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

June 8, 2004 Board Meeting

8-10

Subject

Authorize upgrades to the existing industrial process water-use efficiency program

Description

Staff proposes a revised approach to implementing Metropolitan's existing industrial process water-use efficiency program to encourage greater participation by businesses. Water savings are achieved by treating and reusing processed water before disposal to the sewer. Program benefits include strengthened regional supply reliability, reduced regional costs for water importation and deferred capital improvements. Continued success in conservation is part of Metropolitan's role as a responsible resource steward.

Background

Regional demand in the industrial process sector is projected to be approximately 200,000 acre-feet per year in 2020. In implementing the Integrated Resources Plan Update, a proportionate share for the industrial sector of the total 2020 targeted conservation savings would be 40,000 acre-feet per year, based on consumption in that sector compared to total retail demand. Staff is targeting one quarter of this targeted savings goal to be achieved through active savings from an industrial conservation program.

Board-adopted statewide Best Management Practices for Urban Water Conservation call for Metropolitan and its member agencies to pursue industrial conservation opportunities. Metropolitan has offered financial incentives for industrial capital improvements since 1997. Thus far, only two contracts have been executed representing a total potential incentive of $410,000, with projected total savings of 2,660 acre-feet or approximately 550 acre-feet annually. Recognizing this limited participation, staff has worked with the member agencies to formulate changes that would make the existing program more appealing to the business sector while remaining a sound investment for Metropolitan.

Founded on criteria adopted by the Board in 1997, project incentive payments would continue to be based on the lesser of:

1. $154 per acre-foot projected savings over five years;
2. One-half of project costs; or
3. The amount needed to reduce the simple payback period to two years. If the simple payback period is less than two years, no incentive is provided. (The prior criteria that the payback period be less than six years would be dropped.)

The first two criteria are standard for all Metropolitan conservation program funding. The third criterion is intended to ensure that Metropolitan's funding is provided for projects that otherwise would not be implemented.

Assessing the potential savings from process equipment improvements would involve unique technical skills. Consultant services totaling approximately $20,000 per year may be needed to assess certain technical aspects of process improvements and quantify water savings.

Upgraded Program Elements

The upgrades to program elements are described below:

1. Metropolitan would consider all proposals, regardless of project size. The previous criteria required projects to save at least 10 acre-feet per year.
2. Member agencies would be provided a choice of how to provide incentive payments to their industrial customers:
   - If requested, Metropolitan would contract directly with the industrial customer to issue incentive payments. This is similar to the regional Commercial/Industrial/Institutional rebate program that member agencies support.
   - If the retail or member agency prefers to work directly with its industrial customers, Metropolitan would enter into a multi-party agreement, with incentive payments being issued by Metropolitan as a credit on the member agency's water bill. This previously was the method of payment.

The new approach would emphasize streamlined implementation through a simplified application and payment structure. The maximum incentive payment would be specified in each agreement and provided in two-steps: (a) partial funding would be provided to customers after their installation of new process equipment; (b) a final payment would be made after a one-year field monitoring period to verify performance. The final incentive payment would be adjusted to reflect the project's actual performance during the monitoring period, compared to proposed savings in the application. We believe this proposed approach offers a reasonable balance between reduced administration and verification of water savings. In the past, businesses had to wait five years in order to receive full payment.

Contracting Authority

To meet the proposed active goal under the IRP, Metropolitan would need to enter into contracts averaging about $450,000 annually through 2020 (assuming contracts paying for five years of yield). Metropolitan would be targeting large industrial customers. The CEO would authorize projects under $250,000 per year. Proposed contracts that exceed the CEO's $250,000 authority would be brought to the Board for approval. All incentives would be paid using budgeted conservation credits funds.

Coordinated Review

Initially, Metropolitan staff would administer the new approach. Metropolitan staff and its member agencies would coordinate program strategy, marketing, and implementation regarding recycled water opportunities, program funding status and further adjustments as necessary. The experience would also allow staff to assess the long-term value of using a vendor for program implementation as recommended by some member agencies. Metropolitan in consultation with the member agencies would adjust or retain implementation details based on observed performance.

In addition to working closely with member agencies, partnerships would be sought with sanitation districts, energy utilities, and other entities that have a stake in improved industrial process efficiency. These partnerships might be for incentives, but could be assistance with permitting, marketing or other non-financial contributions. Additional funding would increase the incentive provided to the industrial customer.

Policy

By Minute Item 38963, dated April 1991, the Board authorized establishment of an Industrial and Commercial Water Conservation Program.

By Minute Item 39880, dated September 1992, the Board approved expansion of the Commercial, Industrial, and Institutional Conservation Program to include, among other things, technical and marketing support and develop models for stimulating investment in conservation.

By Minute Item 42609, dated September 1997, the Board approved customized financial incentives for water-use process improvements by industrial customers.

By Minute Item 45195, dated February 2003, the Board adopted water conservation policy principles supporting financial incentives, encouragement of new technologies, and collaboration with industry to improve their water using processes.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is categorically exempt under the provisions of CEQA and the State CEQA Guidelines. The proposed action involves financial incentives to industrial customers for installation and modification of water-use efficiency equipment or other capital/operational improvements at existing private facilities involving negligible or no expansion of use and no possibility of significantly impacting the physical environment. Accordingly, the proposed action qualifies under a Class 1 Categorical Exemption (Section 15301 of the State CEQA Guidelines). In addition, the fiscal aspects of the financial incentives themselves and potential agreements with member agencies or industrial customers 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 pursuant to CEQA, the proposed action qualifies under a Categorical Exemption (Class 1, Section 15301 of the State CEQA Guidelines). In addition, the fiscal aspect of the financial incentives and potential agreements is not subject to CEQA (Section 15378(b)(4) of the State CEQA Guidelines).

CEQA determination for Option #2:

None required

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and authorize changes to Metropolitan's existing industrial process water-use program.

Fiscal Impact: Up to annual budgeted amounts.

Option #2

Do not authorize changes to Metropolitan's existing industrial process water-use program

Fiscal Impact: None

Staff Recommendation

Option #1

Stephen N. Arakawa 5/14/2004

Stephen N. Arakawa *Date*

Manager, Water Resource Management

Ronald R. Gastelum 5/17/2004

Ronald R. Gastelum *Date*

Chief Executive Officer

BLA #2436