

January 6, 2011



Moulton Niguel Water
WATER QUALITY AND SERVICE ARE #1

RE: Notice of Public Hearing for Proposed Change to a Water-Budget-Based Rate Structure and Resulting Rate Adjustments

Public Hearing for Proposed Water Rate Change

February 23, 2011

5:30 p.m.

**MNWD Headquarters
27500 La Paz Rd.
Laguna Niguel**

Dear Moulton Niguel Water District Customer,

Every Moulton Niguel Water District (MNWD) customer has unique water needs. Typically, more water is necessary for large homes than condos, and businesses use water in differing ways. That is why the District is considering a change to our billing rate structure that is based on meeting each customer's specific water needs while stabilizing MNWD's finances.

The Board will consider the proposal at a public hearing on February 23, 2011 at 5:30 p.m., and has established opportunities for customers to gain information, ask questions and provide input, so your comments and protests (see page two) can be considered before a decision is made. If approved, the proposed rate structure would be effective for water services used beginning July 1, 2011.

On the pages that follow, we outline why the change is being proposed, how it would benefit our customers and what this would mean for your bill.

Proposed Change to a Water-Budget-Based Rate Structure

MNWD is considering a change from the current water rate model to a Water-Budget-Based Rate Structure to help District customers become part of the solution as we work together to conserve our region's limited water resources. The new rate structure encourages conservation by providing each customer with a personalized amount of water – a water budget – designed to meet their specific indoor and outdoor watering needs. This amount is calculated for residential customers based on a survey the District conducted of each customer's lot size and landscaped area, the number of residents in each home and localized weather data, among other factors. Residential water budgets would vary from month to month based upon the weather. Businesses, however, use water in a different manner from homes, so their budgets would be calculated based on a three-year rolling average of each commercial customer's monthly use.

Customers whose water use remains within their water budgets would be billed at the lower rates, and customers who exceed their budgets would be billed at higher rates. This new rate structure would reward efficiency and give customers the freedom to use their water budgets as they see fit. **The current three-day-per-week watering restrictions would no longer be in effect.** Of course, we understand that unique situations can lead

A public agency at:

27500 La Paz Road, Laguna Niguel, CA 92677-3489 • 949.831.2500
Mailing Address: P.O. Box 30203, Laguna Niguel, CA 92607-0203

to a legitimate need for more water, so the system we are considering includes simple steps to adjust the water budget established for your home or business.

The proposed Water-Budget-Based Rate Structure would also allow MNWD to price water more accurately based on fixed and variable costs, which would help stabilize the District's finances moving forward. The proposed structure is designed to generate the same revenues for MNWD in fiscal year 2011-2012 as under the current rate structure.

What the Water-Budget-Based Rate Structure Means for Customers

The impact of the proposed change on each residential and commercial customer would vary based upon their actual water use, size of meter and the customized water budget for their property. Customers whose water use remains within their water budgets would be billed at the lower consumption rates, and customers who exceed their budgets would be billed at higher consumption rates. However, all residential and commercial customers should expect increases in their water bills as a result of adjustments to the fixed base charges and variable consumption rates, to more equitably share the costs of maintaining and replacing infrastructure District-wide.

To calculate your customized water budget and see how your water bill may change under the proposed Water-Budget-Based Rate Structure, please visit www.MNWD.com.

How You Can Participate

The Board of Directors wants you to have the information you need to consider the proposed rate structure before any decision is made. Here are four easy ways you can participate in the process:

- **Submit a Comment or Question:** Customers with comments or questions can contact us at (949) 831-2500 or rates@MNWD.com. We are here to answer your questions and the Directors will consider these comments before they make a decision.
- **Attend a Board Meeting:** The Board will host public rate discussions during the regularly scheduled meetings on February 15 and 16 at 9 a.m. and February 17 at 5:30 p.m., where the proposal will be reviewed and the public can ask questions and submit comments.
- **Attend the Public Hearing:** The Board will formally consider the proposed Water-Budget-Based Rate Structure in a public hearing in compliance with Proposition 218 on February 23, 2011 at 5:30 p.m. at District headquarters, 27500 La Paz Rd., Laguna Niguel. This hearing will include a public comment period where members of the public can pose questions, express any concerns and submit written protests (see below).
- **Submit a Written Protest:** By law, any customer of record or property owner within the MNWD service area may file a written protest against the proposed rate changes with the District by submitting in person or sending a letter to MNWD, 27500 La Paz Rd., Laguna Niguel, CA, 92677, attention: General Manager. A valid protest letter must include your name, the address at which service is received from MNWD, a statement of protest against the rate changes and your original signature. E-mail or other electronic protests are not valid and cannot be accepted as official protests. Protest letters received will be tabulated and presented to the Board at the public hearing on the proposed rate change to be held on February 23, 2011 at 5:30 p.m. in the MNWD Board Room, 27500 La Paz Road in Laguna Niguel. Any MNWD customer or property owner within the MNWD service area may appear at the hearing to make comments regarding the proposed rates. To be valid, protest letters must be received prior to the conclusion of the public hearing. Only one protest per property will be counted. If written protests are not filed by a majority of customers of record or owners of property within the service area, the Board will be authorized to implement the proposed rate changes.

We remain committed to keeping your rates as low as possible while providing the reliable water and sewer service you've come to expect. Please see the charts and information on the following pages for additional details. If you have any questions, please contact us at (949) 831-2500 or rates@mnwd.com.

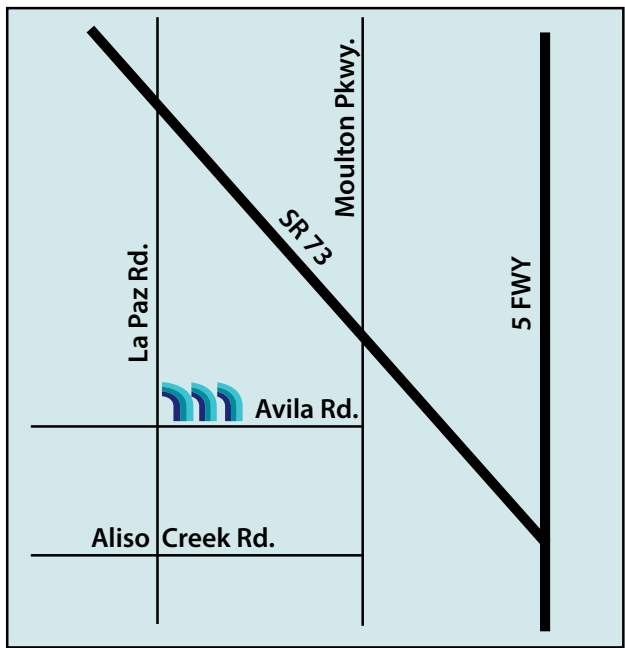
Sincerely,
MOULTON NIGUEL WATER DISTRICT



Robert C. Gumerman, Ph.D., P.E.
General Manager

**Visit www.MNWD.com for more information
and to calculate your customized
water budget.**

The proposed rate structure change is based on a financial study by an independent consultant that calculates costs of providing quality and reliable water and sewer service, including long-term debt, current and planned capital projects, and District revenues, through fiscal year 2012. This financial study is available for review upon request at District headquarters, 27500 La Paz Road in Laguna Niguel.



MNWD Headquarters: 27500 La Paz Rd., Laguna Niguel

WATER RATES

There are two parts to the water rates charged to MNWD's customers: A fixed Basic Service Charge and a variable Consumption Charge. The Basic Service Charge is a fixed amount based on the meter size at the service address. The most common meter sizes for residential properties are between 5/8" and 1". See your water bill for your meter size. The Consumption Charge is determined by the amount of water served to the property, and is measured in billing units, where one billing unit equals 748 gallons of water.

PROPOSED WATER BUDGET CONSUMPTION CHARGES

1 Billing Unit (B.U.) = 748 Gallons

RESIDENTIAL & MULTI-FAMILY WATER RATES

Consumption Tiers	Description	Approved Rates 06/01/11	Proposed 07/01/11	Amount of Increase
Conservation	Water Budget	\$1.35	\$1.38	\$0.03
Efficient	Water Budget	\$1.51	\$1.54	\$0.03
Inefficient		\$1.82	\$2.75	\$0.93
Excessive		\$2.13	\$5.51	\$3.38
Wasteful		\$2.29	\$11.02	\$8.73

COMMERCIAL WATER RATES

Consumption Tiers	Description	Approved Rates 06/01/11	Proposed 07/01/11	Amount of Increase
Conservation	Base (First 20 B.U.)	\$1.35	\$1.38	\$0.03
Efficient	Water Budget	\$1.51	\$1.54	\$0.03
Inefficient		\$1.82	\$2.75	\$0.93
Excessive		\$2.13	\$5.51	\$3.38
Wasteful		\$2.29	\$11.02	\$8.73

COMMERCIAL/RESIDENTIAL IRRIGATION WATER RATES

Consumption Tiers	Description	Approved Rates 06/01/11	Proposed 07/01/11	Amount of Increase
Conservation	Base (First 20 B.U.)	\$2.29	\$1.54	-\$0.75
Efficient	Water Budget	\$2.29	\$1.54	-\$0.75
Inefficient		\$2.29	\$2.75	\$0.46
Excessive		\$2.29	\$5.51	\$3.22
Wasteful		\$2.29	\$11.02	\$8.73

RECYCLED WATER RATES

Consumption Tiers	Description	Approved Rates 06/01/11	Proposed 07/01/11	Amount of Increase
Conservation	Base (First 20 B.U.)	\$1.83	\$1.23	-\$0.60
Efficient	Water Budget	\$1.83	\$1.23	-\$0.60
Inefficient		\$1.83	\$2.20	\$0.37
Excessive		\$1.83	\$4.41	\$2.58
Wasteful		\$1.83	\$8.81	\$6.98

RECYCLED w/ STORAGE WATER RATES

Consumption Tiers	Description	Approved Rates 06/01/11	Proposed 07/01/11	Amount of Increase
Conservation	Base (First 20 B.U.)	\$1.65	\$1.11	-\$0.54
Efficient	Water Budget	\$1.65	\$1.11	-\$0.54
Inefficient		\$1.65	\$1.98	\$0.33
Excessive		\$1.65	\$3.97	\$2.32
Wasteful		\$1.65	\$7.93	\$6.28

Water Budgets in Detail

For residential and multi-family customers, the proposed rate structure for the Consumption Charge has five tiers. Residential customers who stay within their water budget would remain in the first two tiers:

Conservation (Tier 1): Based on the number of people in your household and staying within your indoor water budget.

Efficient (Tier 2): Based on the total irrigated landscaped area for your property and staying within your outdoor water budget.

Inefficient (Tier 3): Based on exceeding your total water budget by up to 25%.

Excessive (Tier 4): Based on exceeding your total water budget by up to 50%.

Wasteful (Tier 5): Based on exceeding your total water budget by more than 50%.

For commercial customers, the proposed rate structure for the Consumption Charge has five tiers. Commercial customers who stay within their water budget would remain in the first two tiers:

Water Budget (Tier 1): Based on the first 20 billing units.

Water Budget (Tier 2): Based on the remainder of your customized water budget.

Inefficient (Tier 3): Based on exceeding your total water budget by up to 10%.

Excessive (Tier 4): Based on exceeding your total water budget by up to 20%.

Wasteful (Tier 5): Based on exceeding your total water budget by more than 20%.

HYDRANT WATER RATES (Potable)

	Approved Rates 06/01/11	Proposed 07/01/11	Amount of Increase
Basic Service Charge	\$78.45	\$78.45	\$0.00
Consumption Charge	\$2.29	\$2.29	\$0.00

HYDRANT WATER RATES (Recycled)

	Approved Rates 06/01/11	Proposed 07/01/11	Amount of Increase
Basic Service Charge	\$78.45	\$78.45	\$0.00
Consumption Charge	\$1.83	\$1.83	\$0.00

FIRE PROTECTION WATER RATES (Residential/Commerical)

	Approved Rates 06/01/11	Proposed 07/01/11	Amount of Increase
Consumption Charge	\$2.29	\$2.29	\$0.00

PROPOSED BASIC SERVICE CHARGES

MONTHLY BILLS*

Meter Size	Approved Monthly Charge 06/01/11	Proposed Monthly Charge Beg. 07/01/11	Amount of Increase
5/8", 3/4", 1"	\$10.36	\$10.36	\$0.00
1 1/2"	\$18.20	\$34.53	\$16.33
2"	\$30.75	\$55.25	\$24.50
3"	\$41.73	\$120.87	\$79.14
4"	\$57.42	\$207.20	\$149.78
6"	\$88.80	\$431.67	\$342.87
8"	\$120.18	\$621.60	\$501.42
10"	\$151.56	\$1,001.47	\$849.91
Hydrant Meters	\$78.45	\$78.45	\$0.00
Fire Protection	\$6.28	\$6.28	\$0.00

* Monthly bills include individually metered residential, residential fire protection, dedicated residential irrigation and recycled accounts.

BI-MONTHLY BILLS**

Meter Size	Approved Bi-Monthly Charge 06/01/11	Proposed Bi-Monthly Charge Beg. 07/01/11	Amount of Increase
5/8", 3/4", 1"	\$20.72	\$20.72	\$0.00
1 1/2"	\$36.40	\$69.06	\$32.66
2"	\$61.50	\$110.50	\$49.00
3"	\$83.46	\$241.74	\$158.28
4"	\$114.84	\$414.40	\$299.56
6"	\$177.60	\$863.34	\$685.74
8"	\$240.36	\$1,243.20	\$1,002.84
10"	\$303.12	\$2,002.94	\$1,699.82
Fire Protection	\$12.56	\$12.56	\$0.00

** Bi-monthly bills include commercial, fire protection, irrigation and master-metered multi-family accounts.

Future Wholesale Water Increases

In addition to the water rate adjustments set forth in this notice, MNWD may, and reserves the right to, pass through additional increases in wholesale water charges imposed by MNWD's wholesale water supplier, Municipal Water District of Orange County (MWDOC), or from other public agencies, during the period from July 1, 2011 through June 2016. These adjustments may be made to the District's customer bills, at MNWD's option, whenever MWDOC (or another public agency as applicable) increases the standard wholesale cost of water beyond the current wholesale cost assumed by MNWD for the potable water-budget consumption charges. The increases would only be made to the extent such increases are not already reflected in the schedule of charges then in effect. The adjustments would be passed through with at least 30 days notice to customers, and documentation of the increased amount of the wholesale water costs and the basis for adjusting the water-budget consumption charges would include such adjustments.

How are Residential Water Budgets Determined?

There are two components to residential water budgets: the indoor budget and the outdoor budget.

Indoor Water Budget

The indoor budget is calculated using three factors:

- The average amount of water a person uses each day
- The number of people in the household
- The number of days in the billing cycle

Average Amount of Water Used

A recent study showed that, on average, a person will use about 60 gallons of water each day indoors. This number includes all indoor water use, such as showers and washing clothes, and is based on water-efficient devices. MNWD would utilize a budget of **65** gallons per person per day. For comparison, other water agencies in Orange County have budgeted 55 to 60 gallons per day for each customer's indoor use.

People per Household

The most recent census data shows there is an average of 2.65 people per household in MNWD's service area. Each single-family home would receive a budget of four people per home. Condominiums would receive a budget of three people per home and apartments would be budgeted two people. Customers are encouraged to contact the District if their situation differs, requiring a larger indoor water budget. A variance is available for customers with a greater number of people in their household.

Days in Billing Cycle

This is the number of days that you are being billed for service. This information can be located on your water bill, and comes from the meter read dates. It may differ from bill to bill, but will usually be between 28 and 31 days.

Indoor Budget Formula

65 gallons per day x number of people x number of days on bill

Example:

- 4 people in the household, 30-day billing cycle
- $65 \times 4 \times 30 = 7,800$ gallons of water = 10.4 billing units
(1 billing unit = 748 gallons)

Outdoor Budget

The outdoor budget is calculated using three factors:

- Amount of irrigated acreage per parcel
- Daily evapotranspiration
- Plant factor

Irrigated Acreage

The irrigated acreage is the amount of landscaped area on the property that receives regular watering. Pools and spas are also included in the irrigated acreage. County Assessor parcel data and the District's Geographic Information System were used to determine the irrigated acreage for your home.

Daily Evapotranspiration

Evapotranspiration (ET) is the amount of water that is lost each day due to evaporation and plant transpiration. Evaporation will vary due to factors such as wind, humidity and temperature. Plant transpiration is the amount of water that plants lose from their leaves and plant tissues. The ET rate is measured every day in inches. For your water budget, the ET for each day in the billing cycle is added up. There is a higher ET rate in the summer when the weather is warmer, than in the winter. MNWD would measure ET using weather stations that can calculate precise data for 110 distinct microclimate zones within our service area.

Plant Factor

The plant factor measures the specific amount of irrigation water required by each type of plant in your yard. For example, grasses have a plant factor between 0.6 and 0.8, while water-efficient plants may have a plant factor of only 0.3 or 0.4. Your water budget would be calculated assuming your entire landscaped area is water-thirsty grass, using a plant factor of 0.8.

Outdoor Water Budget Formula

Irrigated acreage x ET x plant factor x .62 (conversion factor from inches to cubic feet)

Example:

- 5,000 square feet of irrigated acreage, ET of 5.72 inches
- $5,000 \times 5.72 \times 0.8 \times .62 = 14,186$ gallons of water = 19 billing units
(1 billing unit = 748 gallons)

Notice of Public Hearing
Important information about your water service

Moulton Niguel Water District
27500 La Paz Road
Laguna Niguel, CA 92677-3489



Moulton Niguel Water
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