

Irvine Ranch Water District Policy Position on the
Municipal Water District of Orange County (MWDOC)
Rate Structure

March 28, 2016

Issue Summary:

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

IRWD has had reservations regarding MWDOC’s implementation of the MWD rate structure that maintains an option to meld the tiered supply component. It has been IRWD’s position that MWDOC’s ability to meld rates not only abandons the conservation and local resource development pricing signal, but can create inequities. For example, in the long term, growth in demands for imported water in the non-basin areas of the county could result in inequities under a melded rate structure where Tier 2 water, needed to serve a specific agency or group of agencies, is being melded into the rates for all of MWDOC’s customers. It has been IRWD’s position that a tiered structure would eliminate the potential for these inequities and preserve the pricing signal for local resource development and conservation that was intended in the formulation of the MWD tiered rate structure.

MWDOC is currently performing a cost of service study. This study is only considering revisions to the fixed portion of MWDOC’s rate structure, which is currently based on a per retail connection charge method. A key to the success of performing the study is the inclusion and participation of the member retail agencies.

Any future consideration that MWDOC gives to revising its variable charges should result in a tiered rate structure that ensures the water allocation methodology is fair and equitable. A MWDOC cost of service study of its variable charges should consider options that include Tier-1 allocation methodologies that include take-or-pay subscriptions that would allow retailers to adjust their purchases of water based on projected demand. The cost of service study should result in rates and charges that avoid over-collection of revenues by MWDOC.

Currently, MWDOC’s Tier-1 allocation from MWD is sufficient and results in a low probability of MWDOC having to pass through Tier-2 purchases to its member agencies. This has the potential to change in the future. Depending on the rate structure that could be adopted by MWDOC, IRWD recommends that MWDOC work with its member agencies to develop an equitable method to address the disposition of any over-collected Tier 2 revenue. Specifically, IRWD believes this revenue should provide funding for re-investment in conservation and local water resource projects to minimize the need for Tier 2 purchases, and compensate those member agencies that have made, and continue to make, investments in these programs.

In 2011, IRWD, along with the majority of MWDOC’s member agencies, executed an agreement between MWDOC and its member agencies on Budget, Activities, Charges and

Other Issues (the Settlement Agreement) that accommodated the interests of the member agencies and promoted collaborative processes related to MWDOC budgets and charges. This agreement provided for MWDOC to establish a Core Services budget to recover costs associated with services that are both essential to its mission and carried out on behalf of the entire MWDOC service area. The agreement also establishes a budget process for Choice Services that allow individual member agencies to elect to receive and pay for certain services from MWDOC. The “Core and Choice” model for assigning costs to the member agencies has worked well and should be continued beyond the expiration of the Settlement Agreement in 2016.

Policy Principles:

- IRWD supports MWD’s adoption of a tiered rate structure that uses a cost of service approach to allocate costs of supply, transmission and storage, treatment, and water resource management. This includes the division of MWD’s supply component into two tiers to reflect existing lower cost supplies and higher cost marginal supplies, respectively.
- The MWD two-tier rate structure was specifically designed to encourage water conservation and local resource development by sending a pricing signal to discourage increased demands on MWD.
- Consistent with the intent of MWD, the MWD rate structure including the tiered rate approach for selling water to its member agencies should be implemented by MWDOC.
- MWDOC’s method for implementing the tiered rate structure and allocating lower cost Tier 1 water should be fair and equitable to its member agencies.
- MWDOC’s method for implementing the tiered rate structure should minimize the over-collection of Tier 2 revenue from its member agencies.
- MWDOC shall work with its member agencies to develop an equitable method to address the disposition of any over-collected Tier 2 revenue that will: 1) provide funding for re-investment in conservation and local projects to minimize the need for Tier 2 purchases, and 2) reward member agencies that have, and continue, to make investments in these programs.
- MWDOC’s method of passing through MWD wheeling charges for the delivery of retail agency controlled water that is conveyed through MWD’s system should be consistent with MWD’s administration code. Any additional charges added by MWDOC should be based on actual costs associated with the wheeling transactions.

- MWDOC should maintain its existing Choice and Core Services consistent with the provisions of the existing Settlement Agreement. Core Services should be limited to services that are essential to MWDOC’s mission of serving as the wholesaler of MWD water in its service area.
- Member agency participation in Desalination projects and water supplies other than purchases of MWD water through MWDOC should be considered Choice programs.
- MWDOC shall maintain its per retail connection charge method of generating revenue generally consistent with the terms of the Settlement Agreement.
- MWDOC should implement a fixed charge for Orange County Water District consistent with legal requirements and the consensus and support of the member agencies.
- The accumulation of Reserves by MWDOC shall allow it to meet operating and emergency financial requirements for operating its District and shall be consistent with the limits and categories established in the agreement.
- The current and any future cost of service studies performed by MWDOC should include the open participation of the member agencies to ensure that the resulting tiered rate structure is fair and equitable and developed with the support of the member agencies.
- Once adopted, the implementation methodology for MWDOC’s tiered rates should be reviewed periodically with its member agencies and Board to identify and correct any unanticipated inequities.