**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

August 4, 1992

*To:* Board of Directors (Water Problems Committee--Information)  
*From:* General Manager  
*Subject:* Local Projects Program Financial Contribution

Report

Under the Local Projects Program (LPP), participating agencies receive a financial contribution from Metropolitan of \$154 per acre-foot (AF) of reclaimed water produced. The LPP contribution provides the financial incentive for new reclamation projects to come to fruition and allows existing projects in the LPP to remain economically viable.

The calculation of the LPP contribution was based on Metropolitan's avoided costs to convey, treat, and distribute water and included considerations of reliability and service area needs. Importantly, it reflected an approximate equitable sharing of the costs of reclaiming water. From the participating agencies' perspective, the financial benefit of reclamation under the LPP includes two components: (1) the LPP contribution of \$154 per AF made by Metropolitan, and (2) the avoided water rate payment of \$322 per AF that the agency no longer needs to make to Metropolitan. Thus, Metropolitan is currently providing \$476 per AF incentive for reclaimed water. In addition, the agency receives revenue from reclaimed water sales.

The LPP financial incentive was set at a level to accomplish our goal of reaching 200,000 acre-feet in the program by the year 2000. Since the LPP contribution was set at \$154 per AF in early 1990, the LPP has added ten projects with an ultimate yield of about 98,000 AF per year. The LPP has 27 approved projects with an ultimate yield of about 140,000 acre feet per year (AFY). Eleven reclamation projects with a potential yield of 46,000 AFY are currently under review for inclusion in the LPP. Apparently the \$154 incentive is adequate for reaching the present goal.

Because of Metropolitan's projected rate increases, producing agencies realize an increasing benefit in

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participating in the LPP. With Metropolitan's rate projections and assuming a constant LPP contribution, producing agencies could realize a financial benefit of about \$760 per AF by the year 2000, plus local rate revenue.

Nonetheless, some agencies producing reclaimed water under the LPP have expressed concern that Metropolitan's incentive may not be adequate to cover increasing costs of producing reclaimed water. They feel future cost increases associated with energy, stricter health regulations, and other factors may make it impractical or impossible for them to continue to produce reclaimed water. These producing agencies want the opportunity to benefit from future increases in the LPP financial contribution. In addition, the most economical reclamation projects most likely have been implemented. Future projects may be more costly and require a larger LPP financial incentive.

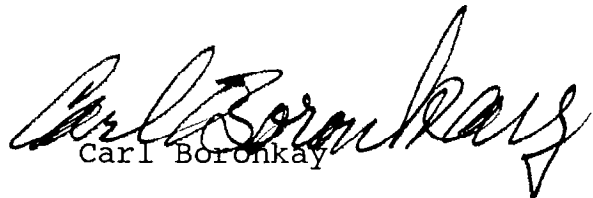
Metropolitan is participating with its member agencies in a Water Resources Strategic Assessment. This study will involve surveying existing and future water reclamation projects and developing strategies for the implementation of new projects, including assessing the potential benefits of increasing the LPP contribution. Any changes in the LPP will be considered in the overall context of rate structures and revenue.

#### Board Committee Assignment

This letter is referred for information to the Water Problems Committee pursuant to its authority on policies regarding water conservation, reclamation, reuse and underground storage of water and the use thereof under Administrative Code Section 2481(i).

#### Recommendation

For information only.

  
Carl Boronkay

JMB:vb