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The Metropolitan Water District
of Southern California
at its meeting held



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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

JUN 13 1995

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Karen E. Duff
EXECUTIVE SECRETARY

May 30, 1995

To: Board of Directors (Finance & Insurance Committee--Information)
(Water Planning and Resources Committee--Information)

From: General Manager

Subject: Update on Performance-based Contracting for Conservation Programs

Recommendation:

For information only.

John R. Wodraska
General Manager

Submitted by:

Jay W. Malinowski

Jay W. Malinowski, Director
Public Affairs Division

Concur:

John R. Wodraska

John R. Wodraska
General Manager

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Executive Summary:

Implementation rates for conservation recommendations made to large landscape and commercial/industrial/institutional (CII) customers have been disappointing. The programs, consisting of education, water use survey information, and financial incentives, have relied on the customer to initiate action once informed of various ways its business could operate with greater water efficiency. To address this problem, the Conservation Branch has received several performance-based contract (PBC) proposals during the past year from various public and private organizations that would like to enter into agreements to "deliver" conserved water to Metropolitan from end-users who have been difficult to reach with existing conservation programs. These organizations would be paid at a pre-determined rate for each acre-foot of water conserved. In response to these proposals and to address this marketing dilemma, staff is planning to develop an appropriate set of specifications for a comprehensive PBC pilot program. Staff expects to develop these specifications by October 1995 and to submit the recommended contractors to your Board for approval several months later.

Detailed Report:

To date, Metropolitan's water conservation programs and those of its member agencies and subagencies have focused primarily on the residential sector. Approximately 70 percent of regional conservation program expenditures have been targeted toward retrofitting residences with ultra-low-flush (ULF) toilets and low-flow showerheads. By contrast, conservation activities in the large landscape and commercial/industrial/institutional (CII) sectors have been limited largely to educational and informative programs - classes in using water more efficiently, and water use survey programs to identify water use inefficiencies and to recommend actions to increase efficiency.

The marked difference in approaches is likely attributable to the fact that retrofit hardware for the indoor residential sector (ULF toilets and low-flow showerheads) is of relatively simple design and implementation, and achieves known and well-documented water savings. Further, the incentives of rebates, or low-cost, or no-charge toilets effectively motivates residential customers. Retrofits for landscape and CII, however, often involve widely diverse and expensive hardware choices, complex retrofit design and implementation alternatives, and a wide spectrum of water savings practices. Additionally, monetary incentives alone have generally not proven sufficient to overcome these barriers.

The energy industry experienced similar difficulties reaching this customer class. Ultimately, these barriers were overcome by the use of PCB contracting that uses energy service companies (ESCOs) as intermediaries between the utility and the customer. This type of company provides complete turnkey projects, including the identification, design, construction and financing of conservation measures. In return, the utility pays for verified efficiency measures which are actually implemented. The contracting company partners with the end-user to assume the risk and expense of moving a project forward in return for the reward of compensation based on the value of the resource conserved.

Currently, Metropolitan is implementing two effective PBC pilot projects that involve the retrofit of large homeowners associations (HOAs) with centralized irrigation control systems. Metropolitan, in partnership with the HOAs, is progressively funding up to one-half the project cost, with payments made in accordance with verified water savings. The HOA partner will pay the balance of the project not funded by Metropolitan.

This form of contracting would provide the type of documented and verifiable savings that are wholly compatible with the Integrated Resources Plan that Metropolitan is refining with its member agencies and your Board. In response to these proposals, staff is developing appropriate specifications for a comprehensive PBC pilot program. Project contractor(s) will be recommended to your Board later this year.