

● **Board of Directors**
Water Planning and Stewardship Committee

April 10, 2007 Board Meeting

Revised 8-4

Subject

Authorize Updated Policy and Procedure for Local Resources Program

Description

Since July 2006, staff has worked with member agencies through a joint task force to revise and improve Metropolitan's Local Resources Program (LRP) to help meet Integrated Resources Plan (IRP) targets. The task force also recognized opportunities for Metropolitan to increase its role and activities as a regional facilitator to address water recycling and groundwater recovery implementation issues. In working with the task force, staff has identified three program alternatives for future implementation. These alternatives propose changes to program implementation. The overarching program elements are outlined in [Attachment 1](#).

Background

The LRP currently includes 86 water recycling and groundwater recovery projects with a projected ultimate yield of about 365,000 acre-feet per year (AFY) when fully implemented. Presently, 61 projects are in operation with the remainder in various stages of planning, design or construction. Since inception of the program in 1982, Metropolitan has provided more than \$225 million for the production of about 1.1 million acre-feet of recycled water and recovered groundwater. Over time, the program has evolved offering the different incentive approaches including the recent changes listed below:

Financial Incentive Programs			
1990	1991	1995	1998
Local Projects Program	Groundwater Recovery Program	LRP Conversion	LRP Competitive
Fixed at \$154/AF	Variable between \$0 and \$250/AF	Variable between \$0 and \$250/AF	Fixed schedule \$0 and \$250/AF

Designed from member agency input, Metropolitan established a competitive approach in 1998 to support development of cost-effective projects that best contribute to regional water supply reliability. Through two separate solicitation processes in 1998 and 2003, Metropolitan selected 27 projects for funding. The average incentive paid to these projects is about \$115/AF, which compares favorably to the maximum incentive of \$250/AF routinely paid under the prior sliding scale incentive approach. A detailed description of the evolution of the LRP is provided in [Attachment 2](#).

Metropolitan's IRP regional target production for water recycling and groundwater recovery is 500,000 AFY. The 2004 IRP Update recognized seawater desalination as a local resource and added a 250,000 AFY planning buffer as a safety factor in ensuring regional water supply reliability. Based on current production estimates of LRP-funded projects, local projects developed without LRP funding, and proposed seawater desalination projects, staff projects that an additional 145,000 AFY of new project yield is needed to meet the 750,000 AFY regional target in the year 2025. [The Water Planning and Stewardship Committee at its April 9, 2007 meeting requested that staff pursue development of an additional 20 percent \(29,000 AFY\) to be added to the Alternative #1 open program with sliding scale incentive approach.](#) The needed yield could be attained using any of the three

alternative approaches outlined in this letter. Review of the adequacy of the 750,000 AFY target would be determined as part of the regular five-year schedule for IRP updates.

At the conclusion of the 2003 competitive LRP process, several member agencies expressed a desire to revisit Metropolitan's competitive approach with less emphasis on the incentive cost to Metropolitan. These concerns precipitated task force dialogue on potential LRP implementation revisions. Based on the series of meetings with member agencies, staff developed the three program alternatives described below for Board consideration:

Alternative # 1 – Open Program with Sliding Scale Incentive

Metropolitan would accept LRP applications for proposed projects on a continuous basis until the needed ~~145,000-174,000~~ AFY of yield is secured. Applications would be reviewed for established yield milestones to assess indicators of readiness to proceed, such as specified planning and design stages and status of environmental documentation. Staff would pursue staging of projects to limit agreement yield to achievable near-term production. Incentives up to \$250/AF would be provided based on the difference between actual project unit costs and Metropolitan treated water rates. To simplify administrative processes and eliminate disputes regarding project labor cost, standard labor allowances would be used for various project capacities. Staff recommends this alternative because it would address member agencies' request to eliminate member agency competition for Metropolitan incentives, and would help advance the next increment of local resources projects that would likely be more complex and expensive compared to existing projects. A detailed description of this alternative is provided in [Attachment 3](#).

Alternative # 2 – Priority Selection with Fixed Incentive Schedule

This approach is a refinement to Metropolitan's current competitive process for selecting projects with improvements based on experience. A review committee would evaluate project proposals based on established selection criteria approved by the Board. Increased emphasis would be placed on readiness to proceed and regional supply benefits and less emphasis on incentive cost to Metropolitan. The revisions are in response to member agencies' concerns regarding current selection and weighting criteria. Metropolitan would solicit water recycling and groundwater recovery proposals on a periodic schedule to help meet IRP local resource targets. Incentives up to \$250/AF would be paid based on the amount requested by project proponents. A detailed description of this alternative is provided in [Attachment 4](#).

Alternative # 3 – Dual Process

This is a combination of Alternatives 1 and 2 outlined above. As an initial step, Metropolitan would use an open process with sliding scale incentives to meet 75,000 AFY. When that amount is fully subscribed, Metropolitan would use the competitive approach for the remaining 70,000 AFY needed to meet the IRP target for local resources. This approach would address member agencies' concerns regarding program availability and timeliness, by providing immediate opportunities for more expensive projects to participate. After the initial step, there would be additional opportunities to participate in which Metropolitan would select the best projects for the region based on established selection criteria approved by the Board. A detailed description of this alternative is provided in [Attachment 5](#).

Project Phasing and Performance – Common to all Alternatives

The task force recommended that only projects ready for construction and capable of achieving stated production capacities in the near future advance to the agreement stage. In response, Metropolitan would pursue phasing of projects with long ramp-up schedules. LRP funding agreements would support the initial project phase that is well-positioned to produce water. Future phases would be considered for inclusion at later dates when production is more imminent.

Some existing LRP projects are not fully developed and need more time beyond the term of current agreements to reach full capacity. To help advance expansion of those projects, Metropolitan would apply the project phasing principle. Existing agreements would be truncated at current production levels and new agreements would be negotiated for remaining phases. The Water Planning and Stewardship Committee at its April 9, 2007 meeting requested that existing agreements and new project proposals shall not be subdivided into more than three phases.

Updated performance provisions outlined in [Attachment 1](#) would be applied to new and amended agreements to ensure timely and responsive project development and production.

Simplifying Agreements

LRP agreements with sliding scale incentives require annual cost reconciliations to ensure that proper incentive payments are made. The incentive rate under the sliding scale approach changes from year to year depending on actual project costs, yield, and Metropolitan's water rate. Past experience indicates that some projects would receive a predictable financial incentive every year when project construction is complete and project yield has stabilized. To reduce administrative burden on Metropolitan and participating agencies, staff would negotiate and convert agreements for certain projects from sliding scale incentives to fixed incentives. This would eliminate the need to perform an annual reconciliation of project costs. The trigger point for entering agreement negotiation would be after project production has stabilized. This action is consistent with recommendations outlined in the General Auditor's 2007 report on Review of Local Resources Program-Water Recycling Projects to reduce program administrative costs. Staff is asking for authority to make these amendments for incentive not to exceed \$250/AF.

MWD Regional Facilitator Role

In December 2005, the Board approved a regional facilitator role to support successful development of seawater desalination and local resources projects. As a facilitator, Metropolitan has served as an advocate in resolving resource issues and supporting member agency project implementation. The task force acknowledged the importance of Metropolitan's efforts as a regional facilitator and recommended that Metropolitan broaden those activities. Areas of facilitation would include technology advances; environmental documentation; Metropolitan and outside funding; regional resource planning, and regulatory clearances. Metropolitan's efforts would focus on advancing local resources development in Southern California to help sustain regional water supply reliability. A description of Metropolitan's proposed regional facilitator functions for Board consideration is provided in [Attachment 6](#).

Policy

By Minute Item 41734, dated Jan. 9, 1996, the Board adopted the Integrated Resources Plan.

By Minute Item 43021, dated June 9, 1998, the Board adopted the Local Resources Program.

By Minute Item 45828, dated July 13, 2004, the Board adopted the Integrated Water Resources Plan Update report.

By Minute Item 46491, dated Dec. 13, 2005, the Board approved Metropolitan's regional facilitator role.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1, #2, and #3:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). Also, the proposed action is not subject to CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2), 15378(b)(4), and 15061(b)(3) of the State CEQA Guidelines.

Board Options

Option #1

Adopt the CEQA determination and authorize

- a. Open program alternative with sliding scale incentive approach up to \$250/AF for new local projects as outlined in [Attachment 3](#) and the overarching program elements in [Attachment 1](#);
- b. Metropolitan's regional facilitator role to address local projects as outlined in [Attachment 6](#); and
- c. Conversion of existing agreements from sliding scale incentive terms to fixed incentive terms as outlined in this letter.

Fiscal Impact: Staff estimates Metropolitan's average incentive would be about \$185/AF totaling about \$~~333400~~ million over the next 25 years to achieve ~~145,000-174,000~~ AFY of new yield to meet current IRP target plus buffer. Metropolitan's maximum exposure is about ~~\$9061.1 million-billion~~ at the maximum incentive rate of \$250/AF for ~~145,000-174,000~~ AFY over 25-year agreement terms.

Business Analysis: Program implementation would help achieve Metropolitan's IRP supply reliability goals. This option addresses member agencies' request to eliminate member agency competition for Metropolitan incentives. Staff anticipates that this alternative would help advance the next increment of local resources projects that would likely be more complex and expensive compared to existing projects. By offering the program on a continuous basis, it would better serve member agencies with their project planning efforts and obtaining state and federal funding. This option may increase program administration costs for conducting annual cost reconciliations to ensure proper incentive payments.

Option #2

Adopt the CEQA determination and authorize

- a. Priority selection alternative with fixed incentive schedule approach with incentives up to \$250/AF for new local projects as outlined in [Attachment 4](#) and the overarching program elements in [Attachment 1](#);
- b. Metropolitan's regional facilitator role to address local projects as outlined in [Attachment 6](#); and
- c. Conversion of existing agreements from sliding scale incentive terms to fixed incentive terms as outlined in this letter.

Fiscal Impact: Based on the data from last two competitive processes, staff estimates Metropolitan's average incentive would be about \$135/AF totaling about \$207 million over the next 25 years to achieve 145,000 AFY of new yield to meet current IRP target plus buffer. Metropolitan's maximum exposure is about \$906 million at the maximum incentive rate of \$250/AF for 145,000 AFY over 25-year agreement terms.

Business Analysis: Program implementation would help achieve Metropolitan's IRP supply reliability goals. This option fosters development of more cost-effective local projects and offers the most efficient approach for program administration. This option does not address member agencies' request to eliminate competition for Metropolitan incentives. This option could impede agencies efforts on project planning and securing state and federal funding.

Option #3

Adopt the CEQA determination and authorize

- a. Dual process alternative for LRP implementation as outlined in [Attachment 5](#) and the overarching program elements in [Attachment 1](#);
- b. Metropolitan's regional facilitator role to address local projects as outlined in [Attachment 6](#); and
- c. Conversion of existing agreements from sliding scale incentive terms to fixed incentive terms as outlined in this letter.

Fiscal Impact: Using the average costs from prior two options, staff estimates Metropolitan's average incentive would be about \$160/AF totaling about \$270 million over the next 25 years to achieve 145,000 AFY of new yield to meet current IRP target plus buffer. Metropolitan's maximum exposure is about \$906 million at the maximum incentive rate of \$250/AF for 145,000 AFY over 25-year agreement terms.

Business Analysis: Program implementation would help achieve Metropolitan's IRP supply reliability goals. This option fosters development of cost-effective local projects while providing opportunities for participation

by more expensive projects. This option may increase program administration costs for conducting annual cost reconciliations to ensure proper incentive payments.

Staff Recommendation

Option #1

Stephen N. Arakawa 4/10/2007
Stephen N. Arakawa Date
Manager, Water Resource Management

 4/10/2007
Jeffrey Kightlinger Date
General Manager

Revised Attachment 1 – Local Resources Program Overarching Elements

Attachment 2 – Historical Evolution of Metropolitan’s Local Resources Program

Revised Attachment 3 – Alternative #1 – Open Program with Sliding Scale Incentive

Attachment 4 – Alternative #2 – Priority Selection with Fixed Incentive Schedule

Attachment 5 – Alternative #3 – Dual Process

Attachment 6 – Increased Regional Facilitator Role for Local Resources

BLA #5221

Local Resources Program Overarching Elements

General Requirements

Local Resources Program (LRP) provides incentives for development of new water recycling and groundwater recovery projects in Metropolitan's service area. Unless otherwise approved by Metropolitan, proposed projects must comply with the following general requirements:

1. Project must replace an existing demand or prevent a new demand on Metropolitan's imported water supplies either through direct replacement of potable water or increased regional groundwater production.
2. Project must not exist or be under construction prior to application submittal. Projects that commence construction after application submittal and prior to executing an agreement with Metropolitan would be subject to agency's sole financial risk. This is a change to previous requirements that did not allow construction prior to agreement execution.
3. Project must include construction of new substantive treatment or distribution facilities.
4. Proposals must be supported by a Metropolitan member agency.
5. Project must be owned and operated by the agency, and Metropolitan has no ownership or operational obligations toward the project.
6. Project must comply with the Metropolitan Water District Act and applicable laws.
7. Project must comply with the provisions of the CEQA before Metropolitan Board approval.
8. Metropolitan's Board must approve each project prior to incentive agreement execution.

Integrated Resources Plan

Metropolitan's 1996 Integrated Resources Plan (IRP) set a regional target production of 500,000 acre-feet per year for water recycling and groundwater recovery by 2020. The 2004 IRP Update added a 250,000 acre-feet per year planning buffer, which includes 150,000 acre-feet per year for seawater desalination development. Based on current production estimates of LRP-funded projects, local projects developed without LRP funding, and proposed seawater desalination projects, staff projects that an additional 145,000 AFY of new project yield is needed to meet the 750,000 AFY regional target in the year 2025. The Water Planning and Stewardship Committee at its April 9, 2007 meeting requested that staff pursue development of an additional 20 percent (29,000 AFY) to be added to the Alternative #1 open program with sliding scale incentive approach. Going forward, staff will reevaluate the remaining need based on past and projected performance of new and existing project agreements.

Project Phasing

To achieve IRP targets for local resources in a timely manner, Metropolitan would only consider projects that are ready for construction and capable of achieving stated production capacities in the near future. To that end, Metropolitan would consider phasing of projects with long ramp-up schedules. LRP funding would be provided to only initial phases that are well positioned to produce water. Future phases would be considered for inclusion at later dates when production is more imminent. The Water Planning and Stewardship Committee at its April 9, 2007 meeting requested that existing agreements and new project proposals shall not be subdivided into more than three phases.

Performance Provisions

Performance provisions presented to the Board in April 2003 would apply to new and amended agreements to ensure timely and responsive project development and production. These provisions would allow Metropolitan to adjust or withdraw financial commitments to projects that fail to meet development and production milestones outlined in the following table.

Timeline (full fiscal year)	Milestone	Consequence if target is not achieved
Two years after agreement execution	Start construction	Terminate agreement
Five years after agreement execution	Start operation	Terminate agreement*
Four-Seven years after agreement execution	50 percent of contract yield	Reduce ultimate yield by shortfall to meet target using the highest annual yield in the 4-year period
8-11 years after agreement execution	75 percent of contract yield**	Same as above
12-15 years and every four years thereafter	75 percent of contract yield**	Same as above

* Entities may appeal termination to Metropolitan's Board of Directors.

** Ultimate yield or revised ultimate yield due to project's performance in previous years (if applicable)

Administrative Changes

Based on experience gained in implementing the LRP, staff will make appropriate administrative changes that are consistent with the primary tenets of the program.

Historical Evolution of Metropolitan's Local Resources Program

Overview

Metropolitan is committed to providing financial incentives under its Local Resources Program (LRP) to participating projects developed by local and member agencies. Participating projects are expected to produce an ultimate yield of about 365,000 acre-feet per year (AFY) once fully implemented. Recent change to financial incentives provided by Metropolitan are listed below:

Financial Incentive Programs			
1990	1991	1995	1998
Local Projects Program	Groundwater Recovery Program	LRP Conversion	LRP Competitive
Fixed at \$154/AF	Variable between \$0 and \$250/AF	Variable between \$0 and \$250/AF	Fixed schedule \$0 and \$250/AF

The following table summarizes groundwater and recycled water production and incentive payment data:

LOCAL RESOURCES PROGRAM SUMMARY			
	<i>Recovered Groundwater</i>	<i>Recycled Water</i>	TOTAL
Projects			
Contracts	24	62	86
Operating Projects	17	44	61
Contract Yield (AFY)	87,026	280,300	367,326
Deliveries (AF)*			
FY 2006/07 (thru Dec)	23,206	49,626	72,832
FY 2005/06	44,478	82,058	126,536
Since Inception	328,982	867,120	1,196,102
Payments (\$ millions)			
FY 2006/07 (thru Dec)	\$4.5	\$9.5	\$14.0
FY 2005/06	\$9.4	\$15.9	\$25.3
Since Inception	\$66.2	\$163.0	\$229.2

Local Projects Program

1981 The Local Projects Program (LPP), initiated in 1981, was designed to facilitate the development of water recycling projects. Under the original program, Metropolitan contributed a negotiated amount to help finance project capital costs. Two projects were constructed under this approach for a collective yield of 3,560 acre-feet per year.

- 1986** In 1986, the program was revised such that Metropolitan contributed its avoided energy costs of State Water Project pumping in the form of a rebate per acre-foot of recycled water delivered to end-use customers. This change was based on the assumption that local projects resulted in the avoidance of water importation pumping costs. Under the 1986 revisions, 17 projects with a combined ultimate yield of 41,000 acre-feet per year were approved for LPP assistance.
- 1990** In 1990, Metropolitan's board increased the LPP contribution to \$154 per acre-foot, which was calculated based on Metropolitan's avoided capital and operational costs to convey, treat, and distribute water, and included considerations of reliability and service area needs. The goal in 1990 was to achieve an additional 150,000 acre-feet of recycled water use through the LPP by the year 2000.

Attributes of the 1990 LPP included relatively simple program administration, participating agencies can depend on receiving a fixed level of contribution per acre-foot of recycled water delivered, and payments tied to performance. Disadvantages of the LPP are that fixed contribution payments may not provide sufficient incentives during the early years of a project to encourage development of economical projects, and LPP contributions were based on preliminary, feasibility level cost estimates made prior to construction which could result in over payment by Metropolitan.

Groundwater Recovery Program

- 1991** The Groundwater Recovery Program (GRP) was established in 1991. The purpose of the GRP is to improve water supply reliability through the recovery of otherwise unusable groundwater that has been degraded by minerals and other contaminants, and to provide access to the storage assets of that degraded groundwater. An ancillary benefit was maintaining the quality of groundwater resources by reducing the spread of degraded plumes. In 1991, the GRP goal was to implement projects to recover 200,000 acre-feet per year of groundwater for domestic purposes.

The GRP was similar to the LPP in that Metropolitan enters into agreements to pay for water produced by each individual project for 20-year terms. However, the GRP contribution was paid based on a sliding scale from \$0 to a maximum of \$250 per acre-foot. To receive a contribution, project unit costs must have exceeded Metropolitan's non-interruptible treated water rate. When the project unit cost of the GRP project equaled the current applicable Metropolitan water rate, the incentive was zero. Agencies are required to submit annual project costs and production data at the conclusion of each fiscal year of operation in order to determine the appropriate incentive.

The main advantage of the GRP over the LPP was that variable rate contributions provided a greater financial incentive in the early years of project operation, when project unit costs were higher. Further, GRP contributions were based on actual incurred construction, operation and replacement costs, and water production values reported after the end of the fiscal year. These costs and production values are subject to audit. However, program administration under the GRP is more difficult than the LPP because project costs must be verified annually, and discrepancies involving payment adjustments have to be resolved.

Local Resources Program

- 1995** In 1995, Metropolitan restructured the LPP and GRP to form the Local Resources Program. As part of that effort, Metropolitan's board allowed the immediate conversion of existing projects under the LPP to sliding scale incentive terms similar to those of the GRP. The proposal was made to 40 approved LPP projects at the time, of which 37 projects had already executed agreements and three were in the process of final execution. Conversion of projects from the existing LPP to LRP was voluntary and accomplished through amendment of existing agreements. The proposal was also extended to seven LPP projects whose applications were under review at the time. By June 1999, new agreements were executed that converted 15 LPP projects to include new LRP terms, which were similar to sliding scale incentives of \$0 to \$250 per acre-foot paid under the GRP.

Integrated Resource Plan (IRP)

1996 Metropolitan's 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 set initial targets for resource development that the region must achieve for water supply reliability through the year 2020. Studies showed reduced long-term costs to the region when local resources are developed due to downsizing or deferral of Metropolitan's capital improvements, reduction in operating costs for importation, treatment and distribution, and reduction in costs for developing alternative regional supplies. Encouraging water recycling and groundwater recovery projects by providing financial assistance was consistent with the IRP goals approved by Metropolitan's board as a strategy to meet future water supply reliability needs of Metropolitan's service area in a cost-effective manner.

Competitive Process

1998 In 1998, Metropolitan established a competitive process that emphasizes cost-efficiency to Metropolitan, timing new production according to regional need, and minimizing administrative cost and complexity. The LRP replaced the LPP and GRP with uniform criteria for financial assistance to local projects that contribute to regional water supply reliability. Under the competitive program, agencies requested fixed financial assistance payments up to \$250 per acre-foot of production for agreement terms up to 25 years. Proposals that requested lower financial assistance and terms scored higher under the competitive process. Under the LRP, Metropolitan issues a request for proposals for a specified regional quantity of water identified under the IRP. A review panel evaluates proposals using scoring criteria adopted by Metropolitan's board and identifies the mix of project proposals that best meet the region's needs consistent with the RFP.

In June 1998, Metropolitan issued a Request for Proposals (RFP) for the development of 53,000 acre-feet per year of new water recycling and groundwater recovery projects under the LRP to help achieve regional water supply reliability goals identified by the IRP. Fourteen projects were selected through the competitive process and agreements were executed with the local agencies by April 2000 to provide financial assistance for up to 25 years.

In April 2003, Metropolitan issued the second competitive RFP for the development of an additional 65,000 acre-feet of new recycled water and recovered groundwater under the LRP. Thirteen projects were competitively selected, and agreements for local projects were executed by December 2005. Three projects did not meet the deadline for inclusion in the LRP.

Under the competitive RFP processes, the weighted average incentive payments for 27 projects are about \$115/AF of yield, below the maximum contribution of \$250/AF. Additionally, some proposals resulted in shorter duration agreements compared to the maximum of 25 years.

IRP Update

2004 In July 2004, the Board approved the IRP Update, which refined regional supply development targets based on the identified changed conditions and provided a long-term resources plan to 2025. Metropolitan's IRP target production for water recycling and groundwater recovery elements is 500,000 AFY. The 2004 IRP Update added a 250,000 AFY planning buffer to ensure regional water supply reliability, of which 150,000 AFY was targeted for seawater desalination.

Alternative #1 – Open Program with Sliding Scale Incentive

Process Overview

Metropolitan would accept project applications on an open and continuous basis until the target yield of ~~145,000-174,000~~ AFY is secured. Staff would review project applications to ensure compliance with general program requirements and assess “readiness to proceed” based on factors outlined below. Project proposals that have completed environmental documentation and secured approval of draft agreement terms by the respective governing bodies would be forwarded to Metropolitan’s Board for approval of LRP participation though an agreement. Upon Board approval, staff would meet with project sponsors and respective member agencies to negotiate terms and execute agreements.

LRP Incentives

Metropolitan would pay annual incentives up to \$250/AF based on the difference between actual project unit costs and Metropolitan's water rates. Eligible project costs include agency's out of pocket costs normally associated with water recycling and groundwater recovery projects including capital, O&M and replacement costs. At the beginning of each fiscal year, Metropolitan would provide an advance or estimated incentive rate for deliveries during that year. At the end of each fiscal year, Metropolitan would conduct a cost reconciliation analysis to determine the actual incentive rate for that year based on actual project cost and production data. Adjustments for under- or over-payment would be included in subsequent water service invoices from Metropolitan.

Readiness to proceed factors

In assessing project readiness to proceed prior to Metropolitan’s Board consideration, staff will use factors including market analyses for project water, status of Water Reclamation Requirements permit issued by the Regional Water Quality Control Board, user commitment letters, status of project design, expansion of existing treatment or backbone distribution facilities, secured funding, state and federal grant commitments, land acquisition, etc.

Program Administration

Staff will work with member agencies to identify and implement administrative improvements to increase efficiency and eliminate disputes regarding project costs. Such improvements include simplifying project cost accounting, clarifying eligible project costs, and streamlining unit cost calculations. For example, standard labor allowances would be used for various project capacities to simplify administrative processes and eliminate disputes regarding project labor cost. Additionally, staff would negotiate and convert incentive agreements for certain projects from sliding scale incentives to fixed incentives as described in the main letter.

Alternative 1 Implementation Timeline	
April 2007	Board approval of LRP action plan
July 2007	Develop program application and distribute application guidelines to commence implementation
July 2008	Reassess needed yield consistent with current IRP

Note: The target for overall local resource production would be reviewed under periodic IRP updates.

Alternative #2 – Priority Selection with Fixed Incentive Schedule

Process Overview

Staff would use a competitive Request for Proposal (RFP) process to periodically pursue incremental amounts of production needed. A committee would review proposals based on selection criteria outlined below and recommend projects for LRP inclusion. Selected projects that have completed environmental documentation and secured approval of draft agreement terms by the respective governing bodies would be forwarded to Metropolitan's Board for approval of LRP participation. Upon Board approval, staff would meet with project sponsors and respective member agencies to negotiate terms and execute agreements. Subsequent RFPs would be issued approximately every two years to pursue additional production needs.

LRP Incentives

Agencies would submit project proposals to Metropolitan, which would include a schedule of requested incentive payments (\$/AF) for terms up to 25 years, not to exceed \$250/AF. Each year may have a different incentive amount (e.g., \$200/AF in 2010 and \$220/AF in 2011). The proposal would also include provisions for adjustments to requested incentive amounts for any grants received during the term of the agreement. The year and corresponding incentive amount may not be changed once submitted. Incentive payments would be fixed based on schedule and amount included in proposals. The agreement for those projects will include their incentive payment schedule and table of adjustments for grants.

Selection Criteria

The review committee will use the selection criteria below to guide its ranking of project proposals. Recommendations will reflect the collective findings of the committee.

	<u>Criteria</u>	<u>Weighting</u>
1	Probability of Success	40
2	Regional water supply and facility benefits	30
3	Cost to Metropolitan	20
4	Regional water quality and environmental benefits	10
Total:		100 points

Probability of Success – Strong consideration will be given to projects that accomplished or made significant progress in permit approval, secured funding and financing, mandatory ordinances in effect for recycled water, stakeholders' support, all of which are examples of high probability of success.

Regional Water Supply Benefits – Consideration will be given to projects that increase local supply during shortage periods, provide peak reduction on Metropolitan's system, and improve Metropolitan's operational flexibility during emergencies and shutdowns.

Cost to Metropolitan – This criterion encourages development of cost-effective projects. Applications seeking the lowest incentive contributions from Metropolitan will score the highest.

Regional Water Quality and Environmental Benefits – Strong consideration will be given to projects that improve water quality of the region, e.g., regional benefit from groundwater cleanup, and/or offer environmental benefits, such as reducing wastewater discharges, and protecting groundwater basins from seawater intrusion or contaminant plumes.

Alternative 2 Implementation Timeline	
April 2007	Board approval of LRP action plan
September 2007	Issue RFP
November 2007	Project abstract submittal (Step 1)
February 2008	Final project submittal (Step 2)
August 2008	Board report on recommended projects
June 2009	Execute agreements and reassess needed yield consistent with IRP
September 2009	Issue subsequent RFP

Note: The target for overall local resource production would be reviewed under periodic IRP updates.

Alternative #3 – Dual ProcessProcess Overview

This is a combination of Alternatives 1 and 2 outlined in Attachment 3 and Attachment 4 of this letter. As an initial step, Metropolitan would use an open process with sliding scale incentives to meet 75,000 AFY of new project yield. When the 75,000 AFY is fully subscribed, Metropolitan would use the competitive approach for the remaining 70,000 AFY if needed to meet the IRP target for local resource production.

Alternative 3 Implementation Timeline	
July 2007 – Step 1	Initiate open process (see Attachment 3)
When Step 1 is fulfilled	Reassess LRP yield needs based on IRP target for LRP. If necessary, initiate priority process (see Attachment 4)
June 2010	Reassess LRP yield need consistent with future IRP updates
July 2010	Issue RFPs as necessary

Increased Regional Facilitator Role for Local Resources

Seawater Desalination and Local Projects

In December 2005, the Board approved Metropolitan's regional facilitator role to support successful development of seawater desalination and other local projects. As a facilitator, Metropolitan serves as an advocate in helping resolve regional resource issues and support member agency project implementation.

Increased Role

During LRP task force meetings, member agencies suggested that Metropolitan step up its regional facilitator role for local resources by providing assistance in project implementation and public outreach. Areas of facilitation include advancing technology; collaborating with environmental groups; identifying funding opportunities; participating in regional resource planning, advocating streamlined and consistent regulatory approval, and assisting with public education efforts. Metropolitan would focus on advancing local resources development in Southern California to help sustain regional water supply reliability with growth in local resource development. In this capacity, Metropolitan staff would:

1. Serve as liaison between member agencies and state and federal officials to gain broad support for local resource strategies and initiatives;
2. Support regulatory/legislative efforts that enhance local resources development and water use efficiency measures;
3. Advocate streamlined regulatory processes, including statewide consistency, to create new recycled water opportunities;
4. Advocate state and federal funding opportunities;
5. Support research and development of technological advances that provide regional benefits;
6. Provide leadership in water quality protection and new resource areas such as storm water capture and reuse assess the value to Metropolitan and formulate participation principles.
7. Collaborate with member agencies in educating the public of local project benefits; and
8. Conduct regular stakeholder meetings to address implementation issues.

In carrying out this role, staff would seek consensus with member agencies and Board approval of high visibility actions including legislation.