

- **Board of Directors**  
**Communications and Legislation Committee**

April 8, 2008 Board Meeting

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**8-10**

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**Subject**

Express support and seek amendments to AB 2404 (Salas, D-Chula Vista) – Energy efficiency: water efficiency programs

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**Description**

Background: The California Public Utilities Commission (CPUC) has regulatory authority over investor-owned electric and gas utilities. Under existing law, the CPUC must set electric and gas rate components to fund programs that enhance system reliability and provide in-state benefits. These funds support energy conservation activities, as well as investment in renewable energy resources, research and development programs, and services for low-income electricity consumers. Publicly owned utilities are subject to similar requirements regarding public benefit charges and energy efficiency requirements.

Existing law is unsettled regarding the degree to which electrical and gas utilities may expend these energy conservation-related funds for measures to increase water use efficiency. It has become increasingly clear that a major benefit of water conservation is the saving of energy that would have gone into the production, conveyance, and treating of local and imported water supplies. Metropolitan has been promoting studies and other initiatives in this area. In fact, Metropolitan participated in a recent CPUC proceeding to institute a pilot program for energy utilities to invest in water conservation programs and studies. Although the CPUC authorized this activity, the scale of the program was less than Metropolitan staff and other water agencies had advocated. Nevertheless, the CPUC's decision sets forth several important water-energy efficiency measures and associated studies to analyze the water and energy savings of the programs. This proceeding and related ones have highlighted the need for more comprehensive studies in order to obtain clearer authorization and regulatory support for integrated energy and water conservation initiatives.

Summary: AB 2404 would advance important public policies regarding energy and water use efficiency. The bill would:

- Make explicit legislative findings regarding the linkages between water and energy conservation measures and the need to synthesize the two to increase efficiency and sustainability;
- State that a utility should be authorized to partner in water efficiency programs outside their service territory that result in energy savings within their service territory;
- Make a finding that additional research is needed to better evaluate the energy savings that can be achieved from water efficiency improvements and the associated reduction in emissions of greenhouse gases; and
- Require the CPUC to submit a report to the Legislature on the effectiveness of the pilot program. The study should also address several key questions about the actual energy savings related to reduced water consumption, the relationship between conservation and avoided costs associated with imported water and new water supply development, and the appropriate way to allocate such savings among energy utilities that may or may not be funding a water conservation effort.

Staff recommends supporting AB 2404 because it advances recognition of the need to integrate energy and water conservation. These goals are consistent with Metropolitan's policies to promote water use efficiency within the service area and throughout the state. Synthesizing water and energy conservation will reduce greenhouse gas production and enhance the overall sustainability of California's water and energy systems.

Potential Amendments: Although staff recommends that Metropolitan support the bill, it may be useful to seek minor amendments to AB 2404 (**Attachment 1**). Among other things, such amendments might seek to clarify or specify technical or economic aspects of the CPUC's report to the Legislature.

## Policy

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Consistent with water conservation policy principles - Provide leadership in advancing new or untapped water conservation practices and technology.

Support legislation, regulations and voluntary programs that promote improved water use efficiency – M.I. 45208 – February 2003.

## California Environmental Quality Act (CEQA)

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CEQA determination for Options #1 and #2:

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, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) 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 15061(b)(3) of the State CEQA Guidelines.

CEQA determination for Option #3:

None required

## Board Options

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### Option #1

Adopt the CEQA determination and

- a. Express support for AB 2404; and
- b. Authorize staff to seek amendments as discussed above.

**Fiscal Impact:** Could reduce Metropolitan's financial burden to implement regional conservation measures

**Business Analysis:** Increasing integration of water and energy conservation has potential to vastly increase funding available to finance water conservation in Metropolitan's service area

### Option #2

Adopt the CEQA determination and support AB 2404, if amended.

**Fiscal Impact:** Could reduce Metropolitan's financial burden to implement regional water conservation measures

**Business Analysis:** Same result as Option #1, but current language may be acceptable, so conditional support may not be appropriate.

### Option #3

Take no position.

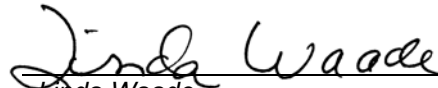
**Fiscal Impact:** Potential long-term loss of funding partners for regional water conservation initiatives

**Business Analysis:** Not supporting greater integration of water and energy conservation programs could increase Metropolitan's funding burden in the future.

**Staff Recommendation**

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Option #1

  
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Linda Waade  
Deputy General Manager, External Affairs

4/1/2008  
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Date

  
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Jeffrey Kightlinger  
General Manager

4/1/2008  
\_\_\_\_\_  
Date

**Attachment 1 – Assembly Bill 2404 Amendments**

BLA #6111

March 26, 2008

TO: Office of Legislative Counsel

FROM: Maria Garcia, Office of Assemblymember Salas

RE: AB 2404 – amendments

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Please add the below language into the California Public Utilities Code and replace that language with the current language of AB 2404.

*The Legislature finds and declares all of the following:*

- *The California Department of Water Resource's (DWR's) California Water Plan concludes that the largest single new supply available for meeting the state's growing demand for water over the next 25 years is water use efficiency.*
- *Water related energy use consumes 19% of the State's electricity, 30% of its natural gas, and 88 billion gallons of diesel fuel per year.*
- *It may be possible to obtain significant energy savings by reducing the use of water and developing and treating water more effectively.*
- *If the Public Utilities Commission finds that cost-efficient energy efficiency can be achieved by water efficiency improvement programs, then electrical corporations should consider potential energy savings that could be achieved through water efficiency improvements and, where cost-effective, incorporate those programs into their energy efficiency programs.*

- *Because water may be transported from or through one utility's service territory and used in the service territory of a different utility, a utility should be authorized to partner in water efficiency programs outside their service territory if the PUC finds that by partnering the utilities would optimize energy efficiency programs and result in energy savings within their service territory.*
- *The California Public Utilities Commission (CPUC) has commenced a pilot program (Order no. D0712050, 12/20/2007) to study whether electrical utilities can create cost-effective energy savings by encouraging water conservation, and whether to incorporate the water conservation programs into the utilities' energy efficiency portfolio.*

*Section 1.*

- (a) *The California Public Utilities Commission (CPUC) instituted an order approving pilot water conservation programs within the energy utilities' energy efficiency programs (Order no. D0712050, 12/20/2007). The CPUC shall report to the Legislature the outcome of that pilot program by August 1, 2009.*
- (b) *The CPUC shall provide conclusions drawn from the pilot program and make recommendations as to whether the utilities would or could achieve cost-effective energy efficiency by water efficiency improvement projects.*