



## Finance, Affordability, Asset Management, and Efficiency Committee

# Approve Treated Water Cost Recovery Rate Structure

July 8, 2025  
Item 7-6

## Item 7-6

# Approve a Treated Water Cost Recovery Rate Structure

## Subject

- Approve a Treated Water Cost Recovery Rate Structure to be included with the staff proposal for the FY 26/27 and 27/28 Biennial Budget and CYs 27 and 28 Rates and Charges

## Purpose

- To present and seek approval of a Treated Water Cost Recovery Rate Structure for inclusion in the staff proposal for the FY 2026/27 and FY 2027/28 Biennial Budget, as well as the CY 2027 and CY 2028 Rates and Charges

# Treated Water Cost Recovery

# Timeline of Board Actions

- 2017 Board Action
  - A Board appointed workgroup (Sept 2016 – Feb 2017) recommended:
    - A Treatment Capacity Charge (TCC)
    - A Treatment Surcharge (TS) on volumetric use
  - April 11, 2017, Board approved policy principles only
    - No action taken to adopt the recommended TCC
- 2024 Board Direction
- April 9, 2024 - As part of the FY 2024/25 and FY 2025/26 Biennial Budget, the Board directed staff to:
  - Collaborate with member agencies to evaluate the Treatment Surcharge
  - Address potential changes to the calculation methodology
  - Prioritize a final methodology as part of the new business model discussion
  - Recommend the methodology for adoption as soon as possible and no later than the approval of the new business model

# Treated Water Cost Recovery Rate Structure

## Approval of Methodology

The Board is not approving specific rate and charges. The Board is approving the **methodology only**.

- If approved, the methodology will be incorporated into the FY 2026/27 – 2027/28 Biennial Budget
  - Effective Date: January 1, 2027 & January 1, 2028
  - This will **not** impact the 2026 rates and charges
- The new fixed charges will be phased-in, giving member agencies time to plan and adjust, while ensuring alignment with Metropolitan's established budget and rate-setting schedule

# Metropolitan System Use by Member Agencies

- Metropolitan plays a critical role in supporting the region's water reliability by delivering both treated and untreated water tailored to the infrastructure and operational needs of its 26 member agencies
  - Fifteen (15) member agencies receive only treated water:
    - Beverly Hills, Calleguas, Compton, Foothill, Fullerton, Glendale, Las Virgenes, Long Beach, Pasadena, San Fernando, San Marino, Santa Ana, Santa Monica, Torrance, and West Basin
  - One (1) agency exclusively takes untreated: Inland Empire
  - Ten (10) agencies receive a combination of both treated and untreated supplies: Anaheim, Burbank, Central Basin, Eastern, Los Angeles, MWDOC, San Diego, Three Valleys, Upper San Gabriel, and Western
- Over the past five years, agencies limited to treated water have accounted for approximately 44 percent of total annual treated water sales



# Summary of work completed to-date

## Treated Water Cost Recovery

13 Workshops since May 2024

- **Participants:** member agency managers, Metropolitan staff from Finance, Integrated Operations Planning and Support Service and Water Quality teams
- Reviewed key concerns/issues raised by MA's during Budget Adoption with the Treatment Surcharge
- Discussed goals and objectives of the Treated Water Cost Recovery workgroup, previously adopted Policy Principles on Treated Water, and revised past efforts on Treated Water Cost Recovery
- Evaluated MWD's treatment operations, capacity, utilization, cost, and Cost of Service with the support of a rate consultant
  - *Metropolitan provided comprehensive data, including daily flow records for all member agency meters from 2014 through 2023; historical treatment plant capacity utilization (by facility and in aggregate); connected capacity by member agency; treatment plant capacities; a review of COS fundamentals; and member agency treated water demands over the same period*
  - *Metropolitan staff conducted multiple rounds of detailed financial and operational analyses, including evaluations of usage data, cost allocations, hypothetical agency-specific impacts, and year-to-year agency bill change analyses*

# Guiding Framework for Rate Design Solutions

Consistent with 2017 Adopted Policy Principles and Feedback



## Treatment Rates & Charges Should:

### 1. Be consistent with industry standard cost of service principles

- Provide a clear 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, 7<sup>th</sup> Edition)

### 2. Align treatment rates with treatment services received

- a) Align the treated water cost recovery with (1) the service commitments and (2) infrastructure capital investments made by Metropolitan
- b) Reflect the cost to maintain the treatment capacity and the treatment benefits received for average, peaking and standby uses
- c) Evaluate the portion of standby capacity that provides regional drought reliability

### 3. Enhance rate stability and predictability

- a) Recover a portion of the treatment cost on fixed charge(s)
- b) Working closely with Member Agencies to continue to identify opportunities to partially or fully decommission unneeded treatment infrastructure & minimize future O&M & capital expenditures
- c) Continue obtaining member agency commitment to utilize new or expanded future capacity



# Evaluating Treated Water Cost Recovery

Workgroup developed treated water cost recovery alternatives for Peaking and Standby capacity use:

- 6 Treatment Peaking Alts evaluated
- 9 Treatment Standby Alts evaluated
- 5 separate proposals introduced by MA: January 2025, February 2025, March 2025, March 14, 2025, and March 14, 2025 with Summer Peak

Leading Proposal, supported by managers representing 18 member agencies

- Option 1 – March 14, 2025 Proposal, Annual Peak Day

Alternative Proposal, proposed by the manager representing 1 member agency

- Option 2 – March 14, 2025 Alternative Proposal, Summer Peak Day

There is broad recognition that action is necessary, as the current 100% volumetric structure is inconsistent with the Board's previously adopted Policy Principles on Treated Water

# Hypothetical Impact and Data Provided

Historical data was used to assess the hypothetical impacts of the various alternatives evaluated. The following information was provided to member agency managers:

- 10 years of treated water transactions data
- 10 years of treated water non-coincident annual max day
- 10 years of treated water non-coincident summer max day
- Sensitivity analysis for each alternative, including calculations for billing determinants and agency impacts

# Comprehensive Background Data Provided

Throughout the evaluation process, Metropolitan provided comprehensive data to support the analysis of various peak and standby capacity charge alternatives.

This included:

- Daily flow records for all member agency meters (2014-2023)
- Historical treatment plant capacity utilization (by facility and aggregate)
- Connected capacity by member agency
- Treatment plant capacities
- Review of COS fundamentals
- Member agency treated water demands (2014-2023)

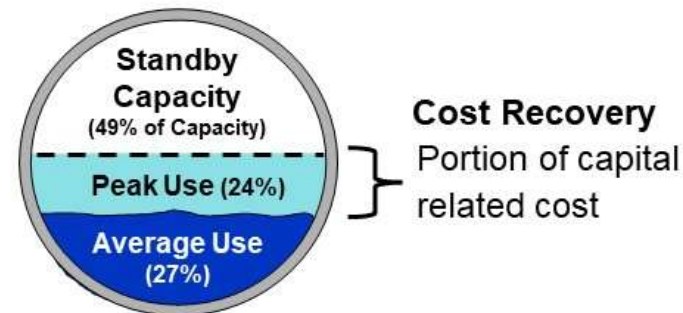
Metropolitan's Integrated Operations Planning & Support Services and Water Quality teams contributed to these discussions

# Treatment Surcharge Peaking Costs

Excerpt of Raftelis' presentation

## What are the Treatment Surcharge Peaking Costs?

- Treatment peaking costs are a portion of capital-related costs. They are existing and ongoing costs associated with paying for and maintaining the treatment capacity to satisfy peak demand.
- These are not new costs incurred when peak demands occur or caused directly by the peaking usage today.
- These treatment capacity costs are segregated into categories:
  - › Capacity available for standby or emergency use
  - › Capacity used to satisfy peak demands
  - › Capacity used for average demands

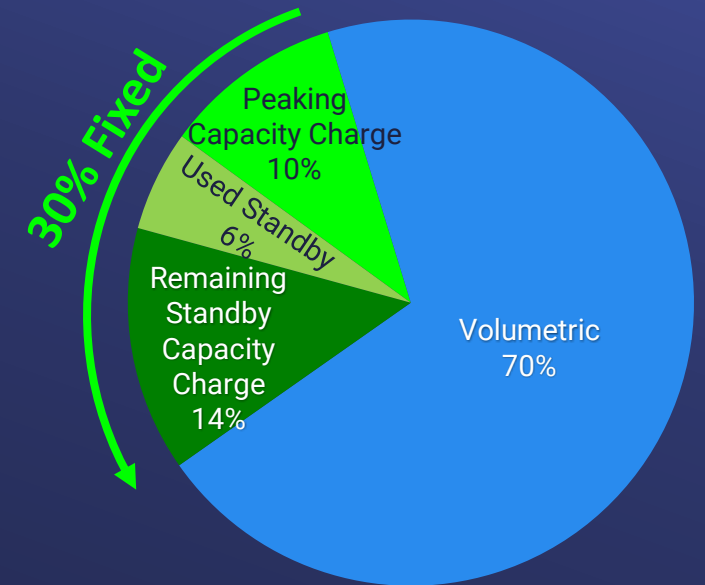


# Final Proposals

Support for proposals: 20 received responses (18 for Opt 1, 1 for Opt 2, 1 Neutral)

Features	Option 1: Mar 14, 2025 Proposal w/ Annual Peak (Supported by 18 MAs)	Option 2: Mar 14, 2025 Alt Proposal w/ Summer Peak (Proposed by 1 MA)
Peaking Capacity Charge	A fixed charge would be collected based on a 3-year trailing <b>maximum annual peak day</b> demand in CFS	A fixed charge would be collected based on a 3-year trailing <b>maximum summer peak day</b> demand in CFS
	Treatment peaking capacity costs <u>~10%</u> of total treatment costs based on allocated revenue requirements	
Standby Capacity Charge	<p><b>Used Standby Capacity Charge:</b> A fixed charge for used standby capacity would be collected based on a 10-year trailing annual standby use, i.e. 10-year maximum annual use minus average use in AF</p> <p><b>Remaining Standby Capacity Charge:</b> A fixed charge for remaining standby capacity would be collected based on 5-yr trailing maximum annual use in AF</p> <p>This charge inclusive of the Peaking and Used Standby Charge would add up to 30% of the Treatment Revenue Requirements, unless the allocated combined costs are less than 30%.</p>	
Volumetric	Remaining (~70%) of treatment costs	

## Treatment Revenue Requirements





# Caveats to Hypothetical Impact Analysis

- Historical look back analyses were conducted to illustrate potential impacts of fixed charges using past usage data
- These results are not predictive of future impacts. They are illustrative only and based on past operational patterns
- Member agency operations have evolved and will continue to change, which will alter actual future outcomes
- Impacts will be mitigated due to the phase-in of the fixed charges
- Agencies have time to adapt operations
- The look back provides context, but future cost impacts will differ based on both agency behavior and the phase-in schedule



# 2025 Hypothetical Impact Analysis

March 14, 2025 Proposal – Annual Peak

Mar 14, 2025 Proposal – Annual Peak						
Member Agencies	Status Quo	Peaking Costs	Used Standby	Remaining Standby	Volumetric	Total
	\$483/AF	\$18,323/CFS	\$168/AF	\$32/AF	\$338/AF	
Anaheim	\$10,386	\$1,020	\$2,522	\$934	\$7,270	\$11,746
Beverly Hills	\$3,899	\$417	\$307	\$311	\$2,729	\$3,765
Burbank	\$3,375	\$274	\$624	\$199	\$2,362	\$3,459
Calleguas	\$40,910	\$3,191	\$3,844	\$3,072	\$28,637	\$38,744
Central Basin	\$14,069	\$910	\$1,305	\$854	\$9,849	\$12,919
Compton	\$4	\$54	\$18	\$5	\$3	\$79
Eastern	\$24,779	\$2,573	\$2,389	\$2,015	\$17,346	\$24,322
Foothill	\$3,937	\$384	\$368	\$337	\$2,756	\$3,844
Fullerton	\$2,481	\$369	\$392	\$208	\$1,737	\$2,705
Glendale	\$6,976	\$547	\$704	\$501	\$4,883	\$6,635
Inland Empire	\$0	\$0	\$0	\$0	\$0	\$0
Las Virgenes	\$9,961	\$722	\$825	\$667	\$6,973	\$9,187
Long Beach	\$12,503	\$1,329	\$1,595	\$885	\$8,752	\$12,562
Los Angeles	\$18,764	\$5,979	\$2,205	\$2,897	\$13,135	\$24,216
MWDOC	\$57,409	\$4,559	\$8,762	\$3,845	\$40,186	\$57,352
Pasadena	\$8,569	\$811	\$653	\$704	\$5,999	\$8,167
San Diego	\$22,005	\$3,216	\$7,407	\$1,938	\$15,404	\$27,964
San Fernando	\$28	\$89	\$322	\$84	\$19	\$514
San Marino	\$668	\$114	\$187	\$66	\$468	\$835
Santa Ana	\$3,730	\$348	\$652	\$307	\$2,611	\$3,917
Santa Monica	\$1,337	\$353	\$791	\$318	\$936	\$2,398
Three Valleys	\$17,450	\$1,447	\$2,054	\$1,144	\$12,215	\$16,861
Torrance	\$5,460	\$491	\$352	\$477	\$3,822	\$5,143
Upper San Gabriel	\$3,721	\$426	\$448	\$187	\$2,605	\$3,666
West Basin	\$57,916	\$3,672	\$1,339	\$3,676	\$40,542	\$49,229
Western	\$17,841	\$2,171	\$1,784	\$1,509	\$12,489	\$17,952
<b>Total</b>	<b>\$348,180</b>	<b>\$35,467</b>	<b>\$41,847</b>	<b>\$27,140</b>	<b>\$243,726</b>	<b>\$348,180</b>

# 2025 Hypothetical Impact Analysis

March 14, 2025 Proposal - Summer Peak

Mar 14, 2025 Proposal - Summer Peak						
Member Agencies	Status Quo	Peaking Costs	Used Standby	Remaining Standby	Volumetric	Total
	\$483/AF	\$19,520/CFS	\$168/AF	\$32/AF	\$338/AF	
Anaheim	\$10,386	\$1,087	\$2,522	\$934	\$7,270	\$11,813
Beverly Hills	\$3,899	\$485	\$307	\$311	\$2,729	\$3,832
Burbank	\$3,375	\$317	\$624	\$199	\$2,362	\$3,502
Calleguas	\$40,910	\$3,702	\$3,844	\$3,072	\$28,637	\$39,255
Central Basin	\$14,069	\$1,055	\$1,305	\$854	\$9,849	\$13,063
Compton	\$4	\$62	\$18	\$5	\$3	\$87
Eastern	\$24,779	\$2,984	\$2,389	\$2,015	\$17,346	\$24,733
Foothill	\$3,937	\$446	\$368	\$337	\$2,756	\$3,907
Fullerton	\$2,481	\$391	\$392	\$208	\$1,737	\$2,728
Glendale	\$6,976	\$635	\$704	\$501	\$4,883	\$6,722
Inland Empire	\$0	\$0	\$0	\$0	\$0	\$0
Las Virgenes	\$9,961	\$837	\$825	\$667	\$6,973	\$9,302
Long Beach	\$12,503	\$892	\$1,595	\$885	\$8,752	\$12,124
Los Angeles	\$18,764	\$2,923	\$2,205	\$2,897	\$13,135	\$21,160
MWDOC	\$57,409	\$5,288	\$8,762	\$3,845	\$40,186	\$58,081
Pasadena	\$8,569	\$940	\$653	\$704	\$5,999	\$8,296
San Diego	\$22,005	\$2,932	\$7,407	\$1,938	\$15,404	\$27,681
San Fernando	\$28	\$103	\$322	\$84	\$19	\$528
San Marino	\$668	\$104	\$187	\$66	\$468	\$825
Santa Ana	\$3,730	\$357	\$652	\$307	\$2,611	\$3,926
Santa Monica	\$1,337	\$411	\$791	\$318	\$936	\$2,455
Three Valleys	\$17,450	\$1,678	\$2,054	\$1,144	\$12,215	\$17,091
Torrance	\$5,460	\$565	\$352	\$477	\$3,822	\$5,217
Upper San Gabriel	\$3,721	\$493	\$448	\$187	\$2,605	\$3,733
West Basin	\$57,916	\$4,260	\$1,339	\$3,676	\$40,542	\$49,817
Western	\$17,841	\$2,518	\$1,784	\$1,509	\$12,489	\$18,300
<b>Total</b>	<b>\$348,180</b>	<b>\$35,467</b>	<b>\$41,847</b>	<b>\$27,140</b>	<b>\$243,726</b>	<b>\$348,180</b>

# 2025 Hypothetical Impact Analysis

## Proposal Comparisons

Member Agencies	Status Quo	Mar 14, 2025 Proposal Annual Peak	Mar 14, 2025 Proposal Summer Peak
Anaheim	\$10,386	\$11,746	\$11,813
Beverly Hills	\$3,899	\$3,765	\$3,832
Burbank	\$3,375	\$3,459	\$3,502
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West Basin	\$57,916	\$49,229	\$49,817
Western	\$17,841	\$17,952	\$18,300
<b>Total</b>	<b>\$348,180</b>	<b>\$348,180</b>	<b>\$348,180</b>

# Adjustments / Certifications to Peaking Flows for All Alternatives

- Similar to the existing Capacity Charge, treated water peaking flows resulting from Metropolitan's operational requests (e.g., shutdowns, service disruptions, wet year operations, dry year operations) do not reflect member agency demand on Metropolitan and therefore, will not be included in an agency's peaking calculations; and,
- All data and adjustments would be fully documented and validated by each agency, following the existing process for RTS and Capacity Charges

# Implementation of New Charges

*Member Agency managers support implementation strategies to minimize initial impacts and provide opportunities for MA to adjust operations accordingly*

Treatment peaking capacity charge:

- 3-year phase-in billing determinants (Annual or Summer)

Treatment standby capacity charges:

- Used Standby Capacity: 10-year phase-in
- Remaining Standby Capacity: 5-year phase-in

If approved, new Fixed charges will take effect on Jan. 1, 2027 & Jan. 1, 2028

# Items for further review

*The Financial Sub-Working Group identified four items for further review in advance of the FY2028/29 budget process*

- Potential Regional Drought Reliability charge;
- Considerations related to incremental peaking billing determinants;
- Refinement of the unused standby capacity charge to better reflect potential use of standby capacity rather than relying solely on volumetric usage; and
- Collaboration with member agencies to identify opportunities to partially or fully decommission unneeded treatment infrastructure



## Item 7-6

# Key Components of the Proposed Resolution

## The Proposed Resolution

- Adopt a resolution approving the establishment of a cost recovery structure for treated water that introduces three (3) fixed charges to better reflect capacity related treatment costs and improve revenue stability. The proposed treatment fixed charges include:
  - 1) Peaking Capacity Charge
  - 2) Used Standby Capacity Charge
  - 3) Remaining Standby Capacity Charge
- Peaking, Used Standby, and Remaining Standby Capacity Charges are to collectively recover up to 30% of the treatment revenue requirements, unless the total allocated fixed costs are less than 30%, with the remaining approximately 70% of treatment costs to be recovered through volumetric charges

# Board Option

- Option #1
  - Approve a Treated Water Cost Recovery Rate Structure to be included with the staff proposal for the FY 26/27 and 27/28 Biennial Budget and CYs 27 and 28 Rates and Charges
- Option #2
  - Do not approve the proposed Treated Water Cost Recovery Rate Structure to be included with the staff proposal for the FY 26/27 and 27/28 Biennial Budget and CYs 27 and 28 Rates and Charges

# Staff Recommendation

- Option #1

