

- **Board of Directors**
Water Planning and Stewardship Committee

March 13, 2007 Board Meeting

7-5

Subject

Authorize bridge funding for high-efficiency clothes washer water conservation incentives and a transition to increased incentives for units that save more water

Description

Authorization is requested to provide temporary bridge funding for high-efficiency clothes washer (HECW) retrofit incentives to replace Proposition 50 grant funding for Metropolitan's conservation program when the grant is exhausted. Additionally, a change is proposed where Metropolitan would offer incentives only for units that save more water than its current program standard. Units under the current program standard would be phased out by the middle of next year. Metropolitan's base incentive payment would increase from \$75 to \$85 per unit for greater water savings. The bridge funding to replace depleted grant funds would add, on a temporary basis, another \$25 for a total of \$110 per unit. Details are provided below.

As a general rule, Metropolitan's conservation retrofit incentives are expected to be withdrawn over time as efficient devices become common place in the market or when efficiency levels are required by manufacturing or building standards. Staff anticipated that state law would take effect in January 2007, setting the first water-use efficiency standards for clothes washers sold in California. State law was dependent on a U.S. Department of Energy approval allowing California standards to take precedence over federal standards. DOE recently denied the California standard. Hence, in order to sustain member agency HECW programs to meet efficiency goals for Metropolitan's service area, staff proposes \$110 per HECW funding as a financial bridge to the next grant opportunity and a concurrent transition to HECWs that save even more water.

Background

The HECW program has been successful in conserving water and is needed to sustain momentum in achieving Integrated Resources Plan goals for urban water conservation. HECWs have helped make up for some lost conservation momentum caused by the decrease in member agency ultra-low-flush toilet programs. To date, Metropolitan has provided for more than 180,000 retrofits to more efficient HECWs.

HECWs with a water factor of 6.0 or better save 9,000 gallons per year. HECWs with a water factor of 5.0 or better save 10,200 gallons per year. Staff analysis has determined that about 90 percent of the washers currently being submitted to Metropolitan for incentive payments are already at a water factor of 5.0 or better. As part of this action, staff recommends transitioning the HECW program to a requirement of 5.0 or better.

Several factors have led to this request for bridge funding:

- Proposition 50 grant funding is running out.
- Without state law on HECW standards, market transformation will need incentives.
- HECW technology is evolving to lower water use standards.
- Metropolitan has submitted a Proposition 50 proposal for \$2 million for HECWs with water factor of 5.0 or better.

This request for bridge funding is consistent with past bridge funding approvals by the Board for the HECW program while seeking grant funding. If Metropolitan's Proposition 50 proposal for grant funds is selected, Metropolitan's incentive would revert to \$85 per HECW based on a water factor of 5.0.

Recommendations

In order to sustain member agency HECW programs at the current participation level until the next grant funding opportunity and to continue to aid in the transition to even more water efficient HECWs, it is recommended that:

- HECW base incentive be established at \$85 on a permanent basis for units with a water factor of 5.0 and increased during a transition period from \$75 to \$85 for units with a water factor of 6.0 or better.
- Funding of \$110 per HECW be provided (\$85 base incentive plus \$25 bridge funding).
- Bridge funding be provided out of uncommitted Enhanced Conservation Program funds.
- HECW funding revert to \$85 per HECW with a water factor of 5.0 or better after period of bridge funding and/or grant is complete.

Implementation Strategy

To transition to the next grant and to a water factor of 5.0 or better, the following timeline is recommended:

- HECW funding of \$110 for washers with a water factor of 6.0 or better, through June 30, 2008 or until additional grant funds are available, whichever occurs first. If Metropolitan's Proposition 50 proposal for grant funds is selected, Metropolitan's incentive would revert to \$85 per HECW.
- HECW funding of \$110 for washers with a water factor of 5.0 or better, through December 31, 2008 or until additional grant funds are available, whichever occurs first. If Metropolitan's Proposition 50 proposal for grant funds is selected, Metropolitan's incentive would revert to \$85 per HECW.
- Beginning January 1, 2009, HECW funding will be \$85 per HECW with a water factor of 5.0 or better.

Staff estimates that the enhanced HECW incentives of \$25 per unit will cost approximately \$1 million for an estimated 40,000 HECWs over the requested period if the state grant is not awarded to Metropolitan. Staff recommends that the bridge funding be provided out of the uncommitted Enhanced Conservation Program budgeted funds. In the current cycle, Metropolitan has awarded \$1 million of the \$4 million budgeted for the Enhanced Conservation Program in its first round of reviewing proposals. A second round of awards is scheduled for later this year to allocate the remaining \$2 million.

Bridge funding would allow time for staff to work on several fronts to gain new grant support for the program and work through administrative and legislative channels to try to remedy DOE's unwillingness to honor California's legislated standards. During the remainder of this fiscal year, staff will be conducting a study on the value of incentive levels to better understand consumer motivation for purchase decisions. Throughout the next one- and one-half years, staff will factor its study findings, legislative prospects and pertinent information into coordination with the member agencies to developing a long-term plan for HECWs.

Policy

By Minute Item 46472, dated Dec. 13, 2005, the Board set the incentive amount at \$195/AF increasing the incentive for HECWs to \$75 and established the Enhanced Conservation Program.

By Minute Item 45984, dated Nov. 9, 2004, the Board authorized increasing the base incentive for HECWs from \$35 to \$60 and authorized bridge funding through December 2006.

By Minute Item 44897, dated June 11, 2002, the Board expressed support for AB 1561, California legislation for HECW standards.

By Minute Item 43397, dated Feb. 9, 1999, the Board authorized the General Manager to enter into agreements to provide \$35 per HECW.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as 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 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 the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination and

- a. Approve transition to funding HECWs with a water factor of 5.0 or better, and with an incentive of \$85 per HECW; and
- b. Authorize bridge funding of \$110 per HECW through December 30, 2008 (\$85 base incentive plus \$25 bridge funding) through allocation of Enhanced Conservation Program funds.

Fiscal Impact: \$4.4 million for 40,000 HECWs, of which \$1 million is temporary bridge funding exceeding Metropolitan’s standard conservation incentive level of \$195 per acre-foot savings.

Business Analysis: Bridge funding by Metropolitan would help meet conservation targets in the Integrated Water Resources Plan by advancing program momentum and transitioning into units offering greater water savings.

Option #2

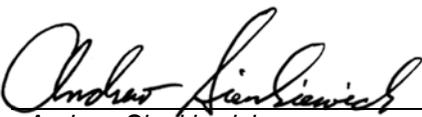
Do not authorize increased incentive, bridge funding, or more efficient water factor of 5.0 for the residential HECW program.

Fiscal Impact: \$3 million for 40,000 HECWs over a longer period of time at the unchanged standard of water factor 6.0 and at the conservation incentive level of \$195 per acre-foot savings

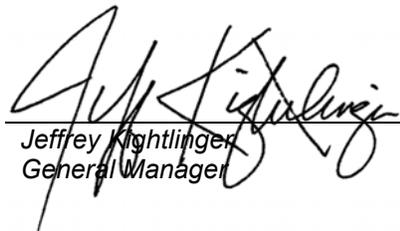
Business Analysis: Metropolitan would be less likely to meet its conservation targets in the Integrated Water Resources Plan.

Staff Recommendation

Option #1


 Andrew Sienkiewich
 for Stephen N. Arakawa
 Manager, Water Resource Management

2/16/2007
 Date


 Jeffrey Knightlinger
 General Manager

2/20/2007
 Date