MWDOC Joint Board Workshop

2025 MWD Business Model Changes

August 6, 2025

July 2025 MWD Board Actions

Summary of Key Actions

- Approved a Treated Water Cost Recovery Rate Structure to be included in the Fiscal Year (FY) 2026/27 and 2027/28 Biennial Budget and Calendar Year (CY) 2027 and 2028 Rates and Charges
  - Establishes new fixed treatment peaking and standby charges
  - Phased-in implementation to mitigate impacts
- Approved revisions to Metropolitan's unrestricted reserve policy
- Directed staff to implement specific sales projections for the proposed FY 2026/27 and 2027/28 Biennial Budget

Treated Water Cost Recovery

July 2025 MWD Board Approved

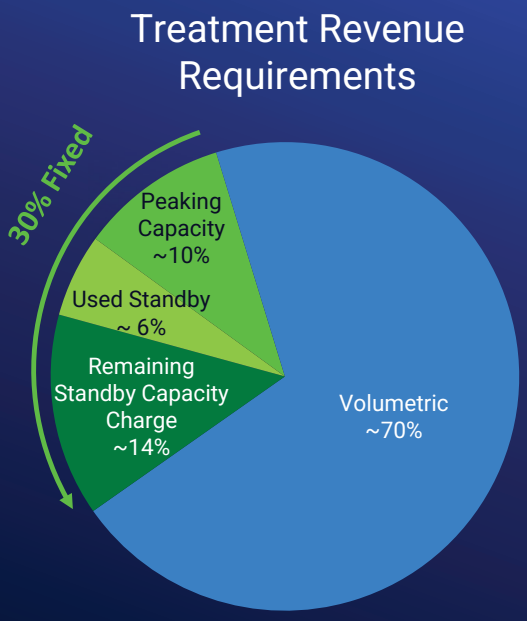
To be included with the staff proposal for CYs 27 and 28 Rates and Charges

Treatment Water Cost Recovery Structure

- Approved methodology to recover Treatment Capacity Costs through:
  - New Peaking Capacity Charge
  - New Standby Capacity Charge
  - Fixed charges to recover up to 30% of treatment costs; remaining 70% volumetric
- Phase-in begins January 1, 2027

July 2025 MWD Board Approved the Treated Water Cost Recovery Rate Structure

Peaking Capacity Charge	A fixed charge would be collected based on a 3-year trailing **maximum annual peak day** demand in CFS Treatment peaking capacity costs **~10%** of total treatment costs based on allocated revenue requirements
Standby Capacity Charge	**Used Standby Capacity Charge**: A fixed charge for used standby capacity would be collected based on a 10-year trailing annual standby use, i.e. 10-year maximum annual use minus average use in AF **Remaining Standby Capacity Charge**: A fixed charge for remaining standby capacity would be collected based on 5-yr trailing maximum annual use in AF This charge inclusive of the Peaking and Used Standby Charge would add up to 30% of the Treatment Revenue Requirements, unless the allocated combined costs are less than 30%.
Volumetric	Remaining (~70%) of treatment costs



** Adopted by the MWD Board on July 8, 2025*

Implementation of New Charges

*To **minimize initial impacts** and provide opportunities for MA to adjust operations accordingly*

Treatment ***peaking*** capacity charge:

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

Treatment ***standby*** capacity charges:

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

New Fixed charges will take effect on Jan. 1, 2027 & Jan. 1, 2028

MWD Board Approved Revisions to Metropolitan's Reserves Policy and Direct Staff to Implement Specific Sales Projections

Updated Unrestricted Reserve Policy

Technical Changes

1. Update the Percent Reserves to reflect recent water sales volatility
   - ✓ Incorporate conservative demand assumptions in rate setting into the calculation
     - ➢ Exceedance level sales projection implementations by fiscal year:
       - ➢ FY 2026/27 & FY 2027/28: 70% exceedance
       - ➢ FY 2028/29 & beyond: 80% exceedance
     - ➢ This approach creates a mechanism to maintain reserves at the target level, providing additional protection against rate spikes
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

Updated Unrestricted Reserve Policy

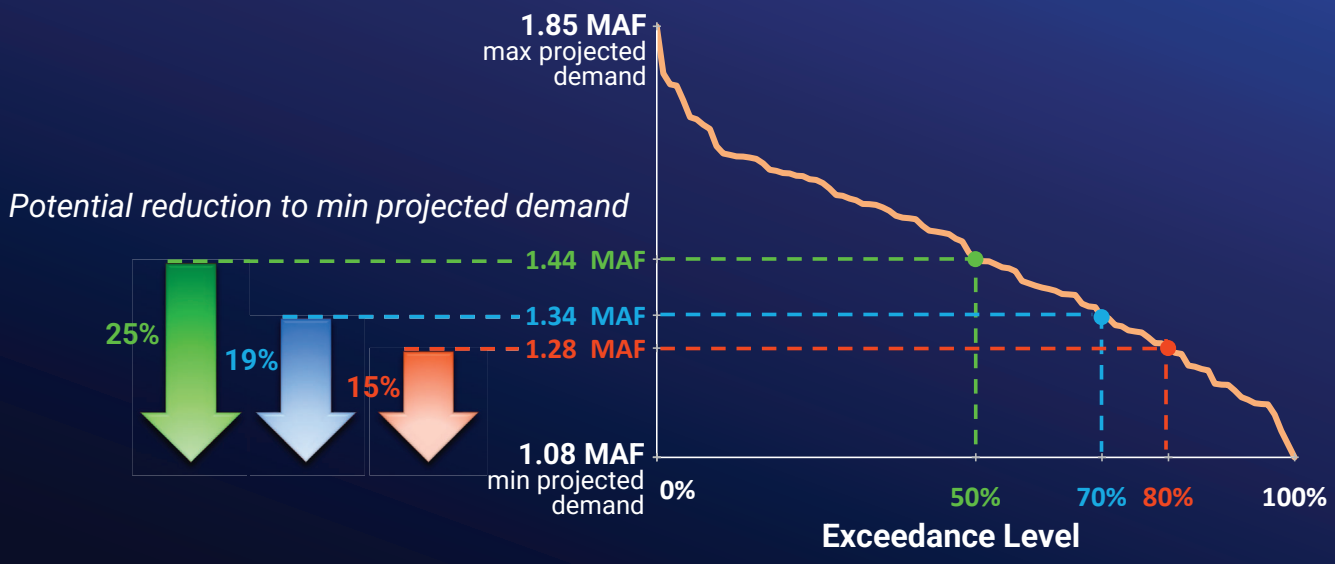
Policy Changes

1. Update Admin Code language regarding the appropriate use of reserves in excess of target levels

2. Add language specifying the intentional use of reserves for one-time expenditures, unforeseen revenue shortfalls or increases in existing expenditures

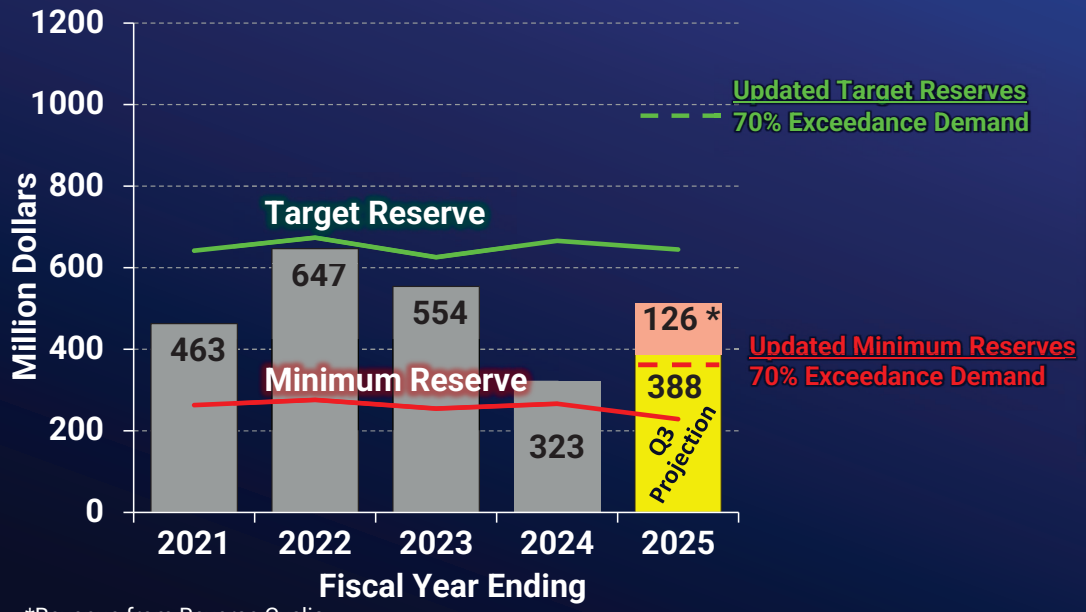
Projected Demand Variability

Projected Demands (MAF) for Calendar Year 2025



Updated Unrestricted Reserve Policy

Example for June 30th, 2025, in millions of dollars



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

Board Approved

Exceedance level sales projection implementations by fiscal year:

- FY 2026/27 & FY 2027/28: 70% exceedance
- FY 2028/29 & beyond: 80% exceedance

Unrestricted Reserve Policy

Approved Methodology

The Board approved the **methodology only**; not specific figures.

The methodology will be incorporated into the FY 2026/27 – 2027/28 Biennial Budget

- Effective Date: revised reserve levels begin **July 1, 2026**
- This will **not** impact the 2026 rates and charges


THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
1928