



MWD-SDCWA Water Rate Litigation

Lawsuit Update

On February 25, 2014, a judge issued a preliminary ruling in the lawsuit filed by San Diego County Water Authority (SDCWA) challenging the Metropolitan Water District of Southern California's (MWD) water rates. The court's tentative determination is that there is insufficient evidence to support MWD's cost allocation for Water Transportation rates and Water Stewardship rates. The court found in MWD's favor that MWD fairly collects costs for "dry-year peaking" (purchasing more MWD water in dry years and less in wet years). These are just preliminary rulings; no final judgments have been made.

Regardless of the final outcome, there are unlikely to be any impacts for several years as both parties pursue the appeals process on up through the legal system. MWD is confident it will successfully appeal the judgment, as it has done in the past in similar rate challenges by SDCWA. MWDOC will continue to monitor the case closely, and we will do everything in our power to protect Orange County ratepayers from unfair cost shifts.

Background on the Rate Challenge

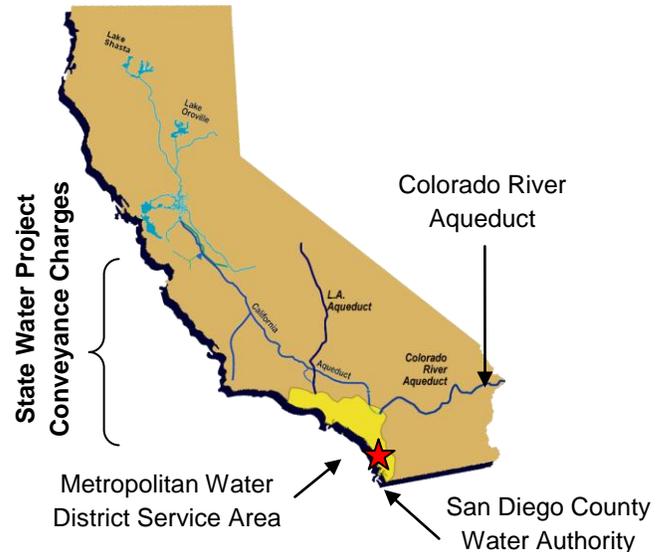
SDCWA is suing MWD over the Transportation rate (the "Wheeling" rate) charged for water transfers. SDCWA receives a portion of its water supplies through transfers from Imperial Irrigation District (IID) and the All-American and Coachella Canal Lining Projects. This water is transferred to SDCWA using MWD's Colorado River Aqueduct. In 2003, MWD agreed to accommodate SDCWA's request to transport this water, and SDCWA agreed to pay the uniform Transportation rate for its use of MWD's system.

What is the Contention by SDCWA?

SDCWA argues that MWD's rate structure violates the law by misclassifying certain components of the Transportation rate (System Access, System Power, and Water Stewardship rates) as transportation costs. They allege that the costs associated with the State Water Project's (SWP) infrastructure should be recovered through MWD's Supply rate instead of the Transportation rate.

MWD and many of its member agencies disagree; the Transportation rate is designed to recover the costs of MWD's entire conveyance and distribution system. This includes MWD's share of the SWP system, which conveys SWP supplies to MWD and its member agencies, including SDCWA. All users pay the same Transportation rate for MWD system access and conveyance, as this system provides all users with benefits. The current Transportation rate structure ensures every agency pays its fair share.

Map of Water Conveyance Facilities



By seeking to lower the Transportation rate, SDCWA wants the other 25 MWD member agencies to subsidize its cost of transporting water purchased from IID.

Explanation of MWD Rates

MWD provides water to its member agencies by purchasing water and transporting it to its member agencies. Accordingly, MWD breaks up its rates into a "Supply" rate and a series of rates that comprise the "Transportation" rate.

MWD Water Rates

\$/AF Effective Jan 1, 2014	MWD Full Service	MWD Transportation Rate	SDCWA Lawsuit Objective ¹
Tier 1 Supply	\$148	"Agency Supply Cost"	
System Access ³	\$243	\$243	\$116
Water Stewardship ⁴	\$41	\$41	\$0
System Power ⁵	\$161	\$161	\$43
Untreated Total	\$593	\$445	\$159
IID Transfer Supply	N/A	\$540	\$540
Total SDCWA Cost²	\$593	\$985	\$699

- 1) Lawsuit objective according to SDCWA.
- 2) Total SDCWA cost includes the Transportation Rate plus the supply cost for the water transfers. Total excludes MWD fixed charges.
- 3) Recovers costs of building, operating, maintaining the distribution system.
- 4) Recovers costs of demand management programs (e.g., water use efficiency, water recycling projects) that reduce use of the distribution system.
- 5) Recovers MWD's power costs for pumping water through system.



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Potential Cost Shift to Orange County due to SDCWA Lawsuit

For SDCWA, a successful outcome of the litigation would mean a significantly lower cost to transfer its water through the MWD system from IID. For the remaining 25 member agencies, it would mean we would have to bear the corresponding cost that SDCWA is able to shift onto us. The result would be a cumulative cost shift onto the other 25 MWD member agencies of \$800 million over the next 20 years. In 2010, staff estimated the cost impact to Orange County would be \$155 million (\$ in present value).

(In Millions over the Next 20 Years)

