



Metropolitan's Business Model Process

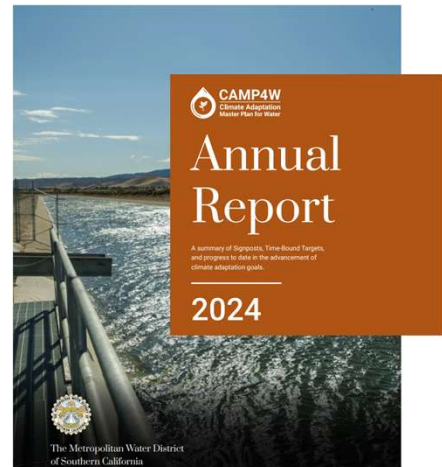
Joint Board Workshop

February 5, 2025

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CAMP Process

- The Climate Adaptation Master Plan for Water process set out to create a framework for decision making relative to Metropolitan's Water Resources, Climate, and Financial Planning.
- The process kicked off in 2023 and is led by the Subcommittee on Long-Term Regional Planning Processes and Business Modeling and the CAMP4W Task-Force.
- While the CAMP4W Decision Making framework is being developed, at the direction of the Board, Metropolitan's Business Model is also being evaluated.



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Business Model Background

- ◆ July 2024 – Ad Hoc Working Group of Member Agency GMs established to review Metropolitan’s Business Model
- ◆ Direction to develop “straw person” proposals which considered:
 - ◆ Treated Water Cost Recovery
 - ◆ 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)
- ◆ Deadline of **March** for proposed refinements



Metropolitan's Business Model



Business Model Process

- ◆ Metropolitan’s 26-member agency General managers signed a letter outlining the framework for collaboration
- ◆ The process included:
 - ◆ Developing a share understanding of Metropolitan’s existing Business Model
 - ◆ Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis
 - ◆ Identification of Business Models Areas of Refinements
 - ◆ Idea Development and Solutions proposals



August 19, 2024

Mr. Adán Ortega Jr., Board Chair
 Ms. Gail Goldberg, Board Vice Chair for Finance and Planning
 Mr. Matt Peterson, CAMRW Task Force Chair
 Mr. Steven Spothys, Interim General Manager
 Metropolitan Water District of Southern California
 200 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 CAMRW 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).

Business Model Retreat

- ◆ October 10th and 11th
- ◆ Facilitated by Ken Kirby of Evtoco LLC.
- ◆ Defined Metropolitan's existing Business Model
- ◆ Analyzed current Business Model's Strengths, Weaknesses, Opportunities, and Threats (SWOT)
- ◆ Identified major areas of focus
- ◆ Decided on a more frequent meeting scheduled (monthly)

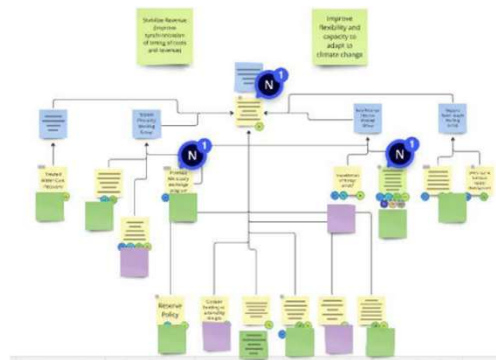


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Working Group Meetings

- ◆ Following the October retreat meetings in November and December focused on:
 - ◆ Reviewing the SWOT Analysis results
 - ◆ Brainstorming of potential business model refinements
 - ◆ Identification of primary areas of focus
- ◆ Three primary areas of focus
 1. Financial Policies
 2. Water Resources
 3. Engineering



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Financial Policies Sub-working Group

- ◆ Process started with the Adoption of the Biennial Budget and review of the Treated water Surcharge
- ◆ Eight Meetings of the working group to-date
- ◆ Evaluation of the Treated Water Surcharge and alternative cost-recovery mechanisms
- ◆ Metropolitan’s Reserve Policy related to unrestricted reserves and stable & predictable rates
- ◆ Water Sales Assumptions and association to targeted reserve levels
- ◆ Proposal for Level Payment Plans – To-be Discussed

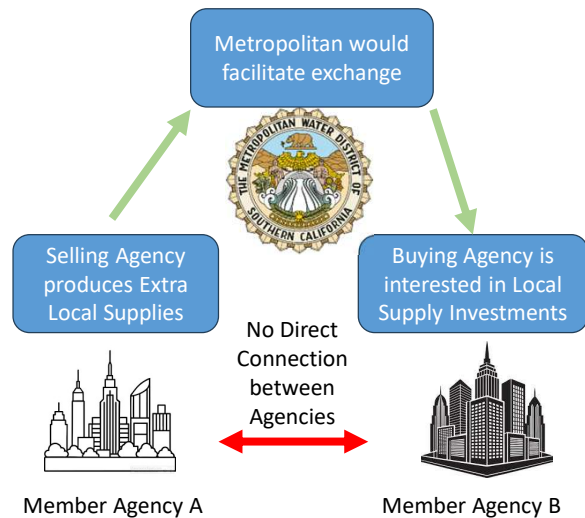


Treatment Surcharge Narrowed Options

	Peaking	Standby
Option #1	3-yr Incremental Peak	10-yr trailing Annual Standby Use
Option #2	3-yr Max Day	10-yr Trailing Max Year
Option #3	Combined Peaking & Standby allocated on a 3-yr rolling average of treated water deliveries	

Water Resources Sub-Working Group

- ◆ Evaluation of a potential program for Metropolitan to enable Member Agency Local Supply Exchanges
- ◆ Strong consensus for a program to be established
- ◆ Support for a program that keeps the region revenue neutral under any exchange program
- ◆ Metropolitan Policy for water sales outside the service area – To-be discussed
- ◆ Conservation and Local resource Planning - To-be Discussed



Engineering Sub-Working group

- Sub-Working Group established to address concerns surrounding a basic level of service policy
- Brought on by issues in the State Water Project Dependent Area
- Work has already started on resolutions to the issue:
 - East/West Conveyance Study
 - Sepulveda Pumping Plant Phase I & II
 - Greg Avenue Pump Station
- Sub-Working Group will first meet in February



**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
AFFIRMING A CALL TO ACTION AND A
COMMITMENT TO REGIONAL RELIABILITY
FOR ALL MEMBER AGENCIES**

1) WHEREAS, Metropolitan seeks to provide water supply reliability to its Member Agencies.

a) Metropolitan's enabling legislation provides broad powers for "developing, storing, and distributing water for domestic and municipal purposes."

b) The Board in 1931 established, "Neither surface nor subsurface storage shall be created to the advantage of any area within the limits of the District, or elsewhere, unless such storage is a necessary and economical part of the general engineering plans which may be accepted."

c) The Board in 1991 established its current mission to "provide the service area with adequate supplies of high quality water to meet present and future needs in an environmentally and economically responsible way."

d) The Board in 1996 adopted its first in a series of Integrated Water Resource Plans (IRPs) to identify infrastructure and supply programs to achieve 100 percent reliability.

e) The Board in 2008 adopted a water supply allocation plan (WSAP) for use when regional shortages exist to manage shortage conditions felt across the entire service area.

2) WHEREAS, Metropolitan's infrastructure today cannot provide equivalent water supply reliability to all Member Agencies.

a) Metropolitan's distribution system was designed decades ago to operate by gravity and to serve large portions of the service area from a single supply system.

b) Past reliability efforts focused largely on increasing supply availability rather than connecting member agency demand to multiple imported sources.

c) Infrastructure constraints prevent the State Water Project (SWP)-dependent agencies from accessing sufficient amounts of supply from the Colorado River Aqueduct, or from storage in Diamond Valley Lake or Lake Mead.

d) Metropolitan's actions to operate existing infrastructure to distribute water across the service area, such as the rehabilitation of the Greg Avenue pumping plant, can only meet a small portion of SWP dependent-area needs.

3) WHEREAS, infrastructure constraints created substantial and disparate impacts between Member Agencies.

a) Under the Emergency Water Conservation Program, six out of 26 member agencies, serving about one-third of Southern California's population, were required to severely constrain outdoor water use or comply with strict volumetric limits beginning on June 1, 2022.

b) These affected member agencies must cut their use of Metropolitan's SWP supply by up to 73 percent, or face volumetric penalties of \$2,000 per acre-foot or a first-ever total ban on outdoor irrigation.

Next Steps

- Recommendations from the Sub-Working Groups will come to the Ad Hoc General Manager Working Group
- The Ad Hoc General Manager Working Group will meet in both February and March
- Recommendations will come from the Ad Hoc General Manager Working group will come to the Subcommittee on Long-Term Regional Planning Processes and Business Modeling by the end of March
- Recommendations would need Finance Committee and Board Approval



Recommendations will include both near-term and long-term actions