



• Status report on conservation credits program for July 2010

Summary

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Attachments

Weekly Conservation Program Update dated June 28, 2010

Detailed Report

Projected Water Savings

Metropolitan encourages water use efficiency through a variety of water resource management programs. Since 1990, Metropolitan has provided about \$268 million in conservation incentives, saving about 134,000 acre-feet annually. Conservation incentives paid in fiscal year 2009/10 are expected to save an additional 11,700 acre-feet of water annually and 152,000 acre-feet over the lifetime of the devices.

Backlog Payment Processing

Approximately \$9.8 million of the \$14.2 million identified as backlog payments in the General Auditor's report has been processed and paid by Metropolitan. Some projects included in the audit estimate were not completed, some were invoiced for lesser amounts and others were duplicates of projects that had already been paid. There were also applications for member agency and regional projects that were not included in the estimate that qualify for funding. Staff has resolved the majority of the backlog issues, but it is possible that delayed requests for backlog payment may be received in the future and will be appropriately addressed at that time. Overall, the net backlog payments are approximately \$4.4 million less than the audit estimate. Table 1 below provides a status of the estimated \$14.2 million of backlog payments using the four categories identified in the Audit report.

Table 1- Backlog Payment Summary (\$ million)

Expenditure	Audit Report Estimate (1)	Committed Cost To Date (2)	Projected Additional Costs (3)	Projected Total Costs (4)	Projected Cost Difference (5)
Regional Rebate Programs	8.4	5.9	0	5.9	2.5
Administrative Fees	1.3	0.9	0	0.9	0.4
Member Agency Programs	3.4	2.2	0	2.2	1.2
Recycled Water Retrofits	1.1	0.8	0	0.8	0.3
Total	14.2	9.8	0	9.8	4.4

Notes:

- (1) Estimated backlog amount from the Audit Report in July 2009
- (2) Actual costs plus invoices processed by Metropolitan as of June 28, 2010
- (3) Projected additional costs, if any
- (4) Sum of columns 1 and 2
- (5) Difference between Audit Report Estimate and Projected Total Cost

Board Report (Status report on conservation credits program for July 2010)

Fiscal year 2009/10

Approximately \$8.9 million of the original budget of \$19.1 million has been processed and paid to date. Some programs have projected costs that exceed budget and others have projected costs less than budget. At this time, staff projects costs will be approximately \$10.2 million under budget. Table 2 below provides a status of the fiscal year 2009/10 programs, backlog totals and carryover resulting from the deferral of Board action from June 2009 to July 2009:

Table 2- Fiscal Year 2009/10 Cost Projection Summary (\$ million)

Expenditure	Approved Expenditure Amount (1)	Committed Costs To Date (2)	Projected Additional Costs (3)	Projected Total Cost (4)	Projected Cost Difference (5)
Regional Residential	6.0	1.7	0	1.7	4.3
Regional Commercial	4.6	2.7	0	2.7	1.9
Water Saving Performance	0.5	0.5	0	0.5	0.0
Enhanced Conservation	0.5	1.1	0	1.1	(0.6)
Member Agency Programs	5.5	2.9	0	2.9	2.6
Agricultural Conservation	2.0	0	0	0	2.0
Sub Total	19.1	8.9	0	8.9	10.2
Backlog Total	14.2	9.8	0	9.8	4.4
Carryover from FY08/09	3.8	4.3	0	4.3	(0.5)
Total	37.1	23.0	0	23.0	14.1

Notes:

- (1) Approved expenditures for fiscal year 2009/10 budgeted programs, backlog payments, and carryover payments resulting from the deferral of the Board action from June 2009 to July 2009
- (2) Actual costs incurred plus in-process invoices, applications or reservations for the regional programs and unpaid member agency program allocations as of June 28, 2010
- (3) Projected additional costs for the regional programs and contractual payments for existing multi-year agreements in water saving performance and enhanced conservation programs
- (4) Projected total cost at the end of the fiscal year (sum of columns 2 and 3)
- (5) Difference between the Approved Expenditure Amount and Projected Total Cost

Regional Rebate Programs – The regional rebate programs provide incentives to residential and commercial customers that install water saving devices. The regional residential rebate program had a positive variance of approximately \$4.3 million due in large part to the slow economy. Activity in this program increased when the State of California launched its Cash for Appliances rebate program on April 22, 2010. However, store inventory of appliances was quickly depleted, so the surge of rebate requests was less than anticipated. Metropolitan’s funding of \$4.6 million for the regional commercial program was fully reserved on December 28, 2009, and the commercial program transitioned to a member agency fully funded program on January 4, 2010. Since the transition, reservations for Metropolitan funding totaling approximately \$1.9 million have expired or were canceled because customers did not complete the proposed work and submit applications.

Board Report (Status report on conservation credits program for July 2010)

Water Savings Performance Program – This program provides incentives for both industrial process improvements and large landscape water use efficiency projects that demonstrate water savings within a specified monitoring period. The program is fully subscribed and staff processed payments for only existing projects. Fiscal year expenditures are approximately equal to the approved expenditure amount.

Enhanced Conservation Program – This program provides funding directly to Metropolitan’s member agencies to encourage new and creative approaches to implement urban water conservation. The program is fully subscribed and staff processed payments for only existing projects. Some customers with signed agreements accelerated completion of their projects. This did not increase the cost of Metropolitan incentives because each agreement has fixed maximum amounts payable. However, accelerated completion shifted more of the project costs into fiscal year 2009/10 and resulted in a negative variance of approximately \$0.6 million.

Member Agency Program – In addition to regional rebate 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 of toilets, 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. Due to the slow economy, unavailability of state grant funding and the lower per device incentives amounts offered by Metropolitan, requests for incentives payments from the member agencies were less than anticipated and resulted in a positive variance of approximately \$2.6 million.

Agricultural Conservation Program – In March 2009, the Board approved adding an agricultural water use efficiency component to Metropolitan’s Water Savings and Performance Program; however, the program was included as a separate line item in the fiscal year 2009/10 budget. Staff held a series of meetings with member agencies and other stakeholders to refine program guidelines and start date. Based on that feedback, staff recommended that the program launch in fiscal year 2010/11 to assist agricultural customers that opt-out of Metropolitan’s Interim Agricultural Water Program or pay full service rates. These customers could be eligible for incentives that focus on irrigation 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. Staff finalized the program guidelines and launched the program in June 2010.

Addressed Audit Issues

Contract Language - Staff worked closely with the Office of General Counsel to improve contract language in member agency master agreements. Addendums to the contracts clarified language and include deadlines for payment processing.

Service Provider Contract - Service providers continue to provide weekly reports of paid, committed and projected costs to Metropolitan for activity during the previous week.

Financial Controls – Data submitted by the service providers is utilized for balancing and reconciling rebate applications received, in-process, and paid on a weekly basis to ensure rebates are processed in a timely manner and within budget.

Operational Controls – An on-line reservation system was implemented for the regional commercial program to control expenditures. The regional residential program utilized close monitoring, controlled marketing, and a contingency in lieu of a reservation system to ensure costs stayed within budget. To control costs on the member agency program, staff allocated a portion of the budget to each member agency based on project requests that were submitted. Member agencies payments were limited to allocated amounts and final invoices had to be submitted to Metropolitan by June 11, so payments could be made before the end of last fiscal year.

Program Management - Staff has established separate projects with fixed expenditure amounts to track programs included in the fiscal year 2009/10 budget. Staff also renegotiated the contract with the regional commercial vendor and reduced administrative fees by approximately 30 percent, saving over \$500,000.

Board Report (Status report on conservation credits program for July 2010)

Executive Communication - Board and Executive Management communication was improved through quarterly written reports and oral updates at committee meetings. Executive management is engaged in the oversight of this program to ensure the programs stay within budget and expectations are met.

Reputation Risk Management - Staff worked closely with External Affairs to improve communication to solidify our reputation as a leader in regional conservation efforts and establish realistic expectations given the budgetary constraints in these challenging financial times.

Lessons Learned

Program Activity Difficult to Predict - There has been considerable variation in conservation program activity over the past two years. In fiscal year 2008/09, there were an unprecedented number of requests for conservation incentives. In fiscal year 2009/10, the demand for incentives in the regional residential and member agency programs was very low due in large part to the slow economy and housing market. Grant funding was also restricted due to the state financial crisis, which reduced incentive amounts for some devices and delayed member agency projects. Although the state Cash-for-Appliances program helped increase activity in the regional residential program after it launched on April 22, 2010, the boost was less than anticipated because inventory of qualified appliances was quickly exhausted. One bright spot was that demand for incentives under the regional commercial program remained strong.

Start Early – Last fiscal year, the conservation programs were not launched until September 21, 2009, due to the audit review and time needed to implement recommended improvements. This fiscal year, staff launched the conservation programs on June 1, 2010; since it takes at least a month for most customers to complete projects and submit rebate documentation. This will enable staff to begin processing incentives approximately three months earlier than last fiscal year. Staff also expects activity in the agricultural conservation program to begin early in the fiscal year given that input from member agencies and other stakeholders were incorporated into program guidelines.

Be Flexible and Evolve - To more effectively utilize the conservation program budget of \$19.1 million to achieve the water savings goal, staff will continually review activity in each program and reallocate funding from programs with low activity to programs with high activity. A reservation system was implemented for the regional commercial program last year to ensure costs stayed within budget. It worked well in controlling costs, but some customers that made reservations did not follow through or did not complete projects and submit rebate applications. As a result, Metropolitan did not fully utilize available funding because some customers canceled or let their reservations expire. This fiscal year, in the event that Metropolitan's funding is fully reserved before the end of the fiscal year, staff will implement a "waiting list" of customers requesting reservations. If funding subsequently becomes available due to the cancellation or expiration of another customer's reservation, funding will be made available to customers on the "waiting list". Staff also lengthened the time from 45 days to 60 days before reservations expire to give customers additional time to complete projects and submit the required documentation. 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, residential toilet incentives were moved from the regional programs to the member agency-administered program to provide a more efficient and effective means to target areas with lower saturation levels. Metropolitan funding is also available for device-based and customized projects to add greater flexibility to meet member agency specific needs or preferences not available through the regional programs.

Fiscal Year 2010/11

The conservation programs were launched on June 1, 2010. Member agency agreements and vendor contracts have been executed for the programs. Staff expanded the weekly conservation program update report, which is sent to member agency conservation coordinators and general managers, to include committed and processed costs for each program (**Attachment 1**). Staff will also provide a monthly conservation credits program report to the Board in lieu of this quarterly report.

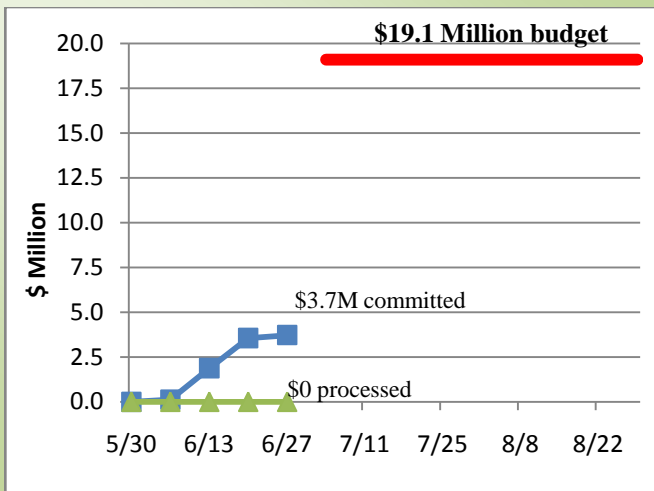


Weekly Conservation Program Update

Fiscal Year 2010-11

June 28, 2010

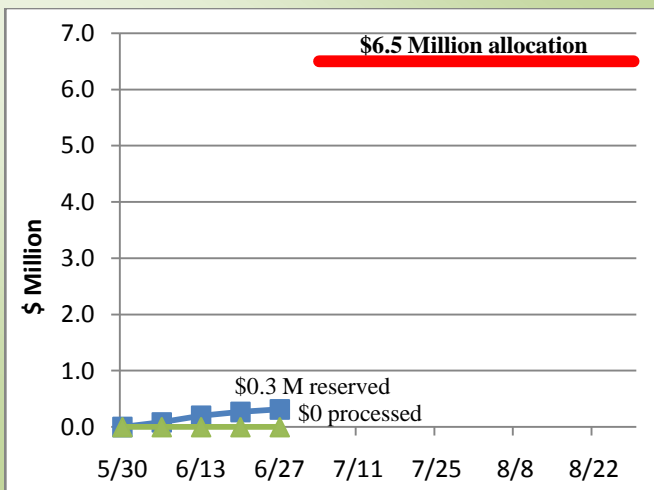
Conservation Program Summary



Summary

- ❖ Programs started June 1, 2010
- ❖ Approximately \$3.7 million committed
- ❖ Invoices expected during late June
- ❖ Detailed information given below
- ❖ Payments will be processed after July 1

Regional Commercial



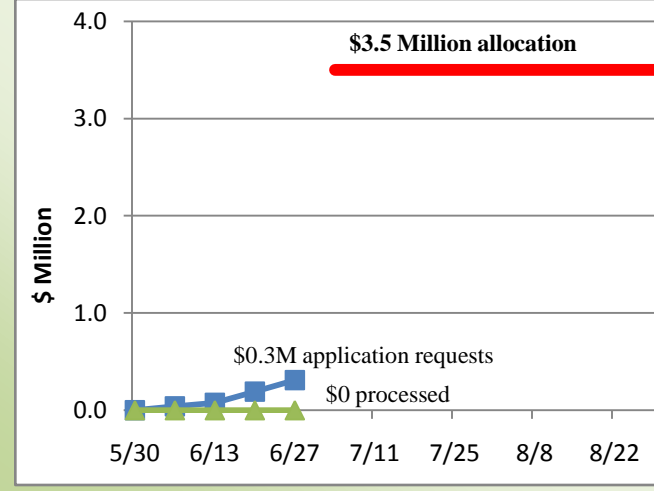
Notes

95 %

Remaining

- ❖ 517 unique website visitors
 - 2 percent decrease from last week
- ❖ Approximately \$45,000 reserved last week
- ❖ \$6.2 million in reservations remaining
- ❖ For additional information, contact Bill McDonnell at (213) 217-7693

Regional Residential



Notes

91 %

Remaining

- ❖ 5,569 unique website visitors
 - 2 percent increase from last week
- ❖ Approximately \$100,000 app requests last week
- ❖ \$3.2 million in funding remaining
- ❖ For additional information, contact Alice Webb-Cole at (213) 217-6716

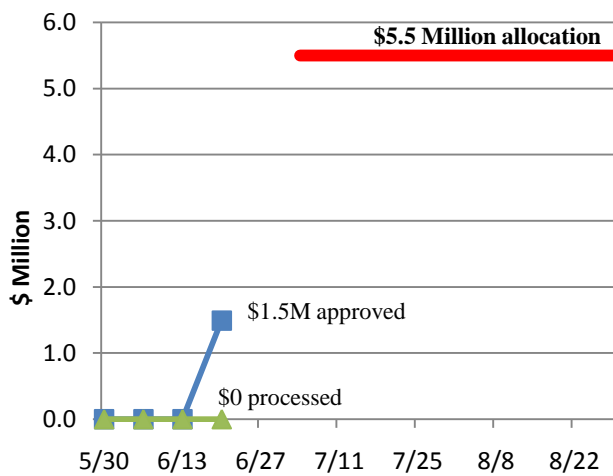


Weekly Conservation Program Update

Fiscal Year 2010-11

June 28, 2010

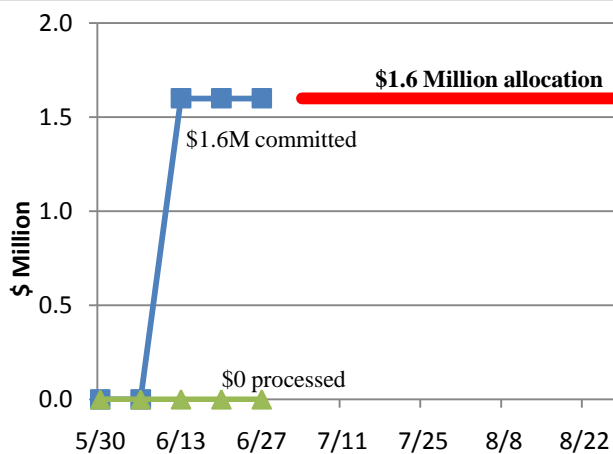
MWD Funded / Member Agency Administered Program



Notes

- ❖ Allocation forms must be signed and returned to Metropolitan to participate
- ❖ Projects require pre-approval by Metropolitan
 - No approval requests last week
- ❖ Work must be completed by April 30, 2011
- ❖ Invoices must be received by May 15, 2011
- ❖ For additional information, contact Diane Harrelson at (213) 217-6167

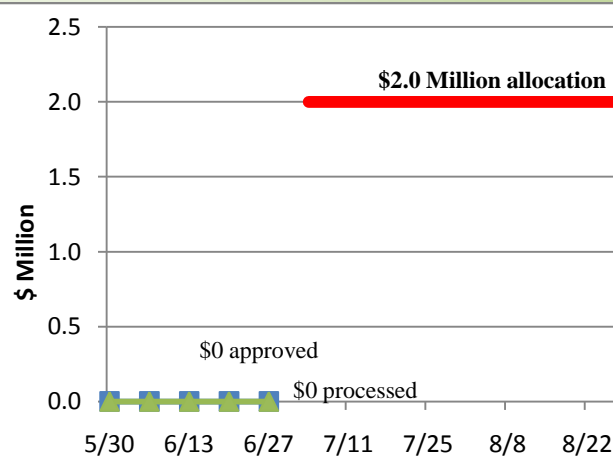
Existing Contract Commitments



Notes

- ❖ Existing contracts commitments for:
 - Enhanced Conservation Program
 - Water Savings Performance Program
- ❖ All funds committed, no invoices processed
- ❖ For additional information, contact Timothy Schaadt at (213) 217-7911

Agricultural Conservation Program



Notes

- ❖ Contracts sent to member agencies for execution
- ❖ Funding available for eligible agricultural irrigation system improvements
- ❖ Projects require pre-approval by Metropolitan
- ❖ For additional information, contact Mark Graham at (213) 217-5793