



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

5/11/2010 Board Meeting

8-7

Subject

Authorize: (1) Water Conservation Plan for fiscal year 2010/11; (2) new three-year contract with Honeywell International for the regional commercial conservation program not to exceed \$120 million; and (3) amendment to existing contract with Honeywell International to increase maximum payable by \$5 million

Summary

Staff recommends authorizing Metropolitan's fiscal year (FY) 2010/11 Water Conservation Plan (Plan) to improve financial performance, achieve water savings consistent with Metropolitan's Integrated Resources Plan (IRP), and transition to a long-term conservation strategy. This Plan reflects input received from the Water Planning and Stewardship Committee and budgetary direction from the Board at its April 2010 meeting. The Plan would be implemented in accordance with the approved FY 2010/11 budget for conservation. Staff would manage the budget among conservation programs within the fiscal year to improve regional water savings. Developed in consultation with the member agencies, the Plan includes:

- Non-incentive based actions that increase regional efficiency;
- Technical assistance to help increase local conservation efforts;
- Incentives based on board policies and design objectives;
- Regional incentive programs that effectively target water savings opportunities in the urban sector; and
- MWD-Funded/Member Agency Administered Incentive Program for locally targeted projects.

This interim plan provides improved cost-effectiveness, increased water savings, and flexibility for member agencies to focus on their unique needs and opportunities. Additional changes will be made to Metropolitan's conservation strategy as the goals under the 2010 IRP are approved by the Board.

Metropolitan's regional residential and commercial programs are administered through separate vendors in order to expedite marketing, application processing, and incentive disbursements throughout Metropolitan's service area. This approach improves customer access to incentives, increases water savings, reduces regional overhead cost, and expands public outreach. Staff has completed a competitive bid process and recommends approval of a new agreement with Honeywell International to administer the regional commercial program. A large majority of funding for this agreement will come from member agency incentives, which do not impact Metropolitan's budget. An increase in contract authority is needed for the existing agreement with Honeywell International to continue processing customer applications over the next several months until the new agreement is executed and the vendor's improved processing system is implemented. Details regarding these proposed contractual actions are addressed below.

Detailed Report

FY 2010/11 Water Conservation Plan

Through a collaborative process with the member agencies, staff has developed recommendations for the FY 2010/11 Water Conservation Plan that would meet the IRP goal for 10,000 acre-feet of new annual conservation savings. The Plan includes non-incentive based actions as well as regional and local incentive programs targeting residential, commercial, industrial, institutional, and agricultural sectors. It also encourages development of innovative programs and technologies that yield additional conservation savings.

The Plan is based on design objectives derived from board-approved policies ([Attachment 1](#)). These objectives were used to ensure consistency across programs and a smooth transition to the long-term conservation strategy. The FY 2010/11 Plan includes:

- **Non-Incentive Approaches:** Metropolitan staff would pursue non-incentive conservation approaches, including implementing existing legislation, codes, standards, and ordinances. These efforts are meant to help increase water savings without direct financial incentives, and include the following:
 - Support the reasonable and effective implementation of recently passed legislation for urban per capita water use reductions;
 - Work with agencies responsible for improving building codes and industry groups that determine water efficiency standards for equipment and fixtures;
 - Provide support for local ordinances that promote water conservation and water efficient landscapes; and
 - Collaborate with member agencies on California Urban Water Conservation Council initiatives, the Environmental Protection Agency's WaterSense certification program, the Irrigation Association's equipment testing program, and others.
- **Technical Assistance:** Metropolitan's staff resources would be used to provide technical assistance to member agencies and retail agencies in local program design, ordinance development, retail-tiered rate structures, and water savings calculations. Staff would also assist with research, technology evaluation, market studies and other efforts that contribute to increased water savings. New technologies would be evaluated through Metropolitan's existing Innovative Conservation Program. Metropolitan's efforts would be enhanced through technical assistance from the U.S. Bureau of Reclamation. By providing technical assistance, Metropolitan would help increase local conservation efforts through means other than providing direct financial incentives.
- **Regional Residential and Commercial Incentive Programs:** The regional programs provide standardized incentives for water-saving devices throughout Metropolitan's service area, offering uniform coverage that improves customer access and increases water savings. Metropolitan would continue to provide incentives through these programs with actions listed in [Attachment 2](#). Proposed incentive adjustments are based on the design objectives and existing board-approved policy of \$195 per acre-foot of water savings, up to one-half of average retail device cost. In addition, incentives would only be recommended for devices where incentive amounts would likely affect consumer purchase decisions. As a result, incentive levels for some devices would be increased while others would be reduced from current levels, and still others completely eliminated. These changes would improve the performance of the regional conservation programs.

Recent market studies indicate high saturation levels for residential toilets on a region-wide basis, but there remains considerable variation between agencies. For this reason, the residential toilet incentives would be moved from the regional programs to the MWD-Funded/Member Agency Administered Program to provide a more efficient and effective means to target areas with lower saturation levels.

- **MWD-Funded/Member Agency Administered Incentive Program:** Metropolitan would continue to support locally implemented programs administered by member and retail agencies. Modifications proposed for the existing member agency-implemented program include allocating Metropolitan budgeted funds to member agencies, allowing flexibility for agencies to implement projects specific to their service area and to explore innovative new projects. Staff considered four allocation methods and recommends using Total Municipal and Industrial Demand (Column B of [Attachment 3](#)) for an initial allocation. This method provides the best

proxy for water savings opportunity, and is consistent with best management practices to reduce urban demand. It is the same approach the Board used in 1992 to allocate Conservation Credits Program funding among member agencies. Additionally, the base period for measurement of each agency's Total Municipal and Industrial Demand will be 2004 through 2006, the same base period used in Metropolitan's Water Supply Allocation Plan. The other two methods, Total Service Area Demand (Column A) and Total Purchased from MWD (Column C), are not recommended because they include agricultural water, which is addressed separately through the Agricultural Conservation Program.

Metropolitan's funding would be available to member agencies for two applications:

1. **Device-based:** Metropolitan's approved incentives (**Attachment 2**) would be provided for member agency programs that offer direct incentives for devices not included in the regional programs, such as residential toilet rebates, and other implementation approaches, such as direct installation and distribution of devices. Incentives for residential and landscape audits, turf removal, and other interventions would also be provided in accordance with the approved incentives.
2. **Customized Projects:** For projects that result in water savings through customized site improvements, Metropolitan's funding would be limited to \$195 per acre-foot of estimated water savings, up to one-half of eligible project costs. Eligible costs include items such as equipment, landscape plants, mulch, pervious hardscape, post-installation verification, and up to one-year of irrigation management fees. Funding may be used for projects such as industrial process improvements, commercial kitchen improvements, and major irrigation system upgrades.

Program details are included in **Attachment 3**. Member agencies may choose to use Metropolitan's regional vendors to administer device-based direct incentive programs provided they pay all associated administrative costs. Incentives paid through the MWD-Funded/Member Agency Administered Program add flexibility to meet agency-specific needs or preferences not available in the regional program.

- **Agricultural Conservation Program:** The agricultural program would provide efficiency incentives to assist agricultural customers that opt out of Metropolitan's Interim Agricultural Water Program (IAWP) or pay full service rates. Based on feedback from member agencies and other key stakeholders, the Agricultural Conservation Program would be launched as a member agency-administered program (**Attachment 4**). Metropolitan's funding would be based on \$195 per acre-foot of estimated water savings resulting from improvements in irrigation system efficiency due to capital improvements, up to one-half of eligible project costs. Efficiency improvements would be determined through irrigation system audits conducted before and after equipment installation. Member agencies would be responsible for any pre-installation audit costs while Metropolitan would pay for post-installation audits. Post-installation audits would provide updated information to the customer on irrigation system management and additional water savings potential. The Bureau of Reclamation has agreed to assist Metropolitan by providing technical assistance to evaluate efficiency measures and estimated water savings.
- **Enhanced Conservation and Water Savings Performance Programs:** The Enhanced Conservation Program provides funding directly to member agencies to encourage new approaches to water conservation, and the Water Savings Performance Program provides funding to retail customers for large landscape water use efficiency and industrial process improvements. These programs would be phased out upon completion of the existing agreements. These types of projects would be eligible under the proposed MWD-Funded/Member Agency Administered Incentive Program, which offers greater flexibility for member agencies to focus on specific service area goals.

Transition to FY 2010/11 Water Conservation Plan

Staff proposes that changes become effective June 1, 2010. This will provide continuity and a smooth transition to FY 2010/11 programs. Due to typical rebate processing time, eligible products purchased in June will result in rebate expenditures by Metropolitan in FY 2010/11. Staff will coordinate with member agency managers on rollout of the conservation programs and implementation of the Plan. The Plan will be implemented within the approved FY 2010/11 budget for the Conservation Credits Program. To achieve water savings goals, administrative actions would be taken to improve management and capitalize on water savings opportunities by reassessing the allocation of budgeted funds among the conservation program elements as the year progresses and making adjustments as necessary.

Expected Benefits from Proposed Plan

Implementing the proposed FY 2010/11 Water Conservation Plan offers several benefits that accrue to Metropolitan, member agencies, and retail agencies:

- **Increased water savings:** Increased local conservation would occur through technical assistance, non-incentive approaches, and the MWD-Funded/Member Agency Administered Incentive Program. Additionally, high activity levels are expected to continue in the commercial program, which has proven to be simple and attractive to businesses.
- **Improved effectiveness:** The Plan represents a more balanced, effective approach to address regional and local agency goals, reflects lessons learned from recent activities in existing programs, and is a good first step in transitioning to the Long-Term Water Conservation Plan.
- **Flexibility:** MWD-funded locally administered programs would allow member agencies to focus on their specific service area needs.

Regional Commercial Conservation Program Contracts

In order to implement the Plan, staff recommends retaining a new vendor to administer the regional commercial program because the current agreement expires at the end of June 2010. The vendor would implement the new program with marketing, providing an application process that is uniform across Metropolitan's service area, and issuing incentives. The regional approach offers several benefits to Metropolitan, member agencies and retail agencies, including improved customer access to incentives, increased water savings, reduced regional overhead, and improved public outreach. Metropolitan's regional commercial vendor would also provide an additional benefit to member agencies that wish to use the vendor to cost-effectively administer their own direct incentive programs for commercial, industrial, and institutional customers through the MWD-Funded/Member Agency Administered Incentive Program.

Based on the results of a competitive bid process, staff recommends approval of a new three-year, \$120-million agreement with the highest scoring respondent, Honeywell International, to administer the regional commercial program. The \$120 million includes \$114 million of actual incentive payments, as well as \$6 million fees for the vendor. This contract would provide an approximate 30 percent reduction in Metropolitan's administrative service costs for the commercial program, or \$400,000 annually, compared to the current contract. Vendor services would include an improved processing system with the following: new website, real-time on-demand reporting, and customer ability to check status of rebate applications. The contract authority would be apportioned over the three-year term with approximately \$40 million per year if needed. In FY 2010/11, approximately \$7.5 million would be funded by Metropolitan with the large majority of that funding comprised of rebates. The balance would be funded solely through member agencies. Expenditure estimates for the FY 2010/11 commercial program are as follows:

Regional program incentives	\$6.5 million
MWD vendor administration fees	<u>\$1.0 million</u>
Subtotal – MWD costs	\$7.5 million
Member agency co-funded incentives*	\$15.5 million
Member agency fully-funded incentives	\$16.0 million
Member agency fully-funded administration fees**	<u>\$1.0 million</u>
Subtotal – Member agency costs	\$32.5 million
Total Expenditures FY 2010/11	\$40.0 million

*Member agency incentives added to Metropolitan incentives as enhancements

**Administration fees paid by member agencies on member agency fully funded incentives.

The contract could be terminated early as needed to respond to the long-term conservation strategy. Information on the selection process and scope of the agreement is included in [Attachment 5](#).

Staff also recommends amending the existing contract with Honeywell International, the current regional commercial program vendor, to maintain continuity and customer service levels during the transition to the new vendor agreement. When Metropolitan-funded reservations were fully subscribed in December, some member agencies opted to provide commercial rebates through Metropolitan's regional vendor by funding both rebate and administrative costs. As a result, a large portion of the remaining contract authority was consumed by member agency funding. In response to member agency requests, staff recommends that the current agreement with Honeywell International be increased from \$85 million to a maximum payable of \$90 million to allow timely processing of customer applications while the new contract is executed and the vendor's improved processing system is implemented. Most of this increase would be paid by member agencies. Metropolitan's share would be within the approved expenditure amounts for the Conservation Credits Program. With board approval of the increased contract authority, staff would extend the contract through September 2010.

Status of Long-Term Conservation Plan

As reported in December 2009, Metropolitan conducted a series of workshops with member agencies and retail agencies to develop a framework for a long-term conservation strategy that would help achieve IRP Update resource goals. The framework includes multiple strategies such as legislation, technical and financial assistance, device incentives, and education and outreach. Financial incentives could drive market transformation for specific water conservation devices and strategies. Other approaches that do not rely on incentives would play an increasing role in achieving regional objectives. The balance of responsibilities between Metropolitan and the member agencies for program implementation is still under discussion. A proposal for Metropolitan's long-term conservation strategy will be completed after the 2010 IRP is finalized.

Policy

By Minute Item 47964, dated July 14, 2009, the Board authorized modifications to Metropolitan's Water Conservation Program.

By Minute Item 47926, dated June 9, 2009, the Board authorized water use efficiency program changes.

By Minute Item 47393, dated February 12, 2008, the Board approved the Water Supply Allocation Plan using 2004-2006 as the three-year baseline period.

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

By Minute Item 46773, dated August 15, 2006, the Board authorized upgrades to the commercial and landscape water efficiency programs.

By Minute Item 46486, dated December 13, 2005, the Board set the incentive amount at \$195 per acre-foot of water conserved not to exceed 100 percent of product cost or one-half of a program cost.

By Minute Item 45841, 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 39795, dated August 20, 1992, the Board approved member agency allocations for the Conservation Credits Program based on total urban demand in Metropolitan's service area.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

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, Metropolitan's Water Conservation Program was previously determined by the Board (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 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:

- a. Metropolitan's FY 2010/11 Water Conservation Plan and incentive modifications with an effective date of June 1, 2010;
- b. Elimination of Enhanced Conservation Program and Water Savings Performance Program, upon completion of existing agreements;
- c. Execution of a new three-year contract not to exceed \$120 million with Honeywell International to administer Metropolitan's Regional Commercial Conservation Program; and
- d. Execution of an amendment to the existing contract with Honeywell International, increasing the maximum amount payable from \$85 million to \$90 million, to continue processing commercial incentives under this contract.

Fiscal Impact: \$17.1 million corresponding to the requested budget amount for conservation in FY 2010/11 with remainder funded by member agencies

Business Analysis: The proposed FY 2010/11 Water Conservation Plan would help achieve the water savings goal in the IRP and improve regional water supply reliability. It would increase local conservation through non-incentive approaches, improve the financial performance of Metropolitan's regional programs, and provide financial and technical assistance to the member agencies to achieve local water conservation goals.

Option #2

Adopt the CEQA determination and authorize:

- a. Metropolitan's FY 2010/11 Water Conservation Plan and incentive modifications with an effective date of June 1, 2010;
- b. Elimination of Enhanced Conservation Program and Water Savings Performance Program, upon completion of existing agreements;
- c. Staff to return with an alternative recommendation for the new Regional Commercial Conservation Program administration; and
- d. Execution of an amendment to the existing contract with Honeywell International, increasing the maximum amount payable from \$85 million to \$90 million to continue processing commercial incentives under this contract.

Fiscal Impact: \$17.1 million corresponding to the requested budget amount for conservation in FY 2010/11 with remainder funded by member agencies. Expenditures may be lower depending upon when a new commercial program vendor is authorized.

Business Analysis: The proposed FY 2010/11 Water Conservation Plan would help achieve the water savings goal in the IRP and improve regional water supply reliability. It would increase local conservation through non-incentive approaches, help improve the financial performance of Metropolitan’s regional programs, and provide financial and technical assistance to the member agencies to achieve local water conservation goals. Not selecting a vendor for the regional commercial program at this time will result in the program being delayed after the existing contract with Honeywell International terminates.

Staff Recommendation

Option #1

	4/29/2010
Deven N. Upadhyay Manager, Water Resource Management	Date

	4/29/2010
Jeffrey Lightlinger General Manager	Date

Attachment 1 – MWD Water Conservation Plan FY 2010/11 Design Objectives

Attachment 2 – MWD Water Conservation Plan Proposed FY 2010/11 Conservation Incentives

Attachment 3 – MWD Water Conservation Plan Proposed MWD-Funded/Member Agency Administered Incentive Program

Attachment 4 – MWD Water Conservation Plan Proposed Agricultural Conservation Program

Attachment 5 – Regional Commercial Program Vendor Procurement

Ref# wrm12604400

MWD Water Conservation Plan FY 2010/11 Design Objectives

1. The Water Conservation Plan (Plan) should be designed to achieve the IRP goal for 10,000 acre-feet of new annual water savings through incentive-based actions with additional savings through non-incentive strategies.
2. The Plan should maximize use of approaches that are not dependent on direct financial incentives:
 - Building code and equipment standards,
 - Local ordinances and code compliance,
 - Conservation-based rate structures, and
 - State and federal legislation
3. The Plan should provide for technical assistance and encourage the development and evaluation of new water-conserving technologies.
4. The Plan should drive market transformation, where new technologies become commonly accepted and affordable. Market transformation is achieved through the adoption of state or federal law, local ordinances, retail customer preference, or industry standard, producing long-term conservation without the need for further incentives.
5. Incentives should be used to cause a change in consumer purchase decisions. Incentive amounts should be based on the following criteria:
 - a. Maximum incentive: up to \$195 per acre-foot of water savings, not to exceed 50 percent of average retail device cost.¹
 - b. Reduce or eliminate incentives for devices when:
 - i. Device has achieved market acceptance;
 - ii. Regulatory requirements set water efficient device standards; or
 - iii. Calculated incentive amount from Metropolitan and other sources is less than 20 percent of average device cost, which staff believes is the minimum level to affect consumer purchasing decisions.
6. The Plan should provide for new and innovative approaches to explore other water saving opportunities with Metropolitan's funding based on the following criteria:
 - a. Maximum incentive: \$195 per acre-foot of verifiable water savings for the site of the action, up to one-half of eligible project costs.
7. The Plan must ensure that conservation programs can be managed within budget.

¹ By Minute Item 47964, dated July 14, 2009, the Board authorized modifications to Metropolitan's Water Conservation Program, with incentives based on \$195 per acre-foot of water savings, not to exceed 50 percent of average retail device cost.

MWD Water Conservation Plan Proposed FY 2010/11 Conservation Incentives

1. Authorized Incentives

The following proposed incentive schedule is complete and would supersede all previously approved incentives. For commercial rebate reservations, the incentive would be based on the incentive amount in effect on the date the reservation is approved. Staff may move incentives between programs to improve administrative management.

Device	FY 2009/10 Incentive	FY 2010/11 Incentive (Proposed Effective 06/01/2010)	Reason for Incentive Change
Regional Residential Program			
Weather-based Irrigation Controller – under 1 acre	\$80	\$80	No change
Weather-based Irrigation Controller – 1 acre or larger	\$25 per station	\$25 per station	No change
Rotating Nozzles for pop-up spray head retrofits	\$4 No minimum, pressure regulation required ¹	\$3 Minimum 25 per application, pressure regulation not required	Average retail cost of device has decreased
High Efficiency Clothes Washer – Single and Multi-family (Water Factor <4.0)	\$50	\$85 \$135 with grant	Incentive based on water savings @ \$195/AF plus reinstated Prop 50 grant (\$50 per washer) and anticipated member agency contributions
Regional Commercial Program (including Multi-family Landscape)			
Weather-based or Central Computer Irrigation Controller	\$25 per station	\$25 per station	No change
Large Rotary Nozzles	\$7 per set	\$7 per set	No change
Rotating Nozzles for pop-up spray head retrofits	\$4 Minimum 25 per application, pressure regulation required ¹	\$3 Minimum 25 per application, pressure regulation not required	Average retail cost of device has decreased
Commercial High Efficiency Toilet (tank or flushometer)	\$50	\$50	No change
Commercial High Efficiency Toilet – New Construction Upgrade	\$30	\$30	No change
Urinals – Zero Water Use and Ultra Low Water Use (0 – 0.25 gal/flush)	\$200	\$200	No change
Urinals – Zero Water Use and Ultra Low Water Use – New Construction Upgrade (0 – 0.25 gal/flush)	\$60	\$60	No change
pH Cooling Tower Controller	\$1,900	\$1,750	Average retail cost of device has decreased
Dry Vacuum Pump	\$125 per 0.5 hp	\$125 per 0.5 hp	No change

Device	FY 2009/10 Incentive	FY 2010/11 Incentive (Proposed Effective 06/01/2010)	Reason for Incentive Change
Connectionless Food Steamer	\$485 per compartment	\$485 per compartment	No change
Cooling Tower Conductivity Controller	\$625	\$625	No change
Ice Making Machine (Tier III)	\$300	\$300	No change
Water Broom	\$150	\$110 limited eligibility ²	Average retail cost of device has decreased; support water conservation ordinances
Other Incentives Eligible in MWD-Funded/Member Agency Administered Program³			
Irrigation Evaluation (without irrigation timer)	\$8	\$8	No change
Irrigation Evaluation (with irrigation timer)	\$18	\$18	No change
Commercial Landscape Survey	\$200 per acre ⁴	\$200 per acre ⁴	No change
Water Use Accountability	\$3.50 per acre ⁵	\$3.50 per acre ⁵	No change
Residential High Efficiency Toilet – Single and Multi-family	\$50	\$50	No change
Residential High Efficiency Toilet – New Construction Upgrade	\$30	\$30	No change
Single-family Indoor Survey	\$12.50	\$12.50	No change
Customized Projects		\$195 per AF, up to 50% of eligible project costs	Provide for new approaches
Incentives Eligible in Agricultural Conservation Program			
Agricultural Projects		\$195 per AF, up to 50% of eligible project costs	Agricultural conservation program

¹Pressure regulation was problematic for residential customers and not enforced in FY 2009/10.

²Eligibility limited to customers required to wash down surfaces to comply with health and safety regulations.

³Incentives listed under regional programs may be used for MWD-Funded/Member Agency Administered Program for implementation approaches other than direct customer rebates.

⁴Up to the full cost of the survey with no wait for device incentives.

⁵Limited to one-half of project cost.

2. Eliminated Incentives

Steam sterilizer retrofit: industry standard, market transformation achieved.

Synthetic turf: incentive insufficient to affect consumer purchasing decision.

MWD Water Conservation Plan

Proposed MWD-Funded/Member Agency Administered Incentive Program

1. FY 2010/11 Allocation

Staff recommends allocating budgeted funds to member agencies based on a three-year average of water demand consistent with the base period used for the Water Supply Allocation Plan. Staff considered four alternative funding allocation methods for the MWD-Funded/Member Agency Administered Program, shown below in **Table 1 Alternative Program Funding Allocation Methods**. For an initial allocation, staff recommends Column B, Total Municipal and Industrial (M&I) Service Area Demand since it provides the best proxy for water savings opportunity and is consistent with best management practices to reduce urban demand. This method is also consistent with the approach the Board used to establish policy in 1992 to allocate Conservation Credits Program funding among member agencies. Additionally, the base period for measurement of each agency's Total Municipal and Industrial Demand will be 2004 through 2006. This is consistent with the base period used in Metropolitan's Water Supply Allocation Plan. Two methods, Total Service Area Demand (Column A) and Total Purchased from MWD (Column C), are not recommended because they include agricultural water, which is funded through the separate Agricultural Conservation Program.

2. Eligible Programs and Projects

Based on the approved allocation described above, Metropolitan's funding would be provided for two types of member agency implemented programs or projects:

- Device-based programs: Metropolitan incentives would be provided for programs that (1) offer direct incentives not offered through the regional programs, and (2) other implementation approaches. Program examples include customer rebates for residential high-efficiency toilets, direct installation or distribution of devices, and audits for landscape projects.
- Customized projects: For projects that result in water savings through customized site improvements, Metropolitan's funding would be limited to \$195 per acre-foot of estimated water savings, based on project life and up to one-half of eligible project costs. Project examples include industrial process changes, commercial kitchen improvements, turf removal, and major irrigation system improvements.
 - Eligible project costs include items such as:
 - Equipment
 - Landscape plants
 - Mulch
 - Pervious hardscape
 - Post-installation verification
 - Up to one year of irrigation management fees
 - Project Life:
 - Landscape irrigation system improvements: 10 years
 - Commercial upgrades and industrial process improvements: 5 years
 - Other custom installations: approved project life after review of member agency supplied documentation, technical studies, etc.

3. Implementation

Member agencies would have the option to use Metropolitan's regional residential and commercial vendors to administer device-based direct incentive programs provided they pay all associated administrative costs.

For customized projects, member agencies will submit project proposals, including estimated water savings, for approval.

4. Member Agency Reimbursement

Upon Metropolitan's review and approval of project documentation certifying installation, Metropolitan will approve payment for eligible costs through the monthly water bill. Metropolitan will coordinate with member agencies to track approved projects in order to manage the program budget. All incentives for the MWD-Funded/Member Agency Administered Program must be paid within Metropolitan's fiscal year.

MWD Water Conservation Plan
Proposed MWD-Funded/Member Agency Administered Incentive Program

Table 1. Alternative Initial Program Funding Allocation Methods

Agency	(A)	(B)	(C)	(D)
	Base Period ¹ = 2004 – 2006			
	Total Service Area Demand	<u>Recommended</u> Total M&I Service Area Demand ²	Total Purchased from MWD	Total M&I Purchased from MWD
Anaheim	1.8%	2.0%	1.3%	1.5%
Beverly Hills	0.3%	0.4%	0.6%	0.7%
Burbank	0.6%	0.7%	0.7%	0.8%
Calleguas	4.0%	4.0%	5.4%	6.1%
Central Basin	7.7%	6.8%	4.6%	3.5%
Compton	0.2%	0.3%	0.1%	0.2%
Eastern	6.1%	5.0%	5.4%	5.3%
Foothill	0.5%	0.6%	0.6%	0.6%
Fullerton	0.8%	0.9%	0.8%	1.0%
Glendale	0.8%	0.9%	1.1%	1.3%
Inland Empire	7.0%	6.5%	4.0%	3.1%
Las Virgenes	0.7%	0.8%	1.1%	1.3%
Long Beach	1.8%	2.0%	2.1%	2.3%
Los Angeles DWP	15.5%	17.6%	11.7%	13.8%
MWDOC	12.5%	13.0%	13.4%	14.2%
Pasadena	0.9%	1.0%	1.1%	1.3%
San Diego CWA	16.4%	14.6%	26.4%	24.2%
San Fernando	0.1%	0.1%	0.0%	0.0%
San Marino	0.1%	0.2%	0.1%	0.1%
Santa Ana	1.1%	1.2%	1.0%	1.2%
Santa Monica	0.4%	0.4%	0.6%	0.7%
Three Valleys	3.1%	3.4%	3.3%	3.8%
Torrance	0.8%	0.9%	1.0%	1.1%
Upper San Gabriel	5.4%	5.2%	2.4%	0.8%
West Basin	4.7%	4.9%	6.7%	7.2%
Western	6.8%	6.8%	4.6%	4.1%
Total	100.0%	100.0%	100.0%	100.0%

¹By Minute Item 47393, dated February 12, 2008, the Board approved the Water Supply Allocation Plan that uses 2004-2006 as the three-year baseline period.

²By Minute Item 39795, dated August 20, 1992, the Board approved member agency allocations for the Conservation Credits Program based on total urban demand in Metropolitan's service area.

MWD Water Conservation Plan Proposed Agricultural Conservation Program

In March 2009, the Board approved adding the Agricultural Conservation Program to assist agricultural customers that opt-out of Metropolitan's Interim Agricultural Water Program (IAWP) or pay full service rates. Staff worked with member agencies and met with stakeholders in an effort to finalize program guidelines and get feedback on methods to improve agricultural irrigation efficiency. Based on feedback from member agencies and other stakeholders, staff proposes that the agricultural conservation incentive program begin in FY 2010/11.

1. Implementation

Metropolitan will provide incentives for agricultural irrigation system capital improvements to improve water use efficiency. Metropolitan's funding would be limited to \$195 per acre-foot of water savings, based on a 10-year equipment life, up to one half of eligible project costs. Eligible costs include items such as irrigation equipment and up to one year of irrigation controller subscription fees.

Agricultural customers are eligible to participate, provided they are not participating in Metropolitan's IAWP at the time of equipment installation. A pre-installation audit is required to evaluate the existing irrigation system. Based on audit recommendations, customers would apply to the program, complete the improvements, and participate in a post-installation audit that measures the change in irrigation system efficiency and provides information to further increase conservation savings. Metropolitan will coordinate with member agencies to track participation in order to manage the program budget.

Estimated water savings would be determined based on the change in irrigation system efficiency measured during the post-installation audit. Metropolitan would establish minimum audit guidelines to allow evaluation of water savings. Audits would be performed by entities that have the technical expertise to assess agricultural irrigation systems and make recommendations, such as local resource conservation districts or the Department of Water Resources. Member agencies would be responsible for any pre-installation audit costs while Metropolitan would be responsible for post-installation audit costs, up to a pre-determined cost limit per site. Metropolitan will work with member agencies to establish post-installation audit reimbursement limits.

2. Member Agency Reimbursement

Member agencies will notify Metropolitan and provide project documentation when a customer application is approved. After project completion, member agencies will submit invoices with supporting documentation certifying installation to Metropolitan for review. Upon approval, member agencies will be reimbursed for customer incentives (100 percent of the estimated water savings, up to one-half of eligible project costs) and post-installation audit costs through Metropolitan's monthly water bill.

Regional Commercial Program Vendor Procurement

In order to implement the proposed FY 2010/11 Water Conservation Plan, Metropolitan would need to authorize a new vendor agreement for administering the regional commercial program because the current vendor agreement expires at the end of June 2010. The existing commercial program provides rebates for indoor/outdoor water saving devices at business and commercial sites, and outdoor devices installed at multi-family residences, such as apartments, mobile homes, condominiums, and townhouses. The new vendor will be responsible for administering the program, including the following: reservation, application and rebate processing; website, database, and reporting services; quality control and fraud prevention; and additional services that are fully-funded by the member agencies.

Competitive Bid Process

Staff has completed a competitive bid process to provide a recommendation to the Board on the vendor and agreement terms. The Request for Proposal (RFP), titled Long-term Region-wide Commercial, Industrial and Institutional Water Conservation Rebate Program, was issued on February 18, 2010. Responders were required to have a minimum of five years of experience in providing similar services. The following summarizes the first phase of the bid process:

- Over one hundred vendors downloaded the RFP.
- Approximately two dozen vendors attended the mandatory pre-proposal conference held at Metropolitan on February 25, 2010.
- Seven proposals were received by the end of the three-week bid period.
- A five-member review panel consisting of member agency and Metropolitan staff evaluated the proposals based on the following criteria: qualifications, staffing, record of past performance, technical approach and methodology, cost proposal, environmental sensitivity, and business outreach program.

Based on the results of the initial evaluation, the review panel recommended two respondents to be invited to interview for the contract and submit their best and final offer. Prior to the interviews, staff checked the references provided by each vendor. Interviews were held on April 8, 2010, and the best and final offers were submitted on April 14, 2010.

Vendor Recommendation

Honeywell International received the highest rating by the review panel based on the proposal evaluation, interview, reference checks, and best and final offer. Honeywell International, through its Honeywell Utility Solutions division, has implemented utility sponsored water conservation and energy efficiency programs for over 30 years, including programs for Metropolitan, Los Angeles Department of Water and Power, Municipal Water District of Orange County, and the San Diego County Water Authority. Honeywell is currently administering Metropolitan's commercial program, providing services through its office in El Segundo.

Staff recommends approval of a new three-year, \$120 million agreement with Honeywell International to administer the regional commercial program. This contract would provide an approximate 30 percent reduction in Metropolitan's administrative service costs for the commercial program, or \$400,000 annually, compared to the current contract. Vendor services would include an improved processing system with the following: new website, real-time on-demand reporting, and customer ability to check status of rebate applications. The contract could be terminated early as needed to respond to the long-term conservation strategy. This contract authority would be apportioned over the three-year term with approximately \$40 million per year if needed. In FY 2010/11, approximately \$7.5 million would be funded by Metropolitan with the large majority of that funding comprised of rebates. The balance would be funded solely through member agencies. Expenditure estimates for the FY 2010/11 commercial program are as follows:

Regional program incentives	\$6.5 million
MWD vendor administration fees	<u>\$1.0 million</u>
Subtotal – MWD costs	<u>\$7.5 million</u>
Member agency co-funded incentives*	\$15.5 million
Member agency fully-funded incentives	\$16.0 million
Member agency fully-funded administration fees**	<u>\$1.0 million</u>
Subtotal – Member agency costs	<u>\$32.5 million</u>
Total Expenditures FY 2010/11	\$40.0 million

*Member agency incentives added to Metropolitan incentives as enhancements

**Administration fees paid by member agencies on member agency fully-funded incentives