



● *Integrated Resources Plan Committee*

5/23/2017 Committee Meeting

2a

Subject

Policy Principles White Paper

Executive Summary

The attached White Paper ([Attachment 1](#)) presents background information and discussion on policy principles for the development of local resources and conservation. Discussion and input on the policy principles is the main subject of the Board Workshop scheduled for May 23, 2017.

Description

The 2015 IRP Update (IRP) continues Metropolitan's collaborative planning approach to providing a reliable water supply for its service area. The IRP identifies long-term regional targets for water resource development and serves as a framework for future activity by Metropolitan and its member agencies.

A key part of the IRP strategy includes regional targets for local resources and conservation development. Successful implementation of the IRP targets will require significant coordination and planning on the part of Metropolitan, its member agencies and local agencies. Policy direction will define Metropolitan's continuing role in the development of local resources and conservation and ensure that Metropolitan participates in an effective manner.

Draft policy principles are included in the attached White Paper. The draft proposed policy principles seek to address two areas of Metropolitan's participation. The two areas are framed by the following questions:

- How should Metropolitan define its role in the development of local resources and conservation and under what conditions?
- How should Metropolitan plan and participate in local resources and conservation when there are overlapping mandates?

Discussion of policy related to IRP implementation has been conducted through the IRP Committee meetings following the adoption of the 2015 IRP and the Board Retreat in April 2016. The Board's continued discussion of these policy areas at the scheduled May 23, 2017 Board Workshop will shape the final policy principles for Board consideration.

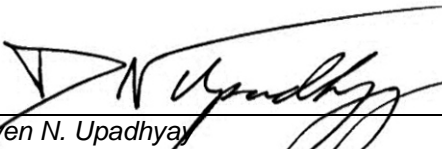
Policy

By Minute Item 50358, dated January 12, 2016, the Board adopted the 2015 Integrated Water Resources Plan Update

Metropolitan Water District Administrative Section Code 4202: Avoidance in District Service Area of Overlapping or Paralleling Governmental Authorities (Laguna Declaration)

Fiscal Impact

None



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5/17/2017
Date



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5/17/2017
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Attachment 1 – Policy Principle Framework and Recommendations for Implementation of Local Resources and Conservation

Ref# wrm12652026

Policy Principle Framework and Recommendations for Implementation of Local Resources and Conservation

Background

The 2015 Integrated Water Resources Plan (IRP) Update continues Metropolitan's collaborative long-term planning approach to providing a reliable water supply for its entire service area. Through the IRP, the region has identified targets for water resource and supply development that will ensure that the region can achieve a high level of water supply reliability. The 2015 IRP Update, as do its predecessors, emphasizes a balanced approach of developing and maintaining imported supplies delivered through the Colorado River and the State Water Project, and developing and maintaining the region's base of local supplies and conservation. Metropolitan's regional distribution, storage and treatment system facilitates the integrated use of all of the regional supplies for reliability benefits across the region. The 2015 IRP Update also recognized that the maintenance of existing production of water supplies, in addition to increasing new production, is critical in achieving water supply reliability for the region.

As a regional wholesale water provider, Metropolitan's service area encompasses the service areas of its member agencies and other local water agencies that are the member agencies' retail-level agencies. Historically, member agencies and other local water agencies have been the primary builders, owners and operators of the local supply facilities in the region. In addition, because they are end-user driven, conservation programs are implemented at the local level. Regional participation by Metropolitan has assisted local agencies in the development and successful implementation of local resources and conservation. Looking forward, clarity on how Metropolitan should participate in the continued development of local resources and conservation and how to ensure the regional benefits associated with investments in local resources and conservation will be key to successfully achieving the IRP targets and water supply reliability.

The 1952 Laguna Declaration, codified in Section 4202 of Metropolitan's Administrative Code, established that Metropolitan would play the main role in securing and ensuring water supplies for the growing Southern California area. The Laguna Declaration reaffirmed Metropolitan's intent to meet the demands of its member agencies and stated:

- The District is prepared, with its existing governmental powers and its present and projected distribution facilities, to provide its service area with adequate supplies of water to meet expanding and increasing needs in the years ahead. When and as additional water resources are required to meet increasing needs for domestic, industrial and municipal water, the District will be prepared to deliver such supplies

Leading up to the adoption of the 1996 IRP, Metropolitan and its member agencies and regional stakeholders recognized the regional benefits of increased conservation and local resources. In 1995, Metropolitan held the third in a series of Integrated Resources Plan Assemblies. This IRP Assembly resulted in the establishment of the San Pedro Principles, which described the vision and direction for collaborative planning and development of local supplies and conservation. The principles endorsed by the Assembly were:

- No water supplier in Southern California is an isolated, independent entity unto itself. All suppliers and the community served are dependent to varying degrees upon a regional system of water importation, storage and distribution.

- Metropolitan is Southern California's lead agency in regional water management. It has responsibility not only for importing water from outside the region and constructing necessary conveyance and storage facilities, but also for convening dialogues on regional water issues, encouraging local water development and conservation, advocating the region's interests to the state and federal governments, and in other ways leading Southern California's water community.
- Water suppliers at all levels have a responsibility to promote a strong water ethic both within the water community and among the public. This requires that plans be developed through open processes and that agencies commit to achieving adopted regional goals and strategies. It also requires that all suppliers commit to a policy of equity and fairness in the development and implementation of programs for water management.

The 1996 IRP took the step of identifying regional targets for the implementation of conservation and local resources, with these targets being updated in subsequent IRP Updates in 2004, 2010 and most recently in 2015. Through this time, Metropolitan has facilitated the implementation of local resources and conservation primarily through the development and refinement of the regional incentive programs. Regional investments in local resources and conservation benefit all member agencies. These programs help to increase regional water supply reliability, reduce demands for imported water supplies, decrease the burden on the district's infrastructure and reduce system costs, and free up conveyance capacity to the benefit of all system users. The programs contribute to transportation infrastructure savings for all users of the regional water system.

Policy Development Process

Following the adoption of the 2015 IRP Update and its associated targets and goals for achieving regional water supply reliability, Metropolitan has engaged in a series of discussions aimed at determining the potential policy refinements needed to implement the IRP. In April 2016, Metropolitan's Board held a retreat with one of the main topics being a discussion of policy questions related to IRP implementation. The major themes coming out of the discussion included the role of Metropolitan in achieving regional reliability, how to achieve future conservation with increased outdoor water use efficiency, and the role of Metropolitan in developing local resources. Following the Board Retreat, the IRP Committee of the Board held a series of meetings to review and discuss Metropolitan's historic and current role and activities in the areas of local resources and conservation development. The most recent meetings solicited direct input and discussion on policy areas and policy questions with the intention of developing policy principles that provide guidance and direction to staff.

Policy Goals and Outcomes

The overarching goal of developing policy for local resources and conservation development is to ensure that Metropolitan is participating in a way that best serves the region in achieving the IRP targets and water supply reliability. Metropolitan's participation should increase the ability to successfully implement projects and programs that maintain and build the region's local resources and conservation for the benefit of the region, and make investments commensurate with those regional benefits. Policy principles that address this goal would provide guidance and direction to staff in:

1. Determining the appropriate participation for Metropolitan in the continued regional implementation and maintenance of local resources and conservation;
2. Developing evaluation and decision criteria for determining appropriate Metropolitan participation and prioritizing investment of regional finances; and

3. Developing improvements to increase the effectiveness of the existing Local Resources Program and Conservation Credits Program.

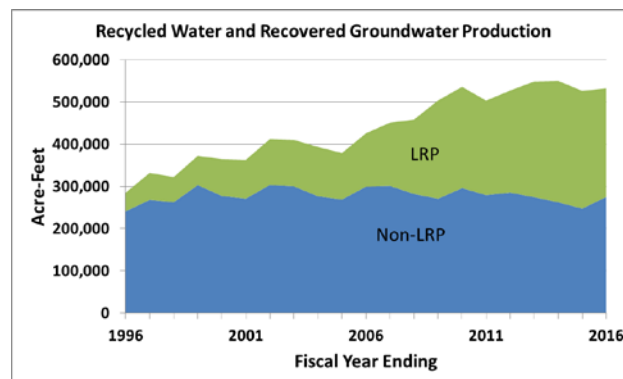
Policy Areas and Policy Principle Recommendations

Based on the process in the IRP Committee, policy discussion and potential policy principles have coalesced in two areas. The first is Metropolitan's role in local resources and conservation development. Policy development in this area should address the role or roles that Metropolitan can fill to enable the effective maintenance and development of local supplies. The second is the consideration of state and federal legislation concerning mandates on local resources and conservation development. Policy development in this area should address how Metropolitan's role or participation could be affected by legislation placing requirements on the member and other local agencies.

Metropolitan's Role in Local Resources and Conservation Development

Framing Question: How should Metropolitan define its role in the development of local resources and conservation and under what conditions?

Local resources and conservation are, by their nature, developed and implemented at the local and end user level. From the very beginning of water development in Southern California, local agencies and local entities were primarily responsible for building and maintaining the water supplies and systems for their areas. Early water development began with surface water diversions and groundwater wells and over time also included imported supplies like the Los Angeles Aqueduct system, which had a source of water supply well outside of the local area but was developed and financed by the local agency. Development of more technologically advanced and more costly supplies began in the 1980's with the advent of recycled water and groundwater remediation and treatment. The most recent local resources development has included even more technologically advanced and costly supplies, such as advanced-treated recycled water and seawater desalination.



Metropolitan has been the regional vehicle for participation in the maintenance and development of local resources and conservation for much of its history. The primary role Metropolitan has played has been one of facilitation and financial assistance and not one of active or direct participation. In the area of recycled water, Metropolitan recognized the potential regional benefits through its participation in the Orange and Los Angeles Counties Reuse Study in the 1980's and the Southern California Comprehensive Water Reclamation and Reuse Study in the 1990's. These studies led to the inception of financial incentive programs to encourage the development of recycled water. The initial incentive program in 1981 was called the Local Projects Program. Under this program, Metropolitan did not actively participate in the building or operating of recycled water projects. However, Metropolitan did invest directly in the capital costs of two projects under this program and was considered a co-equity owner in that it received revenues from the sales of its proportion of the water supply produced. In 1986, the Local Projects Program was revised into a pay-for-performance program that provided financial incentives for water produced, as opposed to the previous financing of up-front capital costs. The pay-for-performance

incentive approach, which has been operating as the Local Resources Program since 1995, continues today. Various adjustments to the program design and financial incentive structure have been made through time to reflect the changing nature and more specific needs of local programs.

Metropolitan has played a variety of roles in the area of maintaining and developing local groundwater production. Metropolitan has primarily served as a source of water supply for groundwater replenishment and recharge. This was done through a variety of interruptible service programs that were supported by differentials in water rates that reflected the interruptibility of the water supply. Interruptible service programs no longer exist at Metropolitan with water supply purchased for groundwater replenishment currently treated the same as other water deliveries. Metropolitan has also participated in expanding the storage and recovery of water in the regional groundwater basins through programs like the Cyclic Storage Program and the Conjunctive Use Program. In 1991, Metropolitan initiated a program offering financial incentives through the Groundwater Recovery Program. This program sought to maintain, restore and increase regional groundwater production by incentivizing the development of treatment for degraded groundwater supplies. This program was converted into the Local Resources Program in 1995, putting the regional participation in the development of recycled water and groundwater recovery into the same program and approach.

The financial incentive-based approach has been relatively successful, particularly through the first two decades of its existence. As of 2016, the Local Resources Program was responsible for 260,000 acre-feet of the roughly 500,000 acre-feet of total recycled water and groundwater recovery production in the service area. However, the total rate of implementation of new projects has declined since the 2010 timeframe. Adjustments have been made to the incentive and payment structure of the Local Resources Program but a continued low rate of new projects coming into the program gives an indication that new approaches in addition to the Local Resources Program may be needed.

In addition, there have been more instances and experience gained with local resources that needed assistance and participation from Metropolitan in a different way than was available through the incentive-based approach. Working through these projects resulted in new approaches like the Reimbursable Services Program and the On-Site Retrofit Program. In the Reimbursable Services Program, Metropolitan provided technical services including planning and engineering, contracting with outside professional services, and financing. The local agency ultimately reimbursed Metropolitan for all actual costs and took over ownership and operation of the project. The Reimbursable Services Program, which began with a specific project, is now part of the overall Local Resources Program and shows the value of flexible participation in meeting the needs and challenges that local projects face in implementation.

The 2010 IRP Update process included a six-month Strategic Policy Review which focused on the question, “What should Metropolitan’s role be in managing and developing the region’s water supplies?” The process, which analyzed three alternative approaches to Metropolitan’s role in managing, developing and financing local resources, resulted in the 2010 IRP Update findings that Metropolitan should:

- Adopt an adaptive management approach for the future;
- Diversify its role in developing regional water supply; and
- Explore various options under which the region can pursue cooperative development of beneficial projects.

These findings provided a basis for some of the adaptive changes to the Local Resources Program and also for the initiation of the Foundational Actions Funding Program, which was designed to further the research and address implementation barriers that face less traditional types of local resources in the region.

In order to address the increasingly challenging nature of remaining local resource development in Metropolitan's service area, policy refinement is needed to guide the appropriate role or roles that Metropolitan should play. Recommended policy principles in this area are:

- Metropolitan should take an active role in identifying and evaluating potential local resource and conservation opportunities within its service area
- Metropolitan should have multiple approaches and avenues for developing and implementing local resources and conservation in cooperation with local agencies and entities
- Metropolitan should, where appropriate, evaluate the feasibility and effectiveness of direct investment and development of regionally beneficial local resources and conservation
- Metropolitan's involvement in the development of local resources and conservation should include consideration of maintaining or recovering existing projects and programs
- Evaluations of regional investments in local resources and conservation and development of any priorities among potential projects should include consideration of:
 - Type and source of water supply
 - Measurable water supply yield or demand reduction
 - Impacts, positive or negative, to Metropolitan system redundancy or emergency risk
 - Impacts, positive or negative, to existing Metropolitan system investments and developed capacity
 - Financial exposure and revenue recovery
- Metropolitan should ensure that its operational and administrative policies do not adversely impact regional efforts to encourage and develop local resource and conservation investments

Consideration of State and Federal Mandates in Local Resources and Conservation Development

Framing Question: How should Metropolitan plan and participate in local resources and conservation when there are overlapping mandates?

Local resources development for the more traditional types of supplies, such as surface and groundwater, historically resulted from the need to meet the demand for water and the availability of resources. Metropolitan and the region recognized the importance of non-traditional supplies such as recycled water and the development of conservation programs. Over time, the state and federal government also have played a role in establishing policy, legislation and regulation that guides and affects specific areas of resource development and goals. These actions by the state and federal government may have the effect of a mandate. That is, the actions may require a specific action or development by a local agency or area.

Legislation in the area of local resources and conservation development can create uncertainty regarding the appropriate level of Metropolitan participation. If the implementation of a specific resource, such as recycled water or conservation, becomes non-discretionary on the part of a local agency due to a

governmental mandate, then it would follow that the need for Metropolitan's participation or facilitation may be lessened or, where Metropolitan does not have its own mandate, eliminated. However, policy, legislation and regulation from the state and federal government have not yet risen to the level of requiring implementation of a specific resource. Existing policy, legislation and regulation also have applied not just to the local level, but also to the regional level, creating further need for policy discussion of the appropriate Metropolitan role.

One example of a State mandate is the legislation from Senate Bill 60 (Hayden 1999), codified in Section 130.5 of the Metropolitan Water District Act. SB60 applies solely to Metropolitan, and not to its member agencies or other local agencies. SB60 states: "It is the intent of the Legislature that the Metropolitan Water District of Southern California expand water conservation, water recycling, and groundwater recovery efforts" and "The Metropolitan Water District of Southern California shall place increased emphasis on sustainable, environmentally sound, and cost-effective water conservation, recycling, and groundwater storage and replenishment measures." Metropolitan has complied with the SB60 mandate through its demand management programs that incentivize and facilitate local supply development and conservation at the local level, and its IRP targets and goals.

A second example of a State mandate is the legislation from Senate Bill 7X-7, which sets targets for reductions in potable water use per capita. This mandate applies directly to retail agencies and not to Metropolitan. As is the case with the SB60 mandate, the direction of the mandate from SB7X-7 is consistent with Metropolitan's demand management programs and the water use efficiency goals of the IRP. Further, this mandate applies to potable water use as a whole for a local agency and does not require specific projects or actions on the part of the local agency. As it was already in the region's interest to increase water use efficiency through the development of recycled water and conservation consistent with the IRP targets, it remains in Metropolitan's interest to continue to participate through incentivizing and facilitating the implementation of recycled water and conservation.

It is apparent that when state and federal legislation concerning local resources and conservation development are consistent with the goals and regional benefits desired by Metropolitan and its member agencies, Metropolitan retains an interest in participating to ensure that the goals and regional benefits are achieved. However, in the case where specific projects are directly required of a local agency or entity by a mandate, Metropolitan's participation may be lessened or not required to ensure the completion of that project. Recommended policy principles that will guide the determination of the appropriate Metropolitan participation in mandated local resources and conservation development are:

- Metropolitan and the region have an interest in ensuring that local supply and conservation maintenance and development are achieved consistent with IRP targets
- Metropolitan should evaluate state and federal requirements concerning water resource and conservation development to determine intent and consistency of the requirement with regional IRP targets
- If and when a requirement applies to a specific project or program within a member agency service area, Metropolitan should collaborate with the member agency to determine the appropriate participation approach commensurate with the regional benefits provided by the project or program

Conclusions

The challenge of maintaining and developing local resources and conservation in Southern California has evolved into an increasingly complex issue. The regional benefits and importance of having a stable base of local resources and conservation, and achieving regional water supply reliability, are as important as ever, and Metropolitan is well-situated to ensure that regional investments and financing of local resources and conservation result in regional benefits for all of its member agencies. Having guiding policy principles that enable Metropolitan to identify, evaluate, and participate in the development of local resources and conservation in a way that provides regional benefits is important and will ensure proper investment and return on regional dollars.