2014 Local Resources Program

WateReuse San Diego Chapter
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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
<table>
<thead>
<tr>
<th>Date</th>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>LPP</td>
<td>MWD sells the water</td>
</tr>
<tr>
<td>1986</td>
<td>LPP</td>
<td>Variable ($75-$113/AF)</td>
</tr>
<tr>
<td>1990</td>
<td>LPP</td>
<td>Fixed ($154/AF)</td>
</tr>
<tr>
<td>1991</td>
<td>GRP</td>
<td>Sliding scale up to $250/AF</td>
</tr>
<tr>
<td>1995</td>
<td>LRP Conversions</td>
<td>Sliding scale up to $250/AF</td>
</tr>
<tr>
<td>1998</td>
<td>Competitive LRP</td>
<td>RFP bids (avg. $115/AF)</td>
</tr>
<tr>
<td>2007</td>
<td>LRP</td>
<td>Sliding scale up to $250/AF</td>
</tr>
<tr>
<td>2014</td>
<td>LRP</td>
<td>Three payment options</td>
</tr>
</tbody>
</table>
# Local Resources Program

<table>
<thead>
<tr>
<th>Program</th>
<th>Number of Projects</th>
<th>Contract Yield (AFY)</th>
<th>Deliveries to Date (AF)</th>
<th>Incentives to Date ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recycling</td>
<td>82</td>
<td>322,000</td>
<td>2,673,000</td>
<td>461</td>
</tr>
<tr>
<td>Groundwater Recovery</td>
<td>25</td>
<td>118,000</td>
<td>905,000</td>
<td>153</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>107</strong></td>
<td><strong>440,000</strong></td>
<td><strong>3,578,000</strong></td>
<td><strong>614</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Payment Structure Options</th>
<th>Maximum Incentive Amount</th>
<th>Payment Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – Sliding Scale</td>
<td>$340/AF</td>
<td>25 years</td>
</tr>
<tr>
<td>2 – Sliding Scale **</td>
<td>$475/AF</td>
<td>15 years</td>
</tr>
<tr>
<td>3 – Fixed Incentive Rate</td>
<td>$305/AF</td>
<td>25 years</td>
</tr>
</tbody>
</table>

* 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

- Project Unit Cost
- MWD Water Rate
- LRP Incentive

$/AF

Incremental Cost
Incentive Calculation Examples

Scenario #1:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project unit cost</td>
<td>$1,150/AF</td>
</tr>
<tr>
<td>MWD water rate</td>
<td>- $950/AF</td>
</tr>
<tr>
<td>Difference</td>
<td>$200/AF</td>
</tr>
</tbody>
</table>

**LRP contribution = $200/AF**

Scenario #2:

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<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project unit cost</td>
<td>$1,400/AF</td>
</tr>
<tr>
<td>MWD water rate</td>
<td>- $950/AF</td>
</tr>
<tr>
<td>Difference</td>
<td>$450/AF</td>
</tr>
</tbody>
</table>

**LRP contribution = $340/AF**
Sliding Scale Incentive Projections

Project Unit Cost

MWD Water Rate

$/AF

Years

1

25

LRP $340/AF

Unit Cost Drivers

- Capital Costs
- Power Costs
- O&M Costs (non-power)
- Yield (AF)
Criteria and Application Process
Application Submittal

Application is online
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

Retail agency prepares application

Member agency submits application to Metropolitan

Metropolitan reviews application

Parties meet to discuss the project and agreement specifics

Metropolitan drafts agreement

Retail and member agencies’ boards approve agreement in concept

Metropolitan board approve the project for LRP incentive

Parties execute LRP agreement
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\textsuperscript{rd} business day
  - 6-month rule (no pay)

Payments subject to annual production assessment and cost reconciliation
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

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Coordinate with your Member Agency