

IRVINE RANCH WATER DISTRICT POLICY POSITION
UPDATES TO METROPOLITAN WATER DISTRICT'S LOCAL RESOURCES PROGRAM

September 10, 2018

Issue Summary:

Metropolitan Water District of Southern California (Metropolitan) encourages the development of local water resources in its service area through the implementation of the Local Resources Program (LRP). This program provides incentives to water agencies for the development of water recycling, groundwater recovery and seawater desalination projects that offset a demand or prevent adding a new demand on Metropolitan for imported water supplies. The development of local water supplies is seen by Metropolitan as a way to reduce the need to increase imported water supplies. The incentive program also indirectly increases regional water supply reliability, decreases the burden on Metropolitan's infrastructure, reduces costs and frees up conveyance capacity in Metropolitan's system.

Metropolitan is considering making revisions to its Local Resources Program to deal with both near-term and long-term policy issues that are interrelated to its Integrated Resources Plan. The Municipal Water District of Orange County is engaged with Metropolitan in the policy discussions and seeking input from its member agencies on the issues. To help guide IRWD's advocacy efforts related to the ongoing LRP discussions, staff has prepared this Policy Position Paper.

Background:

In 2014, Metropolitan issued guidelines for agencies to use when applying for LRP incentives for water recycling, groundwater recovery, and seawater desalination projects. These guidelines provide details on the program, general requirements and the application process. In July 2017, Metropolitan adopted policy principles that guide Metropolitan's role in regional implementation of Integrated Water Resources Plan targets for local resources. These principles identify that Metropolitan should have multiple approaches for developing local resources in cooperation with other agencies. To date, the LRP program remains the primary method that Metropolitan utilizes to encourage local water resource development.

Currently, Metropolitan offers three LRP incentive payment structures for the development of water recycling, groundwater recovery, and seawater desalination projects. The three options are described as follows:

- Option 1:* Sliding scale incentives up to \$340 per acre-foot over 25 years;
- Option 2:* Sliding scale incentives up to \$475 per acre-foot over 15 years; or
- Option 3:* Fixed incentives up to \$305 per acre-foot over 25 years.

Sliding scale payments are based on actual project unit costs that exceed Metropolitan's prevailing Full Service Tier-1 Treated Water Rate. Fixed incentives are negotiated such that Metropolitan's maximum obligation would not exceed 90% of Metropolitan's commitment to provide funding under Option 1. LRP incentives remain contingent upon the approval of the Metropolitan Board of Directors.

There are numerous opportunities that are available to Metropolitan to update its LRP and to develop new approaches to encourage local resource development. The following policy

principles provide a basis for IRWD’s advocacy for making such improvements and for developing new approaches.

Policy Principles:

1. Metropolitan should consider the needs of its member agencies in implementing incentive programs other than the LRP to encourage water supply projects located both in and outside of Metropolitan’s service area that improve the water supply reliability of Metropolitan and its member agencies.
2. Metropolitan should establish criteria for prioritizing LRP incentives to local resource projects in areas with reduced water supply reliability as compared to other areas of Metropolitan’s service area (e.g., South Orange County and the northern areas of Metropolitan’s service area). Such criteria should ensure regional supply benefits while addressing local supply reliability issues.
3. LRP funding should not be provided to projects that result in local communities subsidizing other areas of Metropolitan’s service area. Such reverse subsidization occurs whenever LRP incentives are unable, within a short period of time, to bring the cost of water down to the Full Service Tier-1 Treated Rate offered by Metropolitan.
4. LRP funding should not result in significant impacts to Metropolitan treatment facilities. Any such impacts should be justified through an actual improvement in local agency water supply reliability rather than just simply replacing one supply for another.
5. LRP funding should also be offered to agencies for projects that will result in reductions in demands for untreated water from Metropolitan with incentives being provided down to the cost of Full Service Tier-1 Untreated Rate offered by Metropolitan such as recycled water storage projects.
6. Metropolitan should index its LRP incentives to inflation to improve the feasibility and life cycle costs of local resource projects.
7. Metropolitan should expand the LRP or develop other incentives programs to encourage storm water and urban runoff capture and reuse projects that do not result in reductions in supplies to others.
8. A new incentive program should be implemented by Metropolitan that promotes development of extraordinary supplies from projects located outside Metropolitan’s service area. Such projects can reduce Metropolitan’s need to improve the reliability of its imported supplies by augmenting supplies during periods of droughts, emergencies and water supply allocations. Metropolitan incentives would be paid at the time water from such a project is imported to Metropolitan’s service area for use by the local agency.
9. Incentives should be provided to fund large “on-site” reuse projects that defer or avoid Metropolitan's capital and/or operational costs. Such incentives could be provided to

customers such as large-scale industrial facilities where the feasibility of implementing on-site reuse projects depends on receiving incentive funding.

10. Metropolitan should provide LRP incentives to desalination projects through separate funding initiatives that do not impair the ability of non-desalination related local projects to receive funding under existing Metropolitan limits for LRP investments.