

Agenda Item: {{section.number}}D

May 19, 2025

TO: THE FINANCE COMMITTEE

Director Mike Gardner
Director Laura Roughton

FROM: Richard R. Aragon, Assistant General Manager/Chief Financial Officer

ADOPT RESOLUTION 3347 SETTING WATER RATES AND CHARGES FOR WHOLESALE AGENCIES

RECOMMENDATION:

The Finance Committee and Staff recommend the Board of Directors:

1. Adopt Resolution 3347 setting water rates and charges for wholesale agencies.

EXECUTIVE SUMMARY:

Each year Western Municipal Water District sets water rates and charges by resolution for its eight wholesale agency customers. The purpose of Resolution 3347 is to set the following:

1. Administrative Charge and Mills Gravity Line Maintenance Charge;
2. Metropolitan Water District of Southern California Water Rates and Charges;
3. Metropolitan Water District of Southern California Net Readiness-to-Serve Charge;
4. Metropolitan Water District of Southern California Capacity Charge; and
5. Mills Gravity Line Fixed Major Maintenance and Repair Reserve Charge.

These topics are discussed in further detail in the sections below.

BUDGET IMPACT:

On April 9, 2024, the Board of Directors of Metropolitan Water District of Southern California adopted new water rates effective January 1, 2025, and January 1, 2026. These water rates were incorporated in the Western Municipal Water District's biennial operating budget FY 2025-2026. The wholesale agency water rates and charges are essentially a pass-through of Metropolitan Water District of Southern California's rates and charges, with the addition of a per acre-foot

Western Municipal Water District Administrative Charge and Mills Gravity Line Maintenance Charge.

DETAIL:

1. Administrative Charge and Mills Gravity Line Maintenance Charge for FY 2025-2026

Western Municipal Water District (Western Water) staff notified wholesale agencies of the proposed increase in the Administrative Charge and Mills Gravity Line (MGL) Maintenance Charge, both of which are assessed by Western Water in addition to passing through Metropolitan Water District of Southern California's (MWD) rates and charges. The Administrative Charge is assessed on each acre foot (AF) of water delivered to wholesale agencies. The purpose of this charge is to offset a portion of Western Water's general district expenses directly related to wholesale water agency activities. The MGL Maintenance Charge is assessed on each AF of water delivered through the MGL. The purpose of this charge is to offset day-to-day maintenance costs related to this important transmission pipeline. Examples of maintenance activities include water quality testing, turnout maintenance, meter calibrations, minor repairs, cathodic protection testing and easement maintenance.

The charges are effective July 1, 2025. The proposed Administrative Charge is \$27.08 per AF and the proposed MGL Maintenance Charge is \$18.30 per AF, an increase of 3% per charge.

2. Wholesale Agency Rates and Charges for MWD Water for CY 2026

Resolution 3347 incorporates the changes in MWD's rates effective January 1, 2026, approved by the MWD Board of Directors. The rates charged to wholesale agencies are essentially a pass-through of MWD's rates plus the Western Water Administrative Charge and, if applicable, the MGL Maintenance Charge.

Effective January 1, 2026, the Treated water rate charged by MWD will increase by \$133 per AF, or 9.5%, to \$1,528 per AF. The Untreated water rate will increase by \$72 per AF, or 7.9%, to \$984 per AF. The Readiness-to-Serve Charge (RTS Charge) collected in total from all MWD member agencies will increase by \$7 million, or 3.9%, from \$181 million to \$188 million (discussed in Section 3 below). The Capacity Charge will increase by \$1,500 per cubic feet per second (cfs), or 11.5%, from \$13,000 to \$14,500 per cfs (discussed in Section 4 below).

3. MWD RTS Charge for FY 2025-2026

The RTS Charge is used by MWD to recover a portion of debt service associated with capital improvements necessary to meet standby service needs and emergency storage. The RTS Charge is allocated among MWD's member agencies based on a ten-year rolling average (TYRA) of firm deliveries and is a calendar year (CY) charge. The total amount to be collected by MWD from the RTS Charge is \$181 million in CY 2025 and \$188 million in CY 2026. Western Water's share for FY 2025-2026 is \$9.49 million.

Western Water is one of twenty-two member agencies that elected to have MWD collect a Standby Charge on its behalf. The Standby Charge is levied on the property tax rolls and is assessed on parcels of land in Western Water's service area to offset a portion of its RTS Charge obligation. The Standby Charge revenue for FY 2025-2026 is \$3.57 million, leaving a net RTS Charge of \$5.92 million to allocate among Western Water's wholesale agencies and retail customers. Staff provided wholesale agencies with a schedule (Attachment 1) presenting the allocation of the RTS Charge netted with the Standby Charge that will be assessed during FY 2025-2026. Western Water recovers its share of the net RTS Charge (\$1.1 million) through a separate monthly fixed charge on retail customer water bills.

4. MWD Capacity Charge for CY 2026

MWD's Capacity Charge is intended to pay for capital costs related to peaking on their distribution system and is based on each agency's maximum summer day demand placed on the system between May 1 and September 30 over the three prior calendar years. Western Water, in turn, allocates this charge to its wholesale agencies and retail customers based on deliveries occurring on that same peak day. Western Water's peak during the prior three calendar years was 181.7 cfs measured on August 9, 2023, resulting in a total Capacity Charge of \$2.6 million. Staff provided wholesale agencies with a schedule (Attachment 2) presenting the allocation of the 181.7 cfs by agency and a calculation of each agency's Capacity Charge that will be assessed during CY 2026.

5. MGL Fixed Major Maintenance and Repair Reserve Charge for FY 2025-2026

This reserve is intended to pay for regular and on-going inspection, major maintenance, and repair work necessary to keep the pipeline in good working condition to reduce the likelihood of avoiding high, unexpected emergency repair costs. These costs are considered "fixed" in that they do not vary based on the volume of water deliveries.

Each agency that owns service rights in the MGL is assessed a proportional amount to fund the reserve (Attachment 3). The total amount to be funded in FY 2025-2026 is the ten-year budget

of \$9,612,595 divided by 10, or \$961,259. This is the same amount as the prior fiscal year.

Reason for Action:

Current rates and charges are insufficient to recover the cost of purchasing water and providing water service to wholesale agencies.

Solution:

Adopt Resolution 3347 adjusting the rates and charges to wholesale agencies to allow for full cost recovery.

STRATEGIC PRIORITIES REFERENCE:

This action aligns with Western Water's Strategic Priority of Financial Stewardship.

PROPOSED DATE OF ACTION:

If approved by the Committee, this item is scheduled for consideration by the full Board of Directors at their meeting on June 18, 2025.

LEGAL COUNSEL REVIEW:

Not applicable.

Respectfully submitted by:

Richard R. Aragon, Assistant General Manager/Chief Financial Officer

Attachments:

1. MWD RTS Charge Allocation FY 2025-2026
2. MWD Capacity Charges by Customer, Effective January 1, 2026
3. MGL Service Right Capacity Ownership and Fixed Major Maintenance and Repair Reserve Allocation, FY 2025-2026
4. Resolution 3347