THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Report

Subcommittee on Long-Term Regional Planning Processes and Business Modeling

- **Member Agency Manager Update on Business Model Refinement**

Summary

On July 22, 2024, The Metropolitan Water District of Southern California's (Metropolitan) Chair of the Board of Directors, Vice Chair of the Board of Directors for Finance and Planning, and Chair of the CAMP4Water Task Force (Board Leadership) commissioned an ad hoc working group comprised of the general managers of Metropolitan's 26 Member Agencies (Ad Hoc Working Group) to analyze Metropolitan's business model and propose business model refinement options, where appropriate. In its July 22nd letter, Board Leadership directed the Ad Hoc Working Group to ensure that it considers five factors and opportunities: (1) treated water cost recovery; (2) Metropolitan's role in member agency local supply development; (3) potential member agency supply exchange program; (4) proportion and components of fixed and volumetric charges; and (5) conservation program and funding source(s).

As per Board Leadership direction, after a series of Ad Hoc Working Group workshops, and with the support from three sub-working groups, the Ad Hoc Working Group advances to the Task Force a status report and recommendations that were developed after identifying the following 10 areas it wanted to explore for the present milestone:

1. Treated Water Cost Recovery
2. Reserve Policy
3. Water Sales Assumption for Budgeting Purposes
4. Voluntary Level Payment Plans
5. Member Agency Exchange Programs
6. Policy to Support Sales Outside of Service Area
7. Conservation and Local Resource Planning
8. Basic Level of Service
9. Wet-Year Water Acquisition Policy
10. Proportions of Fixed and Volumetric Charges

The status report and recommendations are summarized below and presented in detail in the attached Synthesis Report, **Attachment 1**.

Purpose

Informational

Attachments

Business Model Synthesis Report

Date of Report: April 22, 2025

Detailed Report

Background

Extreme weather conditions in recent years—abruptly swinging the state from periods of severe and extended drought to record-setting wet seasons—have presented Southern Californians with an unsettling preview of the challenges ahead. There is no question that climate change is here and putting mounting pressure on the year-to-year management of available water resources.

To help ensure the continued reliability and affordability of water supplies for all Southern California communities, Metropolitan developed the Climate Adaptation Master Plan for Water (CAMP4Water). As the CAMP4Water was being developed, Metropolitan decided to evaluate its business model to ensure it continues to support Metropolitan's mission given the new climate reality and possible flat or declining water demands in Southern California. Consistent with the purposes established by the Board Leadership, the Ad Hoc Working Group evaluated Metropolitan's business model and, as provided in more detail in the attached Synthesis Report, the Ad Hoc Working Group provides its status report and proposes refinement options, where appropriate.

1. STATUS REPORT ON TREATED WATER COST RECOVERY

There is broad recognition that action is needed, as the status quo is not consistent with the Board's previously adopted Policy Principles on Treated Water.

After 11 months of analysis of various alternative approaches for Treated Water Cost Recovery, two (2) member agency proposals remain. Both of these alternatives received significant support from member agencies, but not broad consensus. While the two remaining alternatives have similar approaches in terms of fixing a portion of Metropolitan's treatment revenues (approximately 30 per cent), differences exist in the billing determinants and allocation of the peaking fixed cost component that warrants further discussion. The key elements of both proposals are outlined below:

Proposal 1 – <u>March 14, 2025, MA Proposal</u>

Treatment Peaking Charge

- A fixed charge for peaking would be collected based on a 3-year trailing maximum annual peak day demand in cubic feet per second (CFS).

Used Treatment Standby Charge

- A fixed charge for used standby would be collected based on a 10-year trailing annual standby use, i.e., 10-year maximum annual use minus average use in acre-feet.

Remaining Treatment Standby Charge

- A fixed charge for remaining standby would be collected based on a 5-year trailing maximum annual use in acre-feet.
- This charge, inclusive of the Peaking and Used Standby Charge, would add up to 30 percent of the Treatment Revenue Requirements.

Treatment Volumetric Rate

- All remaining treatment costs would continue to be recovered on a volumetric rate.

Implementation Strategy for Peaking and Standby Fixed Charges

- There was broad support for phased-in implementation of the Peaking and Standby fixed charges to minimize initial member agency impacts and provide opportunities for member agencies to adjust operations accordingly:
    - Peaking = 3-year phase-in
    - Standby:
        - Used = 10-year phase-in
        - Remaining = 5-year phase-in

Adjustments / Certifications to Peaking Flows for All Alternatives

- MWD staff, including legal counsel, collaborated with member agencies on the language for proposed adjustments to Peaking Flows used to determine the peaking charge. However, staff was unable to identify an adjustment that would both meet the cost of service requirements and comply with Proposition 26 (pursuant to a recent trial court ruling that its requirements apply to Metropolitan's wholesale rates and charges, which is currently on appeal).
- At the April 10, 2025 meeting, an alternative was proposed using the Summer Peak as the billing determinant. However, this option did not receive broad support from the member agencies based on prior questionnaire responses.
- Staff recommends continuing discussions with MAs through additional meetings in May, with the goal of reaching a consensus on a proposal to be forwarded to the Board for consideration.

Items to Be Further Reviewed Before the FY2028/29 Budget Process

- Potential Regional Drought Reliability Charge (i.e., a portion of treated standby capacity that is used for the benefit of both treated and untreated users).
- Incremental Peaking (i.e., 3-year max daily minus 3-year average daily flows).
- Unused Standby Charge refinement to capture potential use of the unused standby capacity more closely than volumetric usage basis.
- MWD shall work closely with MAs to continue to identify opportunities to partially or fully decommission unneeded treatment infrastructure and minimize future O&M and capital expenditures, consistent with the 2017 Adopted Policy Principles on Treated Water.

Proposal 2 – <u>February 2025 MA Proposal</u>

Treatment Peaking Charge (capped at 10 per cent of total treatment costs)

- A fixed charge for peaking would be collected based on a 3-year trailing maximum annual peak day demand in cubic feet per second (CFS).

Treatment Standby Charge (capped at 20 per cent of total treatment costs)

- A fixed charge for standby would be collected based on a 10-year trailing annual standby use, i.e., 10-year maximum annual use minus average use in acre-feet.

Treatment Volumetric Rate

- All remaining treatment costs would continue to be recovered on a volumetric rate.

Implementation Strategy for Peaking and Standby Fixed Charges

- There was broad support for phased-in implementation of the Peaking and Standby fixed charges to minimize initial member agency impacts and provide opportunities for member agencies to adjust operations accordingly:
    - Peaking = 3-year phase-in
    - Standby = 10-year phase-in

Adjustments / Certifications to Peaking Flows for All Alternatives

- Similar to the existing Capacity Charge, treated water peaking flows resulting from MWD's operational requests (e.g., shutdowns, service disruptions, wet-year operations, dry year operations) would not be included in an agency's peaking calculations. Such circumstances do not reflect a member agency's demands; rather, they reflect a Metropolitan operational need that changes the peaking activity of the member agency.
- All data and adjustments would be fully documented and validated by each agency, following the existing process for Readiness-To-Serve and Capacity Charges.

Items to be Further Reviewed Before the FY 2028/29 Budget Process

- Potential Regional Drought Reliability Charge (i.e., a portion of treated standby capacity that is used for the benefit of both treated and untreated users).
- Incremental Peaking (i.e., 3-year max daily minus 3-year average daily flows).

2. WATER SALES ASSUMPTION FOR BUDGETING PURPOSES, RESERVE POLICY

Metropolitan shall establish a policy to set water demand at 70 per cent exceedance for rate setting with a long-term target of 80 per cent. This approach creates a mechanism to maintain reserves at the target level, providing additional protection against rate spikes.

3. VOLUNTARY LEVEL PAYMENT PLANS, WET-YEAR WATER ACQUISITION POLICY, PROPORTIONS OF FIXED AND VOLUMETRIC CHARGES

Voluntary Level Pay Plan. Member agencies interested in a Voluntary Level Pay Plan will make recommendations to Metropolitan staff. Staff will convene a meeting with the interested member agencies to explore the alternatives, analyze the impacts, and identify the changes to Metropolitan's policies that would be required for implementation.

Fixed charge for Demand Management (i.e., conservation, Local Resource Program). Staff will evaluate fixed charges based upon the recommendations made by the water resources sub-working group.

Expansion of current Readiness-to-Serve and Capacity Charge to recover O&M costs.

Ad Valorem Property Taxes. Staff will evaluate the impacts of increasing the ad valorem property tax rate in future budgets and the impact to rates, charges, and reserves.

4. MEMBER AGENCY EXCHANGE PROGRAMS

Metropolitan should support local supply exchanges between member agencies by: (A) directing staff to develop a framework that incorporates the considerations identified by the Working Group, and (B) making policy and Administrative Code changes needed to support the local supply exchanges.

5. POLICY TO SUPPORT SALES OUTSIDE OF THE SERVICE AREA

It is recommended that Metropolitan support water sales outside the service area by: (A) directing staff to develop a framework that incorporates the considerations identified by the Working Group, and (B) including the framework in the refined business model.

6. CONSERVATION AND LOCAL RESOURCE PLANNING

It is recommended that Metropolitan continue to support the development of local supplies through the Local Resources Program and continue to support conservation by: (A) directing the Finance group to continue to develop an alternative method to fund these programs, and (B) establishing a new working group to evaluate program design and develop structural refinements.

7. EQUITABLE SUPPLY RELIABILITY (METROPOLITAN BOARD RESOLUTION NO. 9318)

It is recommended that staff:

A. Conduct a surge analysis to identify any additional protection of the existing infrastructure that might be required for the Sepulveda Feeder Pump Station project Stage 2 and continuing collaboration with the three Westside agencies to minimize operational impacts. The preferred option will be combined with the Stage 2 pump station expansion project for evaluation under the CAMP4Water to process along with the other potential system flexibility projects.

B. Continue to develop certain East-West Conveyance alternatives. The East-West Conveyance alternatives could improve Metropolitan's overall system flexibility and improve reliability for Foothill MWD and other Metropolitan member agencies.

C. Advance the following activities in support of its long-term planning efforts and goal of providing adequate and reliable supplies.

- Equitable Supply Reliability – Issue Identification
- Equitable Supply Reliability – Actions Development
- System Flexibility Study
- System Reliability Study – Operational System Overview Study
- Evaluation of Regional Storage Portfolio
- Strategic Infrastructure Resilience Plan – Implementation Strategies

Timing and Urgency

Metropolitan staff will bring informational and action items, as necessary, to the Metropolitan committees of jurisdiction as soon as practical (targeted action by August 2025).

Prepared for The Metropolitan Water District of Southern California Subcommittee on Long-Term Regional Planning Processes and Business Modeling

April 2025

REPORT BY THE

Business Model Review and Refinement Ad Hoc Working Group

Metropolitan Adapting to Water Supply Variability

Extreme weather conditions in recent years – abruptly swinging the state from periods of severe and extended drought to record-setting wet seasons – have presented Southern Californians with an unsettling preview of the challenges ahead. There is no question that climate change is here and putting mounting pressure on the year-to-year management of available water resources.

To help ensure the continued reliability and affordability of water supplies for all Southern California communities, The Metropolitan Water District of Southern California (Metropolitan or MWD) is developing the Climate Adaptation Master Plan for Water (CAMP4Water) – a roadmap that will guide Metropolitan's planning and decision-making on investments in water management and related infrastructure. As the CAMP4Water was being developed, Metropolitan decided to evaluate its business model to ensure it would support Metropolitan given the new climate reality and possible flat or declining water demands in southern California.

MWD | Addressing Climate Change (MWDH2O.com/Addressing-Climate-Change)

Charge Given to the Ad Hoc Working Group

On July 22, 2024, Metropolitan's Chair of the Board of Directors, Vice Chair of the Board of Directors for Finance and Planning, and Chair of the CAMP4Water Task Force (Board Leadership), commissioned an ad hoc working group comprised of the general managers of Metropolitan's 26 Member Agencies (Ad Hoc Working Group) to evaluate Metropolitan's business model and propose refinement options, where appropriate. In its July 22nd letter, Board Leadership directed the Ad Hoc Working Group to ensure that it considers five factors and opportunities: (1) treated water cost recovery; (2) Metropolitan's role in Member Agency local supply development; (3) potential Member Agency supply exchange program; (4) proportion and components of fixed and volumetric charges; and (5) conservation program and funding source(s). A copy of the July 22, 2024, letter is attached as Attachment 1.

Ad Hoc Working Group's Facilitated Process

Metropolitan's 26 Member Agencies came together to form the Ad Hoc Working Group with the intent to follow the facilitated, thorough and deliberate process described in a letter dated August 19, 2024. A copy of that response letter is provided as Attachment 2. The process has been inclusive of all Member Agencies and allowed multiple opportunities for each Member Agency to engage on potential business model refinements. The work of the Ad Hoc Working Group was grounded in the need to: (1) stabilize Metropolitan's revenues; (2) embed flexibility and capacity to adapt to climate change; and (3) address the five above-mentioned factors and opportunities. The Ad Hoc working group provided holistic oversight and review of Business Model Refinement concepts and proposals. Attachment 3 consists of tables to illustrate the alignment and consistency of the proposed business model refinements with the overarching objectives of CAMP4Water, the five factors outlined by Board Leadership, and the goals identified by Member Agencies. Additionally, a table is provided to demonstrate the inter-relationships between the proposed business model refinements.

The Ad Hoc Working Group initiated its work with a two-day retreat, held on October 10 and 11, 2024, which focused on ensuring the members of the Ad Hoc Working Group reached agreement on the collaborative approach it would follow (facilitated broad agreement), shared a common understanding of Metropolitan's existing business model, and collectively identified strengths, weaknesses, opportunities, and threats (SWOT) to Metropolitan's current business model. Due to the importance and time sensitivity of this assignment, the Ad Hoc Working Group agreed to have monthly workshops that required a significant time commitment.

Building on that foundation, the Ad Hoc Working Group held a series of five workshops focused as follows:

November 15th Workshop No. 1

- Reviewed SWOT results.
- Conducted an exercise using "The Business Model Canvas" (Osterwalder and Pigneur, 2010).
- Discussed Metropolitan's value propositions.
- Brainstormed potential areas to explore for business model refinement.

December 13th Workshop No. 2

- Identified 15 potential business model refinement topics for further evaluation and analysis.
- Agreed to form three sub-working groups (finance, water resources, and engineering) and identified which potential refinements would be evaluated by each sub-working group; each sub-working group was led by MWD staff.
- Recognized that the potential refinements may need to be advanced on different time horizons.
- Committed to follow through on agreed-upon refinement proposals, after presentation to Task Force.

January 24th Workshop No. 3

- Reached conceptual agreement on charters for each of the three sub-working groups.
- Received updates from each sub-working group.
- Discussed progress of work plans.

February 21st Workshop No. 4

- Offered an opportunity for Member Agencies and Metropolitan staff to raise topics for discussion with the Ad Hoc Working Group.
- Reviewed potential refinements the Ad Hoc Working Group identified in previous workshops; agreed on which items would be explored further and which items would not be evaluated in detail prior to presentation of Working Group work product to the Task Force.
- Discussed and agreed upon an approach to synthesize and integrate the deliverables expected from the sub-working groups.

March 12th Workshop No. 5

- Reviewed, discussed, and agreed on recommendations to be presented to the Task Force.
- Discussed an approach to continuing refinement work, coordinating with the Task Force, and advancing each item, as appropriate, to the Committee with jurisdiction over the item.

April 10th Workshop No. 6

- Discussed progress to date and alignment on proposed recommendations captured in draft synthesis report for consideration by the Task Force at its April 22 meeting.
- Discussed proposed presentation for April 22 Task Force meeting.

Foundational Point of Agreement: Metropolitan's Value Proposition

At the November 15th Workshop No. 1, the Ad Hoc Working Group discussed the value propositions of Metropolitan as a central element of its business model and referenced its mission statement for context:

> *"The mission of Metropolitan Water District of Southern California is to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way."*

There was broad agreement and acknowledgement that Metropolitan provides value to its Member Agencies as a collective that could not be achieved by a Member Agency individually. Further, the Ad Hoc Working Group identified three important components of the value proposition: (1) safe and reliable water; (2) stable, predictable, and affordable rates and (3) an adaptable and resilient water system.

Formation of Three Sub-Working Groups

After the December 13th Workshop, the Ad Hoc Working Group created three sub-working groups, primarily focused on the areas of finance, water resources, and engineering. Each sub-working group was led by Metropolitan staff who consulted with and relied upon the expertise of other Metropolitan staff and the Member Agency representatives participating in the sub-working group.

Each sub-working group was asked to prepare recommendation(s) for the Ad Hoc Working Group's consideration and include with each recommendation a clear and concise description of the objective the recommendation is intended to address, alternatives evaluated, the benefits and drawbacks of each alternative, and the basis for the recommendation. The complex nature of this process coupled with time constraints necessitated frequent meetings and communication among participants.

Culmination of Six Months of Work: Achievements at this Milestone

Initially, the Ad Hoc Working Group was working towards recommendations that were highly detailed and immediately implementable. However, the Ad Hoc Working Group had to temper its expectations because of the six-month period within which it needed to produce recommendations, the number of items it needed to address, and the complexity of most, if not all, of the items it was considering. The Ad Hoc Working Group is proud of the results.

A significant outcome of the effort has been meaningful improvements in the following areas: (1) the understanding of the common and varied interests of Metropolitan's Member Agencies, and (2) the working relationships and trust among the Member Agencies and between the Member Agencies and Metropolitan. That was the result of the deliberate structure for the discussions outlined above, which was built on a recognition that Metropolitan's business model must adapt to support Metropolitan's mission into the future and during which there were meaningful opportunities to interact, "actively" listening was encouraged, and biases or assumptions challenged. The Ad Hoc Working Group identified the following topics it wanted to explore.

1. Treated Water Cost Recovery
2. Reserve Policy
3. Water Sales Assumption for Budgeting Purposes
4. Voluntary Level Payment Plans
5. Member Agency Exchange Programs
6. Policy to Support Sales Outside of Service Area
7. Conservation and Local Resource Planning
8. Basic Level of Service
9. Wet-Year Water Acquisition Policy
10. Proportions of Fixed and Volumetric Charges

After discussing those topics (to varying degrees), the Ad Hoc Working Group presents in a status report and the recommendations in Attachment 4.

As directed by the Subcommittee, Metropolitan staff will bring informational and action items, as necessary, to the Metropolitan committees of jurisdiction as soon as practical (targeted action by August 2025) to incorporate into the FY 2026/27 and FY 2027/28 biennium budget which establishes rates and charges for calendar years 2027 and 2028. For other items, Metropolitan staff will work with Member Agencies to finalize recommendations in advance of the FY 2028/29 and FY 2029/30 biennium budget for incorporation into rates and charges for calendar years 2029 and 2030.

ATTACHMENT 1

July 22, 2024, Guidance Memorandum

GUIDANCE FOR BUSINESS MODEL REVIEW AND REFINEMENT
AD HOC WORKING GROUP

TO: GENERAL MANAGERS, Metropolitan Member Agencies

FR: ADAN ORTEGA, Board Chair
GAIL GOLDBERG, Board Vice Chair for Finance and Planning
MATT PETERSEN, CAMP4W Task Force Chair

DA: July 22, 2024

Background and Composition
As part of the Climate Adaptation Master Plan for Water (CAMP4W) Task Force, a business model review and refinement process has begun. The Task Force is working to create a Master Plan for consideration by the MWD Board that considers the impacts of climate change upon water supply and the operations of MWD. As stated in the CAMP4W charter, this necessitates a review and refinement of the MWD Business Model. Therefore, the Task Force is commissioning an ad hoc working group comprised of the general managers of Metropolitan's 26 Member Agencies that will be managed and supported by MWD staff as well as include the MWD Board Chair, Board Vice Chair, Task Force Chair, Task Force Vice Chair and MWD General Manager as ex officio members to participate as needed and available.

Outcomes, Purpose, and Process
Given the expertise of Metropolitan's Member Agency Managers and their direct experience running the day-to-day operations and finances of their respective agencies, their input into the Business Model review process is essential. While the Task Force is asking for proposals related to specific issues now, there will be opportunities for discussing additional topics later in the process.

Specifically, the Task Force requests a series of "straw person" proposals—at least two and no more than five--for Task Force consideration. Each of these proposals should be grounded in the need to (1) stabilize Metropolitan revenues and (2) embed flexibility and capacity to adapt to climate change and to address the factors noted below of opportunity for Business Model refinement. The final proposals shall be reached by consensus of the working group. If consensus for at least two proposals cannot be reached, the ex officio members will determine which proposals will be presented to the Task Force.

A short progress report will be provided on the work of the ad hoc working group at each monthly Task Force meeting. By November 13, 2024, the final two to five proposals shall be finalized and transmitted to the Task Force for discussion.

To inform the first Business Model Review ad hoc working group meeting in August 2024, MWD staff will produce Business Model Working Memo #1 for review and discussion. The memo will include a description of Metropolitan's current business model along with a draft problem statement. Staff will continue to track progress and memorialize discussions as needed.

Factors for Consideration in Final Proposals
In the final two to five "straw person" proposals, the working group shall ensure the following factors and opportunities are considered and reflected:

1) Treated Water Cost Recovery (workshops already underway)
2) Metropolitan's role in Member Agency local supply development
3) Potential Member Agency supply exchange program
4) Proportion and components of fixed and volumetric charges
5) Conservation program and funding source(s)

ATTACHMENT 2

August 19, 2024, Member Agency Letter

August 19, 2024

Mr. Adán Ortega Jr., Board Chair
Ms. Gail Goldberg, Board Vice Chair for Finance and Planning
Mr. Matt Petersen, CAMP4W Task Force Chair
Mr. Deven Upadhyay, Interim General Manager
Metropolitan Water District of Southern California
700 North Alameda Street
Los Angeles, CA 90012-2944

Subject: BUSINESS MODEL REVIEW AND REFINEMENT AD HOC WORKING GROUP PROCESS

Dear Board Leadership and Interim General Manager Upadhyay,

Thank you for your July 22nd guidance letter regarding the development of a Business Model review and refinement Ad Hoc Working Group as we consider the impacts of climate change on Metropolitan's water supply and operations "***to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.***"

We further appreciate the Board Leadership's foresight and recognition that as Metropolitan's Member Agency Managers, we have expertise through our direct experience running our respective agencies' day-to-day operations and finances, which offers valued input into the Business Model review and refinement process.

Following the July 24th Subcommittee on Long-Term Regional Planning Processes and Business Modeling CAMP4W Task Force Meeting, we collectively reviewed and discussed your guidance letter and the Ad Hoc Working Group process. As the 26 Metropolitan Member Agency Managers, we propose the following framework for collaboration that includes at least two facilitated "retreats" to discuss and vet major elements of the process (see attached).

We look forward to embarking on a collaborative effort for review and refinement of the Business Model via the Ad Hoc Working Group and pledge our continued dedication to the success of Metropolitan's initiatives.

Sincerely,

Craig J. Parker, P.E., BCEE
Assistant General Manager, Water Services
Anaheim Public Utilities
City of Anaheim

Richard Howard Wilson, P.E.
Assistant General Manager – Water Systems
Burbank Water & Power

Kristine McCaffrey
General Manager
Calleguas Municipal Water District

Elaine Jeng, P.E.
Interim General Manager
Central Basin Municipal Water District

Nina Jazmadarian
General Manager
Foothill Municipal Water District

Chisom Obegolu, P.E.
Assistant General Manager – Water Services
Glendale Water & Power

David W. Pedersen, P.E.
General Manager
Las Virgenes Municipal Water District

Anselmo G. Collins, P.E., MBA
Senior Assistant General Manager – Water System
Los Angeles Department of Water and Power

Stacie N. Takeguchi
Chief Assistant General Manager
Pasadena Water & Power

Wendell E. Johnson, P.E.
Director of Public Works
City of San Fernando

Shana Epstein
Director of Public Works
City of Beverly Hills

Jessica Taylor
Director of Operations
California American Water/City of San Marino

Jose Garfias
Interim Water Department General Manager
City of Compton Water Department

Joe Mouawad, P.E.
General Manager
Eastern Municipal Water District

Stephen Bise, P.E., T.E.
Director of Public Works
City of Fullerton

Shivaji Deshmukh, P.E.
General Manager
Inland Empire Utilities Agency

Chris Garner
General Manager
Long Beach Utilities
City of Long Beach

Harvey De La Torre
General Manager
Municipal Water District of Orange County

Dan Denham
General Manager
San Diego County Water Authority

Cesar E. Barrera, P.E.
Deputy Public Works Director
Water Resources Manager
City of Santa Ana

Sunny Wang, P.E.
Water Resources Manager
City of Santa Monica

Matthew H. Litchfield, P.E.
General Manager
Three Valleys Municipal Water District

Andy Darlak
Water Operations Manager
City of Torrance

Tom Love
General Manager
Upper San Gabriel Valley Municipal Water District

E.J. Caldwell
General Manager
West Basin Municipal Water District

Craig Miller
General Manager
Western Municipal Water District

DRAFT FRAMEWORK FOR MWD AND MEMBER AGENCY
COLLABORATION ON BUSINESS MODEL REVIEW AND REFINEMENT

August 19, 2024

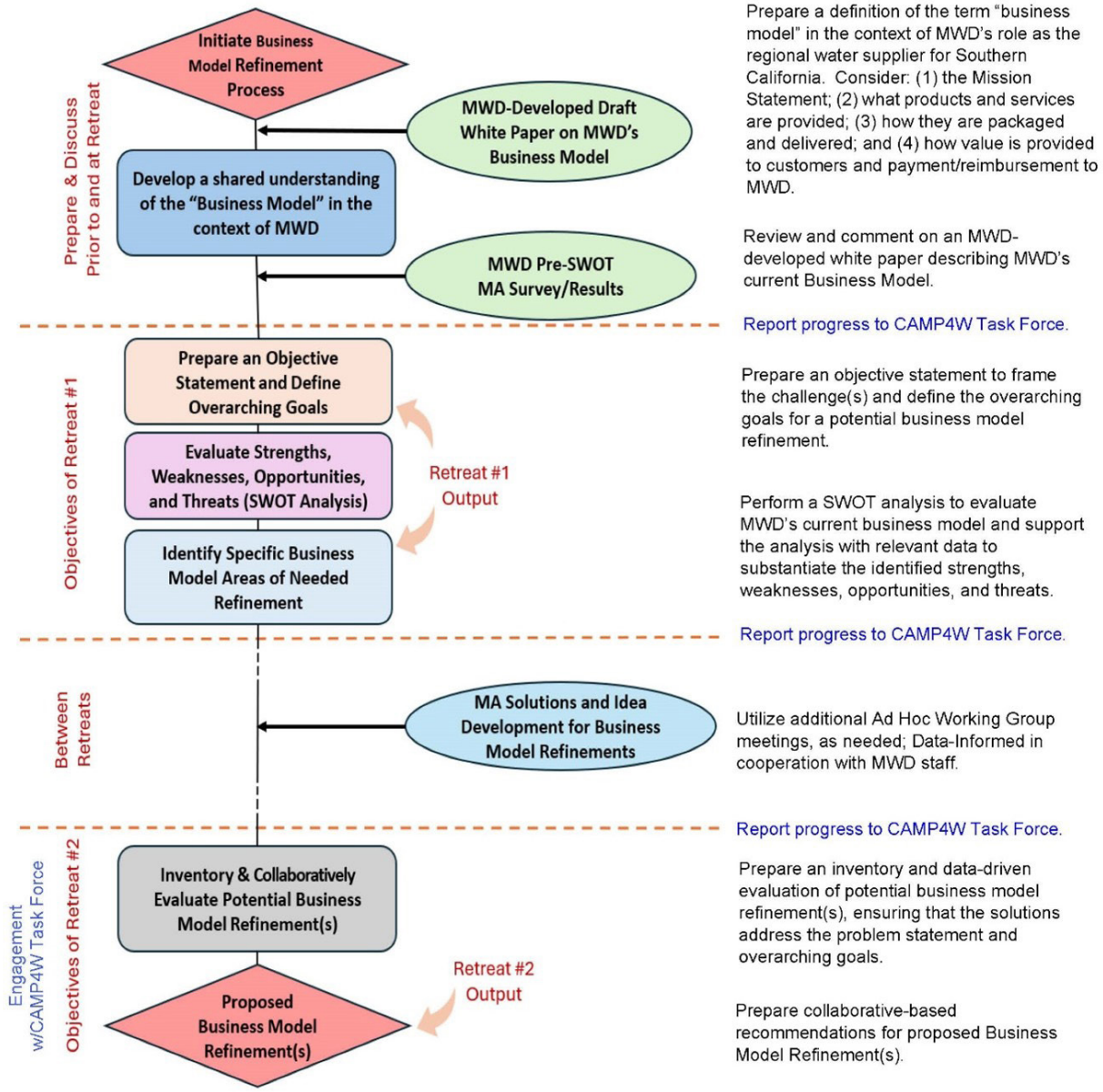
In response to the July 22nd guidance from Board Leadership, the Metropolitan Water District of Southern California (MWD) and its Member Agencies (MAs) propose to embark on a collaborative effort to review and refine the Business Model via an Ad Hoc Working Group.

The attached flow chart describes the proposed process. Following are the initial logistics for the effort:

- MWD and MA Managers jointly "own" the process, work products, and recommendations of the Ad Hoc Working Group.
- The Ad Hoc Working Group includes all 26 MA Managers and MWD's General Manager.
- MWD's General Manager will invite key MWD staff (subject matter experts) to actively participate, as needed.
- The Ad Hoc Working Group will organize at least two facilitated "retreats" to discuss and vet major elements of the process.
- To coordinate the Ad Hoc Group meetings/retreats, a MA Liaison group of MA Managers (four to six) serving on a volunteer basis will assist with the administrative elements of the process. MWD will hire a professional facilitator to support the Ad Hoc Working Group's retreats. The MA Managers' input will be considered in the selection of the facilitator.
- In preparation for the retreats, the facilitator should have the opportunity to receive input from the MWD General Manager and MA Managers.
- Board Leadership will be provided with an opportunity to address the Ad Hoc Working Group at the onset of the retreats.
- Progress updates will be given by the Ad Hoc Working Group at the Subcommittee on Long-Term Regional Planning Processes and Business Modeling meeting and/or appropriate committee at key milestones.
- The Ad Hoc Working Group's goal is to provide and present a deliverable report to the CAMP4W Task Force by March 31, 2025, with collaborative-based recommendations that can be subsequently considered by the Board.

Proposed Process for MWD Business Model Discussion

August 19, 2024



Prepare a definition of the term "business model" in the context of MWD's role as the regional water supplier for Southern California. Consider: (1) the Mission Statement; (2) what products and services are provided; (3) how they are packaged and delivered; and (4) how value is provided to customers and payment/reimbursement to MWD.

Review and comment on an MWD-developed white paper describing MWD's current Business Model.

Prepare an objective statement to frame the challenge(s) and define the overarching goals for a potential business model refinement.

Perform a SWOT analysis to evaluate MWD's current business model and support the analysis with relevant data to substantiate the identified strengths, weaknesses, opportunities, and threats.

Utilize additional Ad Hoc Working Group meetings, as needed; Data-Informed in cooperation with MWD staff.

Prepare an inventory and data-driven evaluation of potential business model refinement(s), ensuring that the solutions address the problem statement and overarching goals.

Prepare collaborative-based recommendations for proposed Business Model Refinement(s).

v1.1 (08/23/24)

ATTACHMENT 3

Alignment and Consistency of Business Model Refinements

and

Inter-Relationships of Business Model Refinements

Interrelationships between Business Model Refinement Proposals

Business Model Refinement	Treated Water Cost Recovery	Reserve Policy	Water Sales Assumption for Budgeting Purposes	Member Agency Exchange Program	Policy to Support Sales Outside of Service Area	Conservation and Local Resource Planning	Programs for Wet-Year Water	Level of Service Policy	Proportions of Fixed and Volumetric Charges	Voluntary Level Payment Plans
Treated Water Cost Recovery	✓	✓	✓						✓	✓
Reserve Policy	✓	✓	✓		✓				✓	✓
Water Sales Assumption for Budgeting Purposes	✓	✓	✓						✓	✓
Member Agency Exchange Program				✓	✓	✓		✓		
Policy to Support Sales Outside of Service Area		✓	✓	✓	✓	✓			✓	
Conservation and Local Resource Planning				✓	✓	✓	✓	✓	✓	
Programs for Wet-Year Water				✓	✓	✓	✓			
Level of Service Policy						✓		✓		
Proportions of Fixed and Volumetric Charges	✓	✓	✓		✓	✓			✓	✓
Voluntary Level Payment Plans		✓							✓	✓

Alignment/Consistency with Board Leadership Guidance Memo (July 22, 2024) – Five Factors

Business Model Refinement	Treated Water Cost Recovery	Metropolitan's Role in Member Agency Local Supply Development	Potential Member Agency Supply Exchange Program	Proportion and Components of Fixed and Volumetric Charges	Conservation Program and Funding Source(s)
Treated Water Cost Recovery	✓			✓	
Reserve Policy	✓			✓	
Water Sales Assumption for Budgeting Purposes	✓	✓		✓	✓
Member Agency Exchange Program		✓	✓		
Policy to Support Sales Outside of Service Area		✓	✓	✓	
Conservation and Local Resource Planning		✓	✓	✓	✓
Programs for Wet-Year Water		✓	✓		
Level of Service Policy		✓	✓	✓	✓
Proportions of Fixed and Volumetric Charges	✓			✓	✓
Voluntary Level Payment Plans	✓	✓		✓	✓

Alignment/Consistency with Top Member Agency Goals Identified at October 10-11 Retreat

Business Model Refinement	Supply Reliability	Predictable and Stable Rates	Adaptability / Resilience to Changing Conditions	Equity between Member Agencies	Regional Benefits / Cooperation
Treated Water Cost Recovery		✓	✓	✓	
Reserve Policy		✓	✓		
Water Sales Assumption for Budgeting Purposes		✓	✓		
Member Agency Exchange Program	✓	✓	✓	✓	✓
Policy to Support Sales Outside of Service Area		✓	✓		✓
Conservation and Local Resource Planning	✓	✓	✓	✓	✓
Programs for Wet-Year Water	✓	✓	✓		✓
Level of Service Policy	✓	✓	✓	✓	✓
Proportions of Fixed and Volumetric Charges		✓	✓		
Voluntary Level Payment Plans		✓	✓	✓	✓

Business Model Refinement	 Water Resources Planning	 Infrastructure Development	 Climate Adaptation	 Financial Planning/ Sustainability
Treated Water Cost Recovery	✓		✓	✓
Reserve Policy	✓		✓	✓
Water Sales Assumption for Budgeting Purposes	✓		✓	✓
Voluntary Level Payment Plans			✓	✓
Member Agency Exchange Program	✓	✓	✓	
Policy to Support Sales Outside of Service Area	✓		✓	✓
Conservation and Local Resource Planning	✓	✓	✓	✓
Level of Service Policy	✓	✓	✓	✓
Programs to Bring in More Wet-Year Water	✓		✓	✓
Proportions of Fixed and Volumetric Charges			✓	✓

ATTACHMENT 4

Recommendations

FINANCIAL POLICIES BUSINESS MODEL SUPPORT SUB-WORKING GROUP TREATED WATER COST RECOVERY

Status Report

Recommendations

There is broad recognition that action is needed, as the status quo (i.e. 100% volumetric) is not consistent with the Board's previously adopted Policy Principles on Treated Water.

After 11 months of analysis of various alternative approaches for Treated Water Cost Recovery, two (2) Member Agency proposals remain. Both of these alternatives received significant support from Member Agencies, but not broad consensus. While the two remaining alternatives have similar approaches in terms of fixing a portion of Metropolitan's treatment revenues (approximately 30%), differences exist in the billing determinants and allocation of the peaking fixed cost component that warrant further discussion. The key elements of both proposals are outlined below:

MARCH 14, 2025, MA PROPOSAL

Treatment Peaking Charge

- A fixed charge for peaking would be collected based on a 3-year trailing maximum annual peak day demand in cubic feet per second (CFS) (Alternative 2)

Used Treatment Standby Charge

- A fixed charge for used standby would be collected based on a 10-year trailing annual standby use, i.e. 10-year maximum annual use minus average use in acre-feet (Alternative C)

Remaining Treatment Standby Charge

- A fixed charge for remaining standby would be collected based on 5-yr trailing maximum annual use in acre-feet.
- This charge inclusive of the Peaking and Used Standby Charge would add up to 30% of the Treatment Revenue Requirements.

Treatment Volumetric Rate

- All remaining treatment costs would continue to be recovered on a volumetric rate.

Implementation Strategy for Peaking and Standby Fixed Charges

- There was broad support for phased-in implementation of the Peaking and Standby fixed charges to minimize initial member agency impacts and provide opportunities for member agencies to adjust operations accordingly:
  - Peaking = 3-year phase-in
  - Standby:
    Used = 10-year phase-in
    Remaining = 5-year phase-in

Adjustments / Certifications to Peaking Flows for All Alternatives

- MWD staff, including legal counsel, collaborated with Member Agencies on the language for proposed adjustments to Peaking Flows used to determine the peaking charge. However, staff was unable to identify an adjustment that would both meet cost of service requirements and comply with Proposition 26 (pursuant to a recent trial court ruling that its requirements apply to Metropolitan's wholesale rates and charges, which is currently on appeal).
- At the April 10, 2025 meeting, an alternative was proposed using the Summer Peak as the billing determinant (previously considered as Alternative 1). However, this option did not receive broad support from the Member Agencies based on prior questionnaire responses.
- Staff recommends continuing discussions with MAs through additional meetings in May, with the goal of reaching consensus on a proposal to be forwarded to the Board for consideration.

Items to be further reviewed before the FY2028/29 budget process

- Potential Regional Drought Reliability Charge (i.e., a portion of treated standby capacity that is used for the benefit of both treated and untreated users)
- Incremental Peaking (i.e. 3-year max daily minus 3-year average daily flows)
- Unused Standby Charge refinement to capture potential use of the unused standby capacity more closely than volumetric usage basis.
- MWD shall work closely with MAs to continue to identify opportunities to partially or fully decommission unneeded treatment infrastructure and minimize future O&M and capital expenditures, consistent with the 2017 Adopted Policy Principles on Treated Water.

FEBRUARY 2025 MA PROPOSAL

Treatment Peaking Charge (capped at 10% of total treatment costs)

- A fixed charge for peaking would be collected based on a 3-year trailing maximum annual peak day demand in cubic feet per second (CFS) (Alternative 2)

Treatment Standby Charge (capped at 20% of total treatment costs)

- A fixed charge for standby would be collected based on a 10-year trailing annual standby use, i.e. 10-year maximum annual use minus average use in acre-feet (AF) (Alternative C)

Treatment Volumetric Rate

- All remaining treatment costs would continue to be recovered on a volumetric rate.

Implementation Strategy for Peaking and Standby Fixed Charges

- There was broad support for phased-in implementation of the Peaking and Standby fixed charges to minimize initial member agency impacts and provide opportunities for member agencies to adjust operations accordingly:
  - Peaking = 3-year phase-in
  - Standby = 10-year phase-in

Adjustments / Certifications to Peaking Flows for All Alternatives

- Similar to the existing Capacity Charge, treated water peaking flows resulting from MWD's operational requests (e.g., shutdowns, service disruptions, wet year operations, dry year operations) would not be included in an agency's peaking calculations. Such circumstances do not reflect a member agency's demands; rather, they reflect a Metropolitan operational need that changes the peaking activity of the member agency.
- All data and adjustments would be fully documented and validated by each agency, following the existing process for RTS and Capacity Charges

Items to be further reviewed before the FY2028/29 budget process

- Potential Regional Drought Reliability Charge (i.e., a portion of treated standby capacity that is used for the benefit of both treated and untreated users)
- Incremental Peaking (i.e. 3-year max daily minus 3-year average daily flows)

Background

On April 9, 2024, the MWD Board adopted the Fiscal Year (FY) 2024/25 and FY 2025/26 Biennial Budget that directed staff to work with MAs to evaluate and analyze the Treatment Surcharge. Specifically, the Board directed staff to address issues identified through the analysis, including potential modifications to the calculation methodology. The Board further emphasized that a final methodology should be prioritized as part of the broader new business model discussion and recommended for adoption as soon as possible, but no later than the approval of the new business model.

Summary of Work Completed To-Date

Member Agencies participated in 11 workshops, starting in May 2024, to discuss the Treated Water Cost Recovery. Detailed discussions were held on a variety of topics, including:

- Key concerns/issues raised by MA's during Budget adoption with the Treatment Surcharge
- Goals and objectives of the Treated Water Cost Recovery Workgroup, including the Policy Principles on Treated Water previously adopted by the Board and past efforts to develop alternative approaches to Treated Water Cost Recovery
- MWD's current treatment operations, plant capacity, utilization (including distribution of historical data by member agency), cost, and cost of service, which included support from MWD's external rate consultant as needed
- Identified that a portion of the treated system provides a regional drought reliability benefit, which included the development of a white paper "Regional Drought Reliability Benefits Due to Flexibility of the Integrated Treated Water System" dated January 17, 2025 . The member agencies believe more analysis is necessary to determine the extent of the use of the treatment system for regional drought reliability.
- MWD and MA's developed and evaluated treated water cost recovery alternatives for Peaking and Standby Use:
  - Six (6) Treatment Peaking Alternatives
  - Nine (9) Treatment Standby Alternatives
  - Four (4) separate proposals introduced by Member Agencies in January 2025, February 2025, March 2025 and March 14, 2025

Guiding Framework for Rate Design Solutions

Aligned with the 2017 Adopted Policy Principles and feedback, the sub-working group discussed a guiding framework for rate design solutions to evaluate alternatives, support comparisons, and facilitate discussion and selection processes. Treatment rates and charges should:

1. Be consistent with industry standard cost of service principles
   - Provide a nexus between member agency cost responsibility and benefits received
   - "Rate charged should reflect the cost of having capacity reserved and available for the customer" (AWWA M1 Principles of Water Rates, Fees, and Charges, 7th Edition)
2. Align treatment rates with treatment services received
   - Align the treated water cost recovery with (1) the service commitments and (2) infrastructure capital investments made by MWD
   - Reflect the cost to maintain the treatment capacity and the treatment benefits received for average, peaking and standby uses
   - Evaluate the portion of standby capacity that provides regional drought reliability

3. Enhance rate stability and predictability
   - Recover a portion of the treatment costs on fixed charge(s)
   - Work closely with Member Agencies to continue to identify opportunities to partially or fully decommission unneeded treatment infrastructure and minimize future O&M and capital expenditures
   - Continue to obtain member agency commitment to utilize new or expanded future capacity

Alternatives Considered

The sub-working group developed and evaluated multiple treated water cost recovery alternatives for peaking and standby use. While the regional drought reliability benefit was analyzed, additional discussions are needed and it is recommended that these discussions would be continued for future incorporation into MWD's rate structure. Hypothetical impact analyses were conducted for all of the alternatives. Staff prepared a sensitivity analysis showing the year-over-year change to MA fixed charges under the various alternatives. Raftelis Financial Consultants, MWD's independent rate consultant, reviewed the proposed alternatives and stated that, while not perfect, they have reasonable nexus for cost-of-service standards.

Treatment Peaking Cost Recovery Alternatives Analyzed

	Billing Determinants	Units	Details	Descriptions
Alt 1	3-yr trailing maximum ***summer*** peak day demand	CFS	3-yr trailing max day **May-Sep**	Proposed in 2017 Treatment Capacity Charge (similar to the current Capacity Charge), represents member agencies' summer peak use.
Alt 2	3-yr trailing maximum ***annual*** peak day demand	CFS	3-yr trailing max day **Jan-Dec**	Represents member agencies' peak use throughout the year
Alt 3	3-yr trailing **annual incremental** peak demand	CFS	3-yr trailing max day Jan-Dec minus 3-yr avg day	Represents member agencies' ***incremental*** peak use throughout the year
Alt 4	3-yr trailing **summer incremental** peak demand	CFS	3-yr trailing max day May-Sep minus 3-yr avg day	Represents member agencies' ***incremental*** peak use during summer and supports local supply development
Alt 5	3-yr trailing **annual incremental seasonally adjusted** peak demand	CFS	3-yr trailing seasonal adjusted max day minus 3-yr avg day	Represents member agencies' ***incremental*** peak use with seasonal factors to reduce summer peak impact on MWD distribution system
Alt 6	3-yr trailing **average incremental** peak demand	CFS	3-yr **average** trailing of max day Jan-Dec minus avg day	Represents member agencies' **average** ***incremental*** peak use over the 3-year period
Feb 2025 MA Proposal - Peaking	3-yr trailing maximum ***annual*** peak day demand	CFS	3-yr trailing max day **Jan-Dec**	Recovers treatment peaking costs, capped at 10% of treatment costs, billing determinants same as Alt 2
Mar 2025 MA Proposal	3-yr trailing maximum ***annual*** peak day demand	CFS	3-yr trailing max day **Jan-Dec**	Same as Alt 2
Mar 14 2025 MA Proposal - Peaking	3-yr trailing maximum ***annual*** peak day demand	CFS	3-yr trailing max day **Jan-Dec**	Same as Alt 2

Treatment Standby Cost Recovery Alternatives Analyzed

	Billing Determinants	Units	Details	Descriptions
Alt A	Max of TYRA or 1998-2007 Avg	AF	(TYRA= 10-yr rolling avg)	1998-2007 Represents the basis when MWD made major investments in treatment plants
Alt B	10-yr Trailing Max Year	AF	Max annual usage in the past 10 years	Represents MA's standby use in the past 10-yrs beyond seasonal peak
Alt C	10-yr Trailing Annual Standby Use	AF	10-yr max annual usage minus 10-yr average use	Represents MA's standby use in the past 10-yrs beyond seasonal peak and average use
Alt D	Treatment Connected Capacity	CFS	Sum of Member Agency treated connections	Potential Member Agency capacity to MWD's treatment system
Alt E	Treatment Capacity Reservation	CFS		Capacity requested by each Member Agency
Alt F	Treatment Connected Capacity available for Standby	CFS	Treatment connected capacity minus 3-yr trailing max day (Alt 2)	Potential Member Agency capacity to MWD's treatment system not used in the last 3-yrs but available for emergency use (standby)
Alt G	10-yr Trailing Standby Use	CFS	10-yr max day minus 3-yrs trailing max day (Alt 2)	Represents the standby use as incremental use above peak day flows in the past 10-yrs
Alt H	10-yr Trailing Max Day Flow	CFS	10-yr max day	Represents MA's max use in the past 10 years
Alt I	5-yr Average Annual Demand	AF	5-year rolling average of annual treated demand	Recovers all treatment standby costs, inclusive of Regional Drought Benefits, on fixed charge and offers member agencies greater rate stability and predictability
Jan 2025 MA Proposal	5-yr Average Annual Demand	AF	25% Fixed Charge on 5-yr average annual treated demand	Recovers 25% of Treatment Costs based on 5-year rolling average treated demand. Provides MWD with additional fixed cost recovery and offers member agencies greater rate stability & predictability.
Feb 2025 MA Proposal - Standby	10-yr Trailing Annual Standby Use	AF	10-yr max annual usage minus 10-yr average use	Recovers all treatment standby costs, capped at 20% of Treatment Costs
Mar 2025 MA Proposal	Treatment Fixed Charge	AF	Remaining 30% Treatment Fixed Charge based on a 5-yr average annual treated demand	This charge inclusive of the Peaking Charge adds up to 30% of the Treatment Revenue Requirements.
Mar 14 2025 MA Proposal - Standby	Used Treatment Standby Charge	AF	10-yr max annual usage minus 10-yr average use	Recovers used treatment standby costs based on 10-yr annual standby use (Alt C)
	Remaining Treatment Standby Charge	AF	5-yr Trailing Max Annual Demand	Recovers remaining treatment standby costs, up to 30% of treatment costs inclusive of peaking and used standby charges, based on 5-yr max annual demand

Summary of Proposals

There is broad recognition that action is necessary, as the current status quo (i.e. 100% volumetric) is not consistent with the Board's previously adopted Policy Principles on Treated Water. The Sub-Working Group remains committed to fostering collaboration and identifying common ground. Moving forward, it will be essential to acknowledge and address the concerns raised to try to build broader alignment and ensure a smooth implementation.

On March 17, 2025, the majority of Member Agencies collaborated to approve a revised proposal that was initially presented on March 14, 2025. While the proposal received broad support, its support is contingent upon adopting language **to adjust peaking flows** for purposes of determining the Peaking Charge by agency when the agency undertakes extraordinary operational activities that benefit MWD's system.

- Subsequently, MWD staff, including legal counsel, collaborated with MA' on the language for the proposed Adjustments to Peaking Flows. However, they were unable to identify an adjustment that would both meet cost of service requirements and comply with Proposition 26 (pursuant to a recent trial court ruling that its requirements apply to Metropolitan's wholesale rates and charges, which is currently on appeal).

The February 2025 MA Proposal is an alternative to the March 14, 2025 MA Proposal. Both of these alternatives received significant support from Member Agencies, but not broad consensus. Additional discussion and collaboration will be necessary to determine the most appropriate path forward and to build broader consensus among the MAs.

Path Forward

Staff recommends continuing discussions with Member Agencies through additional meetings in May with the goal of reaching broad consensus on a proposal to be forwarded for consideration. The Sub-Working Group remains committed to constructive dialogue and consensus-building. Addressing outstanding concerns will be critical to securing broader alignment and ensuring the successful implementation of the final proposal.

FINANCIAL POLICIES BUSINESS MODEL SUPPORT SUB-WORKING GROUP

Unrestricted Reserve Policy Recommendations

Recommendations

To enhance financial stability and better address evolving risks, including climate change, the sub-working group recommends the following technical refinements to the reserve policy:

Link reserve percentage to water demand exceedance levels: Adjust reserve percentage based on budgeted exceedance level, with the following assumptions:

- 80% exceedance = 15% reserve percentage
- 70% exceedance = 19% reserve percentage
- 50% exceedance = 25% reserve percentage
- The sub-working group recommends that Metropolitan establish a policy to set water demand at 70% exceedance for rate setting with a long-term target of 80%, without relying on one-time revenues or reserve draws.

Recognize the disconnect between supplies and sales and exclude variable costs from reserve calculations.

Incorporate protection for treated water sales volatility: Treatment revenue requirements will be incorporated into the Unrestricted Reserves Minimum and Target levels to provide enhanced protection against treated sales volatility. The Treatment Surcharge Stabilization Fund will be consolidated into Unrestricted Reserves to streamline fund management and increase flexibility.

Exclude uncertain revenues: Unpredictable revenue sources, such as unawarded grants and one-time revenues, should be excluded from reserve calculations to protect against revenue shortfall risks.

The sub-working group also recommends modifying language in the MWD Administrative Code for the Reserve Policy:

- Reserves, by nature, are one-time funds; fiscal prudence dictates that they should not be used to cover ongoing expenditures.
- Funds in excess of the target level shall be utilized as directed by the Board for:
  - Funding capital expenditures to avoid additional debt issuance;
  - Redemption or defeasance of outstanding bonds or commercial paper;
  - Addressing pension and OPEB liabilities, including the potential creation of a pension/retiree healthcare trust fund; and/or
  - Meeting other legal or financial obligations as necessary.

Background

Current Unrestricted Reserve Policy

The current unrestricted reserve policy, originally adopted with the 1999 Long Range Finance Plan, is governed by MWD Administrative Code § 5202. It is designed to cover revenue shortfall resulting from declines in water transactions, ensuring a minimum of 18 months and up to 42 months of rate protection at the target level. The policy has been generally effective, as Metropolitan has not required emergency rate increases outside of its regular rate-setting process. Unrestricted reserves exceeding the target level may be used for any lawful purpose as determined by the Board. Although the policy aims to provide 3.5 years of rate protection at the target level, it currently lacks a clear policy mechanism to ensure reserves reach and maintain that target level.

The existing reserve calculation is based on hydrologic risk estimates from the 1999 Long Range Finance Plan. However, climate change, which has exacerbated the volatility of both demand and supply, and the associated risks over the years have highlighted the need for refinements. The minimum reserve level is set to cover 18 months of reserves, comprising the next fiscal year's reserve amount plus half of the subsequent fiscal year's reserve. The target reserve level extends this calculation by an additional two years, totaling 42 months (3.5 years) of reserve coverage.

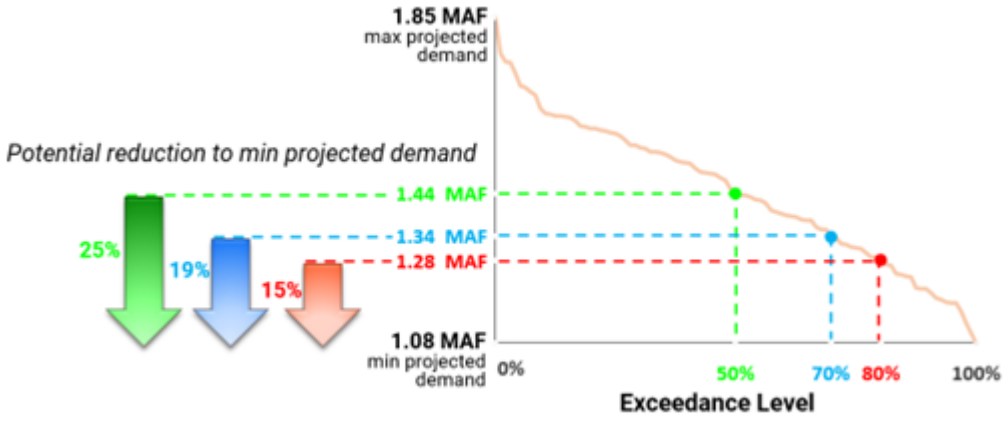
The current policy assumes that variable supply and power costs decrease when water demand is low, but this is not always the case. During wet years with low demand, power costs may actually increase due to the need to move and store excess water. Additionally, the policy does not account for revenue shortfalls from the Treatment Surcharge during periods of low treated water sales. The Treatment Surcharge Stabilization Fund, which currently has no funds, also lacks defined minimum and target levels, limiting its effectiveness in providing rate protection.

The reserve policy's minimum and target levels are based on the revenue risk associated with lower water sales. Reserves, however, have been used to address all unforeseen cash shortages including shortfalls in treated system revenues and to add water to storage during years of surplus. In addition, the policy will lose its effectiveness if rates are not adopted to fully cover costs, such as setting rates based on planned draws from reserves or setting rates based on one-time revenues.

Alternatives Considered

Metropolitan reviewed the calculations for determining the portion of the net revenue requirement that is collected by volumetric water rates. Certain line items that were deducted from the net revenue requirement were no longer appropriate due to climate-related volatility, the uncertain nature of the assumed revenues, and the disconnect between supplies and sales. The reserve percentage was also analyzed in light of recent water transactions and potential demand variability. Historical data indicated that actual water transactions were consistently lower than budgeted projections for eight of the past nine years. By correlating this trend with a revised reserve percentage, the sub-working group recommended aligning the reserve percentage with the budgeted exceedance level—the higher the exceedance level, the lower the volatility or risk, allowing for a lower reserve percentage in the calculation as shown in Figure 1 below.

Figure 1: Projected Demand Variability for Calendar Year 2025



To enhance financial stability and better address evolving risks, the sub-working group recommends the following technical refinements to the reserve policy:

- **Link reserve percentage to water demand exceedance level:** Adjust reserve percentage based on budgeted exceedance level, with the following assumptions:
  - 80% exceedance = 15% reserve percentage
  - **70% exceedance = 19% reserve percentage**
  - 50% exceedance = 25% reserve percentage
  - The sub-working group recommends that Metropolitan establish a policy to set water demand at 70% exceedance for rate setting with a long-term target of 80%, without relying on one-time revenues or reserve draws.
- **Recognize the disconnect between supplies and sales and exclude variable costs from reserve calculations.**
- **Incorporate protection for treated water sales volatility:** Treatment revenue requirements will be incorporated into the Unrestricted Reserves Minimum and Target levels to provide enhanced protection against treated sales volatility. The Treatment Surcharge Stabilization Fund will be consolidated into Unrestricted Reserves to streamline fund management and increase flexibility.
- **Exclude uncertain revenues**: Revenue sources that are unpredictable, such as unawarded grants and one-time revenues, should be excluded from reserve calculations to protect against revenue shortfall risks.

Gradually implementing a higher exceedance level (i.e., 80%) in rate-setting would help reduce risk associated with sales variability, increasing the likelihood that Metropolitan meets its budgeted water transaction projections. This approach creates a mechanism to maintain reserves at the target level, providing additional protection against rate spikes and emergency rate adjustments.

FINANCIAL POLICIES BUSINESS MODEL SUPPORT SUB-WORKING GROUP

Conservative Water Transactions in Rate Settings Recommendation

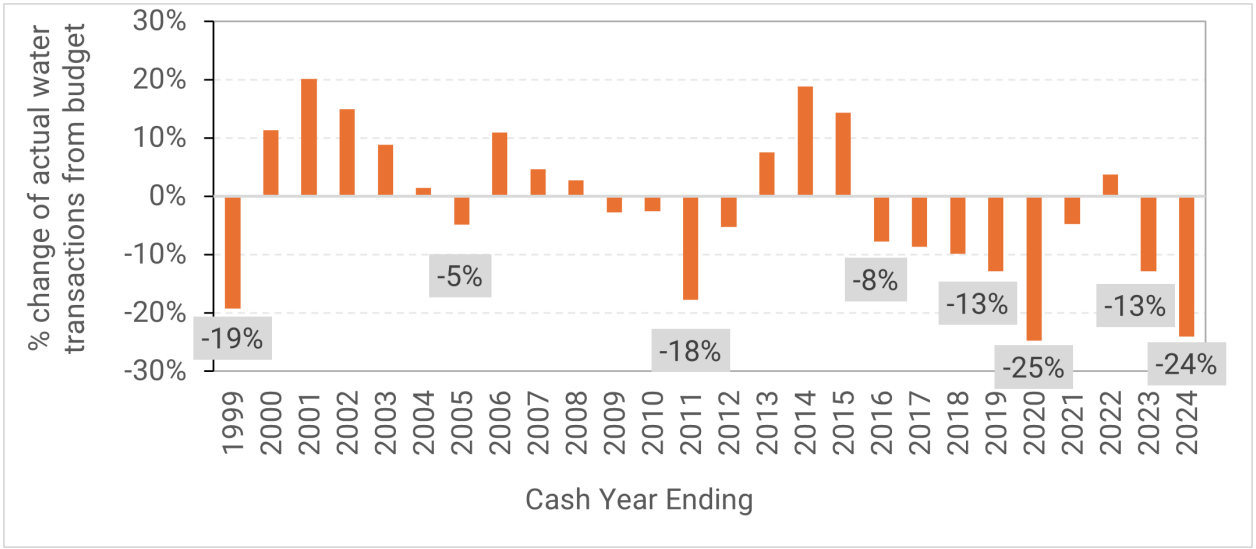
Recommendation

Metropolitan shall establish a policy to set water demand at 70% exceedance for rate setting with a long-term target of 80%. This approach creates a mechanism to maintain reserves at the target level, providing additional protection against rate spikes.

Background

Over the last 25 years, Metropolitan's water sales have shown significant volatility, with actual transactions often falling short of budgeted projections (Figure 1). Since 2015, the most substantial shortfalls occurred in 2019 (-13%), 2020 (-25%), 2023 (-13%), and 2024 (-24%), reflecting growing unpredictability in water demand. This persistent trend of lower-than-expected sales underscores financial risks, exacerbating revenue shortfalls and placing greater strain on unrestricted reserves.

Figure 1: Variability of Metropolitan's Historic Water Transactions from Budget



Alternatives Considered

Historically, Metropolitan's biennial budget, along with its rates and charges, has been based on average demand (aligned with a 50% exceedance level), which has generally provided financial stability. However, over the past decade, climate change and other factors have increased uncertainty in sales projections, resulting in revenue shortfalls when actual water transactions fall below budgeted levels. Since the exceedance level relies on historical hydrology, adopting a more conservative demand projection would help mitigate financial risk by reducing the likelihood of overestimating sales, thereby safeguarding revenue and reserves.

In line with the Metropolitan Board's direction, the current budget and 10-year financial forecast are based on 70% exceedance demand projections. Given ongoing uncertainty and declining water transactions, gradually increasing the exceedance level to 80% over time would strengthen financial stability by reducing the risk of overestimating sales. This approach would help maintain reserves and create a structured mechanism to achieve target reserve levels. Raising the exceedance level to 80% would lower projected water demand by approximately 57,000 AF.

Gradually implementing a higher exceedance level (e.g., 80%) in rate setting would help mitigate sales volatility, increasing the likelihood that Metropolitan will meet its sales projections. This approach would also provide a mechanism to maintain reserves at the target level, providing additional protection against potential rate spikes.

Consensus Proposal

Metropolitan shall establish a policy to use a minimum of 70% exceedance level for rate setting during biennial budget development with a long-term target of 80% exceedance level, ensuring financial stability without relying on one-time revenues or reserve draws. Gradually reaching the target of 80% exceedance will mitigate sales volatility, and create a mechanism for building and maintaining reserves at the target levels, providing additional protection against rate spikes while minimizing the potential initial impacts. This proposal aligns with recommendations on the unrestricted reserve policy and other fixed revenue strategies.

FINANCIAL POLICIES BUSINESS MODEL SUPPORT SUB-WORKING GROUP

Other Fixed Revenues Recommendations

Recommendations

The sub-working group recommends that Metropolitan consider adopting and implementing the proposed fixed treatment charges as outlined in the Treated Water Cost Recovery Recommendations while continuing to evaluate additional fixed revenues.

Potential fixed revenues alternatives that require additional discussion include:

- **Voluntary Level Pay Plan**
  - Member agencies interested in a Voluntary Level Pay Plan will make recommendations to Metropolitan staff. Staff will convene a meeting with the interested member agencies to explore the alternatives, analyze the impacts, and identify the changes to Metropolitan's policies that would be required for implementation.
- **Fixed charge for Demand Management (i.e., conservation, Local Resource Program)**
  - Staff will evaluate fixed charges based upon the recommendations made by the water resources sub-working group
- **Expansion of current Readiness-to-Serve (RTS) and Capacity Charge (CC) to recover O&M costs**
- **Ad Valorem Property taxe**s
  - Staff will evaluate the impacts of increasing the ad valorem property tax rate in future budgets and the impact to rates and charges and reserves

These efforts aim to enhance financial stability and ensure a more predictable and equitable cost recovery structure.

WATER RESOURCES BUSINESS MODEL SUPPORT SUB-WORKING GROUP

Support for Sales Outside of the Service Area Recommendation

Recommendation

Metropolitan should support water sales outside of the service area by (1) directing staff to develop a framework that incorporates the considerations identified by the Working Group, and (2) including the framework in the refined business model.

Background

The Working Group was asked the following Business Model questions:

1. Should Metropolitan sell water outside the service area? Under what conditions?
2. Are policy changes needed for outside water sales?

Considerations

The Working Group identified the following key considerations that should be examined when developing a Framework to support water sales outside the service area.

1. **Existing policy supports outside water sales** – The Metropolitan Water District Act and Administrative Code allow for the sale of surplus water outside of the service area. The 2021 Water Management Amendment to the SWP contract allows for non-permanent sale of SWP supply between SWP contractors at prices negotiated between buyers and sellers.
2. **The existing Water Surplus and Drought Management planning process should identify conditions under which surplus supplies would be sold** – The WSDM planning process is an adaptive tool that staff uses to identify storage and non-storage actions that Metropolitan can pursue within the year to manage both drought and surplus conditions. Although the priorities of various water management actions may change from year to year depending on initial storage balances, the WSDM plan provides a solid foundation for identifying surplus conditions and potential actions. Key considerations for determining conditions under which surplus supplies would be sold outside the service area include (1) first meeting all member agency demands and (2) ensuring sufficient storage and future dry-year reliability for agencies within the SWP-dependent area.
3. **Metropolitan should continue to invest in new storage and exchange opportunities for managing surplus supplies for the benefit of the region** – The sale of water outside of the service area can generate new revenue and thus there may be a temporary regional financial benefit to Metropolitan's member agencies. Metropolitan must continue to develop new storage and exchange programs to manage surplus water for the region's benefit and forecasted future needs, especially for agencies within the SWP-dependent areas. The development of new storage and exchange programs can help improve dry-year reliability by converting surplus supplies to future dry-year supplies.
4. **Water sales should recover at minimum Metropolitan's overall water supply costs** – Sale of water outside of the service area should recover at minimum the overall cost of supply, cost of service, and any future costs/obligations to Metropolitan.

5. **Metropolitan should not include anticipated revenues from the sale of water outside of the service area to unidentified parties, or from unidentified transactions, in its budget, revenue requirements, or rate-setting processes** – The Finance group should revise Metropolitan's reserve policy to address potential revenues from water sales outside of the service area. Anticipated revenues from signed longer-term agreements should be considered for appropriate inclusion into the budget, revenue requirements, or rate-setting processes by the Finance group.

Assessment of Potential Consequences

The Working Group identified potential consequences associated with sales outside the service area and staff developed the assessment of such consequences.

Financial Sustainability

Member agencies should be given first right of refusal to purchase surplus supplies – Member agencies always have the right to purchase supplies at the full-service rate. All demands will be met prior to selling water outside the service area. Member Agencies have the option of purchasing water available for sale to outside agencies. The cost of the supply would include the supply rate, system access and power rate, and treatment surcharge rate (if applicable).

Operational Flexibility

Operational constraints when selling water – The sale of water is envisioned to be outside the service area and should not result in any operational impacts within the service area. A decision to sell water outside of the service area in a given year would be based on the best available information at the time.

WSAP Implementation

Considered, but none were identified.

Regional Reliability

Changes to demands impacting storage targets – Potential impacts on storage balances related to changes in Metropolitan demands or supplies subsequent to the sale of water in a given year. A decision to sell water outside of the service area in a given year would be based on the best available information at the time following the framework of the Water Surplus and Drought Management Plan.

Other

Unforeseen unintended consequences – The framework should allow for the ability to make future refinements to the policy.

WATER RESOURCES BUSINESS MODEL SUPPORT SUB-WORKING GROUP

Support For Local Supply Exchange Recommendation

Recommendation

Metropolitan should support local supply exchanges between member agencies by (1) directing staff to develop a framework that incorporates the considerations identified by the Working Group, and (2) making policy and Administrative Code changes needed to support the local supply exchanges.

Background

The Working Group was asked the following Business Model questions:

1. Should Metropolitan accommodate local supply exchanges within the service area?
2. How should Metropolitan support the exchanges?

Considerations

The Working Group acknowledges that local supply exchanges can optimize existing resources and offer a cost-effective option to meet demands. The Working Group identified key considerations that should be examined when developing the Local Supply Exchanges Framework.

1. **Policy changes needed to support indirect local supply exchanges** – Metropolitan can deliver local supplies from one member agency to another by exchange or wheeling. State policy is already in place for wheeling; therefore, no policy changes are needed. However, a policy change is needed to support indirect exchanges. Metropolitan's administrative code sections 4205 and 4501 need to be modified to allow changing the delivery location and billing for supplies purchased by a member agency.
2. **Seller must consume the local supply being exchanged** – The local supply produced and consumed by the participating agency needs to be documented to ensure the exchange is balanced. Consumption of local supplies ensures that the local supply being exchanged is being beneficially used within the region and prevents an increase in demand on Metropolitan. For exchanges of pre-existing local supply, the exchange must not result in an increase in demand on Metropolitan.
3. **Metropolitan should only deliver to participating agencies when Metropolitan supplies are available** – Deliveries should not impact the reliability of agencies within the State Water Project Dependent Area (SWPDA) or any part of Metropolitan's service area. Exchanges should occur in the same time period that the additional local supplies are consumed and not create a Metropolitan obligation, at the time of the production or in the future. Stored Metropolitan supplies should not be used to support the exchanges, and the availability of Metropolitan supplies should not be taken from one agency to be provided to another.
4. **Exchanges should not result in an additional cost to the region** – Agencies should not be provided incentives by Metropolitan to develop exchanges. Metropolitan must recover all costs for facilitating the exchange.
5. **Available capacity in the system** – Deliveries of exchange water should not be guaranteed and only be made when operationally feasible for Metropolitan. Deliveries to agencies within the SWPDA should not be impacted.

Assessment of Potential Consequences

There is general agreement from the Working Group to support local supply exchanges, provided that there are no additional costs to the region and no supply reliability impacts to the region or to agencies within the SWPDA. The Working Group identified potential consequences associated with facilitating local supply exchanges and staff developed the assessment of such consequences.

Financial Sustainability

Exchanges may lower demands and impact future Metropolitan sales – Although exchanges may lower demands for Metropolitan water, facilitation of regional local supply exchanges will increase total production in the service area. Increased local supply production can help reduce stress on imported water supplies, reduce future risks of supply allocation, and alleviate the need to purchase and/or produce more expensive supplies. Thus, the region will benefit from increased water supply reliability in a manner consistent with other local supply production.

Operational Flexibility

Additional demands on Metropolitan's regional water supply – To facilitate the exchanges, Metropolitan would be delivering regional supplies to the purchasing agency. Metropolitan would only facilitate exchanges when operationally feasible and supplies are available. Exchanges do not create an obligation since deliveries will not be made if supplies are not available.

Potential impacts to blends as a result of the exchange – Deliveries to support exchanges will not result in additional deliveries of Metropolitan supplies. Metropolitan should maintain the blending goals of the Colorado River and the State Water Project supplies. There should not be a negative impact on the blending of water as a result of the exchange.

WSAP Implementation

Counteracting purpose of WSAP – Not appropriately allocating supplies to the exchanging agencies could result in deeper cuts to non-participating agencies during an allocation. WSAP policies and procedures would apply, and access to Metropolitan water would not be taken from one agency and provided to another. The selling agency is exchanging the local supply benefit with the buying agency. The local supply may be considered an extraordinary supply if it complies with all WSAP policies. The water delivered would be documented and accounted for to the appropriate agency.

Regional Reliability

Exchanges may create future obligations for Metropolitan – Exchanges would be reasonably concurrent with local supply consumption and would not create a Metropolitan obligation at the time of the exchange or in the future. In addition, Metropolitan stored supplies would not be obligated to support exchanges.

Exchanges will facilitate access to all agencies to purchase local supplies – Metropolitan would not be involved in the negotiations between agencies, thus empowering each agency to develop partnerships with each other. Costs and quantities of water will be agreed upon between the agencies. Metropolitan will enter into a separate agreement with agencies for the coordination of delivery and accounting of local supplies.

Other

Unforeseen unintended consequences – The framework should allow for the ability to make future refinements to the policy.

WATER RESOURCES BUSINESS MODEL SUPPORT SUB-WORKING GROUP

Support the Development of Local Supplies and Conservation Recommendation

Recommendation

Metropolitan should continue to support the development of local supplies through the Local Resources Program (LRP) and continue to support Conservation by (1) directing the Finance group to continue to develop an alternative method to fund these programs, and (2) establishing a new working group to evaluate program design and develop structural refinements.

Background

The Working Group was asked the following Business Model questions:

1. Are policy changes related to conservation and LRP needed as part of the Business Model process?
2. Should Metropolitan change the way that it supports the development of local supplies and conservation?

The 2015 IRP Policy Principles were adopted by the board to guide Metropolitan's regional participation in maintaining and developing local supplies and conservation. The Working Group did not identify any needed changes to existing policies since they allow for a range of participation and investment by Metropolitan.

Considerations

The Working Group acknowledges investments made through conservation and LRP for demand offset are cost-effective in comparison to other alternatives. Thus, the Working Group is supportive of Metropolitan continuing to support the development of local supplies and conservation programs through incentives with the following considerations:

1. **A new revenue mechanism should be explored to fund regional Conservation and LRP investments** – Incentives provided under these programs are considered to be a good investment. Consideration is being given to collecting revenues in a manner that would support the continued disbursement of incentives through the programs. The current rate structure is primarily a volumetric rate structure which exposes Metropolitan to more financial instability. Developing a method for collecting revenues to fund these programs that is not based on water sales will assist with financial sustainability.
2. **Conservation and LRP are important programs that play a significant role in managing demands –** These programs should be continued to help develop and conserve supplies during varying hydrologic conditions and are significantly more important in dry years. As the region faces potential future water supply challenges on the Colorado River and State Water Project, these programs help manage demands, reduce stress on imported supplies, and reallocate available supplies to the region. Furthermore, as climate change impacts increase and water conservation mandates become more stringent, demand management programs will be paramount to maintain regional reliability.
3. **Conservation and LRP programs should be evaluated to determine if the incentive amounts are appropriate and if the program structures meet regional needs** – For the LRP, the program structure should be evaluated, and areas that can be refined to make the programs more flexible should be identified. Local supplies may have higher regional benefits if they are developed in certain areas and consideration should be given to incentivizing projects that provide a greater regional benefit through higher incentives or an alternative funding structure.

Assessment of Potential Consequences

The LRP and Conservation Programs are important to many member agencies. The Working Group broadly agrees that these programs, specifically the LRP, should be modified but not terminated. The Working Group identified potential consequences, and staff developed an assessment of such consequences.

Financial Sustainability

Development of local supplies and conservation may lower demands on Metropolitan – Although conservation budgets can be modified, LRP funding commitments are for the duration of the LRP agreements which is up to 25 years. With new conservation and local supplies, sales are anticipated to decrease. A reduction in demands could reduce revenues for Metropolitan under the current rate structure, which is primarily a volumetric rate structure. Water that is conserved and new local supplies that are developed help reduce risks of supply shortages by allowing the offset supply to be stored for use in a dry year. Previously stored supplies are recovered from storage during a dry year and are sold at the full-service rate, which would support Metropolitan's financial sustainability and minimize supply shortage risks.

Operational Flexibility

Considered, but none were identified.

WSAP Implementation

Considered, but none were identified.

Regional Reliability

Program structure and incentive amount may not encourage the development of programs and projects – The current program structures work well but should be evaluated to identify areas that can be enhanced to increase participation.

Local supply projects are not being developed in needed areas – The current program criteria do not consider the location of the project in determining eligibility for participation in the program. Development of projects in certain locations could have additional benefits that are not considered. A program structure that encourages the development of local supply projects in specific areas or with additional benefits may help increase reliability. Smaller agencies do not typically have the capacity to develop programs and thus are not able to take advantage of the LRP funding as there is a large cost to plan and project including applying for grants and other funding. Smaller agencies do not have the personnel or funding capacity to promote conservation. The current programs do not address the issue of how to assist these agencies.

There is a finite amount of storage – Depending on hydrologic conditions and demands, conserved supplies may be stored and reduce available storage capacity. Although Metropolitan currently has available capacity to store in Banking Programs, the recovery capacity limits how much can recovered each year. Adding more water into storage will take longer to recover.

Other

Unforeseen unintended consequences – The framework should allow for the ability to make future refinements to the policy.

Feasibility of Extending Sepulveda Feeder Pumping Operation to LA-25

Recommendation

Staff recommends conducting a surge analysis to identify any additional protection of the existing infrastructure that might be required for the Sepulveda Feeder Pump Station project Stage 2 and continuing collaboration with the three Westside agencies to minimize operational impacts. The preferred option will be combined with the Stage 2 pump station expansion project for evaluation under the Climate Adaptation Master Plan for Water (CAMP4Water) process along with other potential system flexibility projects.

Background

The Working Group was asked the following Business Model questions:

Is it feasible to deliver water to Service Connection LA-25 using the planned Sepulveda Feeder Pump Stations?

Objective

Evaluate actions that increase system flexibility when developing stage 2 of the Sepulveda Feeder Pump Stations.

Developed Alternatives

The planned Sepulveda Feeder Pump Stations (SFPS) project includes the Venice Pump Station and the Sepulveda Canyon Pump Station (SCPS). The original concept was to deliver pumped flow from the Common Pool Area of Metropolitan's distribution system through Sepulveda Feeder to supply service connections along West Valley Feeder (WVF) No. 2. This would offset State Water Project (SWP) demand from the Jensen Plant, which could be used to supply the northern reach of the Los Angeles Department of Water and Power's (LADWP) distribution system. LADWP requested that Metropolitan examine the potential for the SFPS to pump all the way up to LA-25. This type of operation would address concerns that, under an extreme and prolonged SWP supply shortage, the supply from the Jensen Plant may not be adequate to meet its demand. Staff developed two options to extend the pumping operation of the SFPS project to allow pumping from the SCPS to LA-25 under the project's Stage 2 configurations - up to 160 cfs capacity. Both options require a bypass line to allow simultaneous operations of Greg Avenue Pump Station (GAPS) and SCPS and a pressure control structure (PCS) to regulate the pressure of the pumped flow. Both options may provide less flexibility for Jensen plant operations. The primary scope of each option is listed below:

Option 1: A bypass line (300 feet) connecting the East Valley Feeder (EVF) to the WVF No. 1

A PCS on the WVF No. 2

Option 2: A bypass line (3,200 feet) connecting the EVF to the WVF No. 2

A PCS on the WVF No. 2

Pros and Cons

	Pros	Cons
Option 1	• Provides operational flexibility during droughts • Lower cost (approximately $30M)	• Amendment of WVF No. 1 lease agreement with LADWP • Changes current operation to supply from WVF No. 1 vs. WVF No. 2
Option 2	• Provides operational flexibility during droughts • Minimum changes to current operation along WVFs	• Higher cost (approximately $60M) • Construction challenges (longer pipe in urban area and crossing of a major freeway)

Staff also evaluated the feasibility of delivering the 30 cfs flow planned for the Stage 1 installation to LA-25. Although the procured pumps are capable of delivering 30 cfs to LA-25, the SFPS and GAPS could not operate at the same time without the installation of a new bypass line.

System Flexibility Improvement Considerations for Foothill Municipal Water District

Recommendation

Staff recommends continuing to develop the East West Conveyance alternatives, Options 2, 3, and 7, described below. The East-West Conveyance alternatives could improve Metropolitan's overall system flexibility and improve reliability for Foothill MWD and other Metropolitan member agencies.

Background

The Working Group was asked the following Business Model question:

What infrastructure could be developed to improve the system flexibility for the Foothill Municipal Water District (Foothill MWD) to enhance reliability?

Objective

Evaluate actions to increase Foothill Municipal Water District's system flexibility.

Alternatives Considered

Metropolitan staff evaluated eight alternatives to improve system flexibility for the Foothill MWD.

Treated Water Options:

- **Option 1: New Service Connection on Upper Feeder** – A new service connection located adjacent to the Foothill MWD service area delivering supplies from the F.E. Weymouth Water Treatment Plant (WTP).
- **Option 2: East-West Treated Water Conveyance** – A new pipeline and new pump stations able to deliver water directly from Weymouth WTP to the Jensen WTP service area.
- **Option 3: Kinneloa Mesa to Jensen Water Treatment Plant Conveyance** – A new pipeline and new pump stations able to deliver water from the Upper Feeder to the Jensen WTP service area.
- **Option 4: Upper Feeder/Santa Monica Feeder to Foothill MWD Service Area** – A new pipeline and pump station(s) to deliver water from the Upper Feeder to the Foothill MWD service area.
- **Option 5: Upper Feeder Loop-Kinneloa Mesa to Eagle Rock Control Tower** – A new pipeline and pump stations creating a looped system through Foothill MWD's service area off the Upper Feeder.
- **Option 6: Upper Feeder Loop-Kinneloa Mesa to Verdugo Wash Loop** – A new pipeline and pump stations creating a looped system through Foothill MWD's service area off the Upper Feeder.

Raw Water Options

- **Option 7: Glendora Tunnel to San Fernando Tunnel East-West Conveyance** – A new pipeline and pump stations able to deliver water from the Colorado River, Diamond Valley Lake, and the proposed Pure Water Southern California (PWSC) backbone pipeline for groundwater recharge.
- **Option 8: Pure Water Southern California to Devil's Gate Dam** – A new pipeline and pump station to deliver water from PWSC to Devil's Gate Dam for groundwater recharge.

Timeline of Upcoming Activities

Recommendation

Staff will advance the following activities in support of its long-term planning efforts and goal of providing adequate and reliable supplies:

- Equitable Supply Reliability – Issue Identification
- Equitable Supply Reliability – Actions Development
- System Flexibility Study
- System Reliability Study - Operational System Overview Study
- Evaluation of Regional Storage Portfolio
- Strategic Infrastructure Resilience Plan – Implementation Strategies

Background

The Working Group was asked the following Business Model question:

Can staff provide a timeline of upcoming activities related to infrastructure improvements?

Objective:

To provide an outline of upcoming actions to evaluate overall system reliability, flexibility, and resilience.

Considerations:

The Engineering Sub-Working Group identified the following activities planned over the next three years that identify potential projects, programs, and activities that impact equitable supply reliability to member agencies.

Equitable Supply Reliability Identification – Identify areas within the Metropolitan System that may be disproportionately affected under certain supply constraints and revisit applicanble policies.

Equitable Supply Reliability Mitigation Projects – Identify, study, and implement supply reliability projects and drought mitigation actions for the SWPDAs.

System Reliability Study/System Flexibility Study – Assess the member agency's ability to withstand a 7-day Metropolitan outage and an extended Metropolitan outage from a seismic event.

System Reliability Study/Operational System Overview Study – Evaluation of existing Metropolitan system to identify operational challenges and capacity constraints. Areas of consideration include infrastructure capacity constraints and water quality issues.

Regional Storage Portfolio – Evaluation of the existing regional storage portfolio, including emergency storage recommendations and spatial analysis.

Strategic Infrastructure Resilience Plan / Plan Implementation – Evaluation of Metropolitan's current resilience planning efforts to:

- Formulate strategies to improve infrastructure resilience.
- Align organization-wide resilience efforts by defining vision, goals, and strategies.
- Guide the development and implementation of a comprehensive resilience program.
- Ensure integration of resilience program into existing operational framework and alignment with other core programs

Strategic Asset Management Plan Implementation Strategies – Continue current efforts to implement the Strategic Asset Management Plan.

Timeline

A preliminary schedule for the activities outlined above is shown below:

Upcoming Activities (Preliminary Schedule)