

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

April 8, 2008 Board Meeting

8-3

Subject

Authorize (1) expenditure of \$40 million from Water Stewardship Funds; and (2) contract with the Electric and Gas Industries Association to administer Metropolitan's Region-wide Residential Conservation Program

Description

Based on a competitive procurement process, staff recommends awarding a five-year contract to the Electric and Gas Industries Association (EGIA) to provide management and marketing services for Metropolitan's Region-wide Residential Water Conservation Program. The regional approach to be implemented by EGIA fits within the category listed as "incentives" addressed in last month's water use efficiency board letter. Use of EGIA services will shift our residential retrofit effort from a member agency-administered process to a Metropolitan-administered process.

The five-year contract would total about \$40 million. About \$34 million would be paid as incentives to residential water customers or their contractors. The remaining 15 percent, or about \$6 million, would pay for vendor administrative services including rebate processing and marketing over the five-year contract term. This new approach is expected to increase conservation while reducing regional overhead costs.

Background

Metropolitan is advancing its conservation rebate program under two major categories:

1. Commercial, Industrial, and Institutional; and
2. Residential

Both approaches reflect a major shift in recent years where Metropolitan would now assume responsibilities previously handled by the member agencies in providing rebates to retail water customers. This shift to Metropolitan services is voluntary. However, most of our member and retail agencies have requested the change. The proposed contract with EGIA would be Metropolitan's primary vehicle for retrofitting a variety of residential water-using devices with more efficient models.

Currently, member and retail agencies are responsible for implementing residential programs using Metropolitan's incentives. This means that the retail or member agency staffs market and provide payments to the customer. This results in duplicative efforts by neighboring local jurisdictions. By combining these member-led efforts into a single region-wide program whereby Metropolitan provides these support services, there would be cost savings to member agencies. Further, some residential customers are unable to participate in all of Metropolitan's rebates because limited resources do not allow some member and retail agencies to offer and administer local programs. Last July, the Board authorized staff to implement a region-wide Metropolitan-administered approach.

RFP Process

In June 2007, Metropolitan issued a competitive Request for Proposal (RFP) to more than 1,300 business candidates, including vendors that have operated similar programs for energy and water utilities. Four proposals were received and evaluated by a five-member review panel consisting of staff from member and retail agencies and Metropolitan. The review panel determined that EGIA is the most qualified, responsive firm with extensive experience in managing and implementing successful agency and utility-sponsored residential resource efficiency programs.

EGIA is a nonprofit organization, recognized as a national leader in providing resource efficiency services, energy efficiency program administration, and rebates for utility companies and water agencies. EGIA also provides the home improvement industry with comprehensive consumer energy efficiency and solar financing solutions and has administered some of the nation’s largest utility and state-sponsored energy-efficiency financing programs. EGIA has worked with the Department of Water Resources and other agencies on water conservation programs.

Vendor Services

EGIA would market conservation retrofit measures and provide incentives to residential customers under Metropolitan’s region-wide program. Retrofits would replace high water-using devices with more water-efficient models. EGIA would develop an annual marketing plan to promote residential conservation in coordination with member agency interests and Metropolitan direction. Staff would ensure consistency with Metropolitan’s regional advertising and outreach efforts. The vendor would provide incentive payments from Metropolitan, member agencies and retail agencies for approved conservation device retrofits. EGIA would establish a toll-free customer call center to provide rebate information and assist residential customers.

Metropolitan would pay the vendor the following:

- A flat processing fee per device to manage the program, process rebates, and market the program;
- Rebate payments to customers would be provided at amounts previously established by the Board plus member and third party contributions; and
- An hourly rate for special program services requested by Metropolitan.

Payments to the vendor during the course of the contract will be approximately \$6 million for incentive processing and marketing services. Processing fees for new rebate items would be negotiated, consistent with fees identified in this letter.

The following processing fees would be subject to final negotiations of agreement terms with EGIA:

Device	Proposed Processing Fee Per Unit	Metropolitan Incentives
HET	\$23.89	\$165.00
HET Upgrade	\$23.89	\$ 30.00
High-Efficiency Clothes Washers	\$23.89	\$ 85.00
Weather Based Irrigation Controller	\$23.89	\$ 80.00
Weather Based Irrigation Controller (one acre or larger)	\$23.89 per household rate	\$630.00 per acre
Rotating Nozzles (one set per address)	\$23.89 per household rate	\$ 4.00
Synthetic Turf (one installation per address)	\$23.89 per household rate	\$ 0.30 per sq. ft

Staff estimates that total rebate processing fees paid under the agreement would be consistent with the 15 percent cost estimate for vendor services. Reimbursements to the vendor for incentives provided to residential customers would be from Metropolitan’s Conservation Credits Program budget. Member agencies may also add and withdraw additional incentives on a flexible basis. For member agencies that add incentives to Metropolitan’s base rebate, Metropolitan would debit their water bill for respective incentive amounts; however, the member agency would not pay for services provided by EGIA. The \$34 million in incentive payments is expected to achieve 175,000 acre-feet of savings over the 5- to 20-year service life of the installed water efficient devices.

Metropolitan would have the ability to ramp the program up or down based on regional need and budget requirements. Staff will closely monitor contract performance with EGIA to assess the merit of adding or deleting retrofit devices to maximize conservation in consideration of return on investment.

Benefits

Implementing the proposed regional residential program approach under a vendor contract offers several benefits that accrue to Metropolitan and member and retail agencies.

- Reduced regional overhead – This program would centralize administration, reducing overhead costs now incurred by member and retail agencies.
- Improved access to incentives – Regional marketing efforts would ensure consistency and full access to all incentives offered by Metropolitan.
- Increased water savings – Use of the new vendor is expected to increase conservation through improved outreach and retrofit processing services to residential customers.
- Improved public outreach – Providing residential incentives through a single point of contact would ensure consistency in Metropolitan's conservation outreach and advertising.
- Flexibility – Member agencies would have the option to participate in this regional program or maintain their respective independent programs.

Implementation

Because this is a new approach with significant customer interface, staff will closely monitor performance and pursue course corrections as needed. Since agreements and approvals with member agencies are needed, staff anticipates that there would be a transition period of about three months to achieve a fully operating rebate program.

Policy

By Minute Item 47165, dated July 10, 2007, the Board authorized a Regional Residential Program.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed actions are not defined as a project under CEQA because they involve continuing administrative activities (Section 15378(b)(2) of the State CEQA Guidelines). Also, the proposed actions 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). Additionally, the Regional Residential Device Incentive Program was previously determined by the Board, on July 10, 2007, to be exempt under the provisions of CEQA. Accordingly, no further CEQA documentation is necessary for the Board to act with regards to the proposed actions.

The CEQA determination is: Determine that the proposed actions are not subject to the provisions of CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines. Additionally, determine that the proposed actions have been previously addressed and no further environmental analysis or documentation is required.

CEQA determination for Option #3:

None required

Board Options

Option #1

Adopt the CEQA determination and authorize \$40 million expenditure from Water Stewardship Funds and five-year agreement with EGIA to administer the Region-wide Residential Water Conservation Program.
Fiscal Impact: \$40 million, of which about \$6 million is for vendor services and \$34 million is for rebates provided to homeowners or their contractors. Staff expected to expend the \$34 million under the existing member agency-administered approach. The proposed vendor approach should increase the rate of residential retrofits and consume the \$34 million sooner. Funding for the first year is included in the FY 2008/09 budget and will be proposed in future budgets.

Business Analysis: The regional residential conservation program would benefit the public by providing improved access to residential rebates throughout Metropolitan’s service area. This new approach is expected to increase conservation while reducing regional overhead costs to provide residential incentives.

Option #2

Adopt the CEQA determination and authorize \$15 million expenditure from Water Stewardship Funds and three-year agreement with EGIA to administer a reduced scope for the Region-wide Residential Water Conservation Program that emphasizes landscape measures.

Fiscal Impact: \$15 million, of which about \$2.25 million are for vendor services and \$12.75 million are for rebates provided to homeowners or their contractors. Staff expected to expend the \$12.75 million under existing member agency-administered approach. The proposed vendor approach should increase the rate of residential landscape retrofits and consume the \$12.75 million sooner. Funding for the first year is included in the FY 2008/09 budget and will be proposed in future budgets.

Business Analysis: Metropolitan would share program implementation responsibilities with the member agencies. Member agencies would continue to administer some residential device rebates and EGIA would administer rebates emphasizing outdoor landscape devices. Entering into a shorter duration three-year agreement may increase the frequency of program start-up and closure costs. Decreasing the duration and scale of this contract may require renegotiation of vendor service costs. Conservation opportunities may diminish, as retail customers would not have the benefit of full access for all incentives.

Option #3

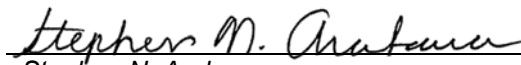
Do not authorize \$40 million expenditure from Water Stewardship Funds and agreement with EGIA to administer the Region-wide Residential Water Conservation Program, and direct staff to conduct a new Request for Proposal.

Fiscal Impact: No fiscal impact. Metropolitan’s incentive payments would continue to be channeled to the public through the member agencies instead of the vendor.

Business Analysis: Given the large solicitation of the RFP issued in June 2007, staff anticipates that a subsequent RFP would not materially increase the number of proposals to provide vendor administrative services.

Staff Recommendation

Option #1


 Stephen N. Arakawa
 Manager, Water Resource Management

3/24/2008
 Date


 Jeffrey Knightlinger
 General Manager

3/25/2008
 Date