



Authorize Refinements to Local Resources Program

Water Planning and Stewardship Committee
October 13, 2014
Item 8-4

Local Resources Program

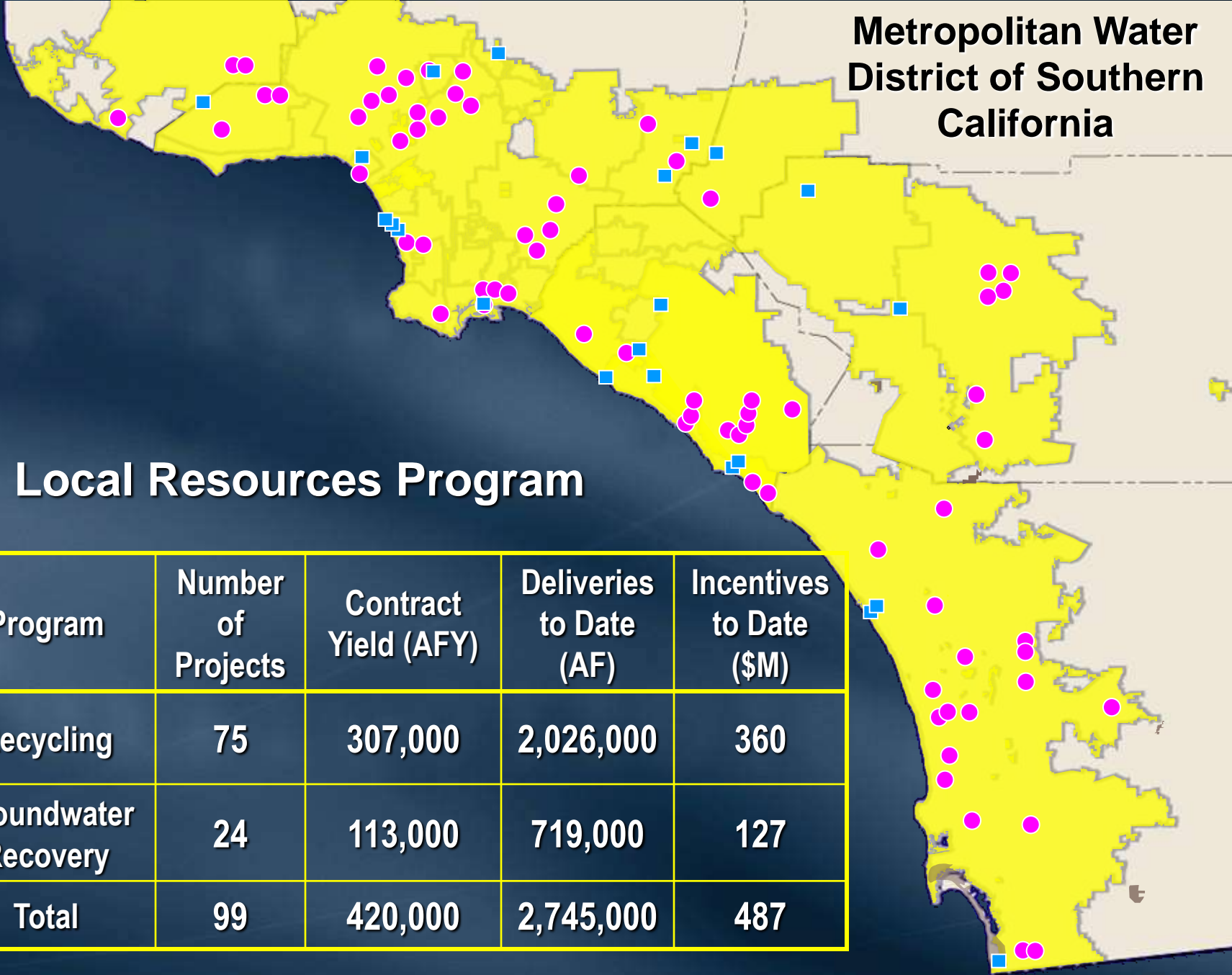
- Established in 1982
- LRP provides incentives for new local projects
 - Recycled water and groundwater recovery projects to reduce demand on imported water deliveries
- Need to accelerate project production
 - Meet IRP and 20x2020 goals
 - Current drought conditions



Metropolitan Water District of Southern California

Local Resources Program

	Program	Number of Projects	Contract Yield (AFY)	Deliveries to Date (AF)	Incentives to Date (\$M)
●	Recycling	75	307,000	2,026,000	360
■	Groundwater Recovery	24	113,000	719,000	127
	Total	99	420,000	2,745,000	487



Current Program Status

2007 LRP target 174,000 AFY

23 projects approved 111,000 AFY

Remaining target 63,000 AFY

No new project applications under review



Observations

- Cost remains a predominant constraint
 - Data shows most local projects cost more than MWD rate
 - Financial assistance needed, especially in early years
- LRP project production is not at capacity
 - Developmental and technical issues
 - Projects not built as originally designed



Need for LRP Refinement

- Meet 20x2020 (recycled water)
 - Bring new projects online faster
 - Motivate increased production from existing projects (faster ramp-up, expansions)
- Meet IRP resource needs
- Enhance storage opportunities
- Improve groundwater management and sustainability
- Alleviate current and potential future drought conditions

Recommended LRP Refinements

Increase Maximum Incentive Amount

Alternate Incentive Payment Structure Options

Include On-site Retrofit Costs

Eligibility for Other Resources

Provide Reimbursable Services

Increase Maximum Incentive Amount

- Increasingly high costs to develop local projects
- Higher incentive needed to encourage accelerated project development
- Increase the incentive amount to \$340/AF
 - Incentive amount based on rising cost of project development
 - Represents the midpoint between two different methods
 - Consumer Price Index (CPI) inflation since LRP approval (\$280/AF)
 - Increase in average unit cost of local resource projects since LRP approval (\$395/AF)

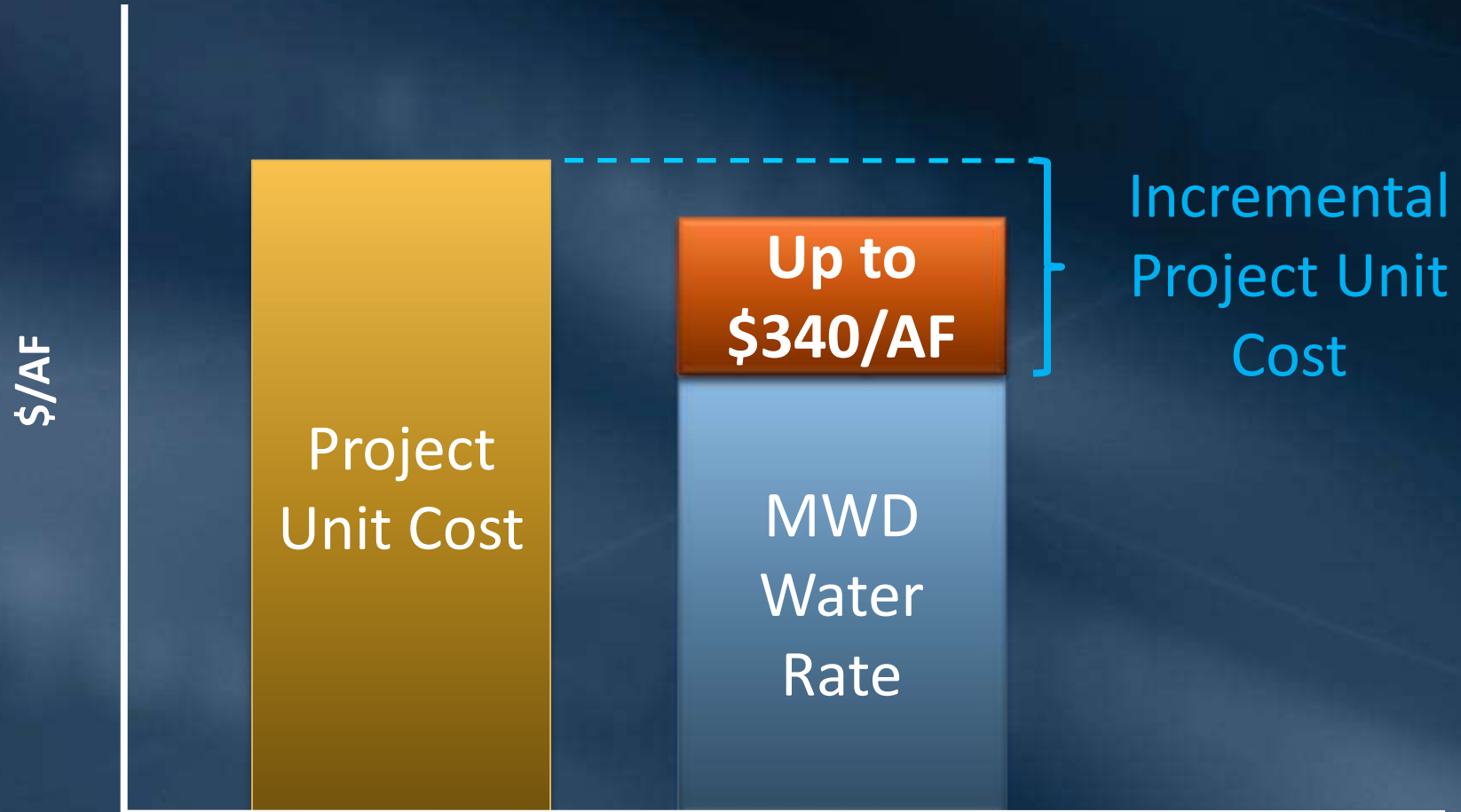
Alternate Incentive Payment Structures

- Three alternatives to choose from
 1. Sliding scale incentive over 25 years (current payment structure)
 2. Sliding scale incentive over 15 years (new structure)
 3. Fixed incentive over 25 years (previously approved structure)
- Existing program criteria and performance provisions apply

Alternative 1: Sliding Scale Incentive Over 25 Years

- Incentive amount up to \$340/AF
- Incentive calculation same as current structure
 - Calculated by taking the difference between project unit cost and Metropolitan's water rate

LRP Incentive Calculation (Sliding Scale)



Alternative 2: Sliding Scale Incentive Over 15 Years

- Incentive calculated similar to current structure
- Higher payments earlier in the contract
 - Incentive amount up to \$475/AF
 - Equivalent maximum obligation to Metropolitan as a 25-year payment period (up to \$340/AF)
 - Additional provisions to ensure continued production beyond 15 years
 - Reimbursements to Metropolitan through subsequent water service invoices

Alternative 2: Sliding Scale Incentive Over 15 Years

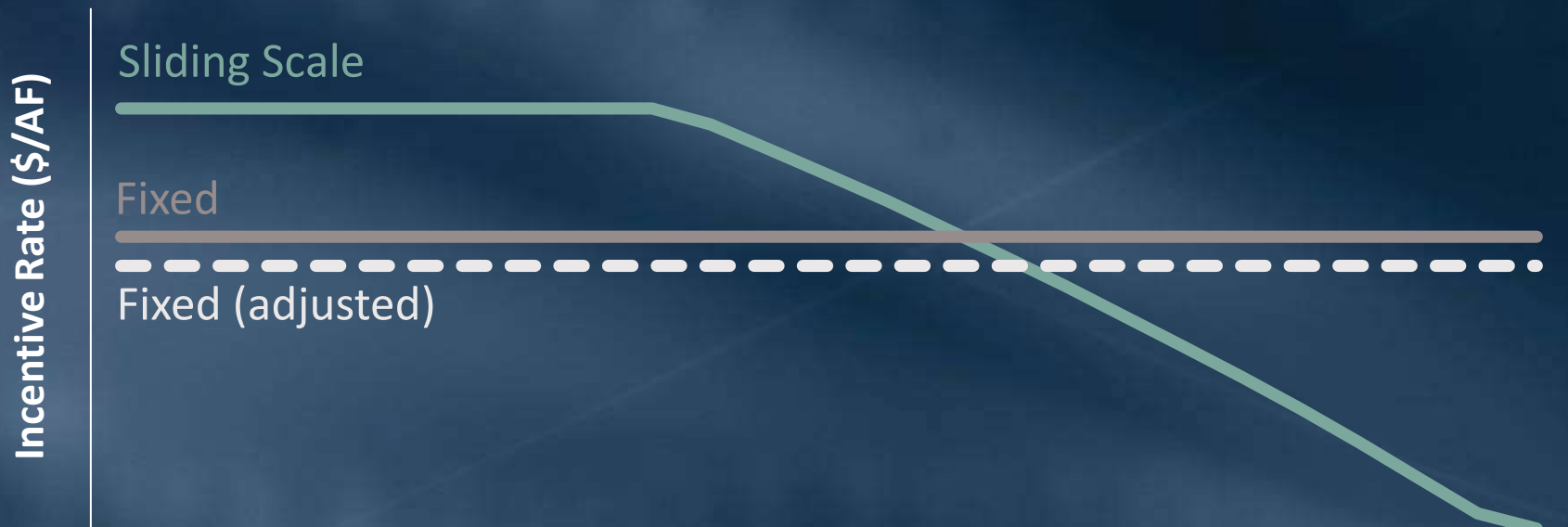


Alternative 3: Fixed Incentive Over 25 Years

- Based on estimated sliding scale payment converted to an equivalent fixed incentive rate
 - Provides stable funding opportunity
- Incentive amount up to \$305/AF
 - Adjusted for increased risk in absence of annual cost reconciliations
- Incentive is project specific
- Approach used before

Alternative 3: Fixed Incentive Over 25 Years

Conversion to Fixed Incentive Rate



- Adjusted fixed incentive rate varies per project based on project unit cost

Summary of Incentive Payment Structures

Payment Structure Alternatives	Payment Period	Maximum Incentive Amount
1 – Sliding Scale (current payment structure)	25 years	\$340/AF
2 – Sliding Scale (new structure)	15 years	\$475/AF
3 – Fixed Incentive Rate (previously approved structure)	25 years	\$305/AF

Include Recycled Water On-site Retrofits

- Site conversions can be a key impediment to achieving full project capacity
- Include recycled water on-site retrofit costs as eligible costs under the LRP
- Eligible costs would include
 - Retrofit design
 - Permitting
 - Construction

Eligibility of Other Water Resources

- Evaluated the potential of additional resources to be included in the LRP
- Seawater Desalination
 - Include as eligible resource in LRP
- Stormwater
 - Two studies are currently being funded through the Foundational Actions Funding Program
 - Continue to study stormwater regional benefits

Provide Reimbursable Services

- Reimbursable agreement with member agencies
 - Development of ready-to-proceed local projects
 - Helps member agencies expedite development of projects
- Accelerate local project development to help alleviate current drought conditions
- Metropolitan will offer a variety of technical and financial services
- Member agencies will reimburse Metropolitan
 - Similar to agreement with LADWP for the Tujunga Well Field Groundwater Recovery Project

Board Options

Option 1:

- Adopt the CEQA determination, and authorize
 - a) Increasing the LRP maximum incentive amount to \$340/AF;
 - b) Including alternative payment structures for new local projects and general program information;
 - c) Including on-site retrofits as eligible costs in the LRP;
 - d) Including seawater desalination as an eligible resource in the LRP; and
 - e) Entering into reimbursable agreements with member agencies.

Option 2:

- Take no action

Staff Recommendation

Option #1

