

• **Semi-annual Report on Metropolitan's Local Resources and Conservation Programs - January through June 2005**

Summary

During the second half of fiscal year (FY) 2004/05, Metropolitan, in partnership with its member agencies, encouraged cost-effective water recycling, groundwater recovery and conservation programs to meet targets identified in our Integrated Water Resources Plan. Metropolitan provides financial incentives to strengthen regional water supply reliability with new local projects and improvements in water-use efficiency.

As of June 30, 2005, a total contract yield of 356,000 acre-feet per year of recycled water and recovered groundwater has been developed. In addition, a total of 112,000 acre-feet of annual water savings is estimated through the conservation credits program. Based on this progress to date and the identified projects under development, Metropolitan and the member agencies are expected to meet the 2025 IRP targets for conservation and local resources.

Both LRP and conservation programs experienced reductions in incentive payment expenditures during the fiscal year ending in June. LRP reductions were due to unusually heavy rain, which caused a reduction in irrigation water demand for landscaping and golf courses. Conservation reductions were due to market saturation in retrofitting residential ultra-low flush toilets.

LOCAL RESOURCES PROGRAM ACHIEVEMENTS

- Started operation on the Escondido Regional Reclaimed Water Project and the Rincon del Diablo Recycled Water Program.
- In response to the General Auditor's report on effectiveness and performance, reductions totaling 3,210 AFY were applied to two contracts.
- Completed financial audits for four LRP projects.
- Executed three LRP agreements for water recycling and groundwater recovery projects totaling 5,000 AFY.



Escondido's Hale Avenue Resource Recovery Facility

CONSERVATION ACHIEVEMENTS

- Fully utilized \$2.5 million Proposition 13 grant for increased incentives for installations of 33,000 residential high-efficiency clothes washers.
- Awarded \$3.2 million in state and federal grants for water conservation programs.
- Finalized Five-Year Conservation Strategy Plan that guides advancing and implementing Metropolitan's conservation programs.
- Executed Industrial Process Improvement Program funding agreement with American Textile Maintenance Company to save 17 million gallons of water annually in a commercial laundry facility.

Detailed Report

This report addresses status and implementation progress for local resources and conservation programs, which are designed to strengthen regional water supply reliability and achieve resource needs identified under the IRP.

LOCAL RESOURCES PROGRAM

For more than 23 years, Metropolitan has partnered with its member and retail agencies to provide financial incentives for development of local water recycling and groundwater recovery projects that reduce demand on imported supplies. Metropolitan provides up to \$250 per acre-foot for eligible production from participating projects. Agencies apply for funding through a competitive Request For Proposal process, which encourages development of cost-effective and regionally beneficial projects.

LOCAL RESOURCES PROGRAM PERFORMANCE SUMMARY			
	Recovered Groundwater	Recycled Water	Total
Projects			
Active Contracts	19	50	69
Operating Projects	18	41	59
Inactive Contracts	5	7	12
Contract Yield (AFY)	84,110	271,486	355,596
Deliveries (AF)*			
FY 2004/05	40,706	69,927	110,633
FY 2003/04	43,331	75,228	118,560
Since Inception	284,693	749,949	1,034,643
Payments (\$ millions)			
FY 2004/05	7.1	14.3	21.1
FY 2003/04	8.3	14.9	23.2
Since Inception	48.6	137.9	186.6

*Deliveries and payments are as reported through June 2005; however, not all information is complete and estimated payments are provided until actual costs are reconciled. Production total includes data for 12 contracts that are no longer in effect.

LRP Performance

Metropolitan provided over \$10 million in incentive payments over 54,500 acre-feet of production in the second half of FY 2004/05. Program yield was less than last year for the same six-month period due to unusually heavy rain, which caused a reduction in irrigation water demand for landscaping and golf courses. In addition, ten projects currently did not begin operation in FY 2004/05 as anticipated.

Project Start-ups

- Commenced operation on the Escondido Regional Reclaimed Water Project. The project is owned and operated by the city of Escondido. Metropolitan’s maximum contribution over 25 years is approximately \$17.5 million.
- Operations began on Rincon del Diablo’s Recycled Water Program, which receives treated recycled water from the Escondido Project. The project is owned and operated by Rincon del Diablo Municipal Water District. Metropolitan’s maximum contribution over 11 years is approximately \$650,000.



Escondido Forest Glen Apartments

Contractual Yield

In response to the General Auditor’s report on LRP effectiveness and performance, Metropolitan and member agencies agreed to reduce contract yield totaling 3,210 AFY for the following projects:

- San Clemente Water Reclamation Project from 4,000 to 1,500 AFY, a reduction of 2,500 AFY.
- Los Angeles Greenbelt Project from 1,610 to 900 AFY, a reduction of 710 AFY.

To simplify agreement administration, two LRP agreements with Otay Water District were combined into one agreement.

FY 2004/05 LRP Audits

Financial audits were completed verifying compliance with LRP agreement terms. These audits reviewed actual project costs used to determine financial incentives for the following projects:

- Century/Rio Hondo Water Recycling Programs
- Green Acres Reclamation Program
- Tustin Desalter Project
- West Basin Desalter Project

Competitive LRP Projects

Metropolitan entered into LRP incentive agreements for the following projects that are among 14 projects selected under the 2003 competitive process:

- Pomona Groundwater Well #37, Three Valleys Municipal Water District (1,100 AFY)
- Tapo Canyon Groundwater Treatment, Calleguas Municipal Water District (1,445 AFY)
- Hansen Area Water Reclamation Phase I, Los Angeles Department of Water and Power (2,500 AFY)

LRP Customer Service

To enhance our relationship with participating agencies, staff met with more than 20 member and retail agencies to review performance, administrative procedures, contract terms, and project status. This outreach also provided the opportunity to gain awareness on challenges and obstacles to meeting contractual requirements and increasing yield.



CONSERVATION PROGRAM

Incentive-based conservation targets established in the IRP are being pursued in three basic water-use areas: Residential Indoor, Landscape, and Commercial/Industrial/Institutional.

Conservation Credits Program

The following table summarizes water savings and incentive payments:

CONSERVATION CREDITS PROGRAM PERFORMANCE SUMMARY				
	Residential	Landscape	Commercial	Total
Water Savings* (AF)				
FY 2004/05	95,700	2,550	14,050	112,300
FY 2003/04	90,300	2,700	9,250	102,250
Since Inception	759,895	27,065	40,185	827,145
Payments (\$ million)				
FY 2004/05	8.6	0.2	1.9	10.7
FY 2003/04	12.5	0.4	3.8	16.7
Since Inception	162.3	2.2	12.2	176.7

**Includes passive conservation originated as active*

Note: Reduction in the conservation credits program primarily due to saturation of residential ultra-low flush toilets and reduction in commercial high-efficiency clothes washer incentives.

Conservation Grants Awarded to Metropolitan

- \$3.2 million of Proposition 50 grant funding awarded from Department of Water Resources: \$1.7 million to retrofit existing residential high-efficiency clothes washer with more efficient models; \$1 million to introduce the next generation high-efficiency toilets, dual flush and one gallon per flush toilets; \$435,150 for expansion of existing California Friendly Communities pilot program to include multi-family developments; \$77,500 to convert residential and professional landscape irrigation efficiency into web-based instruction; and

- \$100,000 in grant funding awarded from the United States Bureau of Reclamation: \$50,000 for market analysis to better understand motivating factors and incentive levels for water-use efficiency program; and \$50,000 to complete conversion of residential and professional landscape irrigation efficiency training classes to web-based instruction.

Conservation Action Items

In March, staff presented to the Board a Five-year Conservation Strategy Plan to guide the development and implementation of future conservation programs that would allow the region to exceed the 2025 IRP target. Deliverables from the five-year plan are currently being addressed including review of the current \$154/AF incentive and analysis of new technologies and proposed incentive levels.

On-going Statewide Activities

Energy and Water Relationship

Over the past year, California regulators, administrators, and elected officials have been working to better understand the relationship between energy and water. A recent California Energy Commission draft report states that over 10 percent of California's energy (7 percent net after power recovery) is used in the development, transmission, distribution, treatment, and disposal of water. Metropolitan's current conservation incentive policy recognizes direct avoided energy benefits. However, investor-owned energy utilities operating under the California Public Utilities Commission may be restricted from incorporating full water-related energy savings in their incentive programs. One goal of Metropolitan's Five-Year Conservation Strategy Plan is to build partnerships with energy utilities to fully recognize energy savings potential and seek outside funding of water conservation programs. Staff has initiated dialogue with several energy interests to pursue joint benefits through cooperative conservation ventures.

AB2717 Taskforce

AB2717 (Laird, 2004) sponsored by the San Diego County Water Authority, established a taskforce to make recommendations to improve landscape efficiency in California. The Taskforce, which includes Metropolitan, has concluded a rigorous meeting schedule to develop 40 recommendations in a draft report released in September 2005. Public comment meetings on the draft report were held in Sacramento and in Los Angeles. Under the proposed legislation, final recommendations are due to the Governor and legislature by the end of the year. A current draft of the AB2717 Taskforce Report is available on-line at www.cuwcc.org.

Anti-Degradation

Metropolitan supported the WaterReuse Association, in working with the State Water Resources Control Board staff to document reasonable use of California's anti-degradation policy as it pertains to recycled water permitting. Currently, regional boards throughout the State have a diverse interpretation of California's anti-degradation policy, leading to widely inconsistent permit requirements. The core goal for Metropolitan staff involvement is to enhance the regulatory environment for permitting recycled water irrigation projects and indirect reuse projects. A draft guidance document, produced by State Water Resource Control Board staff, is being circulated to interested parties for input.

Recycled Water Permitting Reform

An early draft of AB371 (Goldberg) attempted to improve the regulatory environment for recycled water by providing the option of a statewide permit. While details of this permit option raised issues, WaterReuse convened a meeting in September to discuss the proposal.

Residential Indoor Activities

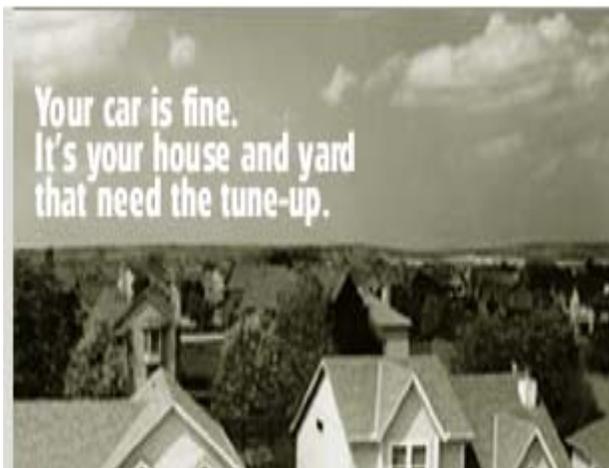
High-Efficiency Clothes Washer Program

- Expended \$2.5 million awarded under Proposition 13 grant for approximately 33,300 retrofits. Funding for the three-year grant was exhausted in 14 months, with monthly rebates exceeding 4,000 in Summer 2004.
- Transitioned High-Efficiency Clothes Washer Program to higher efficiency standard for rebate eligibility by requiring a water factor of 6.0 or less after July 1, 2005. This will lead to increased water savings per machine and help drive market transformation to this new benchmark.

Landscape Activities

Outdoor Conservation Outreach Program

The long-term conservation outreach campaign, authorized by the Board in 2002, combines advertising, education, publicity and community outreach elements to educate residential and commercial water-users about efficient irrigation and encourage the use of native and California Friendly plants.



Radio, online and print advertising campaigns ran from February to June on 30 radio stations and five daily newspapers throughout Southern California encouraging residents to conduct a "Spring Tune-Up" in and around their homes to reduce water-use. A printed ad "topper" was also inserted in the Los Angeles Times, Orange County Register, San Diego Union-Tribune, Riverside Press Enterprise, San Bernardino Sun and the North County Times/California. Ads reminded Southern Californians that winter rains did not reduce the need for wise water-use.

A focused advertising and promotional campaign for the California Friendly model home program with builders ran from February to May in regional and real estate publications. Several billboards were placed throughout the Inland Empire.



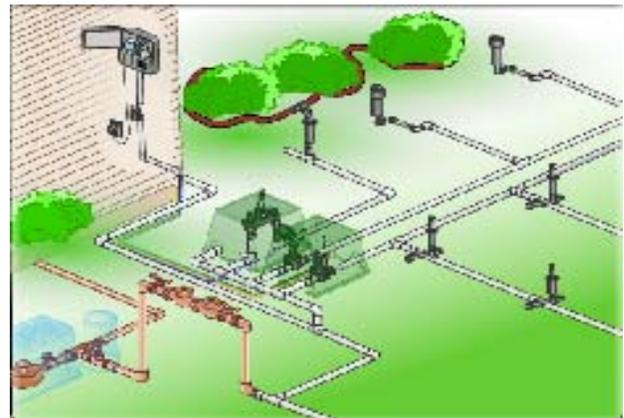
Protector del Agua Landscape Education



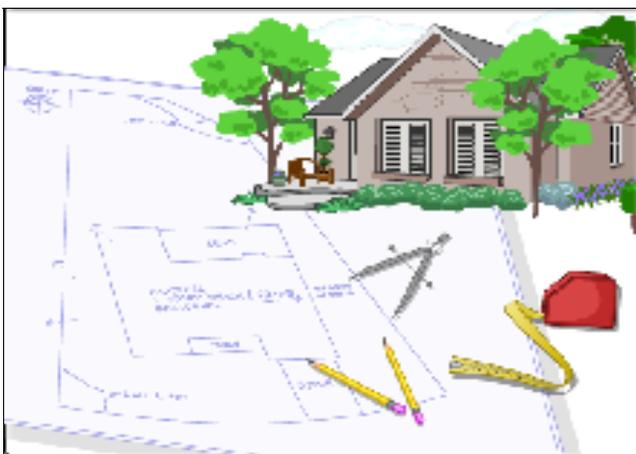
Residential Protector del Agua Class

- Streamlined Professional PDA Series from six to four classes, reducing program cost and improving program delivery.
- Revised residential series with updated information.
- Developed formal curriculum for residential series and instruction guidebook.

Conducted "Train the Trainer" sessions in San Diego and Los Angeles, to train member agency staff and other potential instructors, which allow member agencies to hold an unlimited number of classes and reduce program cost.



Web Tutorial hosted on bewaterwise.com



Web Tutorial hosted on bewaterwise.com

Completed web-based tutorial for residential program participants. More than 500 people reviewed computer instruction within the first month. In addition to Southern California, visitors from Central and Northern California, Arizona, Colorado, Nevada, Utah and reaching as far as Florida and Australia viewed Metropolitan's web-based training.

California Friendly Landscape Pilot Rebate Program

Record rainfall in Southern California hampered construction activities for three participating builders resulting in implementation delays. California Friendly implementation for three participating communities, originally projected for completion in March 2005, were rescheduled for Fall 2005.



California Friendly Model Home by John Laing Homes
The Preserve at Chino (IEUA)

- Five California Friendly Model Homes opened to the public in Inland Empire Utilities Agency's service area. Each home includes California Friendly landscapes, high-efficiency toilets and high-efficiency washers.
- Received statements of interest from builders for 48 model homes located in Riverside, San Diego, and San Bernardino counties.

Synthetic Turf Program

A five-member review committee evaluated 12 project proposals for program funding provided by Metropolitan and the United States Bureau of Reclamation. The program is designed to obtain installation and water-use data for municipal and public areas that retrofit with synthetic turf.

- Eight projects were awarded grants totaling \$262,000 for construction and installation.
- Four projects were awarded \$7,500 each to obtain additional information on practical experiences in installing and using synthetic turf.



Synthetic Turf Installation in Sports Complex Soccer Fields
(City of Glendale)

Commercial/Industrial/Institutional Program

In January, the new long-term Commercial, Industrial and Institutional Program began providing rebates under a five-year vendor services contract to users who retrofitted high-water-using devices with more efficient models.

CII (6 months) Performance

- Number of applications processed: 482
- Number of devices: 6,810
- Metropolitan's expenditure \$496,700
- Member Agency expenditure \$407,470
- Total expenditures: \$904,170
- Lifetime Water Savings: 6,940.30 AF

Rinse and Save

- Restaurant Pre-Rinse Spray Valves retrofitted: 3,725
- Number of devices 5,197
- Total expenditures: \$287,600

Industrial Process Improvement Program

Executed agreement with American Textile Maintenance Company, for an on-site recycling system that will save approximately 17 million gallons of water per year. Metropolitan would provide incentive up to \$40,000 for metered water savings after one year of operation.



American Textile Maintenance Company
Laundry transferred by overhead conveyor

Annexation

16 annexations were approved by the board using new water-use efficiency guidelines approved by the Board in October 2004.