

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

May 16, 2006 Board Meeting

7-5

Subject

Authorize entering into an Industrial Process Improvement Program agreement with Kimberly-Clark Corporation to provide financial incentives for a water use efficiency project

Description

Authorization is requested to enter into an agreement with Kimberly-Clark Corporation to retrofit current industrial processes to improve water efficiency. Metropolitan would provide financial incentives estimated to be about \$475,000 for annual water savings of about 550 acre-feet (AF). The project benefits Metropolitan with strengthened regional supply reliability, reduced regional costs for water importation and deferred capital improvements. Implementation of this project would contribute to water conservation savings in the industrial sector, consistent with resource targets outlined in Metropolitan's Integrated Water Resources Plan and five-year water conservation strategy plan.

Background

The Industrial Process Improvement (IPI) Program provides financial incentives to local industries and businesses to encourage investment in water-saving improvements that capture, treat and recirculate water that otherwise would be discharged to the sewer. In June 2004, the Board authorized upgrades to the IPI Program to encourage greater participation by businesses, which included a provision for Metropolitan to contract directly with the industrial customer. Metropolitan's new approach emphasizes streamlined implementation through a simplified application and payment structure. Payment is made in two steps with a portion provided upfront and the balance paid after a one-year monitoring period to verify actual project costs and water savings performance. In December 2005, the Board increased incentive levels for water conservation activities to \$195/AF, thereby raising the cap on IPI Program incentives to \$3 per thousand gallons saved. Metropolitan has executed three agreements with businesses based on the June 2004 upgraded approach.

Fullerton Project

Kimberly-Clark Corporation manufactures paper-based health and hygiene products including tissues, towels and diapers. The proposed project is located at their tissue products manufacturing plant in Fullerton. Kimberly-Clark would install a new desalination treatment system to improve water quality before it is first used, and a collection system to capture used water for recirculation in the manufacturing process. Overall savings would be a reduction of about 35 percent in current water use. In addition to reduced water supply costs, benefits to Kimberly-Clark include operational savings and reduced annual wastewater discharge with lower sewer fees.

Subject to the Board's approval of the project, the two-year agreement would include key performance provisions including:

- Documentation of project capital costs and annual costs for water service and wastewater discharge fees;
- Metering plan to validate water savings for one-year period after startup;
- Partial payment upon installation of equipment;
- Final payment after the one-year monitoring period.

Metropolitan's policy is to provide an incentive payment that is the lesser of three options:

1. Water savings: \$195 per acre-foot projected savings;
2. Project cost: Up to one-half of water-related capital cost; or
3. Simple payback: Capital cost minus twice the savings on annual water and wastewater charges.

These options reflect the value of Metropolitan's avoided cost, an appropriate cost-share by the applicant to reinforce the value of the project and to limit the incentive amount under a simple two-year payback calculation typically applied in the business sector. Based on projected costs included in Kimberly-Clark's proposal, staff calculated amounts for each option as follows (utilizing a five year term and an annual water savings of 550 AF/year): \$540,000 for option 1, \$860,000 for option 2, and \$475,000 for option 3. Staff anticipates that the third option, which reflects \$173/AF, would be the least costly of the three incentive options. Actual costs and savings will guide the final contribution. The agreement would allow a maximum incentive payment up to \$540,000 should option 1 control based on final costs and water savings.

Policy

By Minute Item 46486, dated December 2005, the Board authorized conservation incentive level updates and program refinements from Metropolitan's Five-Year Conservation Strategy Plan.

By Minute Item 45784, dated June 2004, the Board authorized upgrades to the Industrial Process Improvement Program and required individual board approvals for projects that would receive more than \$250,000.

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

California Environmental Quality Act (CEQA)

CEQA determination for Staff Recommendation:

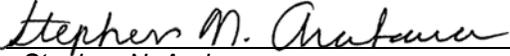
The proposed actions are categorically exempt under the provisions of CEQA and the State CEQA Guidelines. The proposed actions involve rebates for installation of conservation measures (i.e., a new water reuse collection system and a new water treatment system) at existing public or private facilities involving negligible or no expansion of use and no possibility of significantly impacting the physical environment, within the context of the existing conservation 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 execution of an agreement with the city of Fullerton and Kimberly-Clark Corporation are not subject to CEQA because they involve 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).

Staff Recommendation

Adopt the CEQA determination and authorize the General Manager to enter into an IPI Program agreement with Kimberly-Clark Corporation to provide financial incentives.

Fiscal Impact: Projected \$475,000 for about 550 AF of annual water savings



Stephen N. Arakawa
Manager, Water Resource Management

4/18/2006

Date



Jeffrey Kightlinger
General Manager

4/21/2006

Date

BLA #4447