

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

January 13, 2004 Board Meeting

9-1

Subject

Authorize long-term regional Commercial/Industrial/Institutional rebate program and additional \$2.5 million to fund existing pilot program until new vendor agreement is executed

Description

This letter proposes a strategy to transition Metropolitan's Regional Commercial/Industrial Institutional (CII) Pilot Rebate Program (Pilot Program) into a long-term program. The Pilot Program has demonstrated an effective approach in providing financial incentives to motivate the business sector to conserve water. In order to assure there is no gap between the Pilot Program and the proposed long-term program, a six-month extension to the existing vendor agreement is needed.

Water Resources Opportunity

Prior to the Pilot Program, the CII sector had been largely an untapped market for water use efficiency. Within Metropolitan's service area, CII water consumption is estimated to be 900,000 acre-feet per year or approximately 25 percent of total retail demand. Since the Pilot Program's inception, more than 37,000 rebates for water-efficient retrofits such as clothes washers, cooling tower controllers, and ultra-low-flush toilets have been issued. The rebates were established using the \$154/AF savings benchmark for conservation, and increased under the Pilot Program to jump-start the CII market and to test rebate levels and customer participation. These retrofits have resulted in water savings of more than 5,000 AFY. Significant opportunity remains to conserve more water through additional device retrofits. By the end of the program, based on trends in the Pilot Program, the rebates are projected to yield between 15,000 and 25,000 AFY. Even after the program, savings will continue to be generated, based upon estimated equipment life that can range up to 20 years. In addition to this program, staff is also working with member agencies to develop other improved approaches to conserving industrial process water and using recycled water in business applications.

Pilot Program

In March 2000, the Board authorized a three-year consultant services contract for up to \$2.5 million with Honeywell DMC Services (Honeywell) for implementation of the Pilot Program. Honeywell was selected through a publicly advertised competitive process. Under the Pilot Program, businesses have received incentives to retrofit equipment with water-efficient devices. Introducing a regional approach, the Pilot Program successfully increased the business sector response to conservation incentives compared to the prior CII program.

The Pilot Program has allowed Metropolitan to leverage its funding by receiving more than \$2.3 million in co-funding since its inception from the California Public Utilities Commission, the Department of Water Resources, and the United States Bureau of Reclamation. In addition, member agencies and their retailers have co-funded rebates for their CII customers by more than \$1 million. Total outside co-funding has almost doubled the program funding level.

In May 2002, the Board approved an additional \$5.4 million to fund the Pilot Program through June 2004. At that time, staff indicated that it would return to the Board with a long-term regional program founded on experience gained from the Pilot Program and member agency input.

Evaluation of Pilot Program

With the assistance of a qualitative research firm, staff evaluated the Pilot Program's strengths and weaknesses. Four focus groups with member agencies and program participants were formed. Additionally, businesses that expressed interest but did not participate in the program were interviewed. Lastly, water agencies outside of Metropolitan's service area were interviewed to gain insight on how other CII programs operate.

The focus groups indicated high customer and member agency satisfaction from Pilot Program participants. All of the focus groups supported the one-stop-shop concept, where businesses can call a toll-free number to obtain program information, applications, and rebates, because it makes participation simple and easy. Focus groups also supported the Pilot Program's flexibility, which allows member agencies to customize and include additional rebate funding within their service areas.

Proposed Program

Staff worked with the member agencies to design a long-term program that sustains achievements and momentum generated by the Pilot Program and incorporates findings provided by the focus groups. Recommended concepts to be incorporated into a new scope of work include expansion of web-based services, participant recognition through awards or public acknowledgment, and targeted program marketing. [Attachment 1](#) provides a description of the proposed long-term program.

The Pilot Program received outside grant funding to increase the rebates for a few conservation measures. When the outside grant funding was exhausted, the Board approved continuing the higher rebate amounts with funding above the \$154/AF savings benchmark. These higher rebates were initiated to jump-start the CII market and to test rebate levels and customer participation. The long-term program will return to rebates based on \$154/AF savings and focus on program design to sustain and enhance customer response. A comparison of rebates provided under the Pilot Program and those proposed for the long-term program is provided in [Attachment 2](#). These incentives are also available for member agencies which choose to implement their own program.

Future agreements with member agencies that participate in the Pilot Program will be modeled after our new master conservation agreements. The new agreement will provide longer terms, flexibility to add and delete eligible device retrofits and support improved administrative efficiency.

Vendor Services

A RFP would be issued for program management for a period of five years. Staff will bring back the proposed consultant services contract terms to the Board for consideration. Like the Pilot Program, the long-term CII program will select a vendor through a competitive RFP process to implement the new long-term program. The vendor will market and manage the program. The vendor will also manage and coordinate all rebates, which include funding from Metropolitan, member and retail agencies, and grants. Metropolitan will pay to the vendor the total rebate amount plus its service fees. Service fees would be paid out of Metropolitan's Operation and Maintenance budget. Metropolitan's rebates would be paid out of a Conservation Credits budget. Metropolitan would then recover payments from member agencies and grant-providing agencies for their share of the incentive. The service fees, which total approximately \$750,000 since inception of the Pilot Program, are 12 percent of the program's overall expenditures.

Focus group members emphasized the importance of a long-term commitment to lend stability and credibility to the program. To ensure that there is no interruption in customer service, staff recommends a six-month extension of the current Honeywell vendor agreement through December 2004 or until a new agreement is executed, whichever is earlier. This extension is estimated to cost about \$2.5 million and will span the time needed to accommodate issuance of the RFP, proposal evaluation, vendor selection, board approval, and contract execution without interrupting the current interest and participation of the business community. The extension would raise the contract total to \$10.4 million. Approximately 12 percent of the increased cost would be for vendor services to administer and market the program, and the remainder would be a pass-through of Metropolitan's incentives to the customer.

Policy

By Minute Item 42609, dated Sept. 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.

By Minute Item 44870, dated May 14, 2002, the Board authorized an increase in the Honeywell contract from \$2.5 million to \$7.9 million through June 2004.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed actions are categorically exempt under the provisions of CEQA and the State CEQA Guidelines. The proposed actions involve rebates for installation of conservation measures (e.g., ULF toilets, high-efficiency clothes washers, water brooms, etc.) at existing public or private facilities involving negligible or no expansion of use and no possibility of significantly impacting the physical environment, within the context of extending the existing Pilot CII Rebate Program as well as the creation of a long-term CII Rebate Program. Accordingly, the proposed actions qualify under a Class 1 Categorical Exemption (Section 15301 of the State CEQA Guidelines). In addition, the fiscal aspects of the rebates themselves and the extension of the existing agreement with Honeywell are not subject to CEQA because they involve the creation of government funding mechanisms or 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 pursuant to CEQA, the proposed actions qualify under a Categorical Exemption (Class 1, Section 15301 of the State CEQA Guidelines). In addition, the fiscal aspect of the rebates and the extension of the existing agreement are not subject to CEQA (Section 15378(b)(4) of the State CEQA Guidelines).

CEQA determination for Option #2:

The proposed actions are categorically exempt under the provisions of CEQA and the State CEQA Guidelines. The proposed actions involve rebates for installation of conservation measures (e.g., ULF toilets, high-efficiency clothes washers, water brooms, etc.) at existing public or private facilities involving negligible or no expansion of use and no possibility of significantly impacting the physical environment, by authorizing a RFP in conjunction with the creation of a long-term CII Rebate Program. Accordingly, the proposed actions qualify under a Class 1 Categorical Exemption (Section 15301 of the State CEQA Guidelines).

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and

- a. Authorize a long-term regional CII program; and
- b. Increase current Honeywell contract by \$2.5 million through December 2004.

Fiscal Impact: \$2.5 million in FY 2004/05 to extend current vendor contract. Full program costs will be defined when new vendor is selected and proposed consultant agreement terms are presented for board consideration.

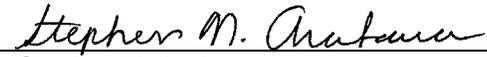
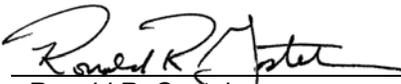
Option #2

Same as Option #1, but do not increase current Honeywell contract thereby ending the Pilot Program prior to commencement of the long-term program.

Fiscal Impact: Full program costs will be defined when new vendor is selected and proposed consultant agreement terms are presented for board consideration.

Staff Recommendation

Option #1

 Stephen N. Arakawa Manager, Water Resource Management	12/22/2003 <i>Date</i>
 Ronald R. Gastelum Chief Executive Officer	12/23/2003 <i>Date</i>

Attachment 1 – Description of Metropolitan’s long-term regional Commercial/Industrial/Institutional rebate program

Attachment 2 – Pilot Program vs. Long-Term Program Rebate Comparison

BLA #2411

**Description of Metropolitan's long-term regional
Commercial/Industrial/Institutional rebate program**

The objective of the program is encouraging businesses through financial incentives offered by Metropolitan and its member agencies to conserve water by retrofitting particular water-using devices.

The CII rebate program incorporates the use of a vendor to provide business participants with a single point of contact through a toll-free number. That number is currently (877) SAV A BUC. Under Metropolitan's contract, the vendor provides a complete customer interface that includes:

- answering questions
- sending out rebate applications
- processing the rebates and issuing checks
- maintaining a comprehensive database of transactions

The database will track the varied additional incentive amounts provided by the individual agencies, the addition of new technologies receiving rebates, and the member agency participants in the program.

At Metropolitan's direction, the vendor provides various marketing efforts that range from brochures to public appearances at trade shows or professional association meetings. This includes specific sector marketing outreach efforts and the incorporation of web-based technology for customer use.

All of this is in coordination with and managed by Metropolitan staff. The vendor provides regular activity updates to Metropolitan, which in turn consults with participating member agencies.

**Pilot Program vs. Long-Term Program
Rebate Comparison**

	Pilot Program Rebate	Long-Term Program Rebate*
ULF Toilets		
Most ULF Toilets	\$ 60	\$ 60
Flush-Valve in high-use areas	\$ 120	\$ 60
Gravity type in high use areas	\$ 90	\$ 60
Urinals: water efficient/ no water	\$ 60	\$ 60
X-Ray Recirculation System	\$ 2,000	\$ 2,000
Cooling Tower Conductivity Controller	\$ 500	\$ 500
High Efficiency Commercial Clothes Washer	\$ 250	\$ 100
Water Broom	\$ 100	\$ 100
Water Efficient Urinal	\$ 60	\$ 60

* Metropolitan rebate amounts - Greater amounts would be provided to accommodate incentives from member agencies, third parties or to make use of outside grants.