

● **Board of Directors**
Water Planning, Quality and Resources Committee

May 14, 2002 Board Meeting

9-3

Subject

Authorize an increase of \$5.4 million in contract value and within existing appropriation for Honeywell DMC Services, Inc. to continue vendor services for the Regionwide Commercial, Industrial, Institutional Rebate Program through June 2004

Description

In March 2000, the Board authorized that a consultant services contract of up to \$2.5 million, over three years, be issued to Honeywell DMC Services, Inc. (Honeywell) for program management of the Commercial, Industrial, and Institutional (CII) Pilot Rebate Program (Pilot Program). Honeywell was selected through a publicly advertised competitive process. In August 2001, the Board approved an additional \$4 million to fund the Pilot Program. At that time, staff indicated that it would return to the Board for any new authorizations regarding the Honeywell contract agreement.

The Pilot Program is successfully increasing the business sector response to conservation incentives, tripling monthly activity compared to pre-program levels. In October 2001, Metropolitan staff met with the member agencies to discuss the Pilot Program. The member agencies requested that three modifications be made to the Honeywell contract:

1. Increase the existing Honeywell contract funding to include the board-approved \$4 million plus additional co-funding for rebates provided by some member agencies. This would allow the Pilot Program to run uninterrupted and the Honeywell contract to be extended to June 2004.
2. Renegotiate the per-unit cost of Honeywell's services to better reflect the true cost of program management.
3. Segregate program marketing services as a separate task order from the existing per-unit-installed charge so marketing can be separately managed and tracked by distinct deliverables.

Staff negotiated with Honeywell and received a proposal they felt addressed the member agencies' concerns and Metropolitan's business interests. The revised terms included:

- Reduced management fees charged by Honeywell on an average per-unit-installed basis ranging from \$49.70 to \$24.80
- Improved and segregated marketing activities to increase market penetration and support greater Metropolitan and member agency input.
- An increase in the total contract amount from \$2.5 million to \$7.9 million to allow for the use of the additional \$4 million in funds already approved by the Board in August 2001 and to allow for member agencies to co-fund rebates if they so choose.

Of the proposed new Honeywell contract for \$7.9 million, approximately 80 percent of the funds are "passed through" Honeywell to CII participating customers in the form of rebates. Approximately \$1.6 million (20 percent) of the total contract value will go to Honeywell for its project management and marketing services. If outside grant funding does not materialize, then the total contract value would be less. The following is a breakdown of the funding in the existing and proposed Honeywell contract:

Honeywell Contract Funding

| | Original Contract | Proposed New Contract |
|--------------------------|----------------------|-----------------------|
| Metropolitan | \$1.5 million | \$5.5 million* |
| Member Agencies | -0- | \$0.9 million |
| Potential Outside Grants | \$1.0 million | \$1.5 million |
| Total | \$2.5 million | \$7.9 million |

*Includes the \$4.0 million increase previously approved by the Board in August 2001.

As the Pilot Program continues, staff will investigate methods to accomplish a favorable business sector response while maximizing program efficiency. Adjustments to rebate levels, marketing strategies and other management control techniques may be utilized in this effort. With the experience gained from this three-year Pilot Program, staff will work with the member agencies to devise a sustainable long-term regional program for future board consideration.

Policy

By Minute Item 42609, dated September 9, 1997, the Board approved the CII Conservation Program and authorized the General Manager to enter into agreements with member agencies to participate in the Program.

By Minute Item 43928, dated March 14, 2000, the Board authorized the current Pilot Program, services of Honeywell up to \$2.5 million and accepted a grant of \$150,000 from the Bureau of Reclamation.

By Minute Item 44577, dated August 20, 2001, the Board authorized new incentive rates and an additional \$4 million over three years to allow Metropolitan's Pilot Program to continue until February 2004.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities such as purchases for supplies, general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and authorize an increase in the Honeywell contract from \$2.5 million to \$7.9 million through June 2004 to allow the use of the previously approved board funding and potential grant and member agency funding.

Fiscal Impact: None

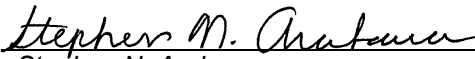
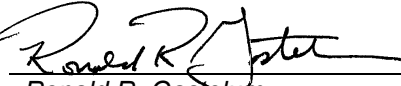
Option #2

Adopt the CEQA determination, do not authorize an increase to the Honeywell contract, and direct staff to initiate a new vendor procurement process. Direct the Chief Executive Officer to continue the Pilot Program under the current Honeywell contract until funding limits are reached while a new vendor is selected through another RFP process to utilize the remaining authorized funds.

Fiscal Impact: None

Staff Recommendation

Option #1

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|--|-------------------|
|  Stephen N. Arakawa Manager, Water Resource Management | 4/19/2002 Date |
|  Ronald R. Gastelum Chief Executive Officer | 4/22/2002 Date |

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