

Water Planning and Stewardship Committee
Item 6c

Subject: Local Resources Program Update

Purpose: Provide an overview of Local Projects Program status and new initiative to improve program performance.

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Oral Report on Local Projects Program



Local Resources Program Update

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August 18, 2014

Good Morning,

Mr. chairman and members of the committee. This presentation is for item xx on the agenda.

I will provide an update on our Local Resources Program and information on other things that we are working on in relation to the program.

Before we get into the current status of the program, let me refresh your memory about what the program is..... .

Local Resources Program Purpose

- LRP provides incentives for development of new local projects
 - Recycled water to reduce imported water demand
 - Recovered groundwater to increase regional groundwater production and sustain yield during drought without imported water replenishment
- LRP expedites local project development
 - Increased use of recycled water and recovered groundwater in the region
 - Meet IRP and 20x2020 goals
 - Drought response

LRP provides financial incentives for development of new recycled water projects that reduce a demand on imported water and for groundwater recovery projects that increase regional groundwater production and can sustain production during drought without receiving replenishment water from Metropolitan.

LRP provides incentives for the development of new recycled water projects that reduce imported water demands and groundwater recovery projects that can sustain production during drought without receiving replenishment water from Metropolitan.

The program expedites project development to help meet IRP and 20x2020 goals and also helps respond to our current drought conditions.

Local Resources Program Background

- 1980 – Orange and Los Angeles Counties Reuse Study
 - Recycled water potential
 - Regional benefits/Imported demand reduction
- 1982 – Program for recycled water
- 1991 – Program for recovered groundwater



In the early 80's the OLAC study was completed and it identified the potential for increasing the use of recycled water.

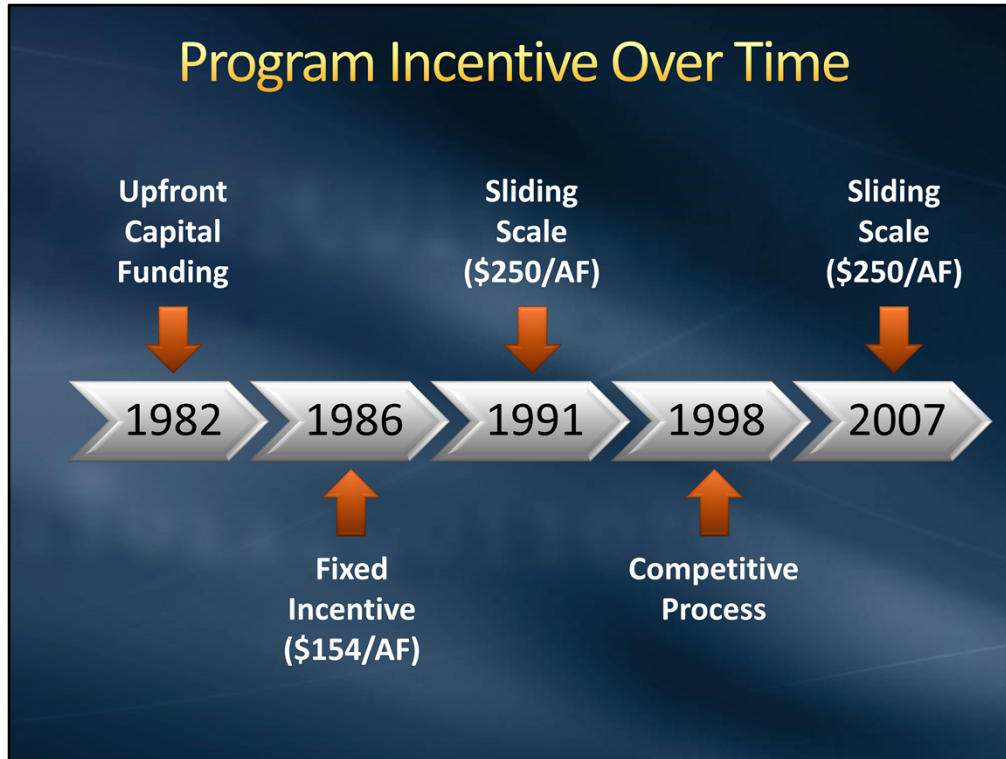
Metropolitan saw the regional benefits of developing recycled water to reduce imported demands.

In 1982, Metropolitan established the Local Resources Program for recycled water.

In 90s, another study was completed that identified degraded groundwater and Metropolitan saw an opportunity for increasing groundwater production (Boyle Brackish groundwater reclamation study)

In 1991, Metropolitan added the Ground water Recovery Program.

Both these programs were later combined into the LRP.



This is an incentive based program, it has changed since it first began

Here is a timeline on how this program incentives have changed over time.

In 82 when the program first started it provided up front capital funding for recycled water projects. After funding two projects, we recognized that the program was not sustainable. Projects were expensive and the amount of funding going into the few projects was not allowing support for developing more project.

We had to rethink on how to provide incentives to reach out to more projects. At this time, we decided to change the way we provided the incentive and switched it to a pay for production where the incentive is provided on an acre-foot basis.

So in 86, we provided a fixed incentive in the amount of \$154/AF. (costs to defer construction of facilities to help meet demands)

In 91 we offered incentives on a sliding scale up to \$250 per acre-foot. The incentive was calculated based on the project unit cost over Metropolitan's water rate, up to \$250

In 98, we went a different route and opened up a competitive process where the agencies determined the rate and term of the agreement, incentive up to \$250/AF.

In 2007, we went back to offering the incentive on a sliding scale which is our current program.

Current Program Status

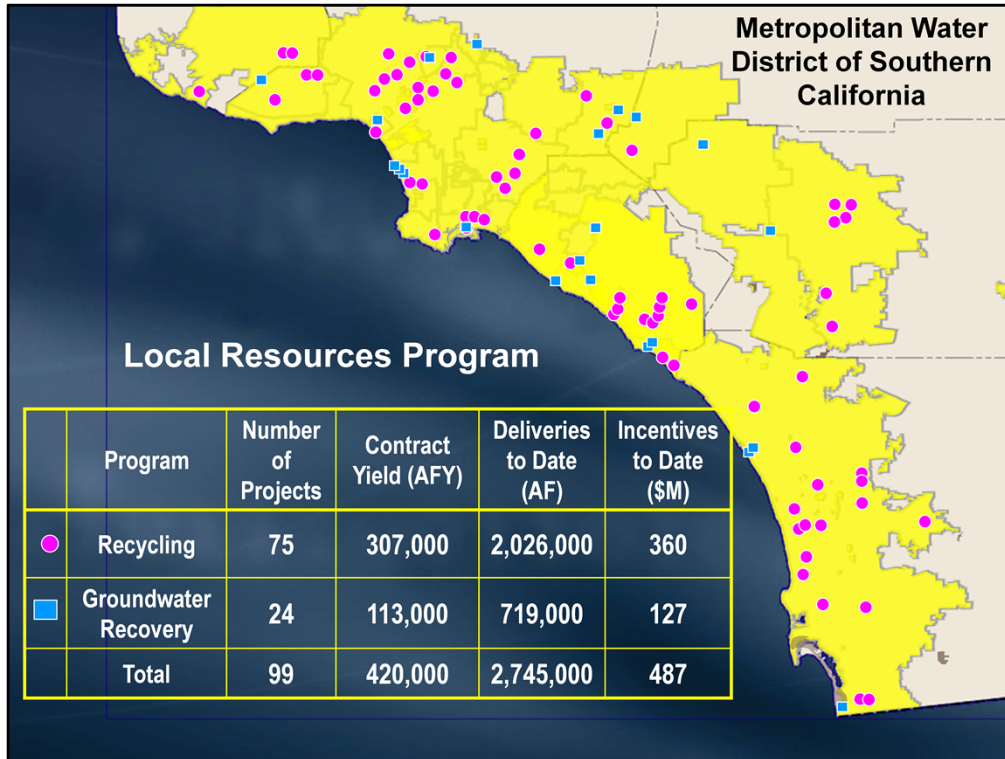
2007 LRP target	174,000 AFY
23 projects approved	<u>111,000 AFY</u>
Remaining target	63,000 AFY



In 2007, the Board approved the current program with a new target of additional 174,000 AFY of water under the Local Resources Program.

In the past seven years, the board has approved 23 projects with a total contractual yield of about 111,000 AFY.

With that, there is about 63,000 AFY for new projects to apply for. We do not have any recycled water or groundwater recovery project applications under review.

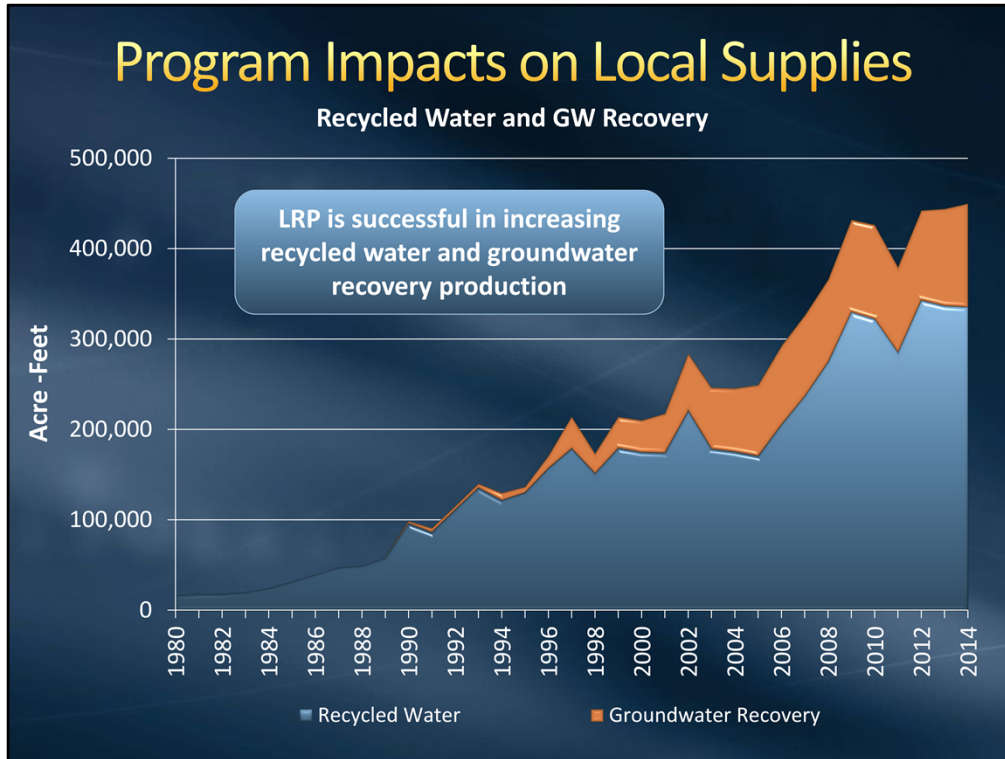


This map shows the distribution of projects participating in the LRP across our service area. Currently, we have 75 water recycling and 24 groundwater recovery projects in the program. 85 of these projects are in operation.

On average, we provide about \$40 million per year in incentives.

To date, we have provided about \$487 million in LRP incentives for production of about 2.7 million acre-feet of recycled water and recovered groundwater.

Lets consider the impacts of the program on the development of our local supplies.....

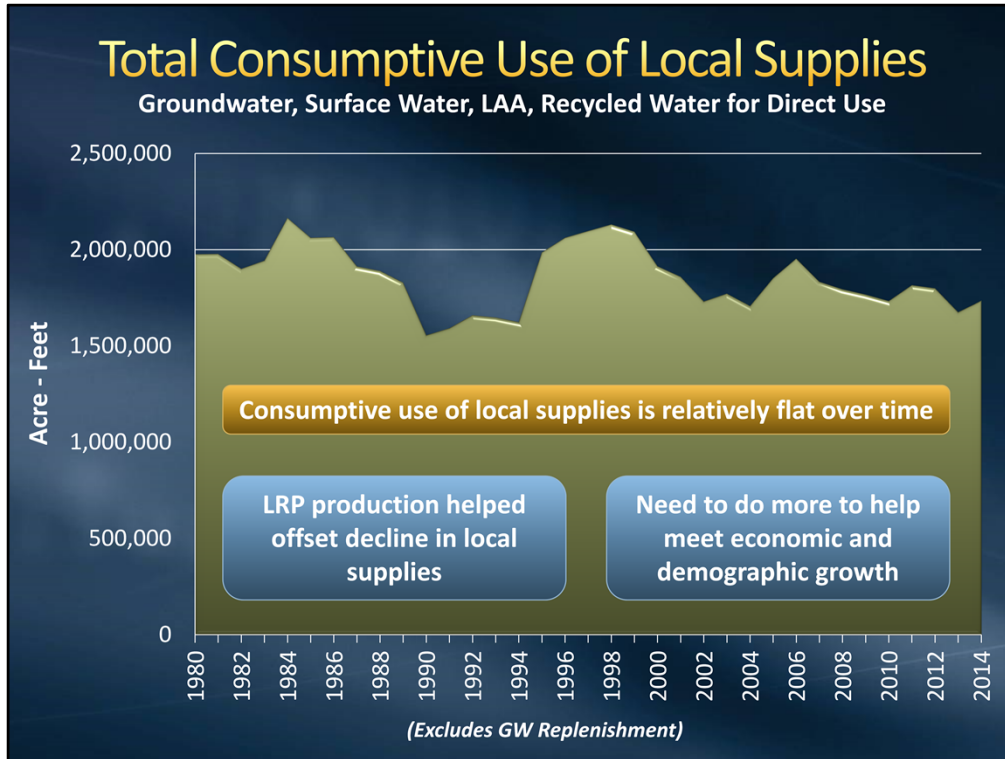


This graphic shows the development of RW and recovered GW.

Since inception of the program, production of these local supplies has significantly increased.

More than half of the recycled water and recovered groundwater shown here is as a result of the LRP.

So now lets look at the impacts of this development on our local supplies.....



This graphic shows our local supplies for consumptive use.

It appears as though use is relatively flat over time, but I would like for you to notice that supplies are slightly declining in the most recent years.

Based on the increased development of local supplies we have seen over time that just discussed, we should be seeing a different picture, we should see more local supplies available in the most recent years, but we do not.

What this tells us is that everything being developed as a result of the program, is helping with the current conditions by offsetting the decline in local supplies and it is holding steady.

We need to do more than hold steady to keep up with future economic and demographic growth.

Observations

- LRP production is not at capacity
- Cost remains a predominant constraint
 - Data shows most local projects cost more than MWD rate
 - Financial assistance needed, especially in early years

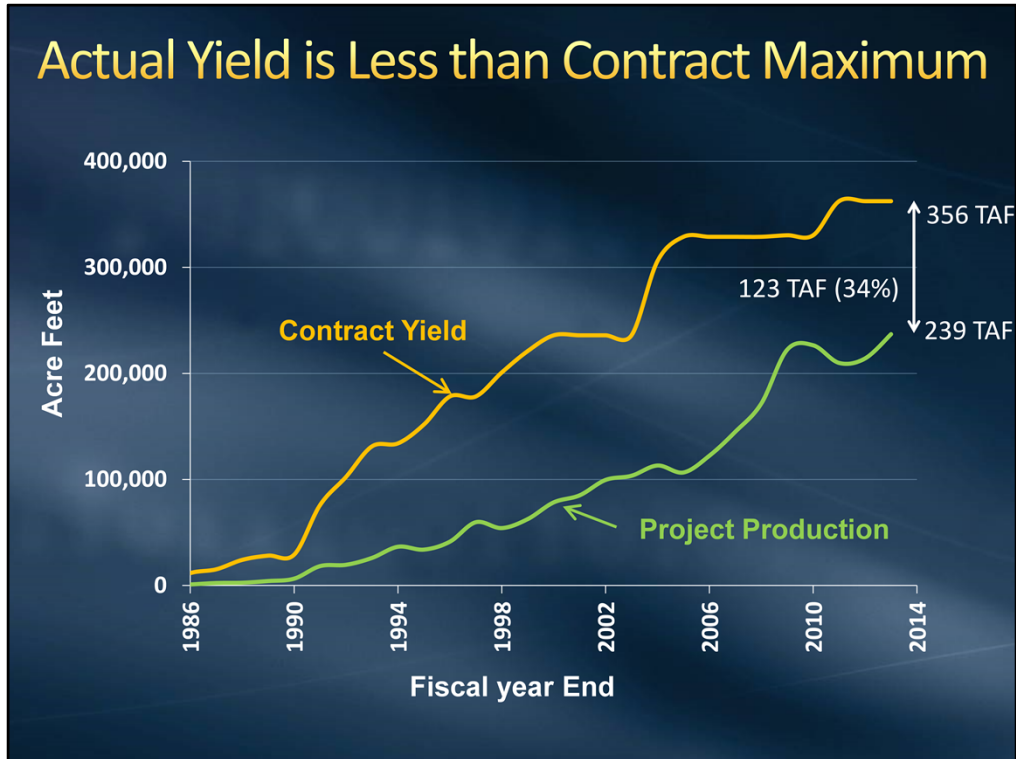
What are some observations....

Production of projects in the Program are not at capacity.

Based on our discussions with member agencies, costs are the predominant constraint as to why the projects are not being built.

Project unit costs are consistently greater than Metropolitan's water rate and financial assistance is needed in the early years especially. A lot of money is being spent to construct the projects and revenues are not coming in because projects are not fully in operation.

Let me describe to you what we mean by LRP production is not at capacity.....



Let me go back to projects not being at capacity. The orange line shows the cumulative maximum yield that contracts are signed for. This only includes projects that are in operation and excludes any projects that are under construction.

The green line shows the actual project production.

As you can see, the green line is about 30% lower than the orange line.

Based on what we know, this is happening because some operating projects are having development, technical issues, or some phases were never built as originally planned.

We have been working on ways to narrow the gap.....

Narrowing the Gap

- 2007 Public sector program
 - 85 sites
 - 3,300 AFY
- 2013 Foundational Actions Funding Program
 - \$3 million for 13 projects
 - Technical studies and pilot projects
- 2014 On-site retrofit Pilot Program
 - \$7.5 million over three years
 - 14 applications to date (\$1 million for 1,100 AFY)

In 2007 Metropolitan implemented the Public sector program which provides incentives for potable water irrigation systems to recycled water. Retrofitted 85 sites and about \$3,300 AF

In 2013, we started the foundational actions funding program which is helping fund 13 technical studies and pilot projects to help further the development of local resources.....

And most recently, last month we kicked off the On-site retrofit pilot program...

But it is not enough..... We need to do more.....

In addition to developing new programs, it is time to look at the program itself. This program has consistently changed with the times in an effort to spur development, and it has been seven years since it has changed.

It is time to refine the LRP.....

Time 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

We need to do more to bring new recycled water projects online faster, and motivate increased production from existing projects (faster ramp-up, expansions) to help meet 20x2020

Meet IRP resource needs; We need to support development of other local supplies in addition to recycled water.

Enhance storage opportunities

Improve groundwater management and sustainability

IRP need:

120,000 AFY 20x2020 + 46,000 AFY LRA

LRP Refinements – Approach

1. Update incentive amount and payment structure
2. Consider recycled water on-site retrofit costs
3. Review eligibility for other water resources
4. Evaluate opportunities to provide reimbursable services

We are in the process of evaluating the components of the LRP and identifying what needs to change.

Here are 4 things that we want to do.....

Update the incentive amount and payment structure

Consider including the costs of recycled water retrofits as eligible cost of the project

Review eligibility for other water resources in addition to recycled water and brackish groundwater.

Include an additional component to the Program where Metropolitan would provide reimbursable services to accelerate projects.

Update Incentive Amount and Payment Structure

- Review Incentive amount (currently up to \$250/AF)
- Maintain current sliding scale approach
- Consider payments early in contract
 - Would help with high cost in early years
 - Need to ensure that Metropolitan gets value
- Consider a fixed incentive rate
 - Provides stable funding opportunity
 - Need to ensure Metropolitan is paying the appropriate amount

We are currently in the process of reviewing the incentive amount.

In addition to updating the incentive amount, we are looking at other ways that we could provide the incentive.

Maintain current sliding scale approach

Consider providing the incentives earlier in the contract when the costs for the project is highest. During our evaluation, we would need to ensure that Metropolitan gets the value.

Consider a fixed incentive rate which provides more stability in the financial support that Metropolitan provides for the project. During our evaluation, we would need to determine what that incentive rate would be to ensure that Metropolitan is paying the appropriate amount

Other LRP Refinements

- Recycled water on-site retrofits
 - Include as LRP eligible costs
- Other water resources
 - Consider seawater desalination
 - Conduct a study on stormwater regional benefits
- Reimbursable services
 - Example services: design, construction, operation
 - Member agencies reimburse Metropolitan
 - To expedite project development by 2020
 - Pursue Federal and State grants

We are considering including on-site retrofit costs as eligible costs in the LRP. Including the costs would help cover the large cost to convert potable water systems and bring end-users online quicker

Evaluating the inclusion of other resources such as seawater desalination and conducting studies on regional benefits of stormwater. We currently have two studies underway as part of the Foundational Actions Funding program

Provide reimbursable services were Metropolitan would help with design, construction or operation and the member agency would reimburse Metropolitan. This would be similar to the Tujunga wellfield groundwater recovery project where Metropolitan entered into a reimbursable agreement with LADWP in 2008.

Providing these services would help expedite project development

Metropolitan would help with Federal and State Grants

Next Steps

August-September 2014

Continue Discussions with Member Agencies

September 2014

Board Information Item

October 2014

Board Action

[Note to Kira: double check the dates of the potential MA Workshops and the September Board update]

