

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

August 19, 2008 Board Meeting

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8-9

### **Subject**

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Authorize entering into a Local Resources Program Agreement with Inland Empire Utilities Agency for the Regional Recycled Water Expansion Project

### **Description**

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Authorization is requested to enter into a Local Resources Program (LRP) agreement and subsequent amendment with Inland Empire Utilities Agency (Inland Empire) to provide financial incentives for two phases of the Regional Recycled Water Expansion Project. When fully developed, the project would produce about 33,000 acre-feet per year (AFY) of recycled water. The project would provide recycled water for non-potable and indirect potable uses resultant through groundwater recharge.

### Background

At its April 2007 meeting, the Board updated LRP policies and procedures with a goal of developing 174,000 AFY of additional local recycled water and recovered groundwater. The proposed project complies with program requirements and helps achieve the LRP goal established by the Board. The proposed project would be in addition to existing LRP incentive agreements with Inland Empire totaling 41,100 AFY. To ensure that these existing agreements are compatible with the proposed project agreement, Metropolitan and Inland Empire will establish procedures that clearly distinguish production and performance for each respective agreement prior to entering into a new LRP agreement.

### Proposed Project

The proposed project described in **Attachment 1** would be implemented in two phases, expanding Inland Empire's existing recycled water distribution system and use of existing recharge basins. Phase 1, with 14,400 AFY of capacity would include construction of about 30 miles of distribution pipelines, four pump stations, five storage tanks, recharge basin improvements and blending facilities. Phase 2, with 18,600 AFY of capacity, would include construction of an additional 12 miles of distribution pipelines, two pump stations, two storage tanks and one satellite water recycling plant to complete Inland Empire's backbone distribution system. Project yield would be used for irrigation and commercial uses, and indirect potable purposes through groundwater recharge.

Because the proposed project includes groundwater recharge, agreement provisions will include an accounting methodology that distinguishes project water from other groundwater production by using records published annually by the Chino Basin Watermaster. Water accounting would address prerequisite groundwater pumping from normal basin operation, existing groundwater desalting projects, Metropolitan's conjunctive use storage program, and increased pumping by the proposed project. State regulations regarding groundwater recharge would require blend water based on water quality parameters. Under current water quality conditions, total recharged water would consist of 65 percent storm water or imported water and 35 percent recycled water over five years. Under phase 1, about 5,000 AFY of recycled water on average would be recharged to the basin.

### Proposed agreement and subsequent amendment

Inland Empire has requested that Metropolitan approve funding for phase 1 and phase 2 rather than approving phase 2 at a later time because full project approval would help Inland Empire secure project financing. Metropolitan would enter into an agreement for phase 1 with a contractual limit of 14,400 AFY. Metropolitan

would amend the agreement to include phase 2 based on successful development of phase 1 and future regional water supply needs. This arrangement would provide strong motivation for Inland Empire to accelerate yield development, which is desirable given current regional supply conditions.

Agreement terms would be consistent with the LRP program policy and procedure and subject to approval by the General Counsel. Important terms include the following:

1. Pay for performance – LRP financial incentives would only be paid for water produced by the proposed project;
2. Sliding scale incentives up to \$250 per acre-foot based on actual project unit cost above Metropolitan's prevailing water rate;
3. Distinguishing proposed project production from any other potential groundwater production including other contractual commitments to Metropolitan;
4. Termination for non-performance if construction does not commence within two years of agreement execution and project deliveries are not realized within five years of agreement execution; and
5. Reduction in Metropolitan's contract commitment if project falls short of production targets measured in four-year intervals throughout the agreement term.

Subject to the Board's approval, agreement terms for each phase would be for 25 years. The maximum annual incentive would be about \$3.6 million for 14,400 AFY under phase 1 with an additional \$4.6 million per year for 18,600 AFY under phase 2. An agreement amendment to provide incentives for phase 2 would be subject to the General Manager's approval, in accordance to the updated policy and procedure for the LRP approved by the Board in April 2007. This project is the first under these revised guidelines. That amendment is currently expected to be in 2011.

**Attachment 2** summarizes the Inland Empire's performance history under the LRP.

## **Policy**

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By Minute Item 47049, dated April 10, 2007, the Board adopted the Local Resources Program.

## **California Environmental Quality Act (CEQA)**

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CEQA determination for Options #1 and #2:

Pursuant to the provisions of CEQA and the State CEQA Guidelines, the Inland Empire Utilities Agency (Inland Empire), acting as Lead Agency, prepared and processed the Wastewater Facilities Master Plan, Recycled Water Master Plan, and Organics Management Master Plan Program EIR (PEIR). The PEIR was certified and the project was approved by the Lead Agency on June 28, 2002. The Lead Agency also approved the Findings of Fact (findings), the Statement of Overriding Considerations (SOC), and the Mitigation Monitoring and Reporting Program (MMRP). Subsequent to that time, a minor modification was made to the originally approved project. As the Lead Agency, Inland Empire prepared and certified an Addendum to the PEIR (Addendum) and approved the proposed project modification on February 20, 2007. Metropolitan, as a Responsible Agency under CEQA, is required to certify that it has reviewed and considered the information in the certified PEIR and Addendum and adopt the Lead Agency's findings, SOC, and MMRP prior to approval of the terms and conditions for the proposed agreement. The environmental documentation is available in the Board Executive Secretary's Office for review.

The CEQA determination is: Review and consider information provided in the certified 2002 PEIR and 2007 Addendum and adopt the Lead Agency's findings, SOC, and MMRP related to the proposed action.

CEQA determination for Option #3:

None required

## Board Options

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### Option #1

Adopt the CEQA determination and authorize the General Manager to enter into an LRP agreement and future amendment with Inland Empire Utilities Agency for 14,400 AFY of phase 1 and 18,600 AFY of phase 2 for a total of 33,000 AFY for the Regional Recycled Water Expansion Project under terms included in this letter.

**Fiscal Impact:** Projected at \$206 million for combined phase 1 and phase 2 yield of 825,000 acre-feet of recycled water over 25 years for each phase

**Business Analysis:** Metropolitan's service area would benefit from combined phase 1 and phase 2 yield of 825,000 acre-feet over the terms of the agreement. The General Manger would have discretion to limit Metropolitan's financial commitment to 14,400 AFY for phase 1 and determine amending the agreement to include phase 2 based on phase 1 performance and the need for additional LRP supplies to meet the IRP local resource goal of 174,000 AFY.

### Option #2

Adopt the CEQA determination and authorize the General Manager to enter into an LRP agreement with Inland Empire Utilities Agency for 14,400 acre-feet per year for phase 1 of the Regional Recycled Water Expansion Project under terms included in this letter.

**Fiscal Impact:** Projected at \$90 million for 360,000 acre-feet of recycled water over 25 years

**Business Analysis:** Metropolitan's service area would benefit from 360,000 acre-feet over the next 25 years. Execution of an LRP agreement for phase 2 would require future application and board approval.

### Option #3

Do not authorize execution of an LRP agreement for proposed project.

**Fiscal Impact:** None

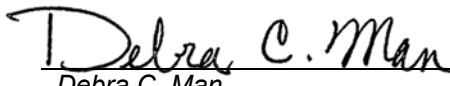
**Business Analysis:** Metropolitan would be required to find other projects to meet its local resource goal of 174,000 AFY of new water.

## Staff Recommendation

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### Option #1

  
 \_\_\_\_\_ 8/6/2008  
 Grace Chan Date  
 for Stephen N. Arakawa  
 Manager, Water Resource Management

  
 \_\_\_\_\_ 8/12/2008  
 Debra C. Man Date  
 for Jeffrey Kightlinger  
 General Manager

### Attachment 1 – Project Description

### Attachment 2 – Inland Empire Utilities Agency LRP Incentive Agreements

## **PROJECT DESCRIPTION**

### **IEUA Regional Recycled Water Expansion Project**

#### **Background**

##### Overview

IEUA's proposed Regional Recycled Water Expansion Project (Project) will be owned and operated by Inland Empire Utilities Agency (Inland Empire). The Project will expand Inland Empire's existing water recycling system and distribute up to 33,000 acre-feet per year (AFY) of recycled water produced at Inland Empire's existing four water recycling plants for non-potable purposes such as landscape irrigation, agriculture, and commercial and industrial uses as well as for indirect potable purposes through groundwater recharge within Inland Empire's service area. The Project will be implemented in phases.

##### Existing Project

Inland Empire owns and operates an existing recycled water system known as Inland Empire Regional Recycled Water Distribution System (Existing Project). The Existing Project consists of over 35 miles of recycled water pipeline, four water recycling plants, and several pump stations and reservoirs located in Inland Empire's service area. The Existing Project serves recycled water from four water reclamation plants; Regional Plant No. 1 (RP-1), Regional Plant No. 4 (RP-4), Regional Plant No. 5 (RP-5), and Carbon Canyon Wastewater Reclamation Facility (CCWRF). The tertiary treated recycled water is served to approximately 240 customers and is used for industrial, agriculture, irrigation, and discharge to the Santa Ana River. The current yield of the Existing Project is 13,000 AFY, with a capacity to serve 17,000 AFY. The Existing Project does not provide groundwater recharge. Inland Empire's existing regional recycled water facilities are shown on Figure A-1. The Existing Project is not part of this agreement.

##### Proposed Project

The proposed Project consists of construction of additional recycled water distribution pipelines, pump stations, storage tanks, one treatment plant and improvements to existing groundwater recharge basins. The proposed Project would be implemented in two phases and increase Inland Empire's recycled water system capacity from 17,000 AFY to 50,000 AFY when fully developed. Recycled water would be used for irrigation and commercial purposes as well as indirect potable reuse through groundwater recharge.

Phase 1, with a capacity of 14,400 AFY, would include construction of approximately 30 miles of distribution pipelines, four pump stations, five storage tanks, groundwater recharge basins and monitoring and blending facilities. Figure A-2 identifies the phase 1 facilities. Metropolitan would provide LRP incentives for phase 1 under this Agreement.

Phase 2, with a capacity of 18,600 AFY, would include construction of approximately 12 miles of distribution pipelines, two pump stations, two storage tanks, and one satellite three-million-gallons-per-day water recycling plant. Metropolitan may amend this Agreement to provide LRP incentives for phase 2 based on conditions outlined in the Agreement.

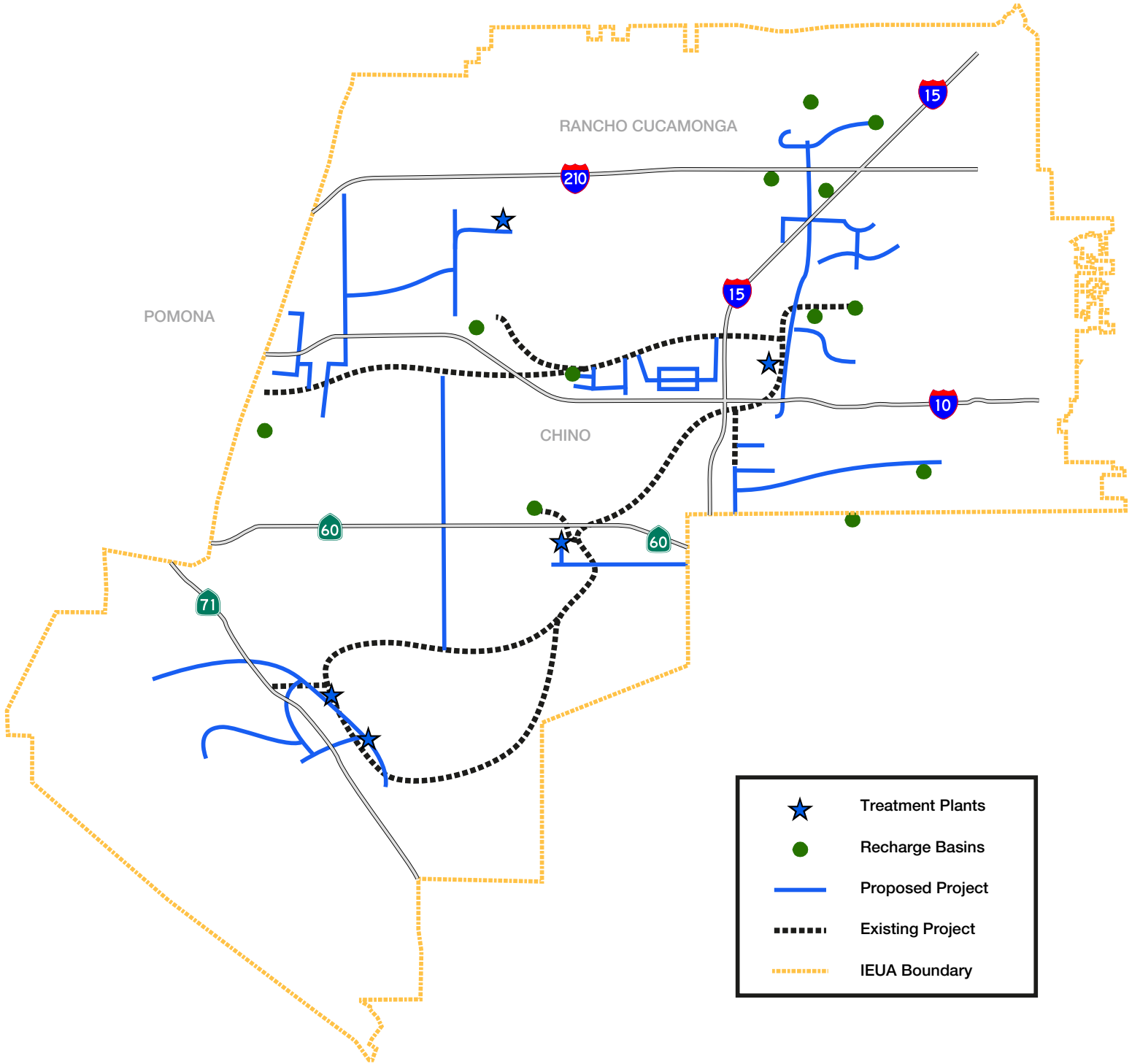
**Source of Recycled Water**

Currently, Inland Empire owns and operates four regional wastewater reclamation plants: RP-1, RP-4, RP-5, and CCWRF, which collectively produce over 71,700 AFY of recycled water. In addition, Inland Empire is planning to construct a three-million-gallons-per-day satellite water recycling plant that will be used to support the project.

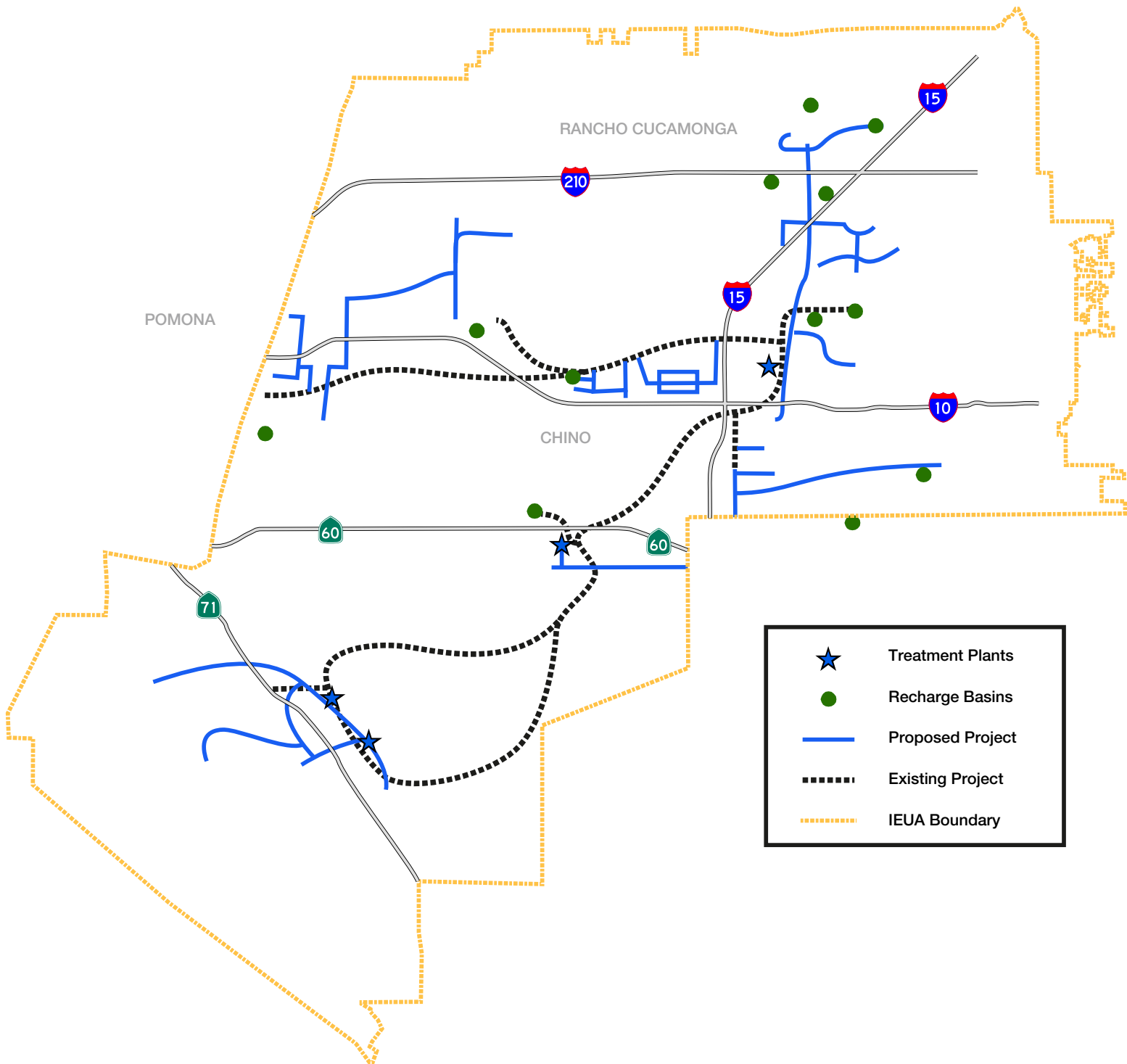
**End User**

Project water will be used for non-potable uses such as irrigation, commercial, and industrial purposes as well as for indirect potable uses through groundwater recharge within Inland Empire's service area.

### Figure A-1 IEUA Regional Recycled Water Expansion Project



# Figure A-2 IEUA Regional Recycled Water Expansion Project Phase 1



**Inland Empire Utilities Agency LRP Incentive Agreements**

Project	Sponsor Agency	Contract Yield (AFY)	Agreement Date	Start of Operation	Total through March 2008	
					Yield (AF)	Contribution (\$)
IEUA Regional Recycled Water Distribution System	IEUA	13,500	1996	1998	22,574	\$3,476,303
Chino Basin Desalter Phase 1	Chino Basin Desalter Authority*	9,600	1995	2000	68,500	\$17,117,325
Chino Basin Desalter Phase 2	Chino Basin Desalter Authority*	18,000	2008	2008	3,478	\$869,500
<b>Total</b>		<b>41,100</b>			<b>94,552</b>	<b>\$21,463,128</b>

\* Project yield is used by Inland Empire and Western MWD