- **Board of *Directors***
  Water Planning and Resources Committee

March 14, 2000 Board Meeting

9-4

Subject

Request Authorization to Enter into a Three-year Agreement with Honeywell DMC Services, Inc., not to exceed $2.5 Million (80 percent for Customer Rebates and 20 percent for Program Marketing and Administration) to Provide Enhanced Commercial Services under the Conservation Credits Program

Description

As part of their overall water conservation programs, a number of member agencies are pursuing actions to meet the unique requirements of the commercial, industrial and institutional (CII) entities in their respective service areas. Metropolitan is helping by providing rebates for a menu of CII conservation measures authorized by the Board of Directors in August of 1997:

- $60 per ultra-low flush toilet or urinal replaced
- $15 per toilet or urinal flush valve retrofit
- $50 per pre-rinse, self-closing spray head replaced
- $100 per commercial high efficiency washing machine installed
- $500 per cooling tower conductivity controller installed

Because the participating member agencies have found progress in their CII efforts to be less than expected, they have joined Metropolitan to devise a better approach. Consensus was reached that a single contractor working under an agreement with Metropolitan would be more effective than the current approach. Member agencies that presently have traditional CII rebate agreements with Metropolitan could transition into this new Regional Program. If later dissatisfied with the change, they could opt out and resume their existing arrangement. Member agencies currently not active in CII rebate projects could elect to start through the Regional Program.

The Regional Program would benefit Metropolitan and its member agencies by:

1. targeting those commercial uses that would yield the most cost-effective water savings;
2. obtaining and leveraging federal and other outside funding;
3. reducing the administrative burden of member agencies; and
4. consolidating services to encourage greater participation by CII customers with geographically dispersed facilities. For example, a restaurant chain would find working with the single contractor more attractive than having to submit multiple rebate requests for its various Southern California outlets

Member agency and Metropolitan staff worked together to draft a formal Request for Proposal (RFP 405) to select the marketing and implementation contractor for the proposed Regional Program. Consistent with recent practice on conservation programs, the RFP required fixed-price (per rebate) proposals. Fifty-seven firms were solicited through the RFP process and three proposals were received. A review panel consisting of staff from Municipal Water District of Orange County, U.S. Bureau of Reclamation (USBR) and Metropolitan, determined that Honeywell DMC Services, Inc. (Honeywell) is the most qualified firm and offers the lowest Regional Program cost. Payments to the contractor during the course of the Regional Program would be 80 percent for rebates to commercial customers and 20 percent for marketing and administration. Of the total contract amount of $2.5 million, $1.5 million will be provided as customer rebates from Metropolitan's Conservation Credit Program and $1 million will be provided by outside sources.

The Regional Program will be implemented in two phases and will be available to all member agencies. Under the first phase of the Regional Program, USBR and Metropolitan would share the costs for the enhanced services. Metropolitan would contribute up to $180,000 for rebates and USBR has agreed to contribute $150,000 (for a total first-phase cost of $330,000) for increased rebate levels and Regional Program administrative costs.

The second phase would involve up to $2.17 million in additional costs for rebates and vendor services. It will proceed upon commitment of additional outside funding. USBR, wastewater agencies, and energy utilities have expressed interest in providing additional funding in the second phase. Should additional funding for the second phase not be available, the contract with Honeywell would be terminated and the participating member agencies would resume operating their own local projects.

Policy

Prior Board direction provided by Board Letter 7-7 dated August 22, 1997.

Board Options/Fiscal Impacts

Option #1
Authorize a one-year agreement with Honeywell not to exceed $330,000 for the first phase of the proposed Regional Program. Accept a grant of $150,000 from USBR. Bring the second phase provisions back to the Board for approval after additional funding partners are secured. This option could delay or discourage commitments from outside funding partners.

Fiscal Impact: Metropolitan expenditure of $180,000 in customer rebates supplemented by a USBR grant of $150,000.

Option #2
Authorize a three-year agreement with Honeywell not to exceed $2.5 million for both phases of the proposed Regional Program. Accept a grant of $150,000 from USBR for the first phase of the Regional Program and additional funding from outside parties for the second phase.

Fiscal Impact: Metropolitan expenditure of $1.5 million in customer rebates with additional funding from outside sources to supplement USBR grant of $150,000.

Option #3
Defer authorizing an agreement with Honeywell and continue providing contributions through agreements for individual member agency CII projects under the existing Board authorization.

Fiscal Impact: The Regional Program is designed to increase participation, which will result in increased water conservation. The impact of not implementing the Regional Program is an expected reduction in conservation and a commensurate reduction in Metropolitan's costs. Metropolitan would forfeit the $150,000 grant from USBR.

Staff Recommendation

Option #2

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General Manager *Date*