The Metropolitan Water District of Southern California

Agenda

The mission of the 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.

LTRPPBM Committee
M. Petersen, Chair
K. Seckel, Vice Chair
D. Alvarez
D. Erdman
S. Faessel
A. Fellow
L. Fong-Sakai
M. Gold, D. Env.
J. McMillan
T. Quinn
N. Sutley

Subcommittee on Long-Term Regional Planning Processes and Business Modeling

Meeting with Board of Directors *

April 22, 2025

12:00 p.m.

Tuesday, April 22, 2025 Meeting Schedule

09:00 a.m. Audit
10:30 a.m. EXEC
11:30 a.m. Break
12:00 p.m. LTRPPBM

Agendas, live streaming, meeting schedules, and other board materials are available here: https://mwdh2o.legistar.com/Calendar.aspx. Written public comments received by 5:00 p.m. the business days before the meeting is scheduled will be posted under the Submitted Items and Responses tab available here: https://mwdh2o.legistar.com/Legislation.aspx.

If you have technical difficulties with the live streaming page, a listen-only phone line is available at 1-877-853-5257; enter meeting ID: 862 4397 5848.

Members of the public may present their comments to the Board on matters within their jurisdiction as listed on the agenda via in-person or teleconference. To participate via teleconference 1-833-548-0276 and enter meeting ID: 815 2066 4276 or to join by computer click here.

MWD Headquarters Building • 700 N. Alameda Street • Los Angeles, CA 90012

* The Metropolitan Water District's meeting of this Committee is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to this Committee may participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the committee as advisory to the Board, members of the Board who are not assigned to this Committee will not vote on matters before this Committee.

1. Opportunity for members of the public to address the committee on matters within the committee's jurisdiction (As required by Gov. Code Section 54954.3(a))

**** CONSENT CALENDAR ITEMS -- ACTION ****

2. CONSENT CALENDAR OTHER ITEMS - ACTION

A. Approval of the Minutes of the Subcommittee on Long-Term Regional Planning Processes and Business Modeling Meeting for March 26, 2025 **21-4470**

Attachments: 04222025 LTRPPBM 2A (03262025) Minutes

**** END OF CONSENT CALENDAR ITEMS****

3. SUBCOMMITTEE ITEMS - CAMP4W TASK FORCE

a. Kristine McCaffrey, Calleguas Municipal Water District **21-4471**
Chisom Obegolu, P. E., City of Glendale
Cesar Barrera, City of Santa Ana
Joe Mouawad, Eastern Municipal Water District
Nina Jazmadarian, Foothill Municipal Water District
Shivaji Deshmukh, Inland Empire Utilities Agency
Dave Pedersen, Las Virgenes Municipal Water District
Anatole Falagan, Long Beach Water Department
Anselmo Collins, Los Angeles Department of Water and Power
Harvey De La Torre, Municipal Water District of Orange County
Stacie Takeguchi, Pasadena Water and Power
Dan Denham, San Diego County Water Authority
Tom Love, Upper San Gabriel Valley Municipal Water District
Craig Miller, Western Municipal Water District

b. Member Agency Manager Update on Business Model Refinement **21-4472**

Attachments: 04222025 LTRPPBM 3b Report
04222025 LTRPPBM 3b Presentation
04222025 LTRPPBM 3b Presentation - Engineering
04222025 LTRPPBM 3b Presentation - Finance
04222025 LTRPPBM 3b Presentation - Water Resources

4. FOLLOW-UP ITEMS

NONE

5. FUTURE AGENDA ITEMS

6. ADJOURNMENT

NOTE: This committee reviews items and makes a recommendation for final action to the full Board of Directors. Final action will be taken by the Board of Directors. Committee agendas may be obtained on Metropolitan's Web site https://mwdh2o.legistar.com/Calendar.aspx. This committee will not take any final action that is binding on the Board, even when a quorum of the Board is present.

Writings relating to open session agenda items distributed to Directors less than 72 hours prior to a regular meeting are available for public inspection at Metropolitan's Headquarters Building and on Metropolitan's Web site https://mwdh2o.legistar.com/Calendar.aspx.

Requests for a disability-related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

SUBCOMMITTEE ON LONG-TERM REGIONAL PLANNING PROCESSES AND BUSINESS MODELING

March 26, 2025

Chair Petersen called the meeting to order at 9:32 a.m.

Members present: Chair Petersen, Vice Chair Seckel, Directors Alvarez, Erdman (AB 2449 just cause), Faessel, Fellow, Fong-Sakai, Gold, McMillan, (teleconference posted location), and Sutley.

Members absent: Director Quinn.

Other Board Members present: Board Chair Ortega, Directors Ackerman, Bryant, Camacho, Gray, Kurtz, Lefevre, Miller, and Morris.

Director Erdman stated he was participating under AB 2449 just cause due to being a caregiver for a family member. He appeared on camera with audio.

Committee Staff present: Upadhyay, Crosson, Dunbar, Mortada, Foley, Goshi, Nobriga, and Rubin.

1. OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION

None

CONSENT CALENDAR ITEMS – ACTION

2. CONSENT CALENDAR OTHER ITEMS – ACTION

A. Approval of the Minutes of the Subcommittee on Long-Term Regional Planning Processes and Business Modeling for February 26, 2025.

Director Faessel made a motion to approve item 2A, seconded by Director Fellow.

The vote was:

Ayes:	Alvarez, Erdman, Faessel, Fellow, Fong-Sakai, Gold, McMillan, Petersen, Seckel, and Sutley
Noes:	None
Abstentions:	None
Absent:	Quinn

The motion for Item 2A passed by a vote of 10 ayes, 0 noes, 0 abstentions, and 1 absent. Directors Erdman stated there was no one in the room with him for the vote.

END OF CONSENT CALENDAR ITEMS

3. SUBCOMMITTEE ITEMS - CAMP4W TASK FORCE

a. Subject: Kristine McCaffrey, Calleguas Municipal Water District
Chisom Obegolu, P. E., City of Glendale
Cesar Barrera, City of Santa Ana
Joe Mouawad, Eastern Municipal Water District
Nina Jazmadarian, Foothill Municipal Water District
Shivaji Deshmukh, Inland Empire Utilities Agency
Dave Pedersen, Las Virgenes Municipal Water District
Anatole Falagan, Long Beach Water Department
Anselmo Collins, Los Angeles Department of Water and Power
Harvey De La Torre, Municipal Water District of Orange County
Stacie Takeguchi, Pasadena Water and Power
Dan Denham, San Diego County Water Authority
Tom Love, Upper San Gabriel Valley Municipal Water District
Craig Miller, Western Municipal Water District

Presented by: No presentation was given.

Task Force Members present in the room: Collins, Deshmukh, Falagan, McCaffrey, Miller, Pedersen, and Takeguchi.

b. Subject: Review Draft Climate Adaptation Master Plan for Water Implementation Strategy

Presented by: Liz Crosson, Chief Sustainability, Resilience, and Innovation Officer

Ms. Crosson led the discussion regarding Item 3b, Review Draft Climate Adaptation Policy Framework. Mr. Brandon Goshi contributed additional discussion points.

The following Directors and Member Agency Managers asked questions and provided comments:

1. Chair Petersen
2. Vice Chair Seckel
3. Gold
4. Faessel
5. Kurtz
6. Fong-Sakai
7. Erdman
8. Sutley
9. Craig Miller
10. Ortega
11. Alvarez
12. Fellow
13. Falagan
14. Camacho

Staff responded to the Directors' and Member Agency Managers' comments and questions. Chair Petersen reported the Committee's support by acclamation (no objections made) of the item to be presented at the April FAAME Committee meeting.

c. Subject: Member Agency Update on Business Model Refinement

This item was deferred.

4. FOLLOW-UP ITEMS

None

5. FUTURE AGENDA ITEMS

None

The next meeting will be held on April 22, 2025.

The meeting adjourned at 11:47 a.m.

Matt Petersen
Chair

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,

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Anaheim Public Utilities
City of Anaheim

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

August 19, 2024

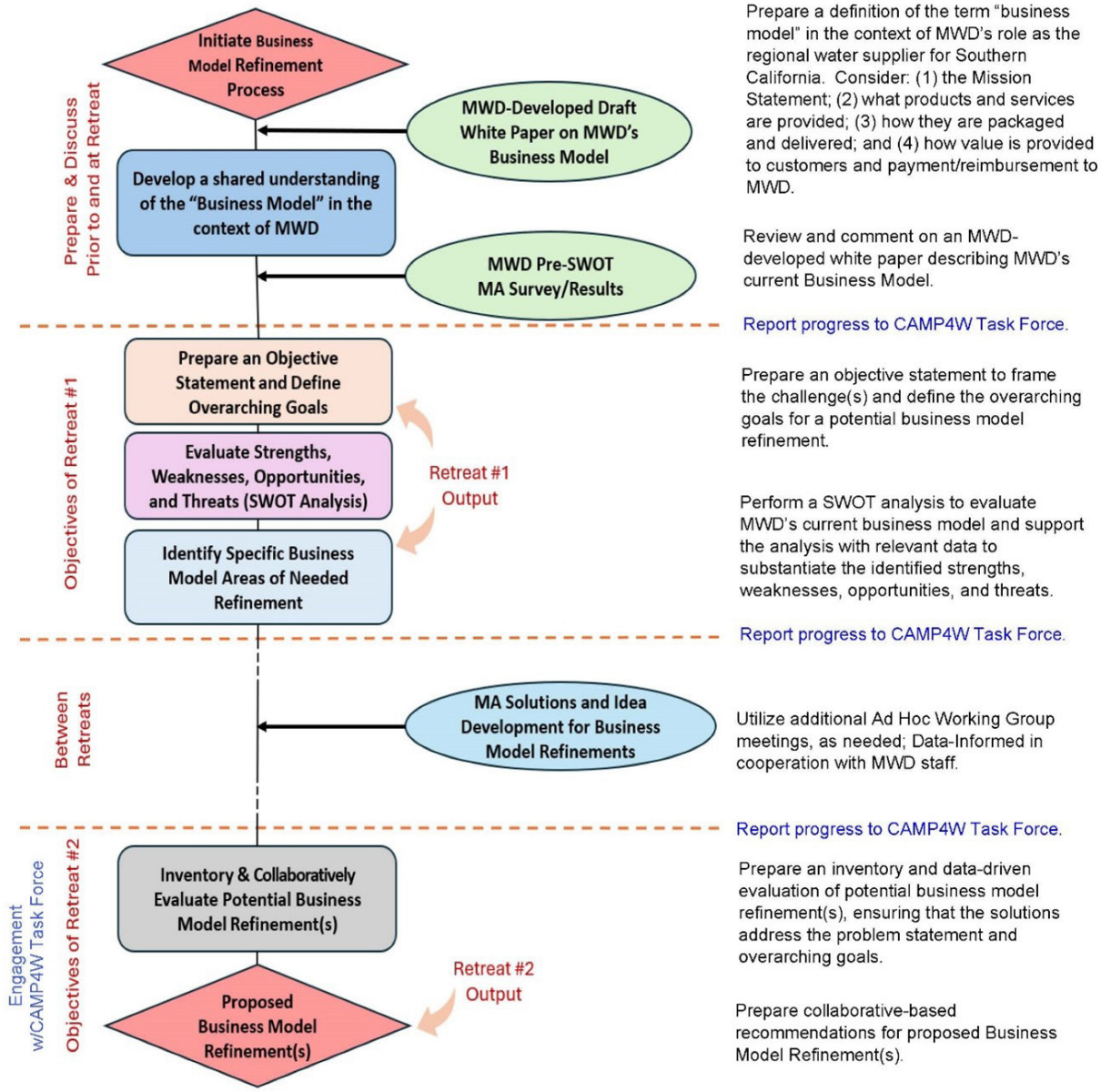
In response to the July 22nd guidance from Board Leadership, the Metropolitan Water District of Southern California (MWD) and its Member Agencies (MAs) propose to embark on a collaborative effort to review and refine the Business Model via an Ad Hoc Working Group.

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.

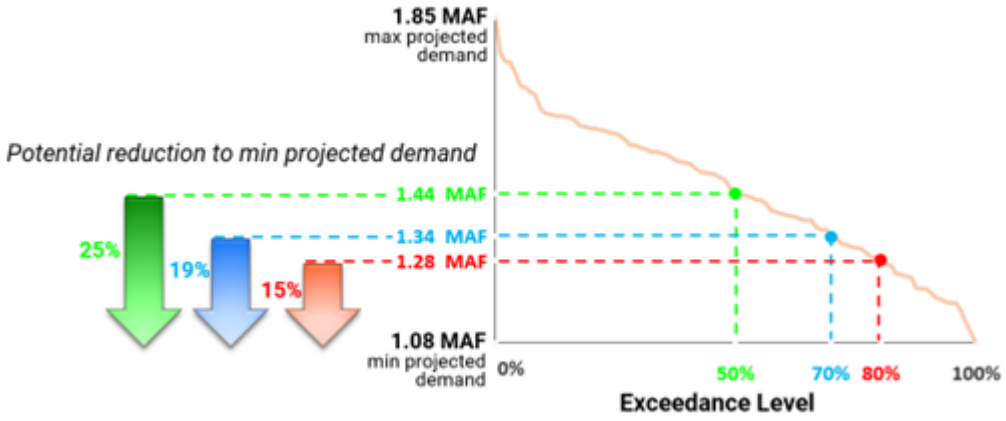
The current policy assumes that variable supply and power costs decrease when water demand is low, but this is not always the case. During wet years with low demand, power costs may actually increase due to the need to move and store excess water. Additionally, the policy does not account for revenue 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

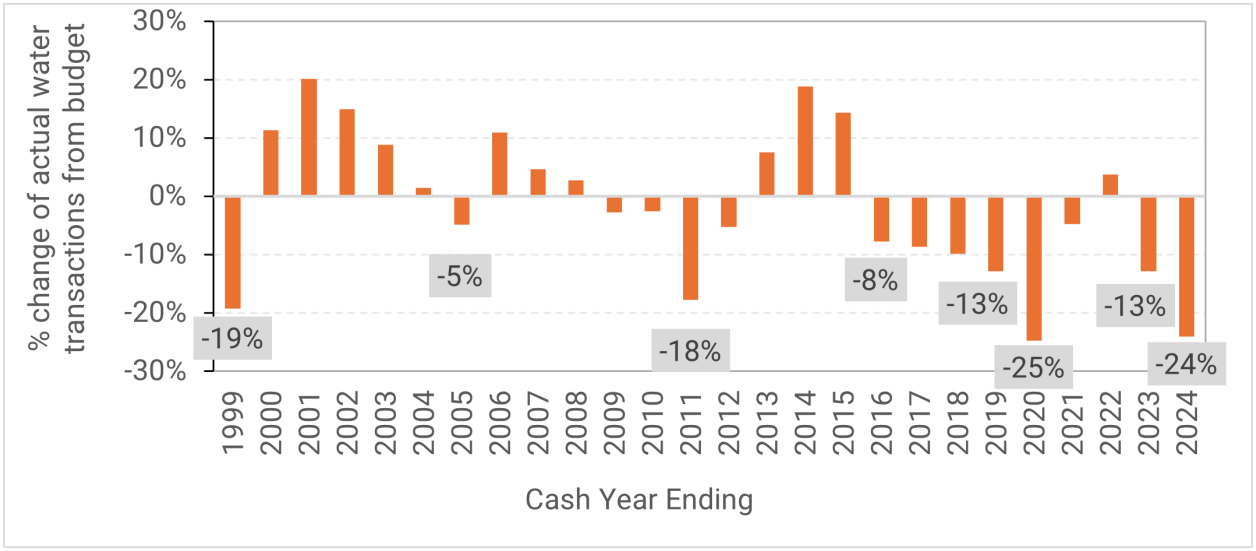
Recommendation

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:

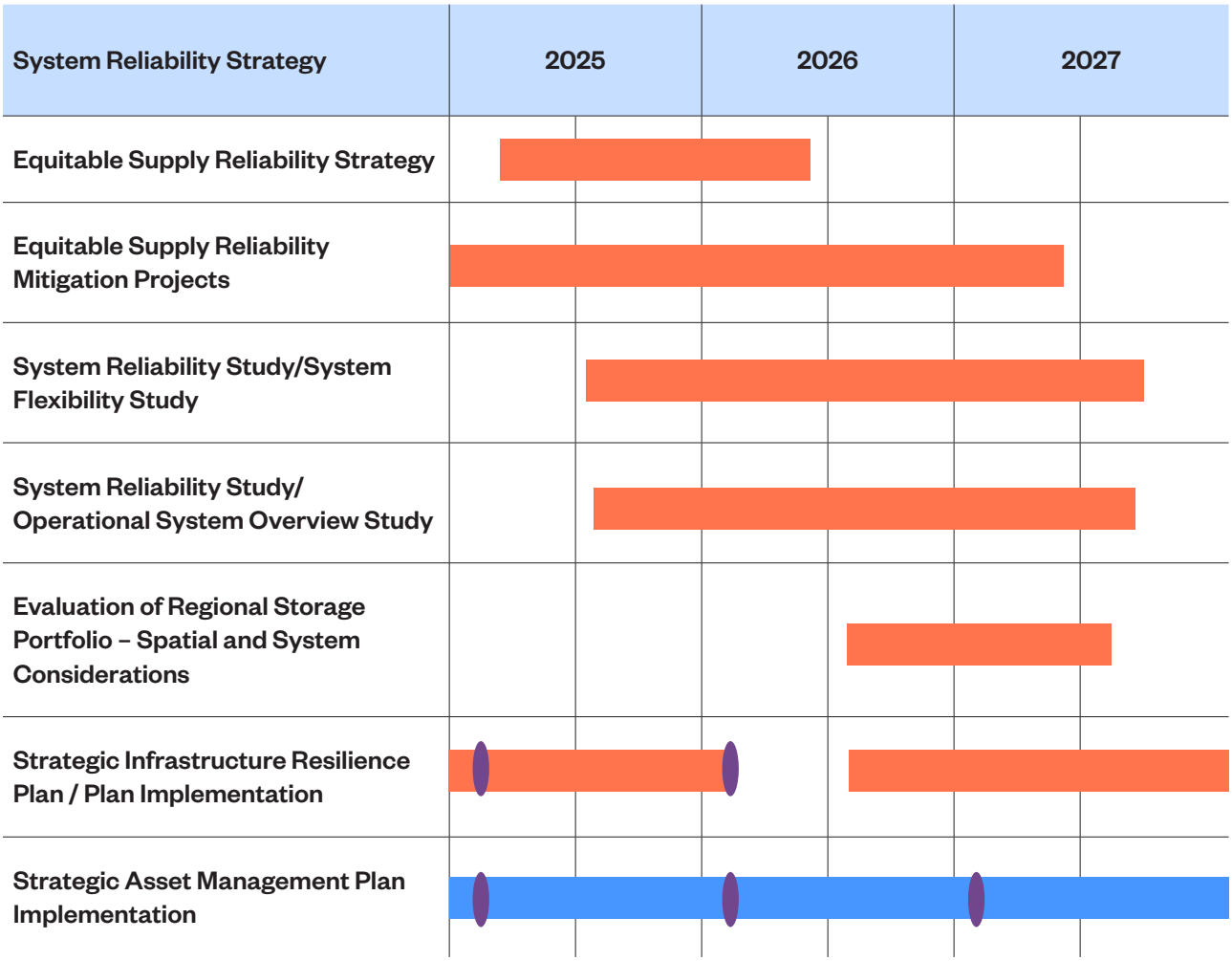
- Formulate strategies to improve infrastructure resilience.
- Align organization-wide resilience efforts by defining vision, goals, and strategies.
- Guide the development and implementation of a comprehensive resilience program.
- Ensure integration of resilience program into existing operational framework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



Subcommittee on Long-Term Regional Planning Processes and Business Modeling

Member Agency Update on Business Model Refinement

Ad Hoc Working Group on Business Model Refinement

Item 3b
April 22, 2025

Today's Update

- Background
- Working Group Process
- Overview of Recommendations
- Sub-Working Group Recommendations
- Next Steps
- Discussion

CAMP4W
Climate Adaptation Master Plan for Water

Background: CAMP4W to Business Model

- CAMP4W discussions revealed questions about key areas of MWD’s business model in response to changing hydrology and climate conditions
- Discussions about scoring projects turned into more fundamental questions about MWD's role in supply development
- Climate adaptation project development decisions needed to be based on fundamental Business Model commitments

Background: CAMP4W to Business Model

Recurring questions that affected progress of CAMP4Water:

- Future water supply development?
- Fixed revenue?
- Local resource integration?
- Demand projections?
- Financial reserves?
- Conservation programs?
- Equitable service to MAs?

Background: Guidance

Board Leadership provided “Guidance for Business Model Review and Refinement Ad Hoc Working Group”

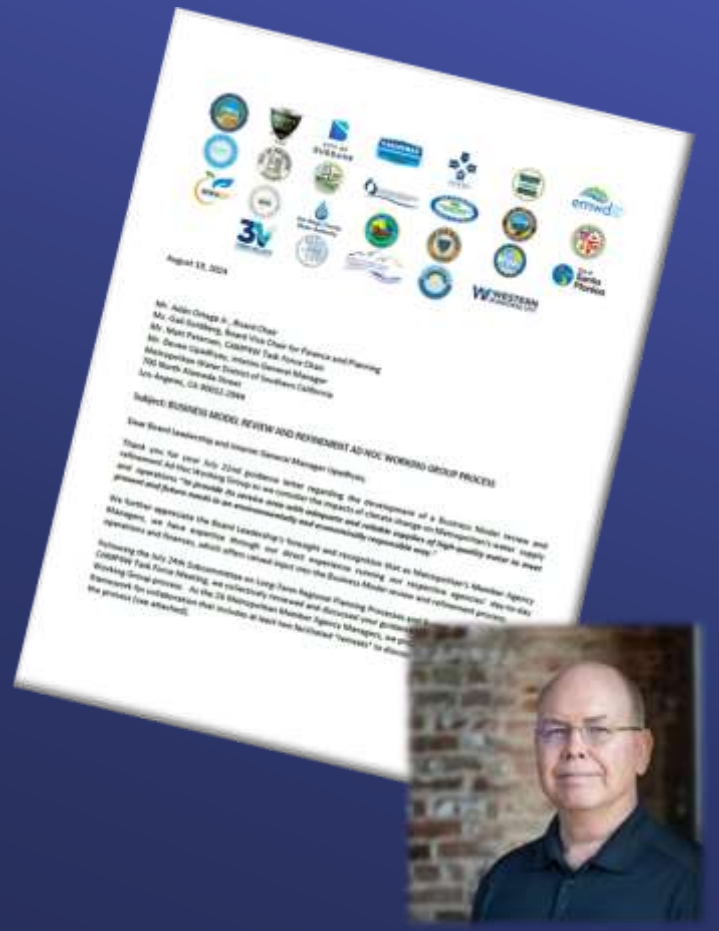
Factors for Consideration in Final Proposals

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)

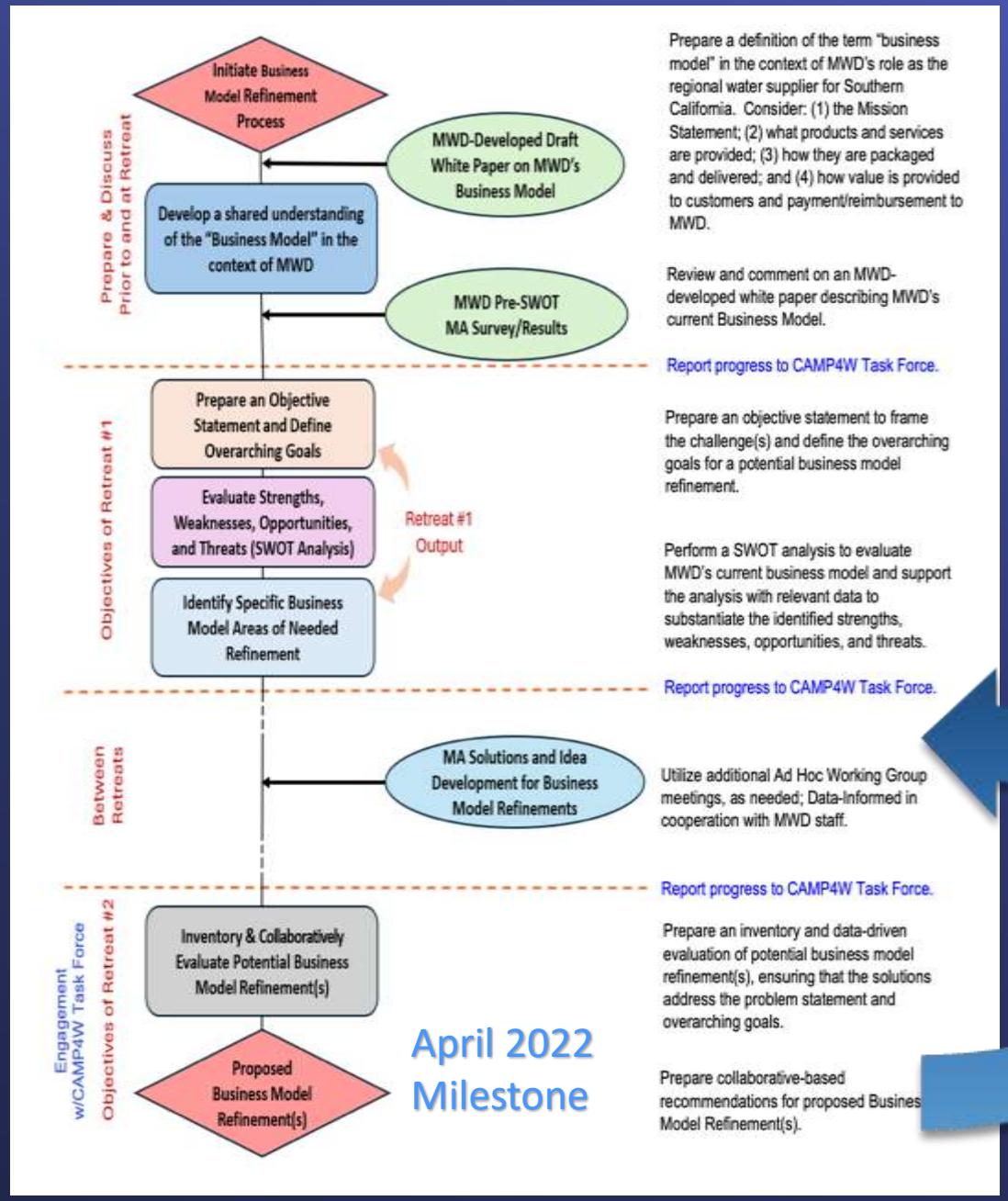
Background: Working Group

- 26 Member Agencies formed Ad Hoc Working Group that includes Metropolitan staff
- Formed a Liaison Group of few Member Agency GMs and Metropolitan staff
- Process facilitated by Ken Kirby, PhD, PE, Evotoco LLC



Working Group Process

We Are Here



Working Group Process

October 10th and 11th Retreat

- Approach to Collaboration
- Decisions based on reaching facilitated broad agreement: *"Either all agree, or, if some do not wholly agree, they can live with what has been proposed"*.
- Discussion of current Met business model
- Analysis of strengths, weaknesses, opportunities and threats (SWOT)

Working Group Process

November 15th Workshop

- Review of SWOT results
- Exercise using “The Business Model Canvas”
- Brainstorm on potential business model refinements

Working Group Process

December 13th Workshop

- Identified primary areas of focus for sub-working groups:
  1. Finance
  2. Water Resources
  3. Engineering

Working Group Process

January 24th Workshop

- Conceptual agreement to charter on Sub-Working Groups
- Received updates from each Sub-Working Group
- Discussed progress of work plans

Working Group Process

February 21st Workshop

- Offered the opportunity to raise topics for discussion by the Working Group
- Reviewed items Working Group will proceed to recommend as short-term refinements and document refinements that will be addressed in longer term

Working Group Process

February 21st Workshop

- Established how to best present the recommendations and ongoing status:
    1. Structural or Policy Refinement with broadly agreed-upon recommendation
    2. Other items that require further development, some for FY 2026/27 and FY 2027/28 biennial budget, others for FY 2028/29 and FY 2029/30 biennial budget

Working Group Process

March 12th Workshop

- Reviewed progress from Sub-Working Groups
- Offered the opportunity to raise topics to discuss with the Working Group
- Reviewed items Working Group will proceed to recommend as short-term refinements and document refinements that will be addressed in longer term
- Determined Task Force presentation approach

April 10th Workshop

Ad Hoc Working Group Process

- 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.

A Milestone in the Process

More Work Is Needed

- Much progress has been made
- Some important differences of opinion remain on multiple topics
- The Ad Hoc Group has committed to continue to work together to try to reach broad agreement where those differences remain
- The Ad Hoc Group intended to consider and evaluate recommendations on each of these topics holistically – that has not been done at this milestone

Business Model Refinements

Categorization of Recommendations

- Working Group followed a structured process that including analyzing SWOT within Metropolitan's business model
- Working Group used Miro online visual workspace to prioritize 15 potential refinements
- Working Group prioritized potential refinements based on time criticality and interdependencies

Business Model Refinements

Categorization of Recommendations

Process led by the three Sub-Working Groups:

- Financial Policy
- Water Resources
- Engineering

Key Near-Term Business Model Refinements (Prior to FY 2026-27 Budget)

The Ad Hoc identified 10 topics it wanted to explore for this milestone:

- Treated Water Cost Recovery
- Reserve Policy
- Water Sales Assumption for Budgeting Purposes
- Voluntary Level Payment Plan
- Member Agency Exchange Programs

Key Near-Term Business Model Refinements (Prior to FY 2026-27 Budget)

The Ad Hoc identified 10 topics it wanted to explore for this milestone (Cont'd):

- Policy to Support Sales Outside of Service Area
- Conservation and Local Resource Planning
- Basic Level of Service
- Wet-Year Water Acquisition Policy
- Proportions of Fixed and Volumetric Charges

Sub-Working Groups' Highlights

Request to the Subcommittee

The Subcommittee support the Metropolitan staff, consistent with the Synthesis Report:

- Bringing informational and action items, as appropriate, 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 biennial budget, and
- For the remaining items, working with Member Agencies to finalize recommendations in advance of the FY 2028/29 and FY 2029/30 biennial budget.


THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
1928

Subcommittee on Long-Term Regional Planning Processes and Business Modeling

Member Agency Update on Business Model Refinement
Ad Hoc Working Group on Business Model Refinement
Engineering Working Sub-Group

Item 3b
April 22, 2025

Engineering Sub-Working Group

- Scope of Engineering Sub-Working Group:
  1. Review the August 2022 Board Resolution for equivalent water supply reliability to all Member Agencies
  2. Evaluate member agency requests for improvements to system flexibility
     - Determine the feasibility of extending Sepulveda Feeder pumping to LA-25
     - Identify options to improve Foothill MWD system flexibility
  3. Develop a Roadmap for Upcoming Studies and Activities
     - Integrated Strategy for Infrastructure Reliability

Meetings to Date: 2

1. Review the August 2022 Board Resolution for equivalent water supply reliability to all Member Agencies

- Agreed to a review of the Equitable Supply Reliability definition considering all the studies currently underway
  - *Integrated Strategy for Infrastructure Reliability* workshops
- Workshop Series Objective *(draft – to be defined at the workshop)*
  - Improve Southern California's regional water systems reliability by identifying feasible improvements to infrastructure that increase resilience, reduce vulnerabilities, and improve overall reliability

Review the August 2022 Board Resolution for the equivalent water supply reliability to all Member Agencies

- April 28th, Workshop Objectives
  - Proposed Studies and Activities
    - Review Metropolitan's proposal for studies
    - Solicit input on the proposals from Member Agencies
  - Objectives
    - Identify additional objectives for the Integrated Strategy for Infrastructure Reliability workshop series
  - Workshops Approach
    - Develop and agree on an approach for conducting the workshops
    - Determine the frequency of meetings
    - Solicit input on key questions
    - Solicit input on planned activities

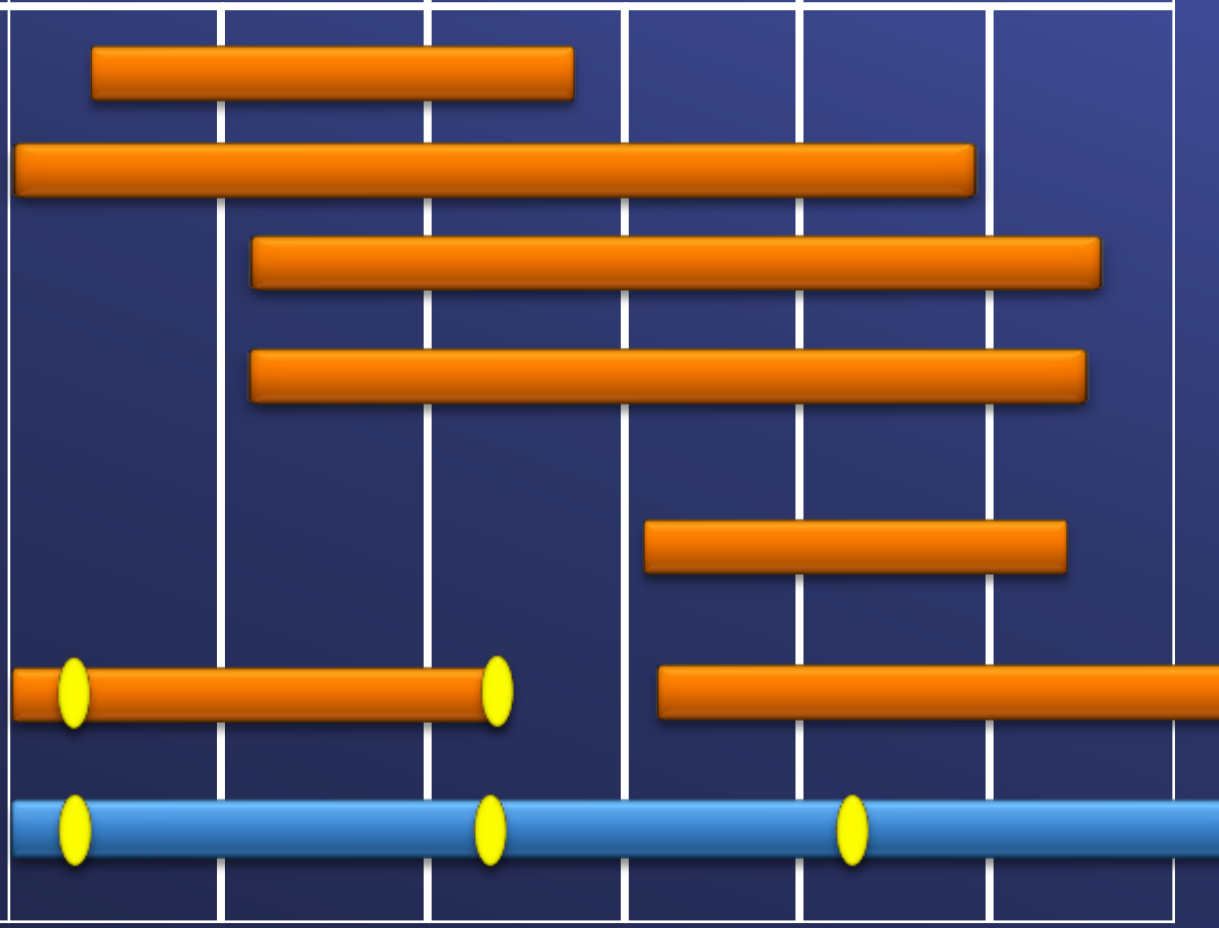
Integrated Strategy for Infrastructure Reliability Studies and Activities

- Equitable Supply Reliability Identification
- Equitable Supply Reliability Mitigation Projects
- System Reliability Study/System Flexibility Study
- System Reliability Study - Operational System Overview Study
- Evaluation of Regional Storage Portfolio - Spatial and System Considerations
- Strategic Infrastructure Resilience Plan / Plan Implementation
- Strategic Asset Management Plan Implementation Strategies

2. Engineering Sub-Working Group – Study Goals Member Agency Requests

- LADWP
  - Determine the feasibility of extending Sepulveda Feeder pumping to LA-25
  - Results:
    - Capable of delivering water to LA-25 with Sepulveda Feeder Pumping Stage 1 implementation
    - Incorporate additional infrastructure during Sepulveda Feeder Pumping Stage 2
- Foothill MWD
  - Identify options to improve Foothill MWD's system flexibility
  - Results:
    - Identified 9 options to improve FMWD's Flexibility
    - Inclusion as part of a larger East-West conveyance alternative has benefits
    - Continue to evaluate as part of the E/W Conveyance studies

3. Upcoming *Integrated Strategy for Infrastructure Reliability* Studies and Activities

System Reliability Strategy	2025	2026	2027
• Equitable Supply Reliability Identification • Equitable Supply Reliability Mitigation Projects • System Reliability Study/System Flexibility Study • System Reliability Study/Operational System Overview Study • Evaluation of Regional Storage Portfolio - Spatial and System Considerations • Strategic Infrastructure Resilience Plan / Plan Implementation • Strategic Asset Management Plan Implementation Strategies			


THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
1928

Subcommittee on Long-Term Regional Planning Processes and Business Modeling

Status Report on Treatment Surcharge and Recommendations on Reserves, Water Transactions, and Other Fixed Revenues

Item 3b
April 22, 2025

Summary of work completed to-date

Treated Water Cost Recovery

11 Workshops since May 2024

- 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 a portion of the treated system that 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
- 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

Board Direction
FY 2024/25 & 2025/26
Budget Cycle

Board Direction

On April 9, 2024, the Board took action to adopt the Fiscal Year (FY) 2024/25 and FY 2025/26 Biennial Budget (Option 1), including Recommendation (i) related specifically to the Treatment Surcharge.

"Metropolitan staff will work with member agency staff and the CAMP4Water Task Force to understand and analyze the treatment surcharge and specifically address issues that arise from that analysis including but not limited to modifying the way the charge is calculated. A final method will be prioritized as part of the new business model discussion and recommended for adoption as soon as possible thereafter but no later than approval of the new business model."

Discussions by Member Agencies in FY 2024/25 & 2025/26 budget cycle:

- Because of the 100% volumetric treated water rate structure, agencies that can only access treated water from Metropolitan pay a **disproportionate cost** to maintain the treatment capacity for those that use treated water on an as-needed basis
- Rate structure best practices involve collecting approximately one-third of revenue through fixed charges and the remainder through volumetric charges. Higher fixed revenues will assist in **rate stability**
- Increases in other fixed revenue sources, such as AV taxes, should not adversely impact the Treatment Surcharge

- The pace of Treatment Surcharge increases presents **affordability challenges** for member agencies, particularly those that only purchase treated water from Metropolitan
- **Rate predictability** is key to financial planning for member agencies and their customers
- Consideration should be given to deferring non-critical capital investments and **decommissioning surplus treatment capacity** to reduce costs and rate increases

2017 Adopted Policy Principles

Policy Principles for Treatment Rates and Charges

1. Treatment rates and charges shall align treatment costs with treatment services and benefits received consistent with cost-of-service principles.
2. Treatment services shall be recognized to include physical water treatment, as well as operational benefits such as available treatment capacity used by member agencies.
3. In an effort to contain overall treatment costs on an on-going basis, MWD shall programmatically identify opportunities to partially or fully decommission unneeded treatment infrastructure and minimize future O&M and capital expenditures. MWD should obtain member agency commitment to utilize new or expanded future treatment capacity.

Guiding Framework for Rate Design Solutions

Consistent with 2017 Adopted Policy Principles and Feedback

Treatment Rates & Charges Should:

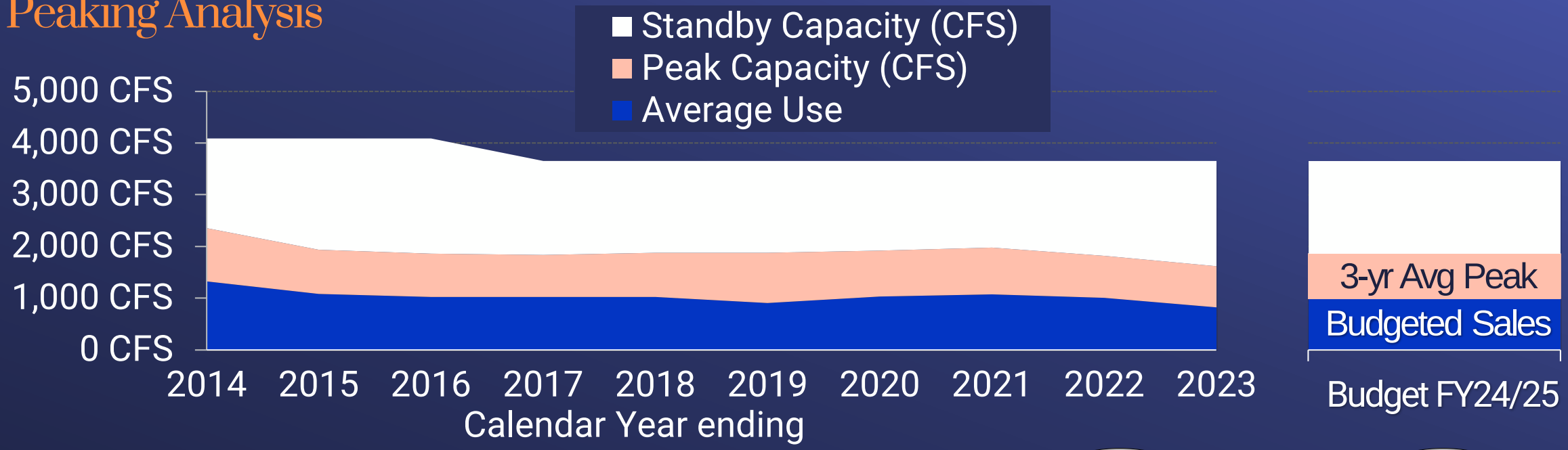
1. Be consistent with industry standard cost of service principles
   - Provide a clear nexus between member agency cost responsibility and benefits received
     - … "Rate charged should reflect the cost of having capacity reserved and available for the customer" (AWWA M1 Principles of Water Rates, Fees, and Charges, 7th 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

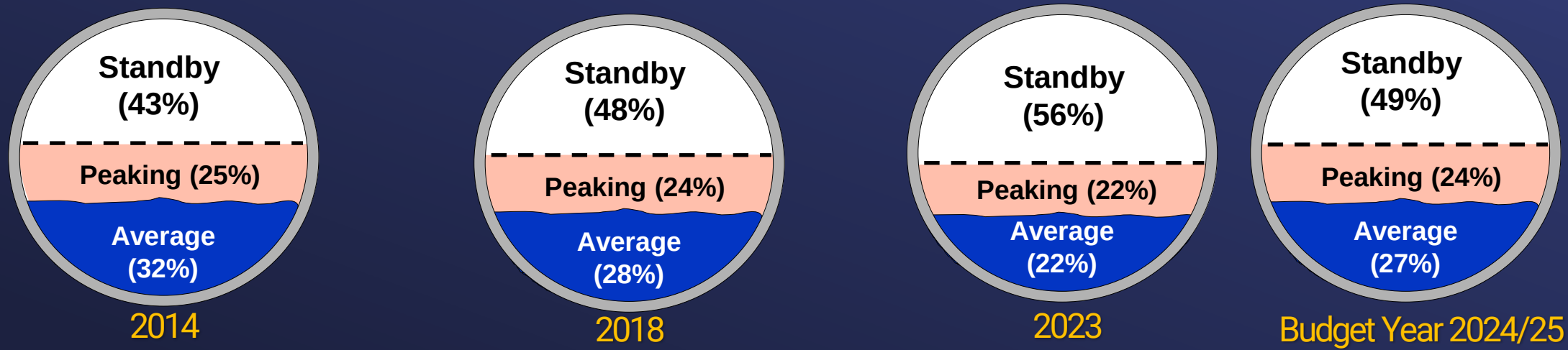
Cost of Service Process

Treated System Capacity

Peaking Analysis

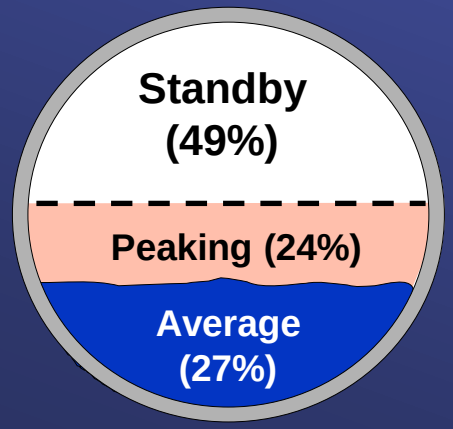
Annual demands, Non-Coincidental Max Peak Day





The Cost of Standby and Peaking Capacity

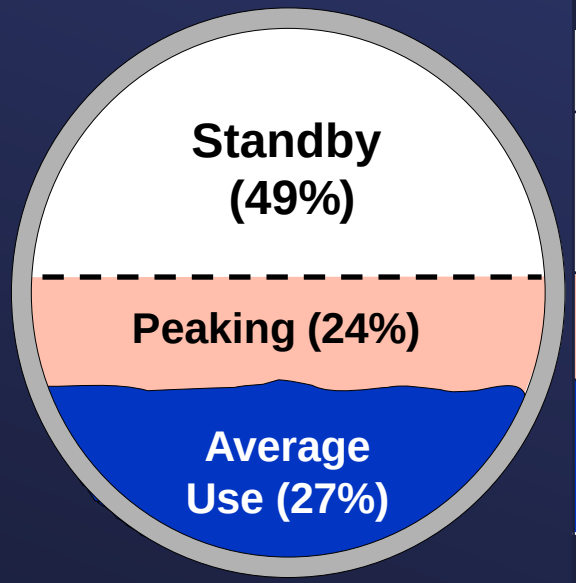
Treatment Cost Allocation for 2024/25 Budget



	Variable Treatment Costs	Other Operating Costs	Planning Costs	Capital Financing Costs	Required Reserves	Total	
Standby Capacity			✓	✓	✓	$74M	22%
Demand (Peaking)			✓	✓	✓	$36M	10%
Commodity (Average Use)	✓	✓	✓	✓	✓	$238M	68%
						$348M	

Treatment Plant Capacity, Use and Cost

Estimated for 2024/25 Budget Year

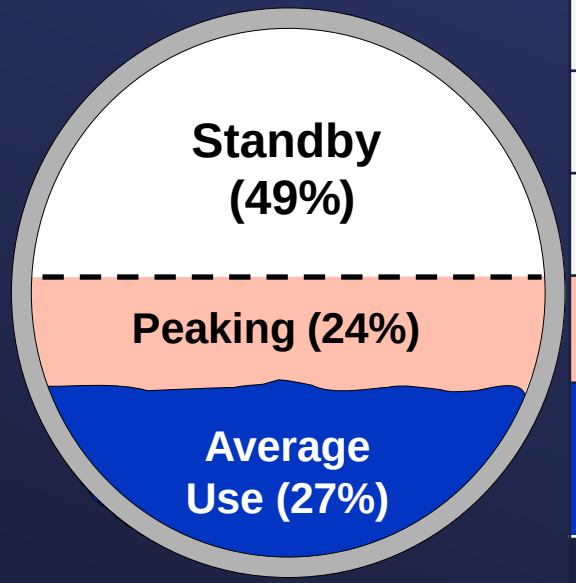


Designed Capacity for	CFS	% of Designed Capacity	% of Standby	Estimated 2024/25 Costs
Regional Drought Reliability	650	18%	36%	$27M
Treatment Standby	1,142	31%	64%	$47M
Peaking Use	863	24%		$36M
Average Use	996	27%		$238M
Total Designed Capacity	**3,651**	**100%**		**$348M**

$74M

2025 Treatment Costs & Treatment Surcharge

Estimated for 2024/25 Budget Year & CY 2025 Treatment Surcharge



Treatment Allocated Costs for Budget 2024/25	Costs A	Treated Water Transactions B	Current Treatment Surcharges ($/AF) C = A / B
Regional Drought Reliability	$27M	720,869 AF	$37
Unused Treatment Standby	$27M	720,869 AF	$37
Used Treatment Standby	$20M	720,869 AF	$28
Peaking Use	$36M	720,869 AF	$50
Average Use	$238M	720,869 AF	$331
Treatment Allocated Costs	**$348M**	**720,869 AF**	**$483**

Workgroup Status Report on Treatment Cost Recovery

Workgroup Status Report

- Broad recognition that action is needed, as the current 100% volumetric approach is inconsistent with the Board's previously adopted Policy Principles on Treated Water
- After 11 months of analysis, two (2) Member Agency proposals remain for Treated Water Cost Recovery
  - Both establish a component of fixed treatment revenues through Peaking and Standby fixed charges
  - Both would created fixed charges equal to approximately 30% of total Treatment revenues
  - Both would be phased-in to minimize initial impacts
  - Differences exist in billing determinants and allocation of the peaking fixed cost component that require further discussion

February MA Proposal

Alternate proposal to the March 14 2025, MA Proposal

Treatment Peaking Charge

- The Peaking Charge would be ***capped*** at 10% of total treatment costs
- Peaking would be collected based on ***Alternative 2*** (3-yr trailing max annual peak day demand)

Treatment Standby Charge

- The Standby Charge would be ***capped*** at 20% of total treatment costs
- Standby would be collected based on ***Alternative C*** (10-yr trailing annual standby max annual usage minus average in AF)

Treatment Volumetric Rate

- All remaining treatment cost will continue to be recovered on a volumetric rate

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

- Regional Drought Reliability Charge
- Incremental Peaking

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) will not be included in an agency's peaking calculations

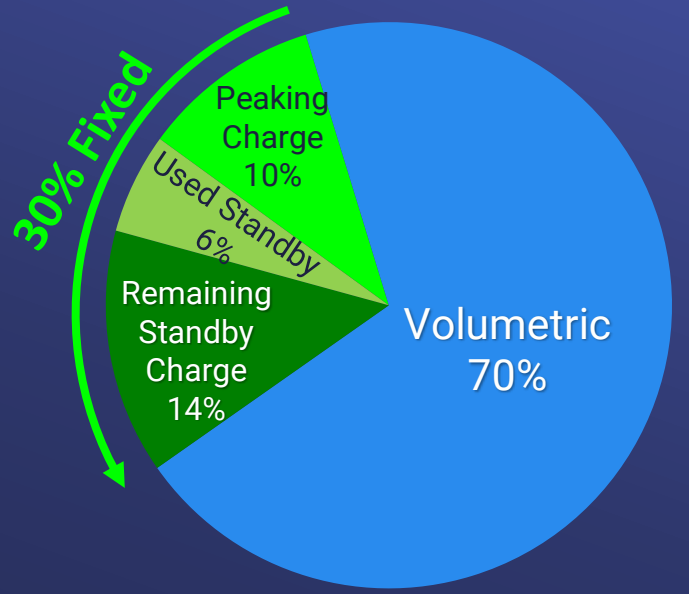
- All data and adjustments would be fully documented and validated by each agency, following the existing process for RTS and Capacity Charges

March 14 2025, MA Proposal

Proposed by MA after March 12, 2025, Workshop

1. Peaking Charge: Recovered on 3-yr trailing max annual peak day demand (Alt 2)
2. Used Standby Charge: Recovered on 10-yr max annual usage minus 10-yr average (Alt C)
3. Remaining Standby Charge
   - Recovered on 5-year max annual use
   - Ensures up to 30% fixed revenue recovery, including Peaking and used standby allocated costs

Treatment Revenue Requirements



	Billing Determinants	Units	Description
Peaking Charge	3-yr trailing maximum ***annual*** peak day demand	CFS	Consistent with Alt 2: Represents member agencies' peak use throughout the year.
Used Standby Charge	10-yr max annual usage minus 10-yr average	AF	Consistent with Alt C: Represents MA's standby use in the past 10-yrs beyond seasonal peak and average use
Remaining Standby Charge	5-yr max annual demand	AF	This charge inclusive of the Peaking and Used Standby Charge adds up to 30% of the Treatment Revenue Requirements.

March 14 2025, MA Proposal

Treatment Peaking Charge

- Peaking Costs recovered on 3-year trailing maximum annual peak day demand in CFS (Alternative 2)

Treatment Standby Charge

- Used Standby – Recovered based on 10-year trailing annual standby use, i.e. 10-year maximum annual use minus average use in acre-feet (Alternative C)
- Remaining Treatment Standby – Recovered based on 5-year rolling 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 cost will continue to be recovered on a volumetric rate

Implementation

- 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

March 14 2025, MA Proposal

Other Details

MA support for this proposal requires consensus on language for adjustments and certifications

- Before the adoption of the new treatment fixed charges, MWD Staff would work with MAs to refine the language for the Adjustments to Peaking Flows, ensuring equitable modifications for extraordinary operation activities that benefit MWD's system.
- 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 benefits 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

March 14 2025, MA Proposal

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**

Workgroup Recommendations on Unrestricted Reserve Policy

Recommendations: Unrestricted Reserve Policy Changes

Technical Changes:

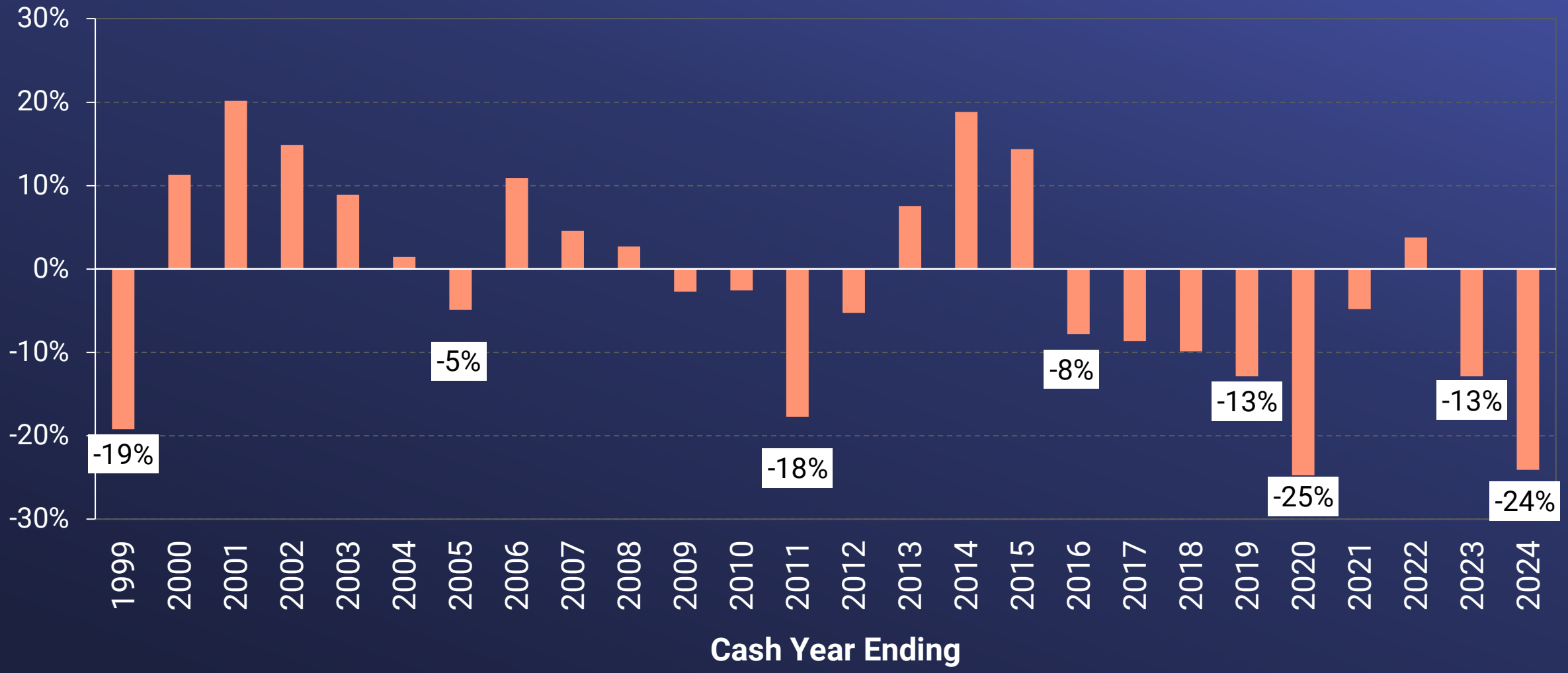
1. Update the Percent Reserves to reflect recent water sales volatility
   - ✓ Incorporate conservative demand assumptions in rate setting into the calculation
     - ➢ Adopt policy to set water demand at 70% exceedance for rate setting with a long-term target of 80%.
2. Recognize the disconnect between supplies and sales
   - ✓ Exclude variable costs from reserve calculations
   - ✓ No correlation between water sales and variable costs
3. Incorporate protection for treated water sales volatility
   - ✓ Include Treatment revenue requirements in the Unrestricted Reserve Minimum and Target Levels to enhance volatility protection for treated water sales revenues → Treatment Surcharge Stabilization Fund would be combined into unrestricted reserves
4. Adjust required reserve calculation to exclude one-time revenues and unawarded grants

Policy Changes

1. Update Admin Code language regarding the appropriate use of reserves in excess of target levels
2. Add language specifying the intentional use of reserve for one-time expenditures, unforeseen revenue shortfalls or increases in existing expenditures

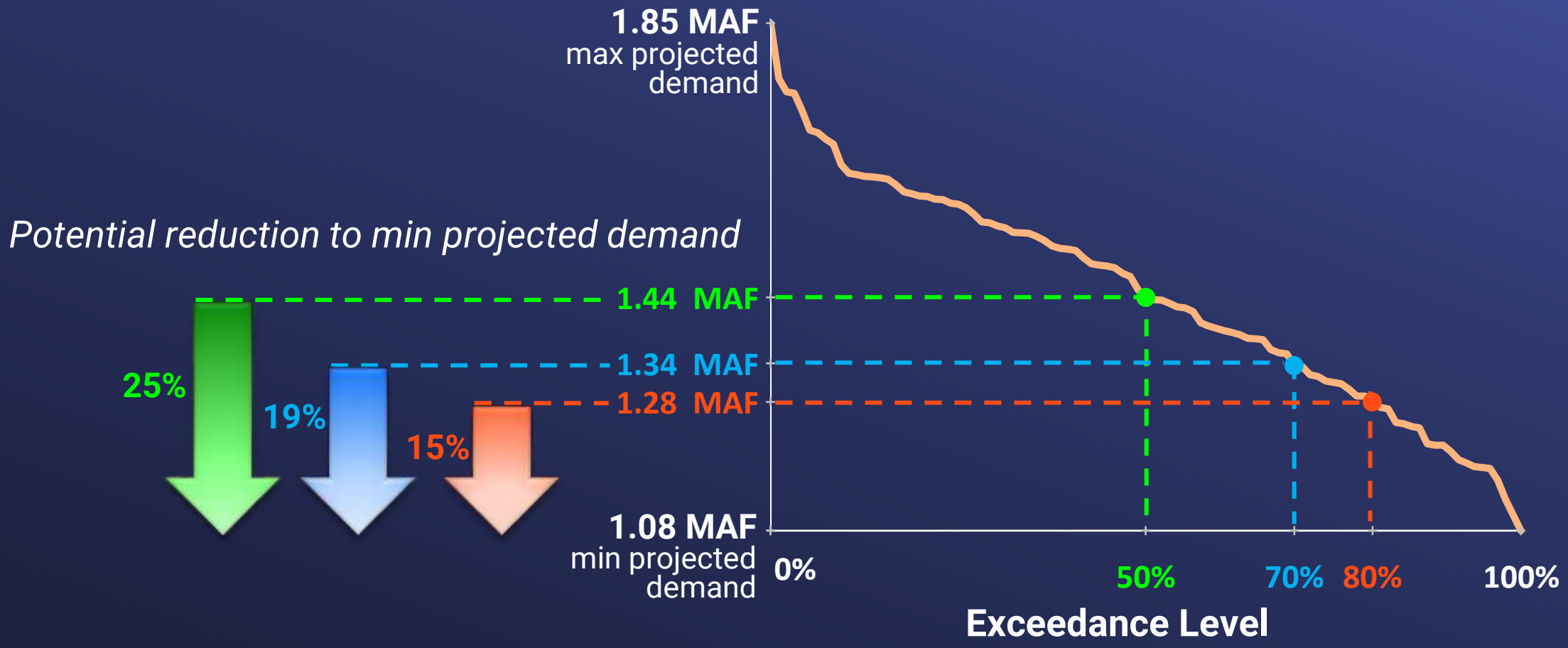
Variability Metropolitan's Historic Water Transactions

% change from budget



Projected Demand Variability

Projected Demands (MAF) for Calendar Year 2025



Current Unrestricted Reserve Calculation

for June 30th, 2025, in millions of dollars

	2025/26 Budget	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Gross Revenue Requirement	**$2,274**	**$2,408**	**$2,597**	**$2,773**
Less Property Tax	*$334*	*$342*	*$351*	*$359*
Less Interest Income, Power Sales & Misc. Revenues	*$120*	*$97*	*$84*	*$86*
Less Unawarded Grants & One-time Revenues	*$127*	*$20*	*$20*	*$20*
Less Fixed Charges				
RTS Charge	*$185*	*$188*	*$202*	*$219*
Capacity Charge	*$46*	*$48*	*$52*	*$56*
Net Water Rate Revenue Requirements	**$1,462**	**$1,713**	**$1,889**	**$2,033**
Less Variable Costs				
Treatment Surcharge Rev Req.	$342	$342	$362	$369
SWC Variable Power Costs	$238	$236	$235	$233
CRA Power Costs	$93	$97	$99	$102
Fixed Costs Recovered by Water Rate	**$789**	**$1,037**	**$1,193**	**$1,329**
Percent Reserved	17.5%	17.5%	17.5%	17.5%
Annual Amount Reserved	**$138**	**$181**	**$209**	**$232**

Minimum Reserve Level = 138 + 181 / 2 = **$229 million** ← *18 months*

Target Reserve Level = 138 + 181 + 209 + 232 / 2 = **$645 million** ← *42 months*

Proposed Refinements to Unrestricted Reserve Calc.

for June 30th, 2025, in millions of dollars

	2025/26 Budget	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Gross Revenue Requirement	**$2,274**	**$2,408**	**$2,597**	**$2,773**
Less Property Tax	*$334*	*$342*	*$351*	*$359*
Less Interest Income, Power Sales & Misc. Revenues				
~~Less Unawarded Grants & One-time Revenues~~				
Less Fixed Charges				
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Capacity Charge	*$46*	*$48*	*$52*	*$56*
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Fixed Costs Recovered by Water Rate	**$789**	**$1,037**	**$1,193**	**$1,329**
Percent Reserved	17.5%	17.5%	17.5%	17.5%
Annual Amount Reserved	**$138**	**$181**	**$209**	**$232**

Adjust required reserve calculation to exclude one-time revenues and unawarded grants

Maintain current flexibility to automatically adjust unrestricted reserves for new fixed charges

Incorporate protection for the treated water sale volatility

Recognize the disconnect between supplies and sales

Update % Reserved to reflecting 70% exceedance demand used for rate setting

Updated Unrestricted Reserve Policy - 70% Exceedance Demand

for June 30th, 2025, in millions of dollars

	2025/26 Budget	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Gross Revenue Requirement	**$2,274**	**$2,408**	**$2,597**	**$2,773**
Less Property Tax	*$334*	*$342*	*$351*	*$359*
Less Interest Income, Power Sales & Misc. Revenues*	*$120*	*$97*	*$84*	*$86*
Less Fixed Charges				
RTS Charge	*$185*	*$188*	*$202*	*$219*
Capacity Charge	*$46*	*$48*	*$52*	*$56*
Net Water Rate Revenue Requirements	**$1,590**	**$1,733**	**$1,909**	**$2,053**
Percent Reserved	19%	19%	19%	19%
Annual Amount Reserved	**$302**	**$329**	**$363**	**$390**

for 70% Exceedance Demand

Minimum Reserve Level = $302 + $329 / 2 **= $467 million** ← *18 months*

Target Reserve Level = $302 + $329 + $363 + $390/2 **= $1,189 million** ← *42 months*

** Misc. Revenues – Lease, Non-MA Sales, $80M State Fund Use and Awarded Grants, excluding one-time revenues such as IRA Fallowing Revenues, $60M Stored Water Sales, Sales of Assets*

Updated Unrestricted Reserve Policy

for June 30th, 2025, in millions of dollars

*Revenue from Reverse Cyclic Program (RCP) pre-sales

Implementation Strategy

Adopt reserve policy to set water demand at 70% exceedance for rate setting with a long-term target of 80%

Unrestricted Reserve Policy Refinements

Policy Change – Modify language in Admin Code for appropriate use of reserves in excess of target levels

Funds in excess of the target level shall be utilized as directed by the Board for:

- Funding capital expenditures of the District in lieu of the issuance of additional debt,
- Redemption, defeasance, or purchase of outstanding bonds or commercial paper,
- Addressing the District's pension or OPEB (other post-employment benefit) liabilities (including but not limited to the establishment or funding of a pension trust fund), or
- Meeting other legal or financial obligations.

Additional proposed policy: *"Reserves, by nature, are one-time funds, fiscal prudence dictates that they should <u>not</u> be used to cover ongoing expenditures"*

Unrestricted Reserve Technical Refinements

Strengths

- ✓ Revised % reserve to reflect recent water sale volatility using a more conservative exceedance water transaction assumption for rate settings
  - ✓ Updated policy to account for higher sale volatility due to climate change
  - ✓ 70% exceedance water transaction assumption in rate settings provides a mechanism to achieve target reserve levels over time
- ✓ Including treatment sale volatility as part of the reserve calculation
  - ✓ Combines Treatment Surcharge Stabilization Fund (TSSF) into unrestricted reserves
- ✓ Automatic adjustments for new fixed charges (existing feature)
- ✓ Excludes uncertain revenues → reducing the risk of revenue shortfalls
- ✓ Higher unrestricted reserve balance → more favorable with credit ratings agencies

Potential Challenges

- ❑ Higher minimum to maintain every year
- ❑ Does not include reserves to fund filling of storage
- ❑ Does not include reserves to fund unforeseen one-time expenditures

Workgroup Recommendations on Conservative Water Transactions Assumptions for Water Rate Settings

Conservative Water Transactions Assumptions

Recommendations

Set 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

Workgroup Recommendations on Other Fixed Revenues

Recommendations for Other Fixed Revenues

1. Continue to discuss with MA on the two (2) proposals for Treated Water Cost Recovery Recommendations
2. Continue to assess other fixed revenues
   - Metropolitan will collaborate with member agencies to review and assess other fixed revenues. The goal is to develop recommendations for the Board before April 2027
   - Potential fixed revenues include:
     - Voluntary Level Pay Plan
     - Fixed charge for Demand Management
     - Expansion of current RTS and Capacity Charge to also recover O&M costs
     - Ad Valorem Property Taxes
       - Evaluate the impacts of increasing the ad valorem property tax rate on future budgets, rates, charges, and reserves, with the potential to offset additional State Water Contract costs

Recommendations Summary

Recommendations

Treated Water Cost Recovery

- Continued discussion with MA on two (2) proposals in May

Unrestricted Reserve Policy

- Adopt the recommended technical and policy changes
  - Adopt reserve policy calculations for the FY 2026/27 and FY 2027/28 biennium using 70% exceedance demand with a long-term target of 80%

Recommendations

Conservative Water Transaction Assumptions

- Establish a policy to use 70% exceedance water demand for rate settings during budget development, without relying on one-time revenues or reserve draws with a long-term target of 80%

Fixed Revenues

- Adopt and implement the proposed fixed treatment charges as outlined in the Treated Water Cost Recovery Recommendations
- Continue to assess other fixed revenues
  - Voluntary Level Pay Plan
  - Fixed charge for Demand Management
  - Expansion of current RTS and Capacity Charge to also recover O&M costs
  - Increase Ad Valorem Property tax to cover additional State Water Contract costs and increase Metropolitan's share of fixed revenues

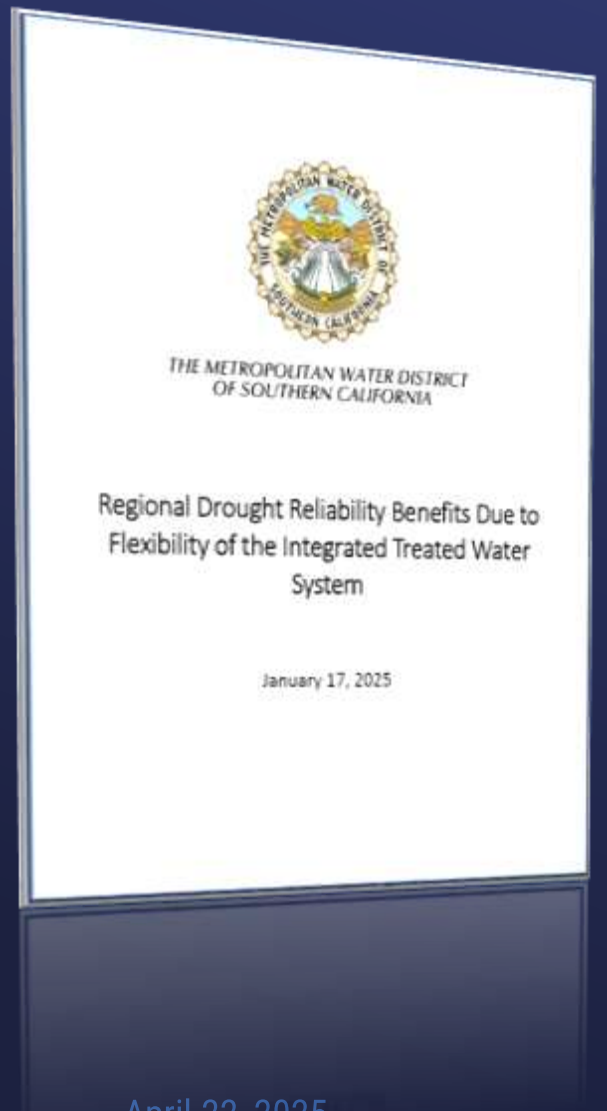
Next Steps

June 2025	Information Presentations to the FAAME Committee • Workgroup recommendations for Treated Water Cost Recovery, Fixed versus Volumetric Revenues and Reserves
July 2025	Presentations to the Board of Directors • Workgroup recommendations for Treated Water Cost Recovery, Fixed versus Volumetric Revenues and Reserves


THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

Regional Benefit Analysis

Regional Benefit of Flexible Treatment Plant Operations



High SWP allocation (wet) years

- Maximize deliveries to storage (including DVL) to support SWP Dependent Area
- Maximize West Branch and expand Jensen treatment into Common Pool
  - Reduced flows at Weymouth and Diemer allows storage of CRW at Lake Mead and DWCV
- Maximizes overall storage for region and minimizes SWP Table A "left behind"

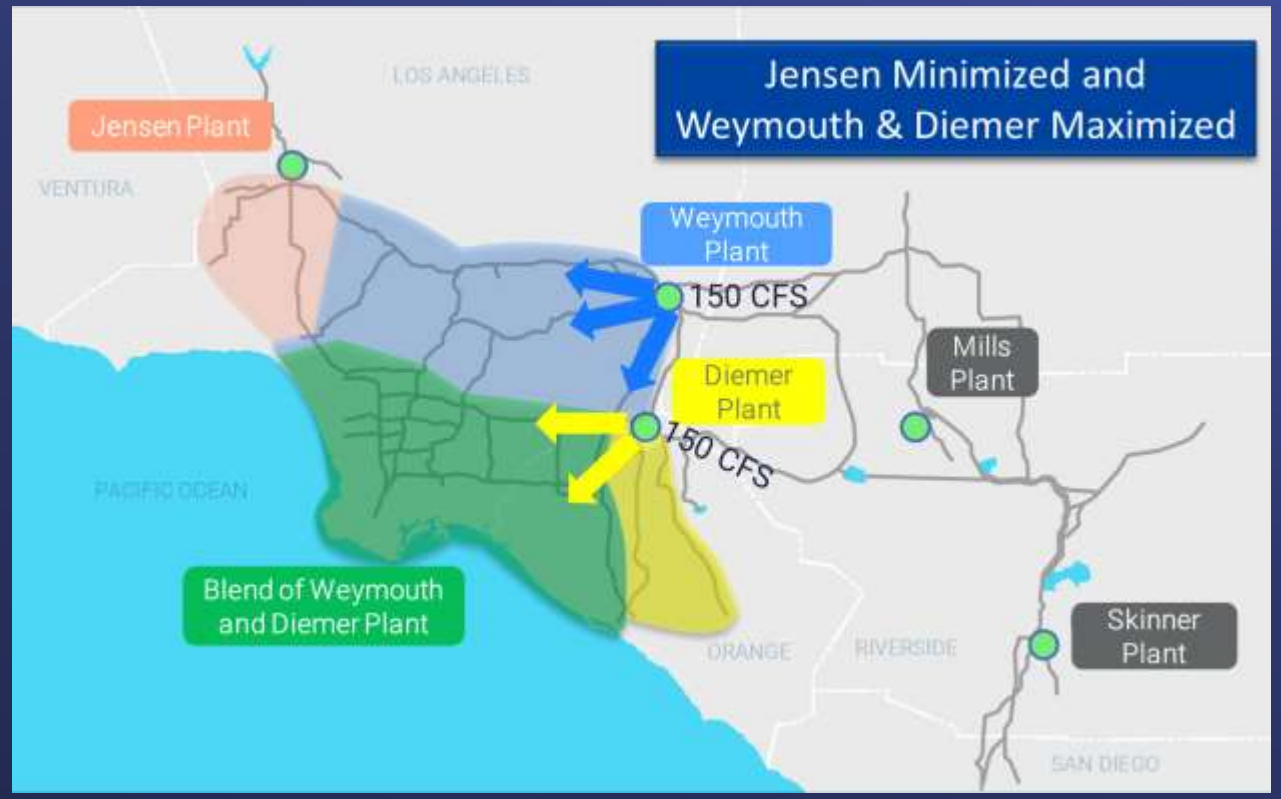
Low SWP allocation (dry) years

- Maximize CRW deliveries and increase Weymouth/Diemer treatment into Common Pool; minimize Jensen treatment
  - Preserves SWP supply for SWP Dependent Area
- Minimizes potential for allocation, particularly for SWP Dependent Area agencies

Regional Benefit of Flexible Treatment Plant Operations

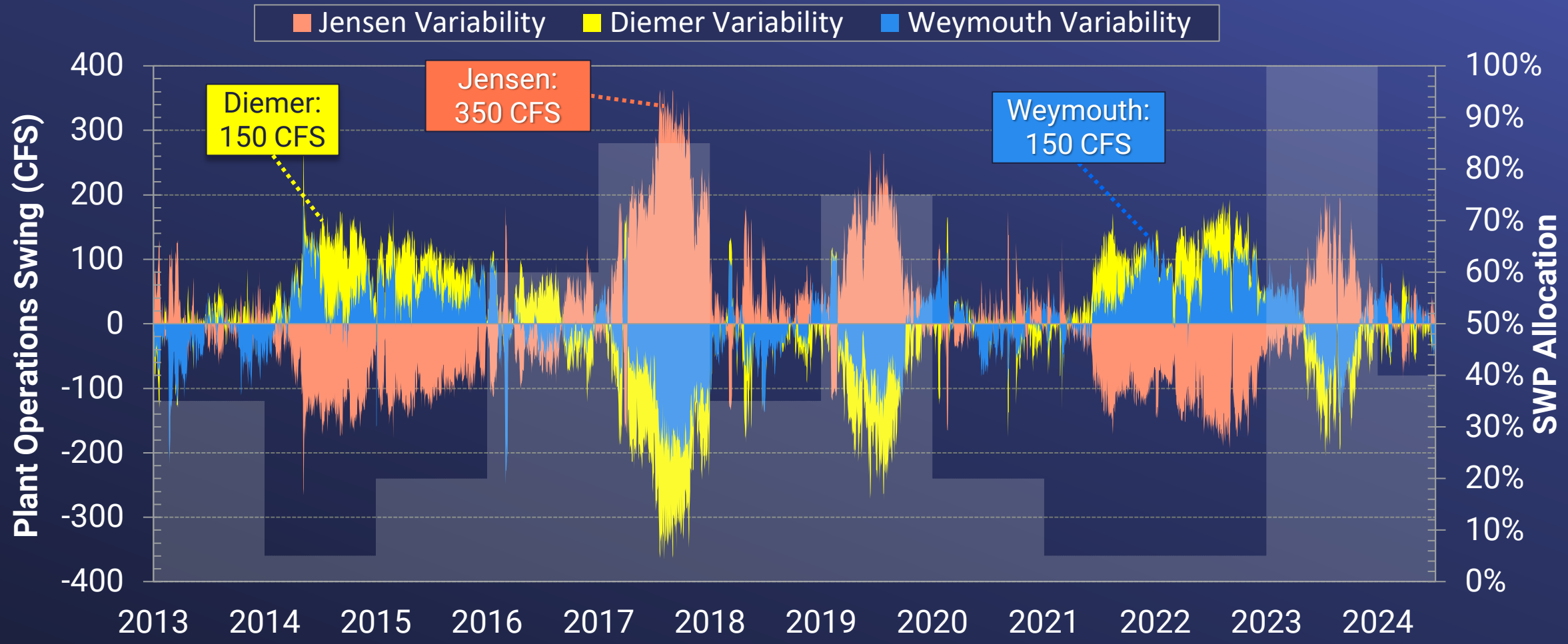
Under High SWP Allocation

Under Low SWP Allocation



Treatment Plant Regional Drought Reliability Analysis

Swings in Treatment Plant Operations to Meet Demands in Common Pool



Metropolitan Treatment Plant Capacities

Plant	Area Served	Current Capacity		Capacity for:	
		MGD	CFS	Regional Drought Reliability	Treatment
Mills	Local Mills Area	220 MGD	340 CFS	-	340 CFS
Skinner	Local Skinner Area	350 MGD	541 CFS	-	541 CFS
Jensen	**Common Pool** and Local Jensen Area	750 MGD	1,160 CFS	350 CFS	810 CFS
Diemer	**Common Pool** and Local Diemer Area	520 MGD	804 CFS	150 CFS	654 CFS
Weymouth	**Common Pool** and Local Weymouth Area	520 MGD	804 CFS	150 CFS	654 CFS
Total		**2,360 MGD**	**3,651 CFS**	**650 CFS** (18%)	**3,001 CFS** (82%)

Tr. Peaking Charge Implementation Strategy

Billing Determinants assuming CY 2027 as 1st year of implementation

	Year 1	Year 2	Year 3
CY 2027 Charge	Actual FY 2025 Avg Daily Demand		
CY 2028 Charge	FY 2026 data	Actual FY 2025 Avg Daily Demand	
CY 2029 Charge	FY 2027 data	FY 2026 data	Actual FY 2025 Avg Daily Demand
CY 2030 Charge	FY 2028 data	FY 2027 data	FY 2026 data

Tr. Standby Charge Implementation Strategy

Billing Determinants Example

	Year 1	Year 2	Year 3	Year 4	Year 5	Years 6-10
CY 2027	Actual FY 2025 Treated Demand					
CY 2028	FY 2026 data	Actual FY 2025 Treated Demand				
CY 2029	FY 2027 data	FY 2026 data	Actual FY 2025 Treated Demand			
CY 2030	FY 2028 data	FY 2027 data	FY 2026 data	Actual FY 2025 Treated Demand		
CY 2031	FY 2029 data	FY 2028 data	FY 2027 data	FY 2026 data	Actual FY 2025 Treated Demand	
… CY 2037	FY 2035 data	FY 2034 data	FY 2033 data	FY 2032 data	FY 2031 data	FY 2026-2030 data

Subcommittee on Long-Term Regional Planning Processes and Business Modeling

Ad Hoc Working Group Recommendations from the Water Resources Sub-Working Group

Item 3b
April 22, 2025

Water Resources Sub-Working Group Objectives

- Develop recommendations for the Ad Hoc Workgroup regarding Metropolitan's role in supporting the following:

Member agency local supply exchanges

Sales of water outside of the service area

Development of Local Resources and Conservation

Member Agency Local Supply Exchange

Recommendations

Metropolitan should support local supply exchanges between member agencies

- Direct staff to develop a local supply exchange framework that incorporates the considerations identified by the sub-working group
- Direct staff to recommend needed policy changes to implement the framework
- Approval of framework and policy changes should go through One Water and Adaptation Committee

Member Agency Local Supply Exchange

Considerations

Key considerations that should be examined when developing the Local Supply Exchanges Framework

- Identify and implement policy changes needed to support local supply exchanges
- For indirect exchanges, Seller must have the ability to consume the local supply being sold and exchanged
- Metropolitan should only deliver to participating agencies when adequate supplies and system capacity are available for exchange
- Exchanges should not result in an additional cost to the region and should recover cost/full service rate

Sales Outside of the Service Area

Recommendations

Metropolitan should support water sales outside of the service area

- Direct staff to develop a framework that incorporates the considerations identified by the sub-working group
- Approval of framework should go through the One Water and Adaptation Committee

Sales Outside of the Service Area

Considerations

Metropolitan should support water sales outside of the service area

- Existing policy currently supports outside water sales – no changes to policy needed
- The existing Water Surplus and Drought Management planning process should identify conditions under which surplus supplies could be sold and sales should not impact future regional reliability
- Metropolitan should continue to invest in new storage and exchange opportunities for managing surplus supplies for the benefit of the region

Considerations (continued)

Sales Outside of the Service Area

Metropolitan should support water sales outside of the service area by:

- Water sales revenues should recover at minimum Metropolitan's overall water supply costs
- 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

Local Resources and Conservation

Recommendations

Metropolitan should continue to support the development of local supplies through the Local Resources Program (LRP) and Conservation

- Direct the Finance Group to continue to develop an alternative method to fund these programs
- Direct staff to establish a new working group to evaluate program design and develop structural refinements to these programs

Considerations

Local Resources and Conservation

The Sub-Working Group is supportive of Metropolitan continuing to support the development of local supplies and conservation programs through incentives

- Conservation and LRP are important programs that play a significant role in managing demands
- A new funding mechanism needs to be established to fund Conservation and LRP that recognizes reduced revenues from water sales
- Conservation and LRP should be evaluated to determine if the incentive amounts are appropriate and if program structure continues to meet regional needs


THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA