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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Bernice Duff
 EXECUTIVE SECRETARY

February 28, 1995

To: Board of Directors (Water Problems Committee--Information)
 (Finance and Insurance Committee--Information)

From: General Manager

Subject: Alternative Water Conservation Funding and Implementation
 Strategies

Report

Background. Metropolitan and its member and subagencies have been leaders in water conservation since the early 1980s. This leadership has continued with implementation of the Urban Water Conservation Best Management Practices (BMPs). The BMPs include measures to encourage ultra-low-flush (ULF) toilet retrofit, reduce water use in residential landscaping, and increase the efficiency of commercial/industrial water use. It is estimated that Metropolitan and its member and subagencies are spending more than \$40 million per year to implement the BMPs and other water conservation measures. The ULF toilet retrofit program is by far the largest conservation program being implemented. It is estimated that from November 1989, to the end of this fiscal year, 890,000 ULF toilets will have been installed for an estimated water savings of 35,000 acre-feet per year. This was accomplished at a region-wide investment of about \$107 million, or \$310 per acre-foot of water saved.

Water conservation is a very important component of the member and subagencies water supply planning. The Integrated Resources Plan (IRP) is based upon reaching an aggressive water conservation goal of reducing growth in normal demands by 15 percent by year 2010. To achieve this goal and your Board's water supply reliability goal, it will be necessary to fully implement the BMPs throughout Metropolitan's service area. Metropolitan and the member agencies have been discussing alternatives for efficiently expediting implementation of the BMPs. The preferred alternative emerging from these discussions appears to be pay-for-performance conservation.

Pay-for-Performance. Pay-for-performance conservation programs have been successfully used in the electric industry nationwide and some water agencies on the east coast. Under the preferred alternative Metropolitan

and/or the member and subagencies would contract directly with business consortiums formed through partnerships between private industry and communities. These consortiums would consist of private contractors or groups of contractors, including financing agencies, community-based organizations (CBO), plumbers, manufacturers, equipment suppliers, and others. The contractors would be prequalified through a competitive bid process and, under direct supervision by Metropolitan and/or its member and subagencies, would implement approved water conservation programs. The contractors would be responsible for working directly with retail customers. They would also be responsible for funding the up-front costs of implementing the programs and assuring program performance and water savings. The contractors would then be paid on an annual basis over the life of the project, based upon the verifiable water conservation savings of the programs they implement. There are a number of ways such programs could be financed, including direct payments by program participants, debits and credits on utility bills, and guaranteed annual cash flows. The costs of such programs are usually paid by those who benefit such as water suppliers, electric and gas companies, sewer agencies, homeowners, and industry. Metropolitan's portion of the financing could be accomplished under the existing conservation credits program, which currently pays \$154 per acre-foot for each acre-foot of water saved.

There are a number of reasons to implement pay-for-performance conservation. Some of these reasons include: (1) it encourages the development of public/private partnerships; (2) it utilizes the new technology and entrepreneurial activities of private companies and includes a competitive process to maximize water conservation savings at the least cost; (3) local communities benefit through increased local economic activities such as increased CBO employment; (4) individuals and others responsible for actually saving water have direct access to those implementing the programs; and (5) others benefiting from the program would be encouraged to participate financially.

It is currently planned to begin implementing pay-for-performance conservation through expedited demonstration projects. The initial project will be implemented in areas where verification of conservation savings is easiest. The first such project is expected to be implemented in the city of Los Angeles and will include ULF toilet retrofit and other residential conservation activities with verifiable water savings. It is expected that the contractor for this project will include a partnership between American Standard Plumbing Products, FAME Forever, Inc., and Volt VIEWtech, Inc. Metropolitan's cost of the demonstration project is expected to

be about \$500,000. Funds for the work will be included in the 1995-96 water conservation budget.

Staff will continue to work with the member and subagencies to develop the pay-for-performance conservation alternative, and this issue is scheduled for further discussion at the March IRP Assembly. While this alternative is being developed Metropolitan will continue its current water conservation activities as discussed on various occasions with your Board, including proceeding with Phase IV of the ULF toilet retrofit program. This coordinated approach will allow for continuity in our existing programs and the flexibility to implement new program alternatives such as pay-for-performance conservation. Staff will continue to keep the Board informed of Metropolitan's water conservation activities.

Recommendation

For information only.

John R. Wodraska
General Manager

Submitted by:



Debra C. Man, Chief
Planning and Resources

Concur:



John R. Wodraska
General Manager

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