



Metropolitan Business Model Update

Joint Board Workshop
05.07.2025



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CAMP4W & Business Model Background

- ◆ CAMP4W revealed questions about key areas of MWD's business model in response to changing hydrology
- ◆ 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

Reoccurring Questions

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



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CAMP4W & Business Model Background

- ◆ Board Leadership provided guidance for a review of the business model and formation of a GM Ad Hoc Working Group
- ◆ Process was facilitated by a third-party facility, Ken Kirby
- ◆ Business Model components were categorized into three area of focus
 - ◆ Finance Sub-working Group
 - ◆ Water Resources Sub-Working Group
 - ◆ Engineering Sub-Working Group



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Business Model Sub-Working Group Refinements

Finance Sub-working Group

- ◆ Treated Water Surcharge
- ◆ Reserve Policy
- ◆ Water sales Assumptions
- ◆ Level Payment Plans

Water Resources Sub-Working Group

- ◆ Member agency Exchange Program
- ◆ Policy for Sales outside the service area
- ◆ Conservation & Local Resources Planning

Engineering Sub-Working Group

- ◆ Level of Service Policy
- ◆ Member agency requests for system flexibility improvements



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Finance Sub Working Group Background

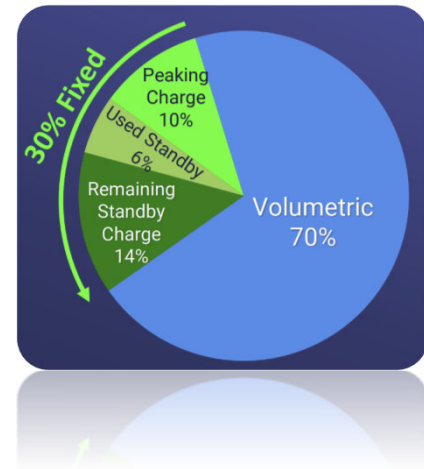
- ◆ Key concerns/issues raised by Member Agencies during Budget adoption with the Treatment Surcharge
- ◆ Board Directed Metropolitan staff and the Task Force to analyze and address the treatment surcharge
- ◆ Metropolitan and Member Agencies evaluated cost recovery alternatives for Peaking and Standby use
 - ◆ 6 Peaking Alternatives
 - ◆ 9 Standby Alternatives
 - ◆ 4 Proposals from Member Agencies



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Treated Water Surcharge Recommendation

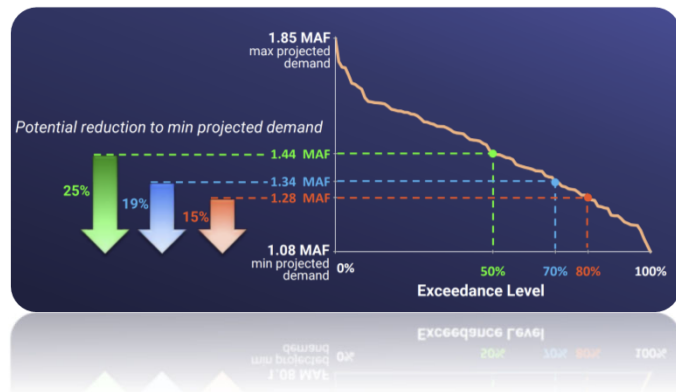
	March Member Agency Proposal	April Member Agency Proposal
Peaking	3 - Yr Max Annual Peak Day	3- Yr Max Summer Day
Standby	Used Standby 10-year trailing annual standby Remaining Treatment Standby - 5 Year Annual Max	Used Standby 10-year trailing annual standby Remaining Treatment Standby - 5 Year Annual Max
Implementation	Phase In-Implementation	Phase In-Implementation
Adjustment to Peaking	Yes, at Metropolitan's request	Yes, at Metropolitan's request



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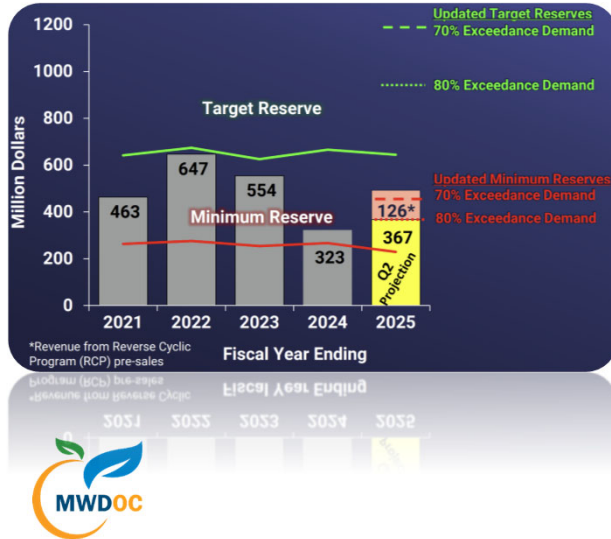
Budgeted Demands & Reserves Recommendations

- Adopt policy to set water demand at **70% exceedance** for rate setting with a long-term target of **80%**
- Update Admin Code language regarding the appropriate use of reserves in excess of target levels and language specifying the intentional use of reserves
- Increasing the exceedance level increases the chances of hitting the budgeted water transactions in any given year



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Budgeted Demands & Reserves Recommendations



- ◆ Technical calculation recommendations
 - ◆ Update the % Reserves to reflect recent water sales volatility
 - ◆ Recognize the disconnect between supplies and sales
 - ◆ Incorporate protection for treated water sales volatility
 - ◆ Adjust required reserve calculation to exclude one-time revenues and unawarded grants
- ◆ Reserve Policy refinement recommendation recognize **increased** stability with increasing the exceedance level to **70% or 80%**

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Other Finance Recommendations

- ◆ Continue to assess other fixed revenue with a goal for recommendations by 2027
 - ◆ 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

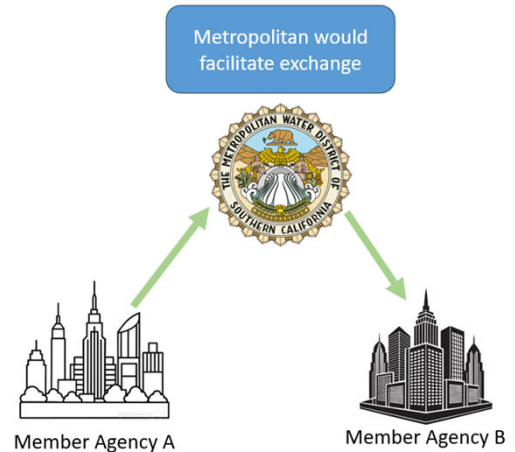


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Water Resources Recommendations

Local Supply Exchanges

- ◆ Metropolitan should support local supply exchanges between member agencies
- ◆ Exchanges should not result in an additional cost to the region and should recover cost/full service rate
- ◆ Direct staff to develop a local supply exchange framework and recommend needed policy changes for implementation

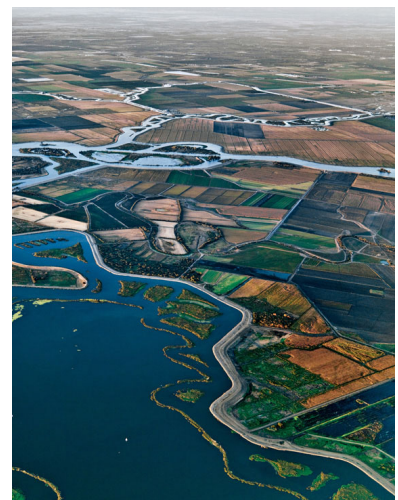


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Water Resources Recommendations

Sales Outside the Service Area

- ◆ The existing WSDM 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
- ◆ Water sales revenues should recover at minimum Metropolitan's overall water supply costs
- ◆ Sales should not be included in the budget



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Water Resources Recommendations

Local Resources & Conservation

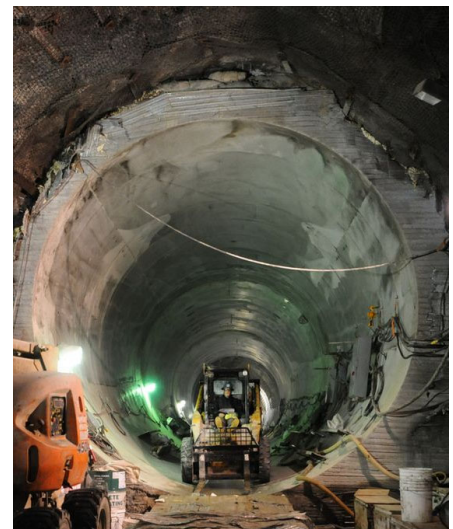
- ◆ Metropolitan should continue to support LRP and Conservation
- ◆ Conservation and LRP are important programs that play a significant role in managing demands
- ◆ A new funding mechanism needs to be established to fund Conservation and LRP that recognizes reduced revenues
- ◆ Conservation and LRP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



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Engineering Recommendations

- ◆ Equitable water supply reliability to all Member Agencies
 - ◆ Agreed to a review of the Equitable Supply Reliability definition considering all the studies currently underway
 - ◆ To be done through Integrated Strategy for Infrastructure Reliability workshops
- ◆ Member Agency Requests
 - ◆ Infrastructure requests from LADWP & FMWD to be evaluated through additional studies
- ◆ Identify a Roadmap for Upcoming Studies and Activities



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Business Model Next Steps

- ◆ Recommendations presented to Metropolitan Subcommittee on Long term Planning (April 22, 2025)
- ◆ Information & Action items move to the committees of jurisdiction to incorporate into the FY2026/27 & FY2027/28 biennial budget
- ◆ Outstanding items to be finalized in advance of the biennial budget starting FY2028/29.

