



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-9

May 26, 1998

To: Board of Directors (Water Planning and Resources Committee--Action)

From: ~~for~~ General Manager

Edward S. Meers III

Submitted by: Debra C. Man, Chief
Planning and Resources Division

Debra C. Man

Subject: Implementation of Local Resources Program and Administrative Rules

RECOMMENDATIONS

It is recommended that the Board of Directors:

1. Establish the Local Resources Program (LRP) effective immediately as outlined in this letter.
2. Discontinue the existing Local Projects Program provided for in Administrative Code Section 4516 and the existing Groundwater Recovery Program subject to the transition procedures outlined in this letter.
3. Authorize the General Manager, with the approval of the General Counsel, to amend existing temporary LRP advance conversion agreements to terms consistent with the LRP principles and applicable administrative rules outlined in this letter.

EXECUTIVE SUMMARY

In December 1997, your Board approved Local Resources Program (LRP) Principles consistent with those recommended by the Rate Refinement Participants (Attachment 1). These principles have served as guidelines for defining administrative rules for the development of cost-effective water recycling and groundwater recovery in a manner consistent with the region's overall water supply reliability needs. Staff has continued working with the member agencies to develop the LRP administrative rules outlined in this letter. Key elements include:

- o Financial assistance of up to \$250 per acre-foot of production for projects that reduce future Metropolitan capital and operating expenditures;
- o Support of local resource production needed to meet regional water supply reliability goals;

- o Competitive proposals ranked by a review committee consisting of water resource professionals and Metropolitan staff; and
- o Procedures for an orderly transition from existing programs.

The regional benefits associated with local resources development include reduction in capital investments due to deferral and downsizing of regional infrastructure, reduction in operating costs for treatment and distribution of imported supplies, and reduction in costs for developing alternative regional supplies. These benefits are realized by all Metropolitan member agencies through improved regional water supply reliability and reduced rate impacts associated with future growth.

LRP rules would become effective immediately and apply to all new applications. Initial implementation in fiscal year 1998-99 would use a Request for Proposal (RFP) process to pursue approximately 53,000 acre-feet per year of sustained production needed to achieve year 2010 local resource targets. This value may be increased as the ongoing IRP update progresses. Metropolitan plans to issue the initial RFP in June 1998. Proposals for participation would be due by October 1, 1998. The review committee will identify the mix of project proposals that best meets the region's needs and provides the best return on investment and report its findings to your Board in December 1998. Staff would then negotiate agreements which will be submitted for your Board's approval on an individual project basis. Subsequent RFPs would be issued approximately every two years to pursue additional production needs.

DETAILED REPORT

Background

Metropolitan's three existing assistance programs, the Local Projects Program (LPP), the Groundwater Recovery Program (GRP), and the temporary Local Resources Program (LRP), provide financial assistance for local water development. Locally developed water under these programs improves regional water supply reliability and cost by reducing requirements for future Metropolitan capital improvements and water importation. Since 1982, Metropolitan's programs have supported more than 325,000 acre-feet (AF) of production with nearly \$55 million in financial assistance for 40 operating projects (an average cost of about \$168 per acre-foot). There are 13 additional agreements for projects not yet operational.

Integrated Resource Plan

Metropolitan's Integrated Resource Plan (IRP) identified goals for a diverse mix of six local and imported water resource elements optimized to meet future supply reliability in a cost-effective manner. The IRP sets initial targets for resource development that the region must achieve for water supply reliability through the year 2020. Figure 1 illustrates Year 2020 targets for each

water supply reliability through the year 2020. Figure 1 illustrates Year 2020 targets for each element of the IRP Preferred Resource Mix. Year 2020 target production for the combined water recycling and groundwater recovery elements is 500,000 acre-feet per year (afy), of which about 225,000 afy is already being produced. In response to changing conditions, Metropolitan will regularly assess the need for additional production and update the targets.

IRP studies show reduced long-term costs to the region when local resources are developed due to downsizing or deferral of Metropolitan's capital improvements, ~~and reduction in~~ operating costs for importation, treatment and distribution, and reduction in costs for developing alternative regional supplies. The range of contributions proposed for the LRP (\$0 to \$250 per acre-foot) compares favorably with the estimated range of benefits from these lower costs. These benefits are realized by all Metropolitan member agencies through improved regional water supply reliability and reduced rate impacts associated with future growth. Encouraging water recycling and groundwater recovery projects by providing financial assistance is consistent with the IRP goals approved by your Board in June 1995 as the strategy to meet future water supply reliability needs of Metropolitan's service area in a cost-effective manner.

Local Resources Program

A new Local Resource Program is proposed to encourage local development of recycled water and recovered groundwater through a process that emphasizes cost-efficiency to Metropolitan, timing new production according to regional need, and minimizing administrative cost and complexity. The LRP would replace Metropolitan's existing assistance programs with uniform criteria for financial assistance to local projects that contribute to regional water supply reliability. Metropolitan would provide assistance from \$0 - \$250 per acre-foot of production to public or private water utilities within Metropolitan's service area for agreement terms up to 25 years. Projects in which Metropolitan would derive a benefit would be invited to participate in the LRP through a competitive Request for Proposal (RFP) process. Existing projects participating in Metropolitan's recycled water and groundwater recovery programs may also submit proposals for expanded production over their contractual limits. It may be advantageous for the region to include such proposals because they will likely involve modest capital improvements and be highly competitive compared to new projects. Detailed rules and implementation guidelines are provided as Attachment 2.

It is anticipated that the RFP process will be conducted every two years; however, the actual frequency may be adjusted to achieve program objectives. If the program is approved, Metropolitan would issue the initial RFP in June 1998. Proposals for participation would be due by October 1, 1998. Based on past performance, it takes about ten years for project yield to reach capacity. To that end, the initial RFP would seek to meet the ~~ten-year~~ needed local resource production occurring ten years after agreement execution identified below and in Figure 2. ~~Construction is assumed to start by the year 2000.~~ These values may be increased as the ongoing IRP update progresses.

Needed Local Resource Production

<u>Year</u>	<u>Amount (afy)</u>
2000	17,000
2005	24,000
2010	53,000 (ultimate)

Metropolitan will routinely compare IRP local resource targets for water recycling and groundwater recovery to forecasted production. Projected shortfalls to meeting the regional targets will constitute the need for additional production to be sought in subsequent RFPs.

In each proposal, project sponsors would submit their requested financial assistance (not to exceed \$250 per acre-foot) over the requested term of the agreement (not to exceed 25 years) and other pertinent project related information.

Member agencies participating in the rate refinement process expressed preference in establishing a review committee that would evaluate project proposals. Staff proposes that the committee consist of two water resource professionals (consultants) selected by staff in consultation with the member agencies, and three members of Metropolitan's staff including the Chief of Planning and Resources.

Proposals will be evaluated by the review committee using the following criteria and weighting for each ranking factor. Criteria and weighting for each ranking factor will be reviewed for each subsequent RFP and may be adjusted to reflect changes in water resource planning objectives.

A. Readiness to Proceed	(0-15 points)
B. Diversity of Supply	(0-10 points)
C. Regional Water Supply Benefits	(0-20 points)
D. Water Quality Benefits	(0- 5 points)
E. MWD Facility Benefits	(0-10 points)
F. Operational Reliability and Probability of Success	(0- 5 points)
G. Increased Beneficial Uses	(0- 5 points)
H. Cost to Metropolitan	<u>(0-30 points)</u>
Maximum Score:	100 points

A description for each ranking factor is included in the administrative guidelines attached to this letter. The review committee would identify the mix of project proposals that best meets the region's needs consistent with the RFP. The review committee would have the discretion to recommend meeting more or less than the identified shortfall if it finds that would be in Metropolitan's best interests.

The review committee's findings would be reported to your Board at its December 1998 meeting. Using the committee's recommendations as a guide, staff will then meet with each project sponsor and member agency to negotiate agreement terms. Upon approval of a draft agreement by the project sponsor's governing body and completion of all program requirements including environmental documentation, each project will be forwarded to your Board for approval of LRP participation. Agencies would have until April 1, 2000 to receive your Board's approval and execute agreements. Thereafter, they would have to resubmit their project proposals in response to subsequent RFPs in order to be considered for LRP assistance. Figure 3 outlines an implementation process diagram with milestone dates for the initial RFP.

Performance provisions will be incorporated into all LRP agreements. These provisions would allow Metropolitan to adjust or withdraw financial commitments to projects that fail to meet development and production targets. Key milestones include start of construction, start of production and minimum production targets at 4-year increments of the agreement term. Failure to meet the performance provisions would result in adjustments to the amount of scheduled production Metropolitan would support and in extreme cases, withdrawal of Metropolitan's financial commitment to the project.

Transition Procedures

It is recommended that consideration of new applications under the existing LPP and GRP be discontinued. A transition procedure to address certain pending applications is also proposed. Consistent with the LRP Principles approved by your Board in December 1997, GRP applications received before December 1, 1997 and LPP applications received before August 1, 1995 are grandfathered (see Table 1 for list) if qualifying criteria are met and agreements are executed by December 9, 1998. Applicants alternatively may choose to compete under the new LRP rules. Figure 4 outlines transition procedures for existing LPP and GRP applications.

Agreements for 16 projects presently under temporary, advance conversion LRP terms may be permanently amended to be consistent with the final LRP rules, pursuant to the terms of the conversion contracts. These agreements, if amended, would remain eligible for Metropolitan's \$0-\$250 per acre-foot sliding scale contribution throughout their remaining term. Because Metropolitan has already committed support to these projects, existing contract limits shall be recognized and they will not be subject to the competitive RFP selection process. However, agreements for these projects will be amended to include applicable administrative terms and water production performance targets consistent with the final LRP. Consistent with the LRP principle of reducing administrative complexity, staff would be authorized to provide simplified standard allowances keyed to measurable parameters for difficult to quantify costs including operations and maintenance labor, water quality sampling and analyses, etc. These allowances would be included in final agreements for the temporary LRP amendments and GRP agreements. This would improve the LRP by reducing burdensome agency accounting requirements, avoid disputes and promote equity among participants.

Owners of these 16 projects that wish to pursue final LRP terms would be required to notify Metropolitan and finalize their new agreements by June 30, 1999; otherwise, the temporary conversion agreement will terminate and the project will automatically revert back to their original LPP agreement terms (\$154 per acre-foot) on July 1, 1999.

Reporting Requirements

To help streamline your Board's agenda, it is recommended that the current quarterly reporting requirement for LPP be changed to semi-annual reports on water recycling and groundwater recovery to the Water Planning and Resources Committee.

California Environmental Quality Act

Project Sponsors would be responsible for developing environmental documentation, in compliance with the California Environmental Quality Act (CEQA), associated with their proposed projects. Metropolitan would function as a responsible agency, as defined by CEQA, for such projects due to its financial contribution to the local resources projects. Your Board would be required to review and consider information contained in each prospective project's environmental documentation prior to approving Metropolitan's participation in that project.

Administrative Changes

Based on experience gained during implementation of the new LRP, staff shall be authorized to make appropriate administrative changes to the procedures contained in this letter consistent with the primary tenets of the program.

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Attachments

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The Metropolitan Water District of Southern California

Local Resources Program (LRP) Principles

November 4, 1997

The Rate Refinement Participants offer the following principles for consideration and approval by the Metropolitan Water District's (MWD) Board of Directors. Upon Board adoption of these principles, MWD staff will work with the member agencies to develop administrative rules. A recommended set of actions and administrative rules to guide implementation of the LRP will then be forwarded to the Board for final approval.

1. Key goals of the proposed LRP are to:
 - a. Assist local projects that improve regional water supply reliability and avoid or defer MWD capital expenditures;
 - b. Emphasize cost-efficient participation in developing local water resources;
 - c. Schedule project production to meet periodically updated IRP local resource targets;
 - d. Minimize administrative cost and complexity;
 - e. Provide equitable project diversity at the regional level; and
 - f. Participate in local project feasibility studies within a specified budget amount.

2. For LRP projects that reduce future MWD capital expenditures and water supply costs, MWD will provide up to \$250 per acre-foot of production for agreement terms up to 25 years. Where project benefits are less, commensurately lower MWD contributions would be applied.

3. An advisory committee shall be established to evaluate applications and make recommendations on proceeding with projects based on a balanced assessment of project attributes. The purpose of the committee is to provide an objective and independent review of proposed projects. Preference will be given to projects based on the following ranking factors.

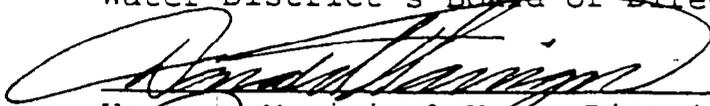
- a. Readiness to proceed - projects positioned to proceed into construction and operation on a timely basis;
- b. Diversity of supply - projects that increase the diversity of supply at the local level;
- c. Regional water supply benefits - projects that offset a demand for imported supplies or increase regional reliability during periods of shortage and/or emergencies;
- d. Water quality benefits - project water quality improvements that sustain or augment resource production;
- e. MWD facility benefits - projects that avoid, defer or reduce the cost of MWD's treatment and distribution systems;
- f. Operational reliability and probability of success - projects with secured funding, regulatory approvals, firm markets and superior operational reliability;
- g. Increased beneficial uses - projects leading the way to increased public acceptance of expanded uses; and
- h. Cost-effectiveness - projects that minimize costs and maximize yield to MWD over the life of the project agreement.

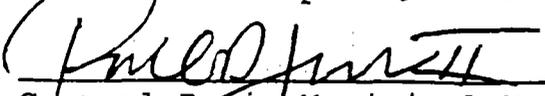
MWD's Board will need to approve the weighting of these factors during adoption of the rules or upon recommendation of the advisory committee.

4. Project participation shall be subject to MWD Board approval.

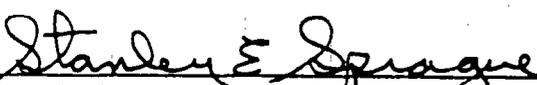
5. LRP agreements shall include water production performance targets to achieve cost-efficiency and reliable production.
6. As a transition procedure, Groundwater Recovery Program applications received before December 1, 1997 and Local Projects Program applications received before August 1, 1995 are grandfathered and not subject to the new review process; however, agreements for these applications must be executed within 12 months of Board adoption of these LRP Principles. Grandfathered applications that fail to meet the agreement execution deadline and all other applications will be evaluated under new LRP rules.
7. Agencies with existing temporary LRP advance conversion amendments shall have the option to convert to the final LRP under the following conditions:
 - a. Existing contract limits shall be recognized;
 - b. Projects shall not be subject to the evaluation process described in Principle #3;
 - c. The sliding scale methodology used for calculating the MWD Contribution under the temporary LRP amendments shall remain in effect permanently;
 - d. Contracts shall include applicable administrative terms consistent with the final LRP; and
 - e. Production schedules shall be provided by the agencies consistent with Principle #5.

The principles outlined above are supported by the Rate Refinement Participants for consideration by Metropolitan Water District's Board of Directors.

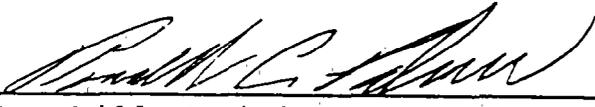

Western Municipal Water District

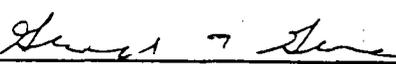

Central Basin Municipal Water District
West Basin Municipal Water District


Calleguas Municipal Water District


Municipal Water District of Orange County


San Diego County Water Authority


Foothill Municipal Water District


City of Los Angeles


City of Anaheim


City of Long Beach


Las Virgenes Municipal Water District

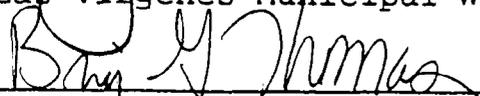
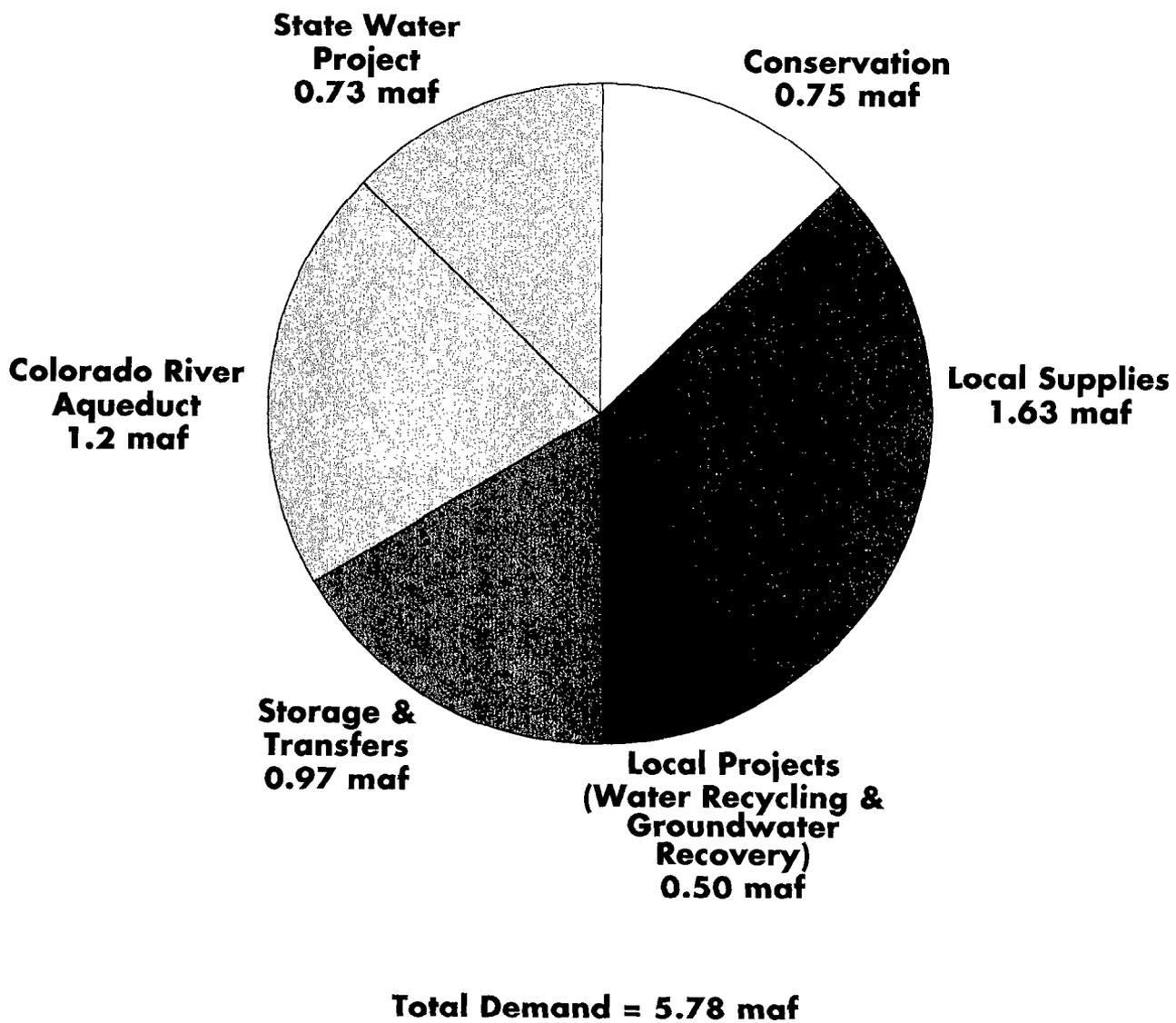

Metropolitan Water District of Southern California

Figure 1
Integrated Resources Plan*
Resource Targets During a Dry Year
YEAR 2020



* IRP results as of June 1995

Figure 2 LOCAL RESOURCES PROGRAM GOALS

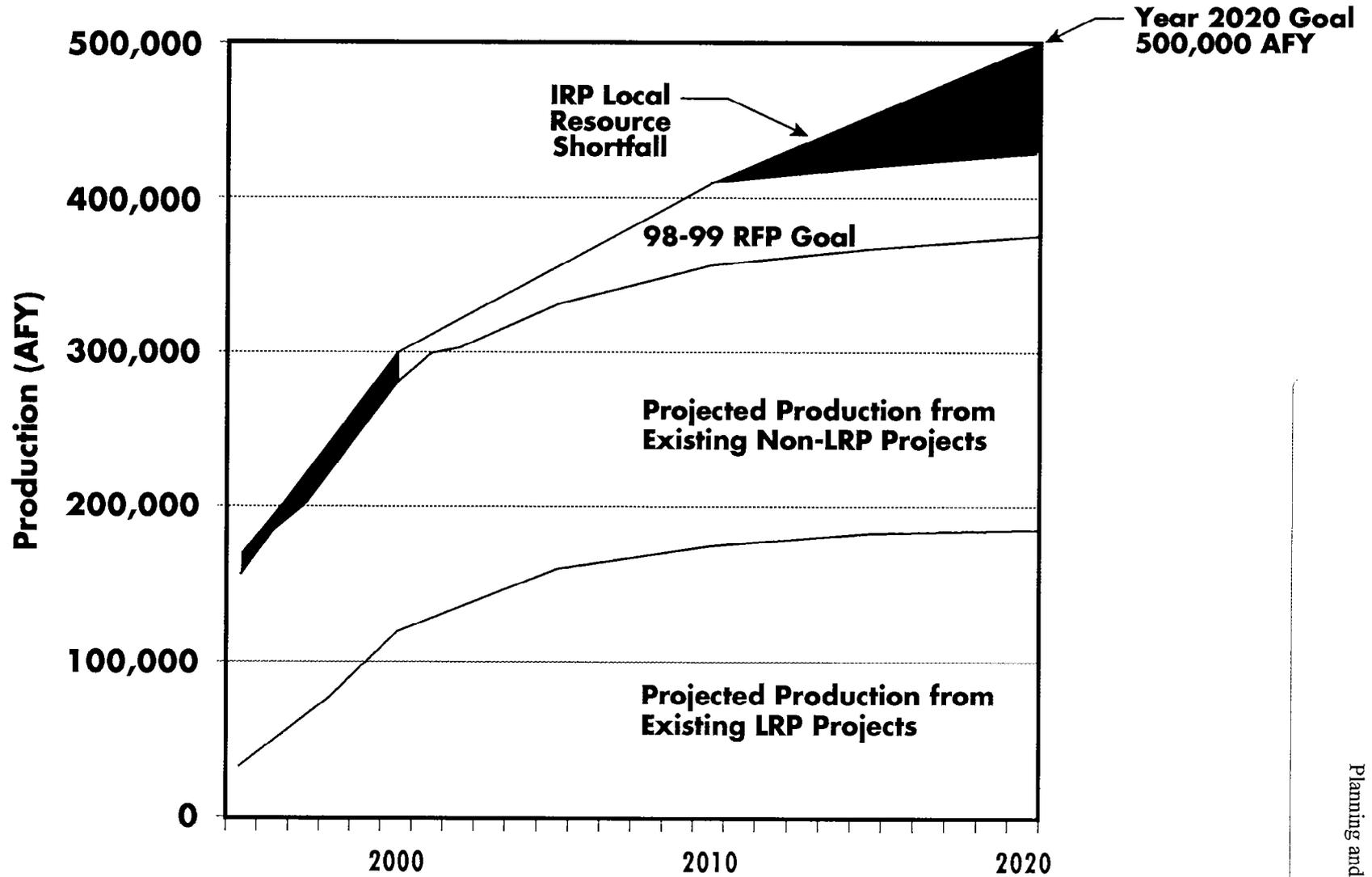


Figure 3
**LOCAL RESOURCES PROGRAM
PROPOSED IMPLEMENTATION PROCESS DIAGRAM**

Initial Timeline

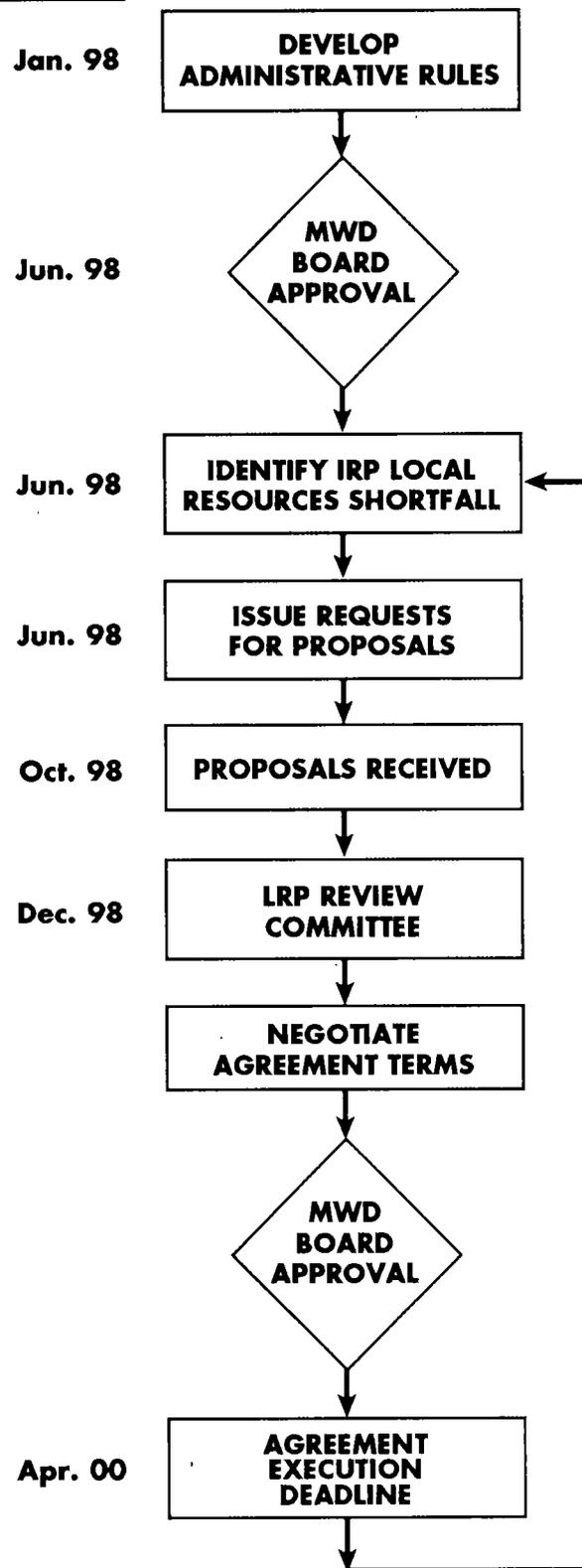
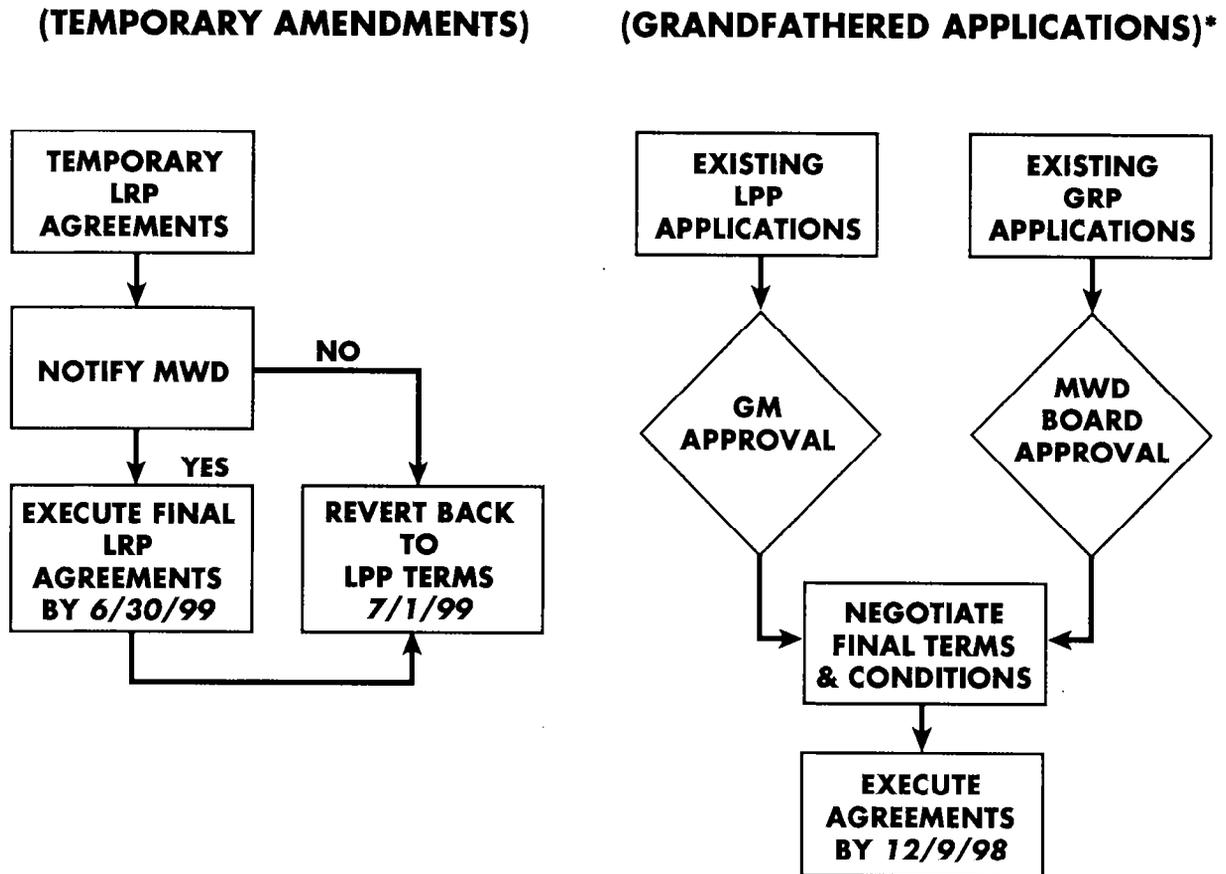


Figure 4
**LOCAL RESOURCES PROGRAM
TRANSITIONAL PROCEDURE**



*LPP AND GRP APPLICATIONS RECEIVED BEFORE
8/1/95 and 12/1/97, RESPECTIVELY (SEE TABLE 2)

TABLE 1

GRANDFATHERED APPLICATIONS

MEMBER AGENCY	PROJECT	OPERATING AGENCY	MAXIMUM YIELD (AFY)
RECYCLING PROJECTS (*):			
Calleguas MWD	1. Conejo Creek Diversion Project	Calleguas MWD	14,000
City of Pasadena	2. Pasadena Reclaimed Water Project	City of Pasadena	4,000
Subtotal			18,000
GROUNDWATER PROJECTS (**):			
City of Beverly Hills	3. Beverly Hills Desalter	City of Beverly Hills	2,688
Coastal MWD	4. Capistrano Beach Desalter	Capistrano Beach CWD	1,372
MWD of Orange Co.	5. San Juan Basin Desalter	San Juan Basin Authority	2,200
San Diego CWA	6. Oceanside Desalter Phase II	City of Oceanside	4,500
	7. Bonsall Desalter	Rainbow MWD	2,000
Three Valleys MWD	8. Baldwin Park Operable Unit (San Gabriel Basin)	Three Valleys MWD	24,100
	9. Rowland Groundwater Treatment Plant	Three Valleys MWD	516
City of Torrance	10. Medrona Desalination Facility Project	Water Replenishment District of So. California	2,365
West Basin MWD	11. Sepulveda Desalination Facility Project	Water Replenishment District of So. California	2,335
Subtotal			42,076
Total			60,076

(*) In August 1995, MWD's Board authorized the General Manager to approve and enter into agreements with member agencies and subagencies for only the seven then pending LPP applications submitted prior to August 1, 1995. Since then, four applications have executed LPP agreements, one project application has been withdrawn, and two projects remain. Metropolitan could continue to accept applications for new recycling projects after August 1, 1995; however, agreement negotiations would not be initiated until after Board adoption of the final LRP. (MWD Board Letter 8-3 dated August 8, 1995 and supplemented on August 21, 1995 regarding advance conversion of existing LPP projects to the LRP.) Based on MWD Board Letter 7-4 dated November 21, 1997 regarding LRP Principles, LPP applications that fail to meet the agreement execution deadline of December 9, 1998 may then be evaluated only under new LRP rules.

(**) The MWD Board Letter 8-3 dated August 8, 1995 regarding advance conversion of existing LPP projects to the LRP did not address the GRP. To provide equal treatment of recycling and groundwater recovery projects during the transition period, MWD's Board grandfathered applications received before December 1, 1997. Like the LPP, agreements for these projects must be executed before December 9, 1998. Based on MWD Board Letter 7-4 dated November 21, 1997 regarding LRP Principles, GRP applications that fail to meet the agreement execution deadline of December 9, 1998 may only then be evaluated under new LRP rules.



LOCAL RESOURCES PROGRAM

Recycled Water and Groundwater Recovery Projects

Administrative Guidelines
June 1998



MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

**LOCAL RESOURCES PROGRAM
ADMINISTRATIVE GUIDELINES**

- A. Program Goals and Principles
- B. Integrated Resources Plan Targets
- C. Implementation Strategy
 - 1. Minimum Requirements
 - 2. Request for Proposals
 - 3. Proposal Guidelines
 - 4. Evaluation and Selection Process
 - 5. Criteria for LRP Review Committee Evaluation
 - 6. Scoring and Weighting of Selection Criteria
- D. Administration
 - 1. MWD Board Approval
 - 2. Joint Participation Agreement
- E. Performance Reviews and Adjustments
- F. Transition to final LRP for Temporary Conversion Agreements
- G. Program Reporting Requirements to MWD Board

Figure 1 - IRP Year 202 Resource Targets During a Dry Year

Figure 2 - Local Resources Program Goals

Figure 3 - LRP Proposed Implementation Process Diagram

Table 1 - Needed Local Resource Production

Table 2 - Performance Provisions

Exhibit A - Project Fact Sheet

Exhibit B - Requested Financial Contribution and Pertinent Costs

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LOCAL RESOURCES PROGRAM (LRP)

ADMINISTRATIVE GUIDELINES

A. Program Goals and Principles

In December 1997, Metropolitan's Board of Directors (Board) approved Local Resources Program (LRP) principles recommended by the Rate Refinement Participants. The principles serve as guidelines for developing administrative rules for the development of cost-effective water recycling and groundwater recovery in a manner consistent with the region's overall water supply reliability needs. Key goals are:

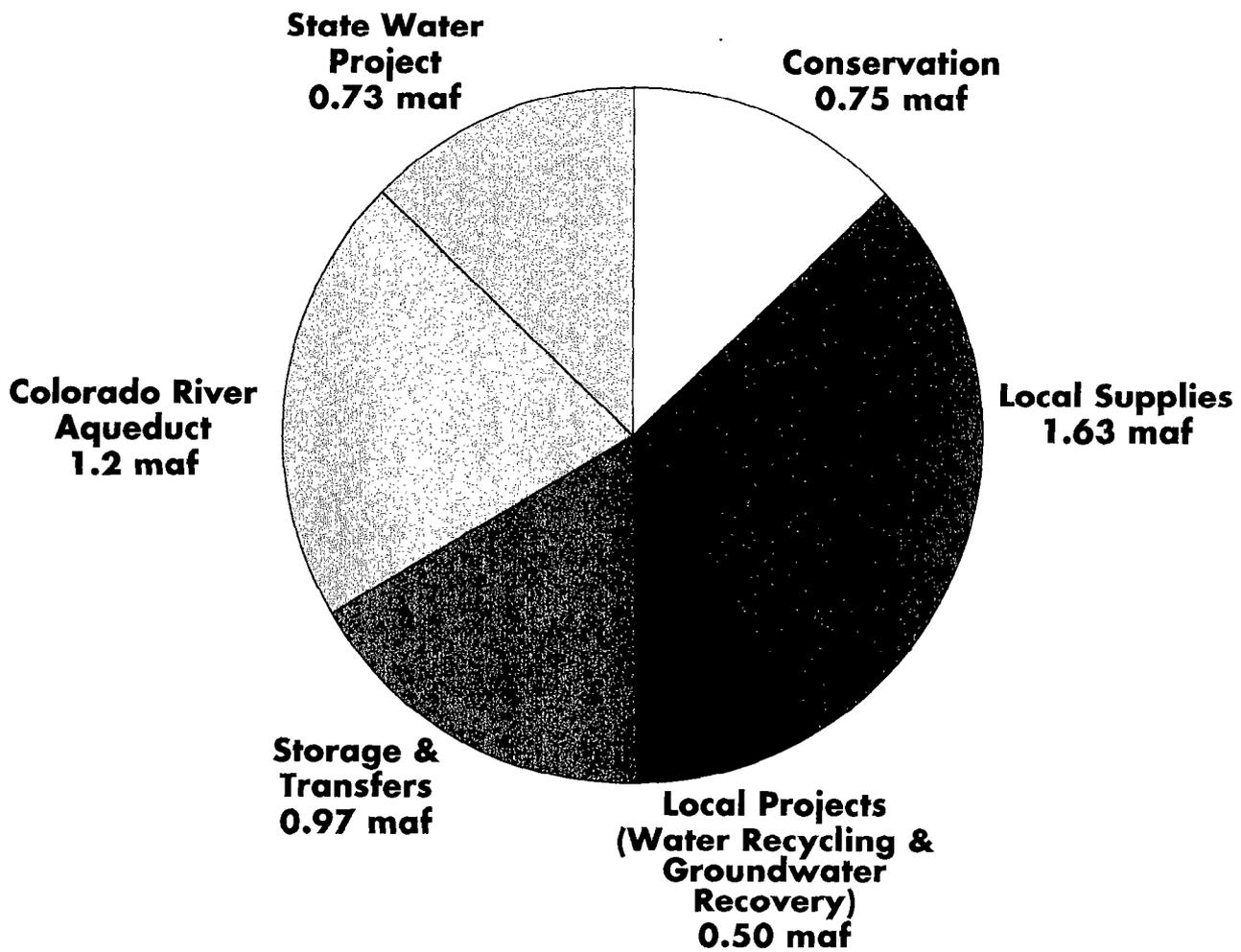
- Assist local projects that improve regional water supply reliability and avoid or defer MWD capital expenditures;
- Emphasize cost-efficient participation in projects;
- LRP contribution of \$0 to 250 per acre-foot based on project production;
- Schedule project production according to regional need; and
- Reduce administrative complexity.

Participation in specific projects would be recommended by a review committee based on its assessment of project attributes under a competitive proposal process. The commitment to participate in each project will be subject to approval by Metropolitan's Board. Agreements will include performance provisions such as production targets to emphasize cost-efficiency and reliable production. As a transition procedure, applications received before August 1, 1995 and December 1, 1997 are grandfathered under the existing Local Projects Program and Groundwater Recovery Program, respectively, if they meet qualifying criteria and agreements are executed by December 9, 1998. Grandfathered applications that fail to meet the deadline may compete under the new LRP rules.

B. Integrated Resources Plan Targets

Metropolitan's Integrated Resource Plan (IRP) identified goals for a diverse mix of six local and imported water resource elements optimized to meet future supply reliability in a cost-effective manner. The IRP sets initial targets for resource development that the region must achieve for water supply reliability through the year 2020. Figure 1 illustrates Year 2020 targets for each element of the IRP Preferred Resource Mix. Year 2020 target production for the combined water recycling and groundwater recovery elements is 500,000 acre-feet per year (afy), of which 225,000 afy is already being produced. In response to changing conditions, Metropolitan will regularly assess the need for additional production and update the targets.

Figure 1
Integrated Resources Plan*
Resource Targets During a Dry Year
YEAR 2020



Total Demand = 5.78 maf

* IRP results as of June 1995

IRP studies show reduced long-term costs to the region when local resources are developed due to downsizing or deferral of Metropolitan's capital improvements and reducing operating costs for importation, treatment and distribution. The range of contributions proposed for the LRP (\$0 to 250 per acre-foot) compares favorably with the estimated range of benefits from these lower costs. Encouraging water recycling and groundwater recovery projects by providing financial assistance is consistent with the IRP goals approved by Metropolitan's Board of Directors in June 1995 as the strategy to meet future water supply reliability needs of Metropolitan's service area in a cost-effective manner.

C. Implementation Strategy

1. Minimum Requirements

Proposals must satisfy the following minimum requirements for LRP participation.

- a. The project must improve regional water supply reliability by complying with the following:
 - (1) Production of recycled water for any beneficial use must replace an existing demand or prevent a new demand on Metropolitan's imported supplies;
 - (2) Projects that recover contaminated groundwater for municipal and domestic use must be able to sustain groundwater production during a three-year shortage period without receiving replenishment service from Metropolitan.
 - (3) Projects that replenish groundwater basins with recycled water or uncontrolled runoff must increase regional groundwater pumping and thereby replace a sustained existing demand or prevent a sustained new demand on Metropolitan's imported supplies. Replenishment project proposals must include an appropriate accounting methodology to measure the increase in basin production over existing levels.
- b. The project must include construction of new substantive treatment or distribution facilities.
- c. Project proposals must be supported by a Metropolitan member agency.
- d. The project must comply with the Metropolitan Water District Act and other applicable laws.
- e. Proposals must include the anticipated date of environmental certification. The project must comply with the provisions of the California Environmental Quality Act (CEQA) before Metropolitan's Board of Directors acts on approval.

Metropolitan will function as a Responsible Agency. Metropolitan may reject participating in a project solely on environmental grounds.

- f. The project must not be existing or under construction prior to agreement execution. Projects that have entered Design-Build contracts are considered under construction. Exploratory wells and data collection facilities, nonfunctional/abandoned facilities to be rehabilitated, and minor segments to avoid future conflicts with other projects may proceed.
- g. Project sponsors may be public agencies or private water utilities within Metropolitan's service area.

2. Request for Proposals

Metropolitan will invite participation in the LRP through a competitive Request for Proposal (RFP) process. It is anticipated that the RFP process will be conducted approximately every two years; however, the actual frequency may be adjusted to achieve program objectives. Metropolitan plans to issue the initial RFP in June 1998. Proposals for participation would be due by October 1, 1998.

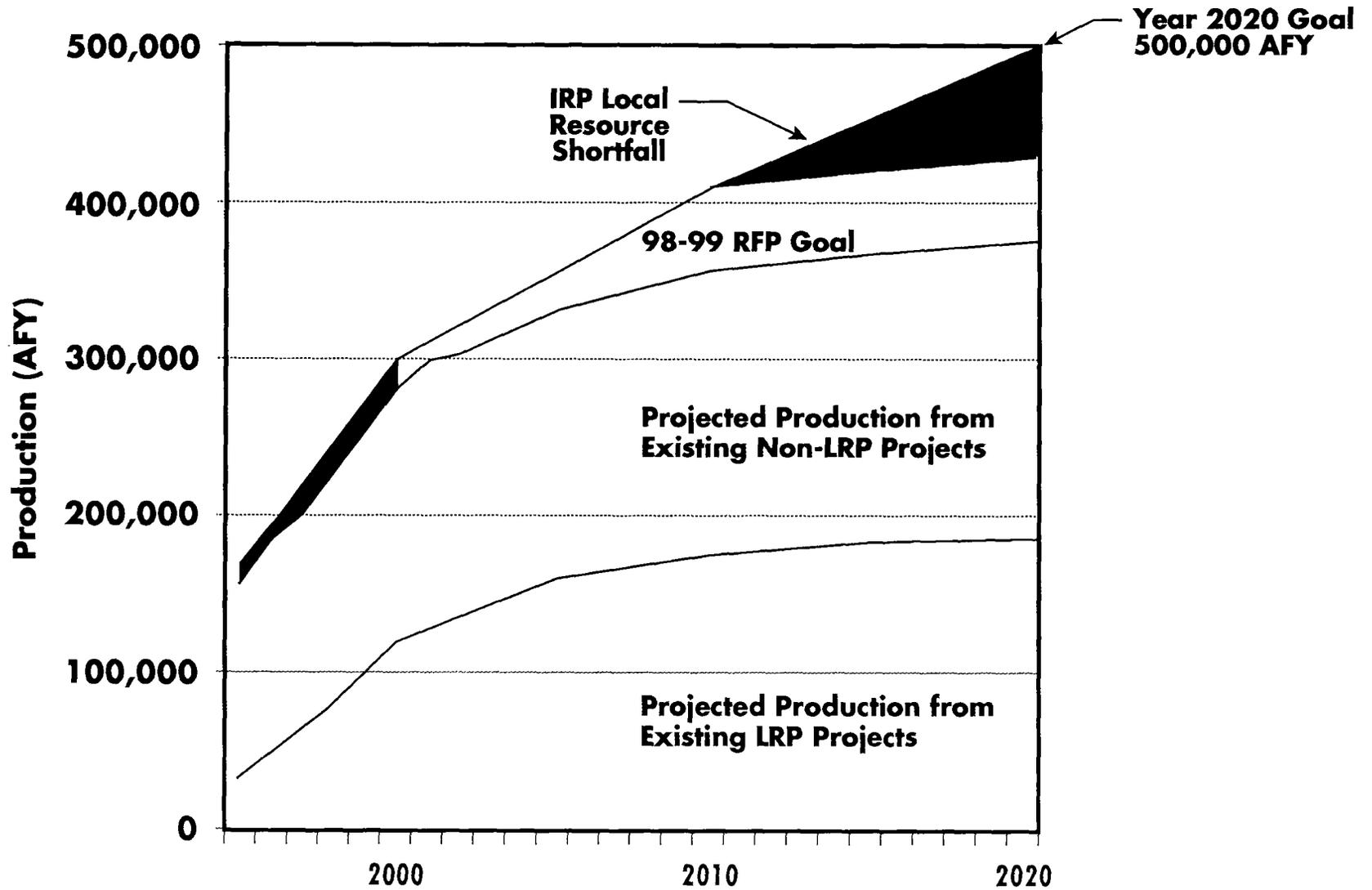
Based on past performance, it takes about 10 years for project yield to reach capacity. To that end, the initial RFP would seek to meet the shortfall in needed local resource production occurring 10 years after agreement execution (Table 1 and Figure 2). The values in Table 1 may be increased as the ongoing IRP update progresses.

Table 1
Needed Local Resource Production

<u>Year</u>	<u>Amount (afy)</u>
2000	17,000
2005	24,000
2010	53,000 (ultimate)

Metropolitan will routinely compare IRP local resource targets for water recycling and groundwater recovery to forecasted production. Projected shortfalls to meeting the regional targets will constitute the need for additional production to be sought in subsequent RFPs that would be issued on approximately two-year intervals. Existing projects participating in Metropolitan's recycled water and groundwater recovery programs may also submit proposals for expanded production over their contractual limits.

Figure 2 LOCAL RESOURCES PROGRAM GOALS



It may be advantageous for Metropolitan to include proposals for expanded production because they will likely involve modest capital improvements and be highly competitive compared to new projects.

3. Proposal Guidelines

The following format must be adhered to in order for project proposals to be considered responsive in the RFP. Page limitations for each section of the proposal are shown and must not be exceeded. Concise yet informative proposals within the page limitations are encouraged. Ten copies of the project proposal must be included with each submittal.

- I. Transmittal Letter from Member Agency (1 page)
 - a. Include intent to support project as proposed

- II. Executive Summary (2 pages)
 - a. Project title and lead sponsoring agency;
 - b. Project participants/cooperating agencies;
 - c. Project goals/objectives and benefits;
 - d. Project description;
 - e. Abbreviated project schedule including design, environmental documentation, construction, operation, production and major milestones;
 - f. Justification for project and funding by Metropolitan;
 - g. Project cost factors including grants, capital, O&M, financing, requested financial assistance in dollars per acre-foot, and requested term; and
 - h. Financial partners in study and cost-sharing arrangements.
 - i. For expansion projects, explain the relationship of existing financial assistance agreements, if any, with Metropolitan to proposed new facilities.

- III. Project Fact Sheet (Exhibit A)

- IV. Minimum Requirements (1 page)
 - a. Provide information to support that project complies with minimum eligibility requirements outlined in Section C (1).

- V. Project Description (6 pages plus maps and/or figures)
 - a. Describe existing water supply/distribution facilities in the project area (if any).

- b. Describe facilities plan and location of proposed project. Include all potentially required facilities and interties.
- c. Provide geographic boundaries of project and points of connection.
- d. Discuss need for the project.
- e. Describe local facility system projects required if project does not proceed.
- f. Provide facilities plan and layout.
- g. For projects using recycled water or uncontrolled runoff to replenish groundwater basins, discuss how project will increase regional groundwater pumping, methodology for measuring increased production (at the regional level) and blending requirements.
- h. For expansion projects, describe expected production from pertinent existing project(s) and construction of new facilities to expand existing production. Also, explain the relationship of existing financial assistance agreements with Metropolitan to proposed new facilities.

VI. Detailed Information for Scoring (2 pages maximum per scoring item)

- a. Readiness to Proceed
 - 1. Provide phasing schedule (where proposed) including total capital expenditures and production associated with each respective phase. Refer to Exhibit B.
 - 2. Address status and schedule for acquiring regulatory approvals, permits.
 - 3. Indicate key project milestone dates.
 - 4. Provide status of design (percent complete to date).
 - 5. Provide status of CEQA documentation and schedule.
 - 6. Provide construction schedule including completion date and project delivery date.
 - 7. Discuss uncertainties, if any, in project planning.
 - 8. Discuss status and strategy for project financing.
 - 9. Provide status of securing all necessary project rights-of-way.
 - 10. Indicated whether project sponsor's governing body endorsed project (statement may be attached).
 - 11. Discuss status of firm commitments for project water.
 - 12. Describe community reaction to the proposed project.
- b. Diversity of Supply
 - 1. Discuss how project increases the diversity of supply at the local level.
- c. Regional Water Supply Benefits
 - 1. Describe expected regional water supply benefits from project.
 - 2. For replenishment projects, explain appropriate accounting methodology to measure the change in basin production over existing levels.

- d. **Water Quality Benefits**
 1. Describe expected project benefits to regional water quality.
 2. Explain blending or replenishment requirements, if any.
- e. **MWD Facility Benefits**
 1. Describe expected project benefits to defer MWD capital improvement facilities.

Note: MWD staff will also provide a separate analysis of MWD facility benefits associated with the project for consideration by the review committee.

- f. **Operational Reliability and Probability of Success**
 1. Discuss operational reliability, probability of success and project constraints including any environmental or regulatory obstacles.
 2. List existing users and annual demand.
 3. Identify and list prospective project water users and type of use.
 4. Provide schedule of expected water demand.
 5. Provide map showing existing/proposed user sites.
 6. Has the project sponsor adopted a mandatory use ordinance?
 7. Discuss third party impacts and mitigation measures.
 8. Discuss reliability and redundancy of engineering features.
 9. Discuss drought year/salinity impacts.
 - Evaluate project's ability to deliver recycled water of satisfactory quality in light of expected, intermittent TDS increases in imported supplies when CRA water is 750 mg/L and SWP water is 450 mg/L.
 - Evaluate project's ability to sustain production during a three-year shortage period without receiving replenishment service from Metropolitan.
- g. **Increased Beneficial Uses**
 1. Does the project lead the way to increased public acceptance of expanded uses?
 2. Describe to what extent the project is state-of-the-art within the regulatory arena.
- h. **Cost to Metropolitan**
 1. Provide a simple schedule of requested financial assistance in dollars per acre-foot through requested term of agreement. Schedule should reflect a single unit cost (\$/AF) value per year. Values may not be contingent upon future uncertainties. The proposer assumes all risk on the adequacy of the requested assistance. Once submitted, these values

may not change and will be used in the final contract, if one is executed.

2. Provide project cost estimate summary. Identify major cost components including design, construction, construction management, O&M unit cost and contingencies.
3. Address project cost to Metropolitan and provide present worth analysis of requested financial assistance from Metropolitan.
4. Provide construction financing plan (include interest rate and term where applicable).
5. Provide information on status and timing of financing, grants, contributions
6. Address financial and economic feasibility of proposal.
7. For expansion projects, explain the relationship of existing financial assistance agreements with Metropolitan to proposed new facilities.
8. Complete Exhibit B - Estimated Annual Project Cost and Production Schedules.

4. Evaluation and Selection Process

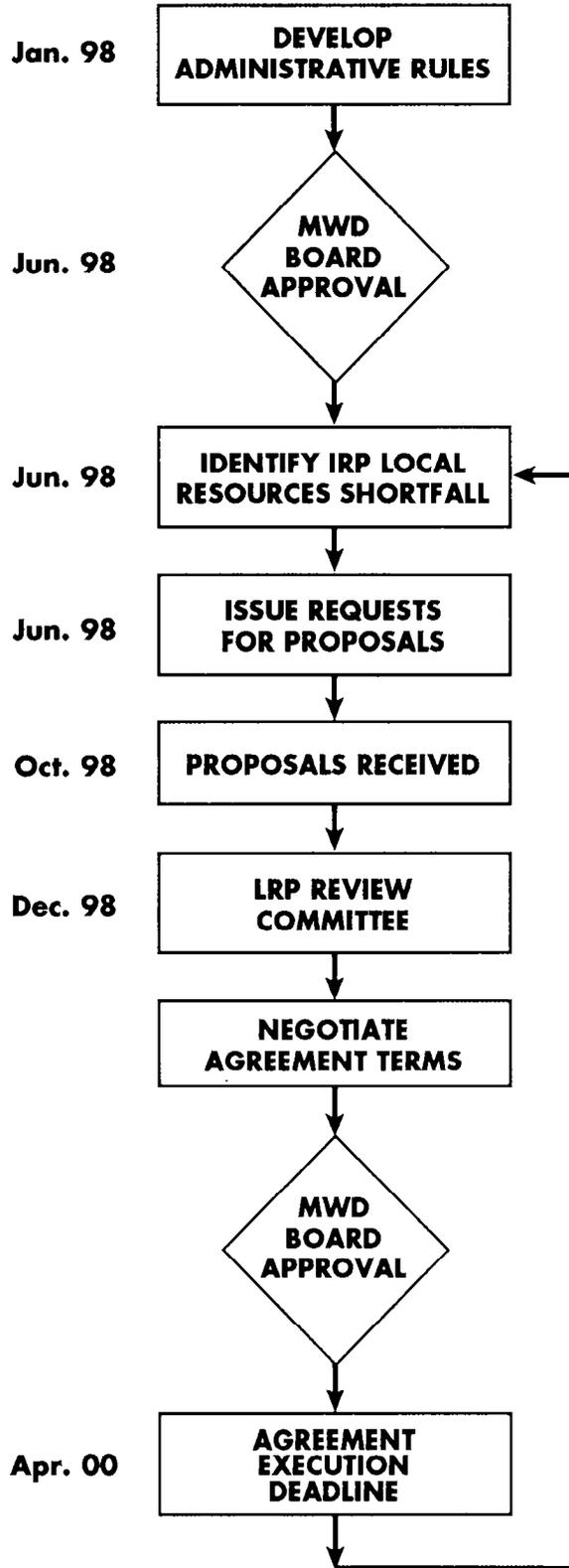
Five people would serve on the review committee, which consists of two water resource professionals (consultants) selected by Metropolitan staff in consultation with the member agencies and three members of Metropolitan's staff including the Chief of Planning and Resources. The committee shall provide an objective evaluation of project proposals. The review committee would identify the mix of project proposals that best meets the region's needs consistent with the RFP. The committee would have the discretion to recommend a project mix that meets more or less than the production amounts identified in Table 1 if it finds that would be in Metropolitan's best interests.

Applications will be forwarded to the review committee for consideration and evaluation. The review committee will develop a recommended project list and report its findings to Metropolitan's Board. The recommended project list would only include projects identified to meet the projected shortfall in IRP targets and serve as the basis for entering into new project agreements.

It is anticipated that the recommended list of projects for the initial RFP will be reported to Metropolitan's Board at its December 1998 meeting. At that time, Metropolitan would be authorized to enter into a joint participation agreement with agencies with projects on the recommended list. Projects must receive Metropolitan Board approval and execute agreements by April 1, 2000. Thereafter, they would have to resubmit their project proposals to subsequent RFPs in order to be considered for LRP assistance. Figure 3 outlines an implementation process diagram with milestone dates for the initial RFP.

Figure 3
LOCAL RESOURCES PROGRAM
PROPOSED IMPLEMENTATION PROCESS DIAGRAM

Initial Timeline



5. Criteria for LRP Review Committee Evaluation

Proposals which meet the minimum requirements will be evaluated by the review committee using the following criteria and weighting for each ranking factor. Criteria and weighting for each ranking factor will be reviewed for each subsequent RFP and may be adjusted to reflect changes in water resource planning objectives.

A.	Readiness to Proceed	(0-15 points)
B.	Diversity of Supply	(0- 10 points)
C.	Regional Water Supply Benefits	(0-20 points)
D.	Water Quality Benefits	(0- 5 points)
E.	MWD Facility Benefits*	(0-10 points)
F.	Operational Reliability and Probability of Success	(0- 5 points)
G.	Increased Beneficial Uses	(0- 5 points)
H.	Cost to Metropolitan	<u>(0-30 points)</u>
	Maximum Score:	100 points

* MWD staff will also provide a separate analysis for review committee consideration.

In addition, the review committee may apply its judgment in recommending a mix of projects that best serves the region. For each specified criterion, the following comment and scoring guidelines are provided for use by the review committee in evaluating project proposals and preparing written comments.

A. Readiness to proceed (Scoring range: 0-15 points)

Comment Guidelines

1. Is project construction likely to proceed as projected? Are there uncertainties with respect to CEQA compliance? planning/design/permits? required agreements?
2. Has the project sponsor's governing board endorsed proceeding with the project?
3. Is there multi-agency support for the project?
4. Has the project sponsor secured financing?
5. Has the project sponsor secured necessary right-of-ways for the project?
6. Does the project have firm markets for product water for the duration of the agreement for assistance from Metropolitan?

Scoring Guidelines

Higher scores for: Interagency support.
Lack of controversial issues.
Certainty of project operation within five years.

Projects with firm customer commitments for project water.

B. Diversity of supply (Scoring range: 0-10 points)

Comment Guidelines

1. To what extent does the proposed project improve local supply diversity?

Scoring Guidelines

Higher scores for projects that improve local supply reliability through diversity or redundancy.

C. Regional Water Supply Benefits (Scoring range: 0-20 points)

Comment Guidelines

1. Does the project increase local supply during periods of shortage and/or emergencies?
2. Will the project provide sustained water supply benefits?
3. To what extent does the project reduce reliance on imported supplies to supplement local surface and groundwater supplies?
4. Does the project affect local water supply planning for other agencies?
5. Will project yield provide potable water uses?
6. Is blending or replenishment with imported water supplies needed?
7. For replenishment projects, does the proposal provide an adequate accounting methodology to measure the change in basin production over existing levels?
To what extent does the proposed methodology minimize administrative complexity?

Scoring Guidelines

Higher scores for: Projects that directly reduce firm Metropolitan demands.
Projects that reduce summer peak, shortage-year, or emergency demands on Metropolitan.

Lower scores for projects that require blending or replenishment with imported water supplies.

D. Water Quality Benefits (Scoring range: 0-5 points)

Comment Guidelines

1. Does the project provide local or regional water quality benefits?
2. Are the project's water quality improvements integral to plans adopted by a regional water quality control board or basin management authority?

Scoring Guidelines

Higher scores for projects that significantly improve water quality conditions.

E. MWD Facility Benefits (Scoring range: 0-10 points)

Comment Guidelines

1. Does the project help Metropolitan avoid or defer construction of capital improvement facilities?
2. Does the project help improve Metropolitan's operational flexibility and system reliability?

Scoring Guidelines

Higher scores for: Projects that avoid or defer construction of identified Metropolitan capital improvement facilities.
Projects that improve operational flexibility and system reliability of MWD treatment and distribution system.

F. Operational Reliability and Probability of Success (Scoring range: 0-5 points)

Comment Guidelines

1. Does the project include features that incorporate engineering redundancy to enhance operational reliability?
2. Is the technology proven?
3. Have all third-party issues been resolved?

Scoring Guidelines

Higher scores for: Projects that have secured financing.
Projects that are not complex or which have firm solutions to complex issues.

G. Increased Beneficial Uses (Scoring range: 0-5 points)

Comment Guidelines

1. Does the project help resolve broad public acceptance issues for new recycled water uses or other breakthroughs?

Scoring Guidelines

Higher scores for: Projects that lead to expanded uses (non-traditional) of Project water where other comparable projects benefiting the region are likely to follow.

H. Cost to Metropolitan (Scoring range: 0-30 points)

Comment Guidelines

1. What funding is required of Metropolitan over the life of the project (present worth analysis)?
2. Over what duration are funds requested?
3. Are higher dollars per acre-foot amounts requested in the early years?
4. How would the requested assistance affect Metropolitan's financial rate structure?
5. Are Metropolitan's contributions primarily for supply produced during shortages and peak demand periods? or when imported water supplies are abundant and system capacity is available?
6. For expansion projects, does the proposal adequately describe the relationship of existing financial assistance agreements with Metropolitan to the proposed new facilities?

Scoring Guidelines

Higher scores for projects that result in lower costs and less impact (quantity, stability) on Metropolitan's future rates and charges.

6 Scoring and Weighting of Selection Criteria

The review committee will use the selection criteria outlined in Section C(5) to guide its ranking of project proposals. In addition, based on its knowledge of regional water supply practices, the review committee will identify a proposal's significant strengths, weaknesses and open issues. Recommendations will reflect the collective findings of the committee. Interviews of project sponsors may be requested by the review committee.

D. Administration

1. MWD Board Approval

After the committee's recommended project mix is reported to Metropolitan's Board, Metropolitan staff will meet with corresponding project sponsors and respective member agencies to negotiate agreement terms. Upon approval of the draft agreement by the project sponsor's governing body and completion of environmental documentation, each project will be forwarded to Metropolitan's Board of Directors for approval of LRP participation.

2. Joint Participation Agreement

The Joint Participation Agreement (JPA) describes the project, defines rules governing payment, outlines responsibilities of each participating agency, and addresses liability and other related matters. Upon approval by Metropolitan's Board of Directors, agencies would have until April 1, 2000 to execute agreements (see Figure 3). Thereafter, they would have to resubmit their proposals to subsequent RFPs in order to be considered for LRP assistance. Additionally, Metropolitan may choose not to execute agreements for projects that change significantly from that described in proposals.

The JPA, at a minimum, establishes the following conditions:

- a. The sponsor will warrant that there is a firm source of water for the project.
- b. The project sponsor will pay and be responsible for all project costs and financing.
- c. Metropolitan will have no ownership right, title, security interest or other interest in any project facilities, nor any rights, duties or responsibilities for operation and maintenance thereof. In such cases, the project sponsor will be the sole and exclusive owner of all project facilities.
- d. The project sponsor will indemnify Metropolitan from all project-related claims and liabilities.
- e. A Metropolitan member agency must support the project and be a party to the agreement.
- f. All water production values will be subject to review and audit by Metropolitan.
- g. Agreements will include sunset/termination provisions that allow Metropolitan to terminate project agreements when:
 - construction has not commenced within two years after agreement execution;
or
 - production is not realized within six years after agreement execution.

Project sponsors may appeal the decision to terminate agreements for projects that fail to commence production within six years after agreement execution to Metropolitan's Board of Directors.

- h. The maximum term of an agreement, including all phased expansions, will be 25 years commencing no later than six years after agreement execution.

- i. LRP agreements will incorporate production targets to help achieve cost-effectiveness and reliable production.
- j. LRP agreements will specify Metropolitan’s annual contribution, from \$0 to a maximum of \$250 per acre-foot, which is based on project production and the requested incentive schedule. Although the amounts outlined in the requested incentive schedule may vary from year to year, however, revisions to the schedule will not be allowed.

E. Performance Reviews and Adjustments

The following performance provisions summarized in Table 2 will be incorporated into all LRP agreements.

Table 2
Performance Provisions

Until a project reaches its ultimate yield, the following performance provisions apply.

<u>Years*</u>	<u>Target</u>	<u>Action if Target is Not Achieved</u>
2	Start construction	Terminate agreement
6	Start deliveries	Terminate agreement**
5-8	37% of ultimate yield	Reduce ultimate yield by one-half the target shortfall using the highest annual yield in the 4-yr period
9-12	63% of ultimate yield ***	Same as above
13-16 and every 4 yrs thereafter	75% of ultimate yield ***	Same as above

* Full fiscal years following agreement execution date or amendment date for LPP to LRP conversions.

** Agencies may appeal termination to Metropolitan’s Board of Directors.

*** Ultimate Yield or revised yield (if applicable)

F. Transition to final LRP for Temporary Conversion Agreements

Agreements for the 16 projects presently under temporary, advance conversion LRP terms may be permanently amended to be consistent with the final LRP rules. These agreements, if amended, would remain eligible for Metropolitan's \$0-\$250 per acre-foot sliding scale contribution throughout their remaining term. Because Metropolitan has already committed support to these projects, they will not be subject to the competitive RFP selection process. Owners of these 16 projects that wish to pursue final LRP terms must notify Metropolitan and finalize new agreements by June 30, 1999; otherwise, the project will automatically revert back to their original LPP agreement terms (\$154 per acre-foot) on July 1, 1999.

Under the sliding scale methodology used for calculating the MWD Contribution under the temporary LRP amendments and GRP agreements, monthly LRP contributions are based on estimated project costs. Following the end of each fiscal year, a reconciliation is performed based on actual project costs and production to correct for over or under payment by Metropolitan. Consistent with the LRP principle of reducing administrative complexity, staff would be authorized to provide simplified standard allowances keyed to measurable parameters for difficult to quantify costs including operations and maintenance labor, water quality sampling and analyses, etc. These allowances would be included in final agreements for the temporary LRP amendments and GRP agreements. This would improve the LRP by reducing burdensome agency accounting requirements, avoid disputes and promote equity among participants.

To provide project owners with greater incentive to be timely in reporting their actual costs, Metropolitan will suspend 100 percent of the monthly LRP contribution if project data is not received within nine months after the end of each fiscal year. Metropolitan will continue to suspend contributions until the matter is rectified; any money due to the project owner will be made after reconciliation is complete. New agreements participating in the LRP under the new competitive RFP process will not be subject to contribution hold back.

G. Program Reporting Requirements to MWD Board

To help streamline Metropolitan's Board agenda, the current quarterly reporting requirement for LPP would be changed to semi-annual reports on water recycling and groundwater recovery to the Water Planning and Resources Committee.

EXHIBIT A

**PROJECT FACT SHEET
LOCAL RESOURCES PROGRAM PROPOSAL/APPLICATION**

Instructions: Exclude capital, O&M, and power costs of existing facilities, costs associated with preparing feasibility studies and CEQA compliance/mitigation, those project components necessary to meet NPDES and Waste Discharge requirements and other applicable permits, and the costs of primary and secondary treatment facilities. Further, deduct avoided costs as a result of developing recycled water from project costs including treatment, disposal facilities, purchase of treatment capacity, ocean outfall, etc.

1. Project Name: _____
2. Project Location (County, City): _____
3. Source of recycled water/groundwater: _____
4. Type of Use(s): _____
5. Project Sponsor (name, address, contact): _____
6. Metropolitan Member Agency: _____
7. Estimated Start/End of Operation (yr): _____
8. Estimated Project \$ Costs: _____ Attach summary of capital, O&M
9. Ultimate Annual Project Yield: _____ acre-feet per year

10. List other agencies participating in the project:

<u>Agency</u>	Party to Agmt.	<u>Role</u>
_____	Yes/No	_____
_____	Yes/No	_____
_____	Yes/No	_____

11. Environmental Documentation:

- Exempt
- Mitigated Negative Declaration
- Negative Declaration
- Environmental Impact Report

Completed _____ yes _____ no Date _____ if no, est. date

12. If this proposal is a project expansion, describe the underlying project:

Name: _____

Capacity: _____

FY 97-98 Deliveries: _____

Project Owner(s): _____

1. July 1 to June 30
2. Projected annual production in acre-feet, excluding existing use
3. Annual debt service/amortization
4. Projected annual O&M cost
5. Annual project cost (3) + (4)
6. Project Unit Cost - (5)/(2)
7. MWD financial contribution requested by project sponsor