,458,971
Central Basin MWD	10.44	340,427	3,554,055
Compton	8.92	18,171	162,086
Eastern MWD	6.94	405,763	2,815,996
Foothill MWD	10.28	30,427	312,794
Fullerton	10.71	34,487	369,351
Glendale	12.23	44,602	545,483
Inland Empire Utilities Agency	7.59	247,308	1,877,068
Las Virgenes MWD	8.03	58,805	472,206
Long Beach	12.16	91,397	1,111,387
Los Angeles	-	-	-
Municipal Water District of Orange County ²	10.09	719,792	7,394,180
Pasadena	11.73	38,340	449,724
San Diego County Water Authority	11.51	1,109,266	12,767,656
San Fernando	7.87	5,082	39,995
San Marino	8.24	4,970	40,952
Santa Ana	7.88	54,063	426,013
Santa Monica	-	-	-
Three Valleys MWD	12.21	150,769	1,840,893
Torrance	12.23	40,413	494,250
Upper San Gabriel Valley MWD	9.27	211,188	1,957,716
West Basin MWD	-	-	-
Western MWD	9.23	379,994	3,507,349
MWD Total		4,340,055	\$ 43,600,497

(1) Estimates per FY2008/09 applied amounts

(2) Adjusted for inclusion of Coastal MWD

Note: Totals may not foot due to rounding.

TABLE 6
PARCELS SUBJECT TO ANNEXATION STANDBY CHARGES
AS OF JULY 1, 2008

Annexation	Parcel Number	Acres	Proposed Standby Charge (FY 2009/10)
Riverside County:			
Portions of the 41st Fringe to Western MWD	906-181-005	0.15	9.23
	906-181-006	0.14	9.23
	906-182-024	0.17	9.23
	906-182-025	0.17	9.23
	906-182-026	0.17	9.23
98th Fringe Area to Eastern MWD	910-140-080	4.87	33.80
Ventura County:			
Annexation No. 90	215-0-010-050	0.23	9.58
	215-0-010-100	20.66	197.92
	215-0-010-120	2.76	26.44
Annexation No. 91	183-0-090-625	2.58	24.72
	216-0-040-110	162.54	1,557.13
	230-0-020-055	105.44	1,010.12
	230-0-030-031	0.23	9.58
	230-0-030-032	0.23	9.58
	230-0-030-033	0.23	9.58
	230-0-030-055	1.02	9.77
	230-0-030-085	43.27	414.53
	230-0-030-105	3.29	31.52
	230-0-030-115	2.81	26.92
	230-0-030-125	283.03	2,711.43
	230-0-030-135	16.00	153.28
	230-0-030-145	33.86	324.38

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION ____

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
GIVING NOTICE OF INTENTION TO IMPOSE
A CAPACITY CHARGE
EFFECTIVE JANUARY 1, 2010**

WHEREAS, the Board of Directors (“Board”) of The Metropolitan Water District of Southern California (“Metropolitan”), pursuant to Sections 133, 134 and 134.5 of the Metropolitan Water District Act (the “Act”), is authorized to fix such rate or rates for water as will result in revenue which, together with revenue from any water standby or availability of service charge or assessment, will pay the operating expenses of Metropolitan, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by Metropolitan, and provide for the payment of the interest and principal of its bonded debt; and

WHEREAS, the capacity charge is a fixed fee imposed (on a dollar per cubic-foot-per-second basis) on member agencies on the amount of capacity used by such member agency and is designed to recover the cost of providing peaking capacity within the distribution system; and

WHEREAS, on January 12, 2009, the General Manager presented to the Business and Finance Committee of Metropolitan’s Board his determination of total revenues and of revenues to be derived from water sales and firm revenue sources required during the fiscal year beginning in FY 2009/10, and a detailed report describing each of the rates and charges and the supporting cost of service process, dated December 2008 (the “Report”), that (i) describes the rate structure process and design, (ii) shows the costs of major service functions that Metropolitan provides to its member agencies, (iii) classifies these service functions costs based on the use of the Metropolitan system to create a logical nexus between the revenues required from each of the rates and charges, and (iv) sets forth the rates and charges necessary to defray such costs; and

WHEREAS, on January 12, 2009, the General Manager presented to the Business and Finance Committee his recommendation for rates and charges to be imposed and determination of total revenues to be derived from water sales and firm revenue sources required during the fiscal year beginning in FY 2009/10; and

WHEREAS, each of the meetings of the Board were conducted in accordance with the Brown Act (commencing at Section 54950 of the Government Code), for which due notice was provided and at which quorums were present and acting throughout; and

WHEREAS, the amount of revenue to be raised by the capacity charge shall be as determined by the Board and allocation of such charges among member public agencies shall be in accordance with the method established by the Board; and

WHEREAS, the capacity charge is a charge imposed by Metropolitan upon its member agencies, and is not a fee or charge imposed upon real property or upon persons as an incident of property ownership; and

WHEREAS, Metropolitan has legal authority to impose the capacity charge as a water rate pursuant to Sections 133 and 134 of the Metropolitan Water District Act (the "Act"); and

WHEREAS, under authority of Sections 133 and 134 of the Act, the Board has the authority to fix the rate or rates for water as will result in revenue which, together with other revenues, will pay Metropolitan's operating expenses and provide for the payment of other costs, including payment of the interest and principal of Metropolitan's non-tax funded debt; and

WHEREAS, the capacity charge is intended to recover the debt service and other appropriately allocated costs to construct, operate and maintain projects needed to meet peak demands on Metropolitan's distribution system, as shown in the Report; and

WHEREAS, in the alternative under Section 134.5 of the Metropolitan Water District Act, an availability of service charge may be collected from the member public agencies within Metropolitan;

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California does hereby resolve, determine and order as follows:

Section 1. That Metropolitan should develop firm net revenues, exclusive of *ad valorem* property taxes, through imposition of a capacity charge as described below, to be imposed on Metropolitan's member public agencies.

Section 2. That the capacity charge shall be in an amount sufficient to provide for payment of the capital financing costs not paid from *ad valorem* property taxes, as well as operations, maintenance and overhead costs incurred to provide peaking capacity within Metropolitan's distribution system.

Section 3. That such capacity charge effective January 1, 2010 shall be a water rate of \$7,400 per cubic-foot-per-second (set in dollars per cubic-foot-per-second of the peak day capacity) for capacity provided to a member agency.

Section 4. That in the alternative, and without duplication, the capacity charge shall be an availability of service charge pursuant to Section 134.5 of the Act.

Section 5. That notice is hereby given to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held March 10, 2009 (or such other date designated by the Board for its regular meeting in such month), on the General Manager's recommendation to impose a capacity charge of \$7,400 per cubic-foot-per-second of capacity used between May 1 and September 30 for the three calendar-year-period ending December 31, 2008 (set in dollars per cubic-foot-per-second of the peak day capacity). The Business and Finance Committee of Metropolitan's Board shall hold a public hearing at which interested parties may present their views regarding the proposed capacity charge, to be held prior to its regular March meeting pursuant to Section 4304(c) of Metropolitan's Administrative Code. The Board reserves the right to make any changes to the capacity charge including but not limited to the basis on which such charges shall be imposed by

Metropolitan, as a result of comments received at the public hearing. The Board will take final action to adopt the capacity charge on March 10, 2009 (or such other date as the Board shall determine).

Section 6. That this Board finds and determines that the capacity charge is a reasonable fee for use of capacity of Metropolitan's distribution system.

Section 7. That the capacity charge shall be a fixed charge and collected from each member agency monthly, quarterly or semiannually as agreed to by Metropolitan and the member agency.

Section 8. That the capacity charge for each member public agency, the method of its calculation, cost allocations and other data used in its determination are as specified in the Report, which is on file and available for review by interested parties at Metropolitan's headquarters.

Section 9. That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 10. That this Board finds that the proposed capacity charge is not defined as a Project from the provisions of the California Environmental Quality Act ("CEQA") since it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

Section 11. That the General Manager is hereby authorized and directed to take all necessary action to satisfy relevant statutes requiring notice by publication.

Section 12. That the Board Executive Secretary is hereby directed to transmit a certified copy of this Resolution to the presiding officer of the governing body of each member public agency.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on January 13, 2009.

Board Executive Secretary
The Metropolitan Water District
of Southern California

Appendix 3
Regional Board Correspondence

CC: ADAM
California Regional Water Quality Control Board
San Diego Region


Arnold Schwarzenegger
Governor

Over 50 Years Serving San Diego, Orange, and Riverside Counties
Recipient of the 2004 Environmental Award for Outstanding Achievement from USEPA

9174 Sky Park Court, Suite 100, San Diego, California 92123-4353
(858) 467-2952 • Fax (858) 571-6972
<http://www.waterboards.ca.gov/sandiego>

July 6, 2009

In reply refer to:
CHenning:255265

Mr. Michael Thornton, General Manager
San Elijo Joint Powers Authority
2695 Manchester Avenue, P.O. Box 1077
Cardiff by the Sea, California 92007-7077

RECEIVED
SAN ELIJO
JOINT POWERS AUTHORITY
2009 JUL -8 AM 7:31

Dear Mr. Thornton:

**SUBJECT: SAN ELIJO JOINT POWERS AUTHORITY
SAN ELIJO WATER RECLAMATION FACILITY**

The California Regional Water Quality Control Board, San Diego Region (Regional Board) has reviewed the following monitoring reports submitted by the San Elijo Joint Powers Authority in accordance with Monitoring and Reporting Program No. 2000-10.

FREQUENCY	PERIOD	DATE RECEIVED
Monthly	December 2008	January 29, 2009
	January 2009	March 2, 2009
	February 2009	March 20, 2009
	March 2009	April 28, 2009
	April 2009	May 27, 2009
	May 2009	June 24, 2009
Quarterly	October – December 2008	January 29, 2009
	January-March 2009	April 28, 2009
Annual	January - December 2008	January 29, 2009

Discharge Specification A.1 prescribes a daily maximum limitation of 1,300 milligrams per liter (mg/L) for concentration of Total Dissolved Solids in the discharge of recycled water. This Discharge Specification was violated in 19 of 151 samples collected during this period on the following dates:

Date	TDS Sample Results (mg/L)	Date	TDS Sample Results (mg/L)
10/12-13/2008	1,344	2/15/2009	1,326
11/16-17/2008	1,336	2/16/2009	1,366
12/21-22/2008	1,322	2/17/2009	1,346
1/24/2009	1,308	2/19/2009	1,526
1/24/2009	1,308	2/20/2009	1,392
1/25/2009	1,452	2/21/2009	1,398
2/11/2009	1,330	2/22/2009	1,522
2/12/2009	1,346	2/23/2009	1,374
2/13/2009	1,354	2/24/2009	1,318
2/14/2009	1,350		

The Regional Board urges you to take adequate measures to prevent further violations of Order No. 2000-10. Pursuant to the California Water Code, any violation of waste discharge requirements is subject to potential enforcement action(s) by the Regional Board including a time schedule order, cease and desist order, cleanup and abatement order, imposition of an administrative civil liability, referral to the district attorney for criminal prosecution, or referral to the attorney general. Administrative civil liability amounts that may be imposed by the Regional Board under authority pursuant to California Water Code Sections 13350, either on a daily basis not to exceed five thousand dollars (\$ 5,000) for each day the violation occurs, or on a per gallon basis, not to exceed ten dollars (\$ 10) for each gallon of waste discharged.

The comments on the reports referenced above are as follows:

1. Footnote 4 to Discharge Specification A.1 states: *The 12-month average concentration of the discharge shall not exceed the lesser of 1,200 mg/l or the imported water supply concentration plus an incremental increase equal to the typical incremental increase added to the water supply which has been used for domestic purposes.* Although water supply testing is not required by Monitoring and Reporting Program No. 2000-10, a comparison would be worthwhile of the 12-month average TDS concentration of the discharge with the water supply TDS concentrations reported by the local water supply agency. Please include such an assessment in the next quarterly report.
2. The January-March 2009 quarterly report did not include an assessment of compliance with the maximum 12-month average limitations. Footnote 1 to Discharge Specification A.1 states: *The 12-month average effluent limitation shall apply to the arithmetic mean of the results of monthly averages of all samples collected during the previous 12 months.* Please include such an

Ms. Michael Thornton
San Elijo Water Reclamation Facility

- 3 -

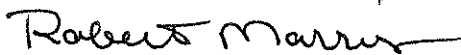
July 6, 2009

assessment in the subsequent quarterly monitoring reports. The Regional Board would consider a request for a modification of the 12-month running average requirement to an annual average based upon calendar year if the calculation is cumbersome or confusing.

The heading portion of this letter includes a Regional Board code number noted after "In reply refer to." In order to assist us in the processing of your correspondence please include this code number in the heading or subject line portion of all correspondence and reports to the Regional Board pertaining to this matter.

If you have any questions regarding the above, please contact Cathryn Henning at (858) 636-3161 or at email chenning@waterboards.ca.gov.

Respectfully,



ROBERT MORRIS
Senior Water Resource Control Engineer
Ground Water Branch