



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

June 9, 2009 Board Meeting

8-7

Subject

Authorize (1) expenditure of \$24 million to fund additional FY 2008/09 needs for Metropolitan’s Conservation Credits Program; (2) contract amendment with Honeywell International increasing maximum amount payable by \$22 million to \$80 million; and (3) other near-term program changes

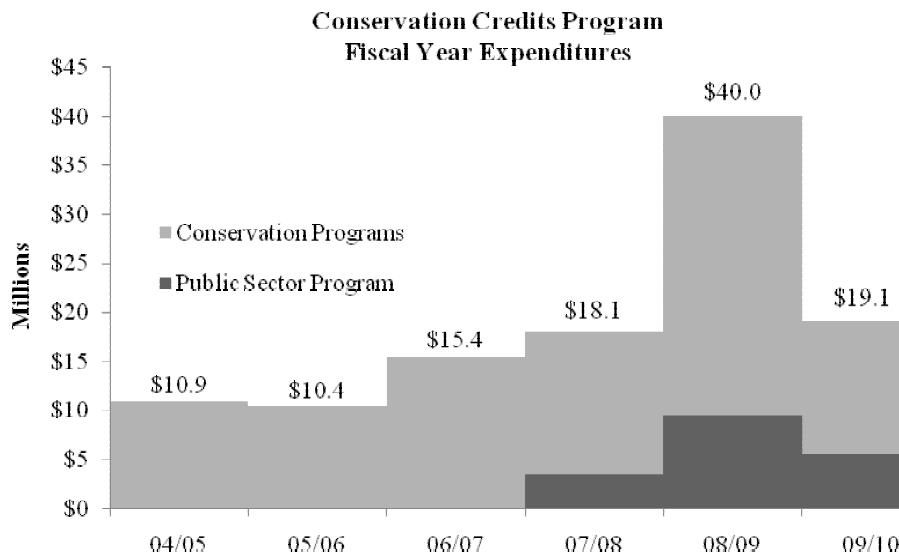
Description

Over the past six months, the public has responded to a series of water use efficiency signals initiated by Metropolitan, local agencies and the State that have resulted in overwhelming interest and participation in Metropolitan’s regional water conservation rebate programs. In May 2009, staff provided an oral report to the Water Planning and Stewardship Committee on the status of Metropolitan’s water conservation programs. This board letter proposes conservation program adjustments for the upcoming year. Included are near-term actions to allow payment of all existing rebate applications placed on hold due to insufficient funds; changes to Metropolitan’s basic incentive rates; and a plan for fiscal year 2009/10. Staff will return to the Board later this year on longer-term programmatic changes that reflect recent experience, market analysis and input from the member agencies.

Background

Metropolitan and its member agencies have long been leaders in water conservation. Metropolitan encourages water use efficiency through a variety of water resource management programs ([Attachment 1](#)). Since 1990, Metropolitan has provided about \$250 million in conservation incentives, saving about 125,000 acre-feet annually.

Thus far in fiscal year 2008/09, Metropolitan’s water conservation programs experienced an unprecedented level of demand, nearly tripling the number of rebates sought over last year. In February, the Board approved doubling the Conservation Credits Program (CCP) budget from \$20 million to \$40 million. However, public response continued to accelerate resulting in a much higher volume of funding requests in excess of even the doubled budget.



Toward the end of March, staff implemented a reservation-based system for the commercial and residential program in an effort to continue offering rebates while staying within the program budget. Previously supplied rebate applications were removed from all retail outlets. In May, rebate reservations for both programs were exhausted within a matter of hours leading to suspension of the reservation system for the remainder of the fiscal year. Due to limited funding and high demand, there were numerous complaints expressing frustration regarding monthly reservations being fully subscribed. Metropolitan has since posted on its Web site that it is not accepting any new reservations for rebate funding this fiscal year.

Additional Fiscal Year 2008/09 Funding Needs

Regional Rebate Programs

Prior to implementing the reservation system, Metropolitan and its residential and commercial rebate vendors, the Electric & Gas Industries Association (EGIA) and Honeywell International, received a significant number of rebate applications. This rebate request backlog totals approximately \$14.5 million. While program applications for both the residential and commercial program clearly state that funding is subject to availability, staff recommends paying applications received for retrofit actions initiated by the public prior to April 1, 2009. Additional applications for funding and supporting documentation with program guidelines would need to be received by July 15, 2009 for consideration.

Locally Implemented Conservation Programs

In addition to the backlog of applications cited above, there are pending requests for reimbursement of approximately \$4 million for past activity by member and retail agencies under their locally implemented water conservation projects. These requests include direct toilet installation projects, locally administered clothes washer programs, residential water audits, and work completed under state or federal grant programs this fiscal year using Metropolitan incentives as the basis for meeting cost-share requirements. Staff recommends paying incentive funding for these conservation programs administered by member and retail agencies during this past fiscal year. Member agencies would need to submit invoices for fiscal year 2008/09 activities by August 14, 2009 for a final accounting.

Public Sector Program

Staff is preparing to disburse funds totaling about \$4.5 million for Phase II of the Public Sector Program approved by the Board in November 2008. Consistent with board direction provided in January 2009, funding priority will be given to projects implemented in local jurisdictions that meet ordinance prerequisites for eligibility. In addition to the \$4.5 million of Phase II disbursements, \$1 million are needed to satisfy funding obligations for recycled water hook-ups initiated under Phase I that are still in the process of being completed.

A total of \$24 million is needed to address the three categories of past activities described above.

Fiscal Year 2009/10

Staff has worked with the member agency managers and conservation coordinators to revise the conservation program for the upcoming year. Staff would instruct the vendor to implement a reservation system for the regional residential program on a continuous basis, rather than a monthly start/stop process. The vendor would cease taking reservations when the fiscal year 2009/10 funding allocated to the regional residential program is exhausted. In addition, the vendor and Metropolitan would provide extensive notice when the program was ending. [Attachment 2](#) summarizes the planned use of fiscal year 2009/10 funding.

Agricultural and Large Landscape Conservation

Staff also proposes to add an agricultural water use efficiency component to Metropolitan's existing Water Savings and Performance Program. Staff proposes to allocate \$2 million in fiscal year 2009/10 to assist agricultural customers that choose to opt-out of Metropolitan's Interim Agricultural Water Program (IAWP) and pay full service rates. Additionally, staff would adjust the basis for funding agricultural and large landscape efficiency improvements to reflect ten years of water savings, which is representative of long-term capital investments for permanent farm crops and public access parks. Industrial process improvement incentives would

remain at five years of savings in light of the dynamic nature of the manufacturing business. The IAWP will be entirely phased out over a five-year period from 2008 to January 1, 2013.

Program Changes

Changes to incentive amounts and terms

Staff proposes program changes that were developed in consultation with the member agencies over the last six months ([Attachment 3](#)). Principally, these refinements would reduce incentive amounts to now cover up to 50 percent instead of 100 percent of average retail device costs. These refinements also include phase out of certain device incentive offerings. These changes are intended to help stretch the available funding for the program.

Suspend regional commercial program

Staff recommends postponing implementation of the regional commercial program, thereby suspending rebates for new retrofits as of June 10, 2009. A pause in the commercial program would allow staff to complete a vendor selection process, execute an agreement, and provide time for the consultant to mobilize resources to provide program administration. Staff will return to the Board and seek approval to enter into an agreement for the regional commercial program at the conclusion of the selection process.

Administrative Actions

Member agency access to vendors

This step would allow interested member agencies to benefit from Metropolitan procurement and flexible implementation of regional vendor services. In the likely event Metropolitan funding is exhausted before the end of fiscal year 2009/10, staff has made arrangements for member and retail agencies to continue rebates in their respective service areas through use of Metropolitan's regional residential and commercial vendors if agencies provide funding for rebates and administrative costs.

Fund management system

The start and stop nature of the reservation system implemented in April and May resulted in dissatisfied customers. However, implementation of a cost management reservation system is needed to manage the available funding. For many years, member and retail agencies have successfully deployed reservation systems to manage customer expectations. Based on consultation with the member agencies, staff intends to use a reservation system on a continuous, first-come first-served basis with no program stops until funds are exhausted for fiscal year 2009/10. During implementation of the reservation system, communications addressing remaining rebate amounts would be periodically provided to prevent false expectations.

State and federal grants

Staff continues to vigorously pursue state and federal grants to supplement Metropolitan's water conservation programs. To date, Metropolitan has submitted competitive funding requests totaling more than \$50 million in economic stimulus grants. Selections will be announced later this summer.

Expenditure Options

Staff has identified the following options for the Board's consideration to address pending CCP applications and invoices ([Attachment 4](#)).

Option 1 – Authorize \$24 million supplemental funding and expenditure for fiscal year 2008/09 activities for pending CCP applications and invoices.

Metropolitan would use funds not being spent on water transfers totaling about \$24 million to pay off the existing backlog of rebate request for fiscal year 2008/09. Staff would initiate residential rebates via a reservation system beginning July 1.

Staff is currently in the process of selecting a new vendor to administer the regional commercial rebate program through a competitive process. The current vendor agreement expires at the end of the calendar year. Staff would

amend the existing Honeywell agreement for the regional commercial program to cover the administrative fees and all pass-through incentive payments under this proposed approach.

Fiscal year 2009/10 funding would be managed through a revised reservation system with decreased incentives. A complete program review and assessment will be completed by the end of the year.

Option 2 – Do not authorize additional fiscal year 2008/09 expenditures and direct staff to expend program funds budgeted for fiscal year 2009/10 for pending CCP applications and invoices.

Metropolitan could use the fiscal year 2009/10 conservation credits program budget of \$19.1 million, which was approved by the Board in April 2009, to address most of the existing fiscal year 2008/09 backlog. However, this would leave no funding for any fiscal year 2009/10 new program activity. An amendment to the Honeywell agreement would be needed under this option to administer additional fiscal year 2008/09 funding needs.

Option 3 – Direct staff to reject CCP applications and invoices from homeowners and businesses that submitted requests after exhaustion of funds authorized for FY 2008/09.

There would be no authorization for additional funds beyond the \$19.1 million budgeted for fiscal year 2009/10. This approach could be justified on the basis that all program applications previously provided for the residential and commercial programs and member agency agreements clearly state that funding is subject to availability. Staff would utilize the \$19.1 million budgeted for fiscal year 2009/10 for new program activity until funds are exhausted.

Long-term Program Changes

Under all of the above options, staff intends to consult with member agencies, and return to the Board with recommendations for long-term programmatic changes that take into account new legislation, recent experience in public motivation, changing market conditions and synchronization with the Integrated Water Resources Plan update.

Option 1 Recommendation

Staff recommends Option 1 for the following reasons. Over the last six months, the public has responded to signals provided by Metropolitan and the state to conserve water. Paying for rebate requests for conservation retrofits completed or underway prior to the change to the reservation system on April 1 would help sustain the regional conservation message. Additional program funding for new retrofits would continue water conservation efforts throughout the important summer period, which is a critical period for targeting changes in consumer decisions and help support local implementation of water conservation ordinances. Option 1 would allow Metropolitan to continue implementing a wide range of programs to meet public demand, reinforce Metropolitan's commitment to water conservation, and support member agency and retail agency efforts at the local level.

Policy

By Minute Item 47799, dated February 10, 2009, the Board authorized \$20 million increase to conservation credits program for FY 2008/09.

By Minute Item 47705, dated November 18, 2008, the Board authorized \$15 million for the Phase II Public Sector Program and \$7 million for turf removal, and authorized increase in Honeywell contract by \$13 million.

By Minute Item 47165, dated July 10, 2007, the Board authorized refinements to Metropolitan's water use efficiency programs.

By Minute Item 46733, dated August 15, 2006, the Board authorized upgrades to the commercial and landscape water efficiency programs.

By Minute Item 46472, dated December 13, 2005, the Board set the incentive amount at \$195 acre-feet of water conserved not to exceed 100 percent of product cost or one-half of a program cost.

By Minute Item 45828, dated July 13, 2004, the Board adopted the Integrated Water Resources Plan Update.

By Minute Item 45208, dated February 11, 2003, the Board adopted policy principles regarding water conservation activities.

By Minute Item 37324, dated September 13, 1988, the Board adopted the Conservation Credits Program.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1, #2, and #3

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities (Section 15378(b)(2) of the State CEQA Guidelines). Also, the proposed action is not subject to CEQA because it involves 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 Residential Rebate Program (July 10, 2007) and the Public Sector Program (August 21, 2007) were previously determined by the Board 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 action is 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 action has been previously addressed and no further environmental analysis or documentation is required.

Board Options

Option #1

Adopt the CEQA determination and authorize staff to:

- a. Transfer \$24 million to the Water Stewardship Fund to pay additional fiscal year 2008/09 needs for Metropolitan's Conservation Credits Program;
- b. Amend Honeywell International agreement increasing the maximum amount payable by \$22 million to \$80 million;
- c. Implement CCP in fiscal year 2009/10 as described; and
- d. Implement program changes as described, including modification of incentives as identified in [Attachment 3](#).

Fiscal Impact: \$24 million increase to fiscal year 2008/09 conservation credits program budget

Business Analysis: The proposed actions would enable incentive payments to individuals and businesses that submitted requests or initiated work prior to April 1, 2009, after exhaustion of funds authorized for fiscal year 2008/09. Additionally, the fiscal year 2009/10 budget would be used to implement new activity in the upcoming fiscal year.

Option #2

Adopt the CEQA determination and authorize staff to:

- a. Use fiscal year 2009/10 program funding to pay fiscal year 2008/09 rebate request backlog;
- b. Amend Honeywell International agreement to increase maximum amount payable by \$22 million to \$80 million; and
- c. Implement program changes as described, including modification of incentives as identified in [Attachment 3](#) in the event grant funding becomes available.

Fiscal Impact: No change to fiscal year 2009/10 budget

Business Analysis: The proposed actions would enable incentive payments to most individuals and businesses that submitted requests after exhaustion of funds authorized for fiscal year 2008/09. However, the proposed action would suspend the conservation program incentive payments for fiscal year 2009/10, pending further action by the Board or award of grant funds.

Option #3

Adopt the CEQA determination and authorize staff to:

- a. Reject pending applications for CCP rebates due to the exhaustion of available funds and do not authorize additional fiscal year 2008/09 expenditures for CCP purposes;

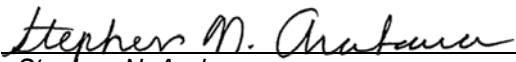
- b. Amend Honeywell International agreement to increase maximum amount payable by \$22 million to \$80 million;
- c. Implement CCP in fiscal year 2009/10 as described; and
- d. Implement program changes as described, including modification of incentives as identified in [Attachment 3](#).

Fiscal Impact: No change to fiscal year 2008/09 budget of \$40 million or fiscal year 2009/10 budget of \$19.1 million

Business Analysis: The proposed actions would likely result in some customer dissatisfaction because of nonpayment to individuals and businesses that expected incentives.

Staff Recommendation

Option #1

 6/2/2009
 Stephen N. Arakawa Date
 Manager, Water Resource Management

 6/2/2009
 Jeffrey Lightlinger Date
 General Manager

Attachment 1 – Overview of Metropolitan’s Conservation Credits Program

Attachment 2 – Projected fiscal year 2009/10 Conservation Credits Program budget

Attachment 3 – Proposed conservation program refinements

Attachment 4 – Options to address near-term actions for Metropolitan’s water conservation programs

Overview of Metropolitan's Conservation Credits Program

Metropolitan and its member agencies have long been leaders in water conservation. Metropolitan encourages water use efficiency through research and development, financial incentives, programs to influence consumer behavior, education, new plumbing and compliance codes, and retail customer conservation through tiered pricing. Metropolitan is committed to providing effective water conservation programs and services. Since 1990, Metropolitan has provided more than \$225 million in conservation incentives, saving about 120,000 acre-feet annually.

Regional Commercial Conservation Program

Metropolitan's commercial incentive program has provided rebates for more than 162,000 device retrofits throughout Southern California since 2001, resulting in an annual water savings of nearly 10,000 acre-feet per year or more than 135,000 acre-feet over the life of the devices. The program, which is administered by Honeywell International, provides rebates to businesses for water saving plumbing fixtures, landscaping equipment, food service equipment, cleaning equipment, heating, ventilating and air conditioning (HVAC), and medical equipment. Commercial, industrial, and institutional customers are eligible to participate in the program and the program also targets multifamily dwellings for retrofit using high efficiency toilets and washers and rotating nozzles for pop-up spray heads. Metropolitan has collaborated with regional energy utilities such as Southern California Edison and Sempra Energy to co-market water and energy saving devices in Metropolitan's service area, and represent a significant opportunity to leverage the utilities' business contacts to commercial and industrial water users. Member agencies and their retail agencies may combine their supplemental incentive with Metropolitan to provide greater motivation for efficiency changes in their respective service areas.

Regional Residential Conservation Program

To extend the success of Metropolitan's existing commercial rebate program and respond to member agency requests, Metropolitan began a similar regional approach for residential customers in July 2008. The new region-wide residential program, called SoCal Water \$mart, provides incentives for residential customers in Metropolitan's service area. It provides administrative benefits in terms of efficiency and uniform coverage. The program, which is administered by the nonprofit Electric and Gas Utilities Association, currently offers rebates for common water saving residential devices such as high efficiency toilets and clothes washers, smart irrigation controllers, rotating nozzles and synthetic turf. Member agencies and their retail agencies may combine their supplemental incentive with Metropolitan's to provide greater motivation for efficiency changes in their respective service areas.

Water Savings Performance Program

The Water Savings Performance Program, established in 1997, provides incentives for both large landscape water use efficiency and industrial process improvements. The program offers retrofit for industrial process improvements, which include the installation of equipment that captures, treats, and reuses water. Incentives are also available for the replacement of existing equipment with more efficient models that reduce water demand. The program also offers incentives for large landscape irrigation system improvements and more recently agricultural irrigation system improvements (described later). The program was streamlined in 2004 to be more responsive to the needs of business participants. As a result, Metropolitan received significant interest resulting in agreements with several high-profile businesses achieving appreciable water savings.

Agricultural Conservation Program

Consistent with board direction provided in October 2008 and approved in March 2009 an agricultural water use efficiency component would be added to Metropolitan's Water Savings and Performance Program. Incentives will be first offered in fiscal year 2009/10 to assist agricultural customers that opt-out of Metropolitan's Interim Agricultural Water Program and pay full service rates. These customers could be eligible for WSPP incentives that focus on agriculture improvements leading to greater water use efficiency. The IAWP will be entirely phased out over a five-year period from 2008 to January 1, 2013.

Enhanced Conservation Program

The Enhanced Conservation Program provides funding directly to Metropolitan's member agencies to encourage new and creative approaches to implement urban water conservation. Projects up to four years in duration are selected through an annual competitive process.

Accelerated Public Sector Water Efficiency Partnership Demonstration Program – Phase I

In August 2007, Metropolitan established the \$15 million Public Sector Program – Phase I to provide up-front funding to increase water use efficiency in public buildings and landscapes within its service area. Participants include various special districts, school districts, state colleges and universities, municipalities, counties and other governmental agencies. The purpose of the demonstration program was to reinforce the region's message to conserve water by demonstrating that public agencies are responding to the call. Estimated water savings from the program is about 40,000 acre-feet. In November 2008, Metropolitan's Board approved an additional \$15 million for Phase II of the Public Sector Program and keyed eligibility to meeting conservation ordinance prerequisite and public messaging requirements to aid in dealing with current shortage conditions.

Turf Removal Pilot Program

In November 2008, Metropolitan's Board approved a \$7-million turf removal program to assist customers in reducing outdoor irrigation, which can comprise up to 60 percent of residential water use. The pilot program, which would provide a rebate of \$1 per square foot for the removal of live turf irrigated with potable water, is to be partially funded with a \$2-million Prop. 50 grant from the state. About half of the incentive would be used to retrofit about 2,000 residences and the other half to retrofit 3 million square feet of commercial or public landscapes. Due to the state's financial crisis, the grant has been suspended, but Metropolitan is making the program available to member agencies that opt to fully fund rebates within their service areas.

Member Agency Implemented Programs

In addition to regional programs implemented by Metropolitan, member and retail agencies may also implement local water conservation programs within their respective service areas and receive Metropolitan incentives for qualified retrofits and other water saving actions. Typical projects include direct installation toilet projects, locally administered clothes washer programs, residential water audits, and work completed under state or federal grant programs using Metropolitan incentives as the basis for meeting cost-share requirements. To date, Metropolitan has provided nearly \$10 million in fiscal year 2008/09 funds to support locally implemented programs administered by member and retail agencies.

Projected fiscal year 2009/10 Conservation Credits Program budget*

Conservation Credits Planned Investments for Fiscal Year 2009/10

Category	2009-2010 Planned
Regionwide Residential	\$ 6,000,000
Regionwide CII	4,600,000
Public Sector	0
Water Savings Performance Program	500,000
Enhanced Conservation Program	500,000
Member Agency	5,500,000
Turf Removal Program	0
Agricultural Conservation Program	2,000,000
Conservation Credits Total	\$19,100,000

*This is the approximate spending plan under Options #1 and #3. Funds may be shifted among categories if not fully utilized.

Proposed conservation program refinements

Below is the list of program changes proposed to assist with cost control on the regional programs. These changes are intended to maintain activity in the programs while increasing overall program efficiency. Staff also proposes program refinements that were developed in consultation with the member agencies over the last six months. Principally, these refinements would reduce incentive amounts to now cover up to 50 percent instead of 100 percent of average retail device costs. These refinements also include phase out of certain devices.

Device Incentive Caps and Supporting Changes	
Limit incentives up to 50% of retail device cost	<p><u>Examples</u></p> <ul style="list-style-type: none"> • Urinals: <ul style="list-style-type: none"> ○ limit incentives to < 0.25 gpf fixtures ○ \$200 for retrofits ○ \$60 for new construction • Commercial sprinkler heads <ul style="list-style-type: none"> ○ Reduce from \$13 to \$7 per set • HETs: \$50 per toilet, unless MA grant relies on MWD incentive • HECW: \$50 per washer, unless MA grant relies on MWD incentive*
Device Changes and Phase-outs	
Synthetic turf	<ul style="list-style-type: none"> • Require \$0.30 local agency cost match • Limit to ½ acre of turf replacement
Rotating nozzles and pressure regulating heads	<ul style="list-style-type: none"> • Require rotating nozzles to be purchased with pressure regulating head to guarantee performance • Incentive stays at \$4 per nozzle
Device incentive phase-outs	<ul style="list-style-type: none"> • Pre-rinse spray heads (\$60 incentive) • CII washing machines (\$210 incentive)
Water Savings Performance Program	
	<ul style="list-style-type: none"> • Reduce incentive to 50% of project costs to match device incentive changes • Applies to industrial process, large landscape, agricultural water use efficiency improvements • Expanded non-potable cooling water
Enhanced Conservation Program Award Reductions	
	<ul style="list-style-type: none"> • Reduce annual awards from \$2 million to \$1 million to reflect actual program awards in recent years

* \$50 recommended by member agencies is less than 50% of retail value and less than \$195 per acre-foot times the water savings, which is \$85 per washer.

Options to address near-term actions for Metropolitan’s water conservation programs

Staff has identified the following options for board consideration to address near-term actions for Metropolitan’s water conservation efforts until updated water conservation program policy and approach are approved later this year. The amounts listed below represent an approximate use of funding. Funding may be shifted during the time frame indicated depending on response within the programs.

	<u>Option 1 – Authorize \$24 million supplemental funding and expenditure for fiscal year 2008/09 activities for pending CCP applications and invoices.</u>	<u>Option 2 – Do not authorize additional fiscal year 2008/09 expenditures and direct staff to expend program funds budgeted for fiscal year 2009/10 for pending CCP applications and invoices.</u>	<u>Option 3 – Direct staff to reject CCP applications and invoices from homeowners and businesses who submitted requests after exhaustion of funds authorized for FY 2008/09.</u>
Additional funding needs from FY 08/09 (1)			
Regional programs	\$14,500,000	\$14,500,000	\$0
Member agency programs	\$4,000,000	\$4,000,000	\$0
Public Sector Program	\$5,500,000	\$600,000	\$0
Subtotal (1)	\$24,000,000	\$19,100,000	\$0
Fiscal Year 2009/10 (2)			
Agricultural Conservation program	\$2,000,000		\$2,000,000
New activity			
Regional Residential program	\$6,000,000	\$0	\$6,000,000
Member agency programs	\$5,500,000	\$0	\$5,500,000
Other Conservation programs	\$5,600,000	\$0	\$5,600,000
Subtotal (2)	\$19,100,000		\$19,100,000
Subtotal (1) + Subtotal (2)	\$43,100,000	\$19,100,000	\$19,100,000
FY 2009/10 Budget	\$19,100,000	\$19,100,000	\$19,100,000
Board authorization for additional funding needed	\$24,000,000	\$0	\$0