



# 2014 Local Resources Program

WaterReuse San Diego Chapter  
February 28, 2018

Ray Mokhtari  
213-217-6142  
[rmokhtari@mwdh2o.com](mailto:rmokhtari@mwdh2o.com)

# Outline

- LRP Background
- 2014 Refinements
- Criteria and application process
- Agreement administration
- Production assessment and cost reconciliation
- Audit

# LRP Background



# LRP Background

- 1982 - Local Projects Program
  - Recycled water
- 1991 – Groundwater Recovery Program
  - Recovered groundwater
- 1998 – Local Resources Program
  - Incentives paid for water produced




## LOCAL RESOURCES PROGRAM

Recycled Water and Groundwater Recovery Projects

**Request for Proposals**  
June 1998

 **MWD**  
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

 **MWD**  
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

# Local Resources Program Incentives

## LRP Evolution Over Time

### Capital Funding

- **1982 LPP** MWD sells the water

### Pay for performance incentives

- **1986 LPP** Variable (\$75-\$113/AF)
- **1990 LPP** Fixed (\$154/AF)
- **1991 GRP** Sliding scale up to \$250/AF
- **1995 LRP Conversions** Sliding scale up to \$250/AF
- **1998 Competitive LRP** RFP bids (avg. \$115/AF)
- **2007 LRP** Sliding scale up to \$250/AF
- **2014 LRP** Three payment options

# Metropolitan Water District of Southern California

## Local Resources Program

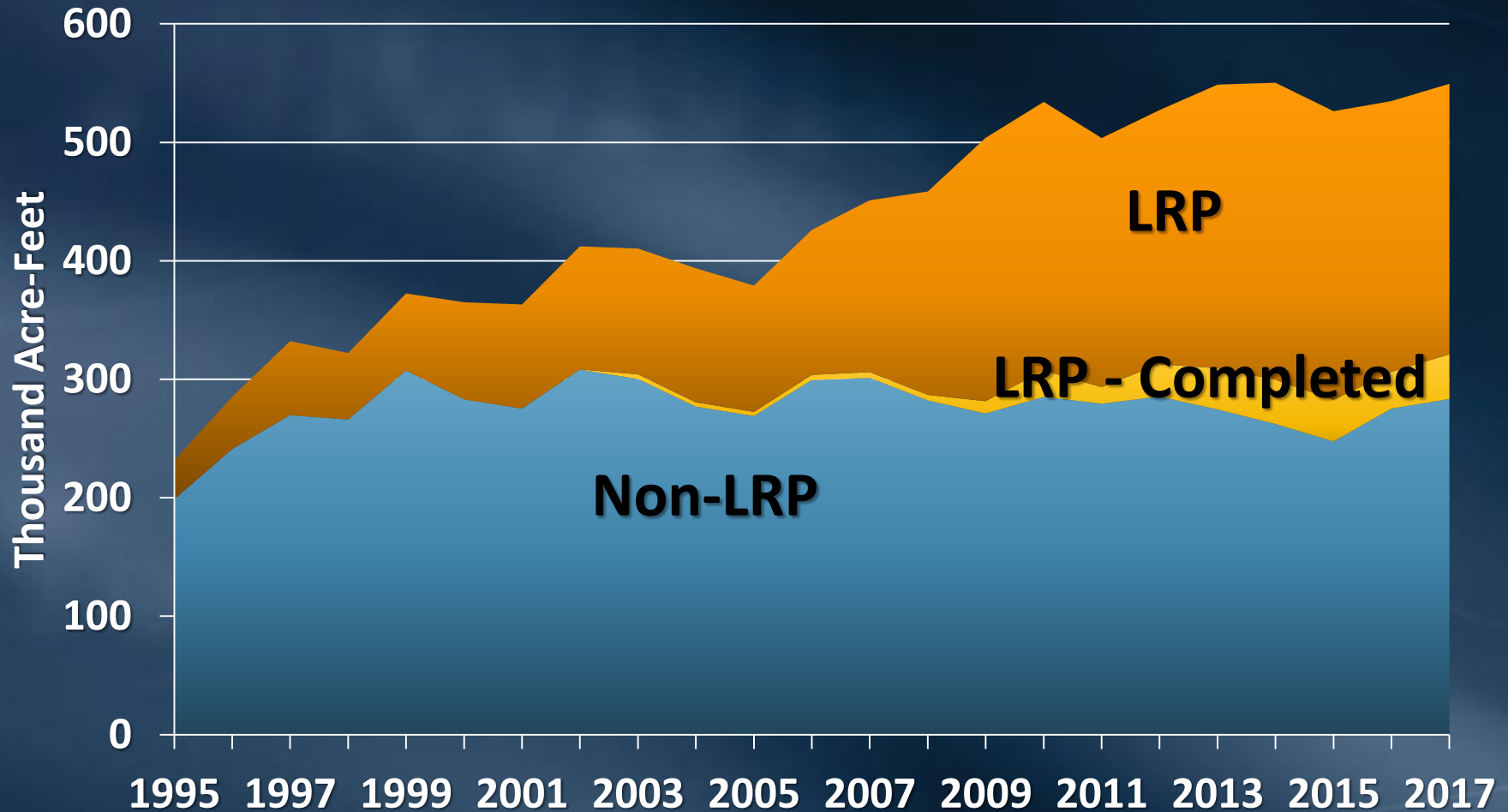
	Program	Number of Projects	Contract Yield (AFY)	Deliveries to Date (AF)	Incentives to Date (\$M)
●	Recycling	82	322,000	2,673,000	461
■	Groundwater Recovery	25	118,000	905,000	153
	Total	107	440,000	3,578,000	614

Metropolitan paid \$36 million for 228,000 AF in fiscal year 2016/17.



# LRP Doubled Local Production

Recycled Water and Recovered Groundwater Production



\*Based on best available data

# 2014 LRP Refinements





# 2014 LRP Refinements

**Increase maximum incentive amount**

**Three payment structure options**

**Include on-site retrofit costs**

**Include seawater desalination**

**Provide reimbursable services**

# 2014 LRP Payment Options

Payment Structure Options	Maximum * Incentive Amount	Payment Period
1 – Sliding Scale	\$340/AF	25 years
2 – Sliding Scale **	\$475/AF	15 years
3 – Fixed Incentive Rate	\$305/AF	25 years

\* Pay for project water used

\*\* Project must produce for 25 years



# Option 1

- Incentives up to \$340/AF, calculated annually
- Agreement will start on the date signed and will terminate 25 years after project starts operation
- Payments for up to 25 years
- Pay for project water used
- Performance provisions in the agreement



# Option 2

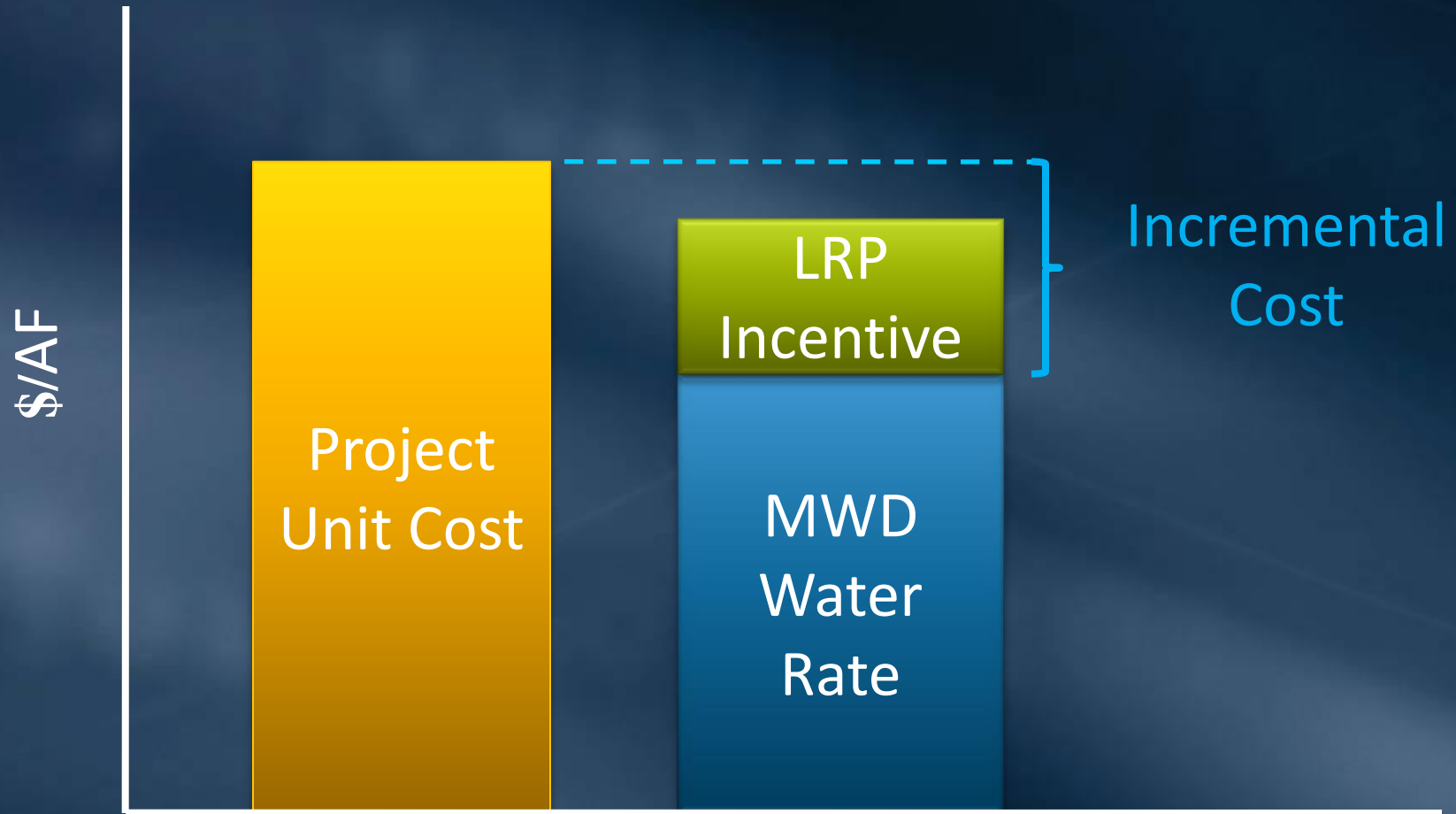
- Incentives up to \$475/AF
- Payments for up to 15 years (zero thereafter)
- Pay for project water used
- Performance provisions in the agreement
- Project must continue a minimum production (baseline) in years 16-25
  - **Baseline = average of production in years 1-15**
- Agency will reimburse Metropolitan if the baseline is not met in any years 16-25
  - **Production Shortfall = annual production - baseline**
  - **Reimbursement = production shortfall x \$135/AF**
- Pay for project water used
- Performance provisions in the agreement

# Option 3

- Fixed incentive rate up to \$305/AF, calculated based on estimated payments under Option 1
- No annual cost reconciliations
- Pay for project water used
- Performance provisions in the agreement



# Sliding Scale LRP Incentive Calculation





# Incentive Calculation Examples

## Scenario #1:

Project unit cost	\$1,150/AF
MWD water rate	- <u>\$950/AF</u>
Difference	\$200/AF

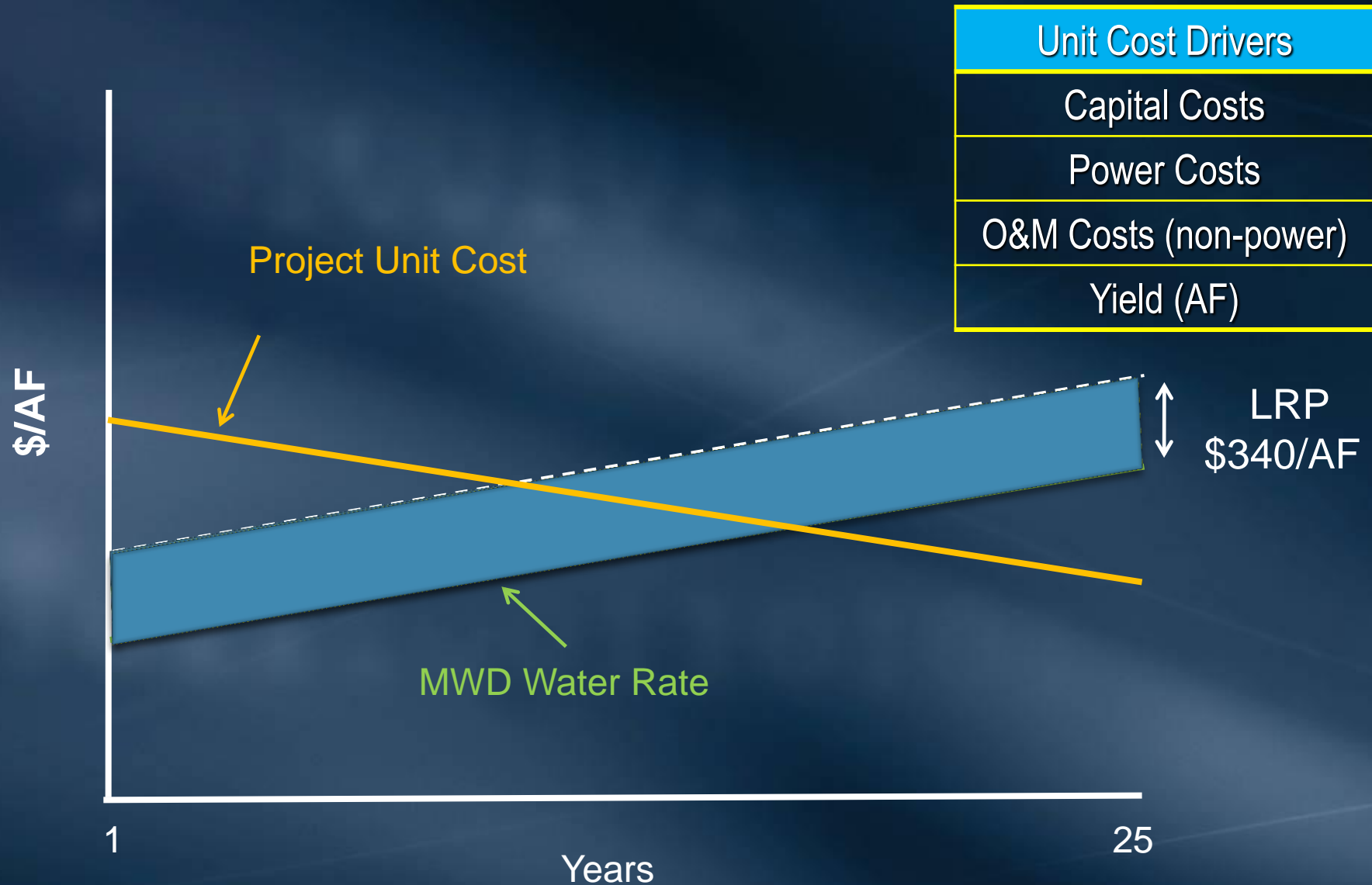
LRP contribution = \$200/AF

## Scenario #2:

Project unit cost	\$1,400/AF
MWD water rate	- <u>\$950/AF</u>
Difference	\$450/AF

LRP contribution = \$340/AF

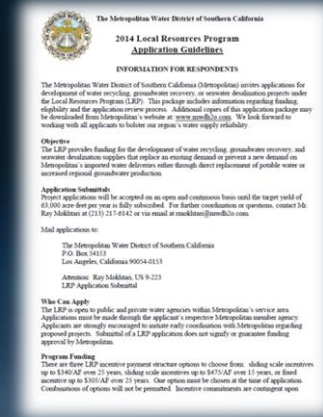
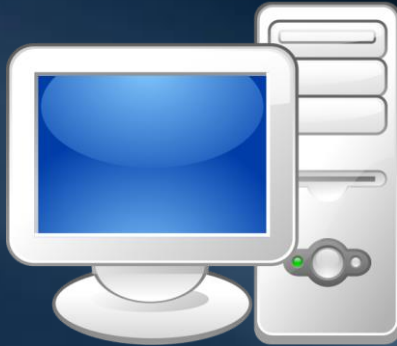
# Sliding Scale Incentive Projections



# Criteria and Application Process



# Application Submittal



Application is online  
[www.mwdh2o.com/AboutYourWater/Planning/Funding-Programs/Local-Resource-Program-Funding](http://www.mwdh2o.com/AboutYourWater/Planning/Funding-Programs/Local-Resource-Program-Funding)

One application  
per project

- Member agency must submit LRP application
- Must submit application before start of construction (award of bids)
- First come first served – application is not a reservation of funds

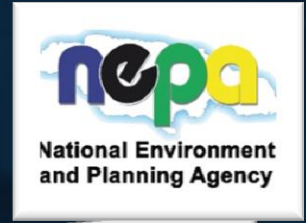
# Project Eligibility Criteria

- Must be supported by a Metropolitan member agency
- Must replace demand on Metropolitan's imported water
- Must not be existing or under construction



# Project Eligibility Criteria

- Must include construction of new treatment or distribution facilities
- Must comply with CEQA and/or NEPA
- Must have obtained all required permits
- Must have interagency agreements, if applicable





# How LRP Works



# Agreement Administration



# Agreement Administration

- Invoicing process
- Performance provisions
- Production Assessment and Cost Reconciliation
- Data submittal
- Record keeping
- Audit



# Invoicing Process

- 30-day startup notice
  - Meet and review contract
- Monthly invoices
  - Online certifications
  - 3<sup>rd</sup> business day
  - 6-month rule (no pay)
- Payments subject to annual production assessment and cost reconciliation

# Performance Provisions

- Agreement terminates if:
  - No construction within 2 years of agreement execution
  - No production within 4 years of agreement execution
- Minimum production of contract yield
  - 50% within seven years
  - 75% within 11 years
  - 75% every four years thereafter



# **Annual Production Assessment and Cost Reconciliation**





# Purpose

- Production assessment
  - Reconcile the difference between invoiced yield and allowable yield (eligible for funding)
- Cost reconciliation
  - Reconcile the difference between estimated costs and actual eligible costs
    - Adjust contribution if necessary
- Financial adjustments are made in the agency's water service invoice

# Data Submittal for Reconciliation

- Metered flow data
  - Source of water
  - Total sales to project customers
  - Total deliveries through project facilities
  - Disposal (waste or brine to outfall)
  - Other sources specified in agreement
- Eligible costs outlined in the LRP agreement
  - Capital costs and financing terms
  - O&M costs
  - Grants



# Data Submittal Deadlines

- December 31
  - Submit cost and production data for previous fiscal year
- Failure to comply
  - December 31: \$2,500 fine
  - April 1: incentive suspended\*
  - Following December 31: agreement terminates



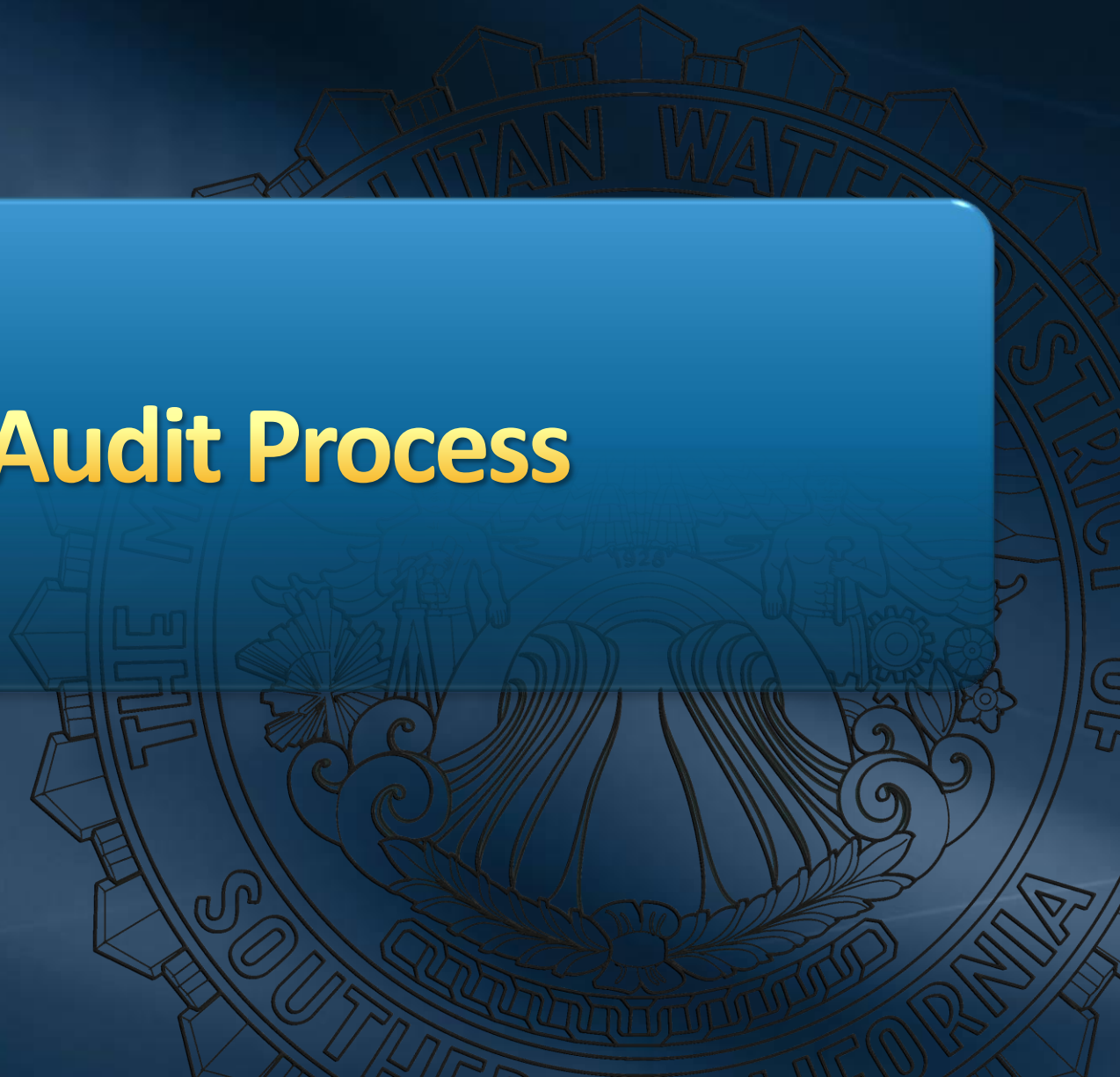
\*Incentive resumes after reconciliation

# Record Keeping

- Costs, grants, flow data
- 10 years before any audit
- Three years after any audit
- Three years after agreement termination (unaudited records)



# Audit Process



# Purpose

- Verify compliance with agreement terms
- Verify project production
- Verify project unit cost
  - Capital costs
  - Grants
  - Annual operating expenses



# Audit Review Process

- Review based on upon agreed procedures
- Types of audit
  - Metropolitan Audit Department
  - Independent CPA firm
- Audit report
- Adjustments

# Project Selection for Audit

- Budget availability
- Changes in the reported costs
  - Unusual
  - Large year to year variations
- Production reporting errors
- Time elapsed

# Contact Information

Ray Mokhtari

(213) 217-6142

[rmokhtari@mwdh2o.com](mailto:rmokhtari@mwdh2o.com)

[www.mwdh2o.com](http://www.mwdh2o.com)

Coordinate with your Member Agency

