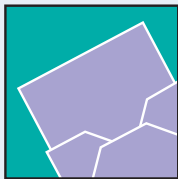


How to Read Your Water Bill

Your monthly service bill is designed to help you easily identify how much you owe and when payment is due. It also provides a profile of your monthly water usage to help you monitor your water use and conservation efforts.



Previous Charges:

Indicates any previous unpaid balances. These charges are due immediately.

How to Reach Us:

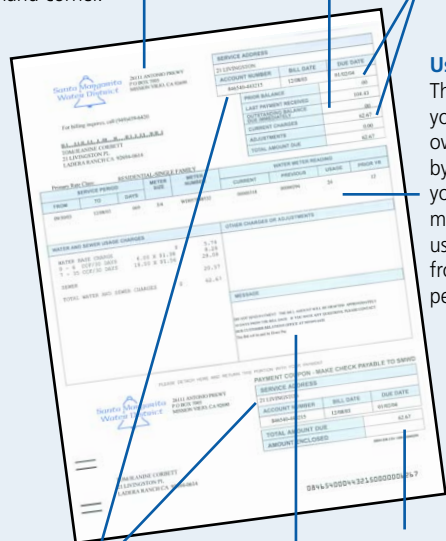
Our address and phone number are conveniently placed at the top left hand corner.

Current Charges:

Indicates your current monthly charges and due date.

Usage:

This section helps you track your own consumption by giving both your current month's water usage and usage from the same period last year.



Total Amount Due:

The total balance of your account as of the bill date. It may include last month's balance if your bill was paid past the due date.

Account Number:

Your account number is located on both the statement and remittance stub for easy identification.

Message Area:

Check this area monthly for a special SMWD message.

Other Factors

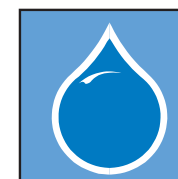
Unfunded state and federal mandates, in the form of stricter water quality regulations requiring more testing and treatment, add nearly \$100,000 to SMWD's annual expenses. Inflation also continues to increase the cost of goods and services purchased by the District.

SMWD is committed to managing and monitoring overhead and running an efficient organization so customers have the lowest rates possible. If you'd like more information, please contact the SMWD Customer Service Department at 949/459-6420.



Santa Margarita Water District
 26111 Antonio Pkwy., Las Flores, CA 92688
 949.459.6400
www.smwd.com

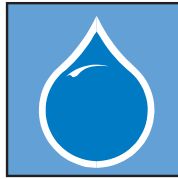
WATER COSTS



Santa Margarita
 Water District

Understanding How SMWD Works for You

It's no surprise that all local water agencies face the challenge of keeping rates as low as possible. SMWD works continuously to find new and efficient means to deliver the best water quality and customer service to its customers. However, there are factors beyond SMWD's direct control which make efficiency all the more important.



Take geography and the need for imported water, for example. We live in Southern California, a heavily populated urban desert with few local water sources. Water districts in North Orange County have access to an aquifer which supplies them with about 67 percent of their water supply at a much lower cost than imported water. There is no aquifer in South Orange County, so SMWD, along with other local water agencies, must rely upon water imported from the Colorado River and Northern California, which is more expensive. Being dependent on imported water and the governing agencies that control imported water rates are situations beyond the direct control of SMWD and other local water agencies.

Although SMWD can't do much about the cost of water due to geography, it can, and has, done a lot to reduce costs in other ways so that when Metropolitan Water District of Southern California (MWD) raises water costs, the District doesn't always have to pass the rate increase on to its customers. Since 1993, SMWD has worked hard to improve the efficiency of its operations, which

has led to five rate *decreases* since 1996. With the most recent operation cost reduction in 2000, SWMD has reduced costs by nearly \$5.4 million. This brochure will help you better understand the factors that affect water charges and rate fees on your monthly water bill.

Imported Water Costs

SMWD's largest operating cost is imported water from MWD, which supplies nearly 100 percent of the District's water supply. SMWD purchases imported water for about \$435 per acre-foot of water (326,000 gallons of water) and has no direct control over MWD's rates. These imported water costs, coupled with increased energy costs, ultimately affect your monthly water bill.

California is not the only state that depends upon the precious water resources of the Colorado River. Both Arizona and Nevada compete with California for this water source as well. Southern



Californians pay fees to support the California State Water Project, which was set up primarily to allot water to local water agencies and providers. These fees are reflected in MWD's water charges.

Other factors which restrict the availability of water and impact the purchase price are environmental regulations, regional politics in both Northern and Southern California and the absence of a peripheral canal through the Sacramento-San Joaquin Delta, which severely restricts the amount of water available from Northern California.

New Water Ventures

MWD's multi-billion dollar Diamond Valley Reservoir Project, located near Hemet, is part of a 10-fold increase in MWD water storage capacity since 1991. This major reservoir will provide water storage capacity during wet years, and will help insulate Southern California from future severe droughts and water shortages. This and other projects are paid for by water consumers through their water rates and property taxes.



The District also is researching new ways to share water storage capacity with other local districts.

Rising Energy Costs

Energy costs are significant in SMWD's service area because hilly terrain necessitates a lot of pumping.

SMWD's pumping equipment is powered by natural gas and electricity, which means the District is affected by any energy cost increases. Natural gas is purchased from the Southern California Gas Company. Half of the District's electric energy is purchased from San Diego Gas and Electric; the remainder is purchased from California Edison. The District also has been able to purchase some of its electrical power on the open market, which has helped reduce operating costs and save customers money.