



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

8/17/2010 Board Meeting

9-1

**Subject**

Review of an opt-in/opt-out approach for Metropolitan's Conservation Program

**Description**

In May 2010, the Water Planning and Stewardship Committee requested staff to review an optional approach to Metropolitan's Regional Conservation Program. Since that time, during the June IRP Steering Committee meeting, a member agency panel also discussed issues relating to opting out of the programs supported by the Water Stewardship Rate, which could include the Local Resources and Seawater Desalination Programs. This board letter addresses the Committee's request regarding the Regional Conservation Program and is structured to reflect an opt-out approach. The letter is organized in three sections: (1) benefits of conservation and Metropolitan's Regional Conservation Program, (2) a framework for an opt-out conservation Program, and (3) the technical and policy issues of enacting an opt-out approach.

Staff's assessment is that an opt-out approach for the Regional Conservation Program would be difficult to develop and is inconsistent with Metropolitan's regional approach to policies and programs. Shared costs and benefits are embedded in Metropolitan's Integrated Resources Plan (IRP), Water Supply Allocation Plan (WSAP), cost of service methodology, and distribution system design; divorcing this concept from a single element of the Metropolitan structure, such as conservation, could have ripple effects throughout Metropolitan. Additionally, Metropolitan and its member agencies have pursued regional supply reliability through a diverse set of inter-connected programs, of which the Regional Conservation Program is one. Together, these programs provide regional reliability enjoyed by all Metropolitan member agencies. To allow agencies to opt-out of one of these programs would potentially require a thorough redesign of how Metropolitan allocates supply reliability among its member agencies. Additional study regarding the impact of such an approach on existing agreements, legislation, and regulation would be required to assess the value of such an approach.

**Benefits of Conservation and Metropolitan's Regional Conservation Program**

Metropolitan's Regional Conservation Program achieves water savings through four approaches: (1) non-incentive based actions, such as the support and implementation of legislation, codes, standards, and ordinances; (2) technical assistance to help local conservation efforts; (3) education and training, including public outreach programs; and (4) financial incentives that are administered either directly at the regional level or as joint member agency/Metropolitan funded programs. These four methods help meet the reliability goals of Metropolitan's IRP, specifically, the 1.1 million acre-foot water conservation goal set for the year 2025. While most of this goal is achieved through the first three methods, staff estimates that roughly 300 thousand acre-feet of the goal will be met through active, incentive-based, conservation. By achieving the IRP goal, conservation helps reduce the frequency, duration, and severity of retail water shortages for all of Metropolitan's member agencies.

In addition to reliability, conservation achieved by Metropolitan and its member agencies provides numerous other shared benefits including:

- Avoided cost of operations, water supply development, and additional capital improvements;
- Support of Metropolitan's core water supply missions in the Bay-Delta, State Water Project, Colorado River Basin, and Water Transfers Program;

- Increased system capacity for operational flexibility and movement of non-Metropolitan water supplies; and
- Increased storage reserves for supply reliability during dry-weather conditions and regulatory constraints.

In addition to these benefits, conservation in Southern California helps meet expectations of state and federal laws and regulations. These include reporting requirements under the SB 60 amendment to Metropolitan's authorizing act, the Section 417 Process and Section 210(b) requirements with the U.S. Bureau of Reclamation (Bureau), California's Urban Water Management Planning Act, the new 20x2020 legislation, and evolving standards of "Reasonable and Beneficial Use."

While locally implemented conservation contributes to the benefits and expectations noted above, Metropolitan's Regional Conservation Program offers the following additional benefits that may not be achieved without a comprehensive regional program.

#### Market Leadership for Water Savings Technology

Metropolitan's service area includes over half of California's population and over 1 in 20 U.S. citizens. Because of this large market size, Metropolitan's member agencies, speaking together through Metropolitan's Regional Conservation Program, can impact the efficiency standards of water using devices and fixtures. This unified influence has helped set standards for high efficiency clothes washers, high efficiency toilets, and even the spray valves used in most restaurants to rinse a dish before it is placed in the dishwasher. Pilot studies and programs at Metropolitan played a significant role in setting the water efficiency standards in California's Model Water Efficient Landscape Ordinance and are currently driving product manufacturers to test and certify their products under the U.S. Environmental Protection Agency's WaterSense Program. Over time, these improvements promoted in Metropolitan's Regional Conservation Program lead to long lasting non-incentive based conservation through improved codes and industry standards of statewide and potentially nationwide application.

#### Economy of Scale

Metropolitan's Regional Conservation Program, provides Metropolitan and member and retail agencies with a cost-effective way of offering incentives and programs to retail customers. Metropolitan's regional vendors, selected through a process with the member agencies, provide a superior level of service, while using the negotiating strength of the region to control administrative costs. In some areas, Metropolitan's Regional Conservation Program is the only way for the public to receive conservation incentives as they may not have locally administered conservation programs.

#### Meeting Expectations Specific to Metropolitan

Reasonable use and management of water is a requirement of California's Constitution and Water Code. This requirement was reiterated in the recent adoption of SBX7-7, which provides that the "state shall achieve a 20 percent reduction in per capita water use" by 2020. Ten years ago the Legislature enacted SB 60, amending the Metropolitan Water District Act to express "the intent of the Legislature that [Metropolitan] expand water conservation, water recycling, and groundwater recovery efforts." Section 130.5 directs that Metropolitan "shall place increased emphasis on sustainable, environmentally sound, and cost-effective water conservation, recycling, and groundwater storage and replenishment measures." Section 130.7 was also added requiring Metropolitan to report annually to the Legislature on "its progress in achieving the goals" established in Section 130.5 and "recommendations for actions with regard to policy or budget matters to facilitate the achievement of those goals."

As a Water Service Contractor for Colorado River water, Metropolitan is required to submit evidence of a conservation plan to the U.S. Bureau of Reclamation. Under Section 417, water requirements and deliveries are based on the Bureau's favorable review of water conservation measures and operating practices. In addition, Section 210(b) of the Reclamation Reform Act of 1982 requires water service contractors to prepare and submit water conservation plans to the Bureau and to implement appropriate water conservation measures. Metropolitan satisfies these requirements by providing documentation on its Regional Conservation Program.

### **A Framework for an Opt-Out Conservation Program**

As staff understands the request, the opt-out approach would be characterized by four elements: (1) an agency could elect to opt-out of the conservation program, (2) defined services would no longer be available to the opt-out agency, (3) a discounted Water Stewardship Rate would be charged to the agency, and (4) the opt-out agency would have to independently meet an objective standard of regional water use efficiency in order to contribute its fair share of conservation benefits to the region. Many other policies would potentially need to change, including the regional reliability goal in Metropolitan's IRP and the allocation of water supplies in shortage conditions under the Water Supply Allocation Plan. These policies would need to be reviewed to address the potential circumstances in which an agency opts-out of the regional conservation program, but does not meet an objective standard of regional water use efficiency. Some of these policy changes might work against the Board's Laguna Declaration, which stated that Metropolitan would "provide its service area with adequate supplies to meet expanding and increasing needs."

Staff assumed only direct conservation program incentives would be affected. This means an opt-out agency would no longer be eligible for the following Metropolitan funding:

- Retail customer rebates through Regional Conservation Program,
- MWD-funded/Member Agency-administered conservation program, and
- MWD funding for agricultural conservation.

An agency choosing to opt-out of the conservation program would pay a reduced Water Stewardship Rate. The amount of the reduction would be dependent on a number of factors, including cost reductions, the number of agencies opting out, and the level of services available at the time.

Since many of the benefits discussed above would continue to be funded by the agencies remaining in the Regional Conservation Program, an objective standard of water use efficiency would be imposed on any agency choosing to opt-out in order to avoid an unfair cost shift. This objective standard would be difficult to quantify and measure and could be labor intensive in verification.

Opting out of the conservation program may present some benefits from the perspective of a member agency. These benefits may include:

- A reduced Water Stewardship Rate,
- Increased local control of conservation management, and
- Potential to customize a local conservation program.

### **Implementation Challenges to Administering an Opt-Out Conservation Program**

Metropolitan's Regional Conservation Program is linked to many Metropolitan issues including:

- Avoided capital and O&M expenses,
- Existing and future system capacity development needs,
- Metropolitan's Integrated Resource Plan, and
- Implementation strategy for supplies on the Colorado River and State Water Project.

These links provide benefits that are difficult to separate and deny to an agency that opts out. If the objective standard for water use efficiency called for above cannot be defined, or after being defined is not reached, then these regional benefits could present a cost/benefit shift among the member agencies or impair Metropolitan's ability to meet its water management goals and obligations. For example, if an agency were to opt-out and lower the level of its conservation progress, then there would be an increase in costs for the other member agencies related to system capital expansion, marginal increased need for water supply, energy, and water treatment. Staff may be able to quantify some of these costs, but other linked issues such as availability of system capacity, increased storage use, and increased risk of going into Water Supply Allocation are much more difficult to quantify.

Some of the broader benefits of the Regional Conservation Program include satisfaction of a required water conservation program as a Water Service Contractor for Colorado River water and fulfillment of water management requirements under the Metropolitan Water District Act. Metropolitan would need to consider the

impact of an opt-out program on its ability to meet these requirements. Furthermore, any actions that diminish Metropolitan’s reputation as a leader in water-use efficiency could adversely affect the perspective of legislators, increase scrutiny in water rights decisions, raise questions in approvals of imported water diversions, and reduce competitiveness in grant applications. If agencies were to opt-out of the Regional Conservation Program, it may become necessary to demonstrate conservation by documenting performance of individual member agency programs.

Broader benefits of the programs funded by the Water Stewardship Rate are hard to separate. The opportunity for conservation is fairly uniform across retail customers, unlike the agency by agency potential for recycled water, groundwater recovery, and seawater desalination. Consensus on the role and scope of the programs funded through the Water Stewardship Rate is important if regional water supply programs are to continue.

**Conclusion**

The Regional Conservation Program was developed over time to provide value to Metropolitan’s member agencies. Such programs are common in the utility industry, including the electric and natural gas industry. There are economic and environmental benefits and public expectations of efficiency. An opt-out approach for the Regional Conservation Program may slightly reduce an agency’s stewardship rate, but could also impact regional conservation levels, raise equity issues, and increase administrative burdens. An opt-out approach raises an important policy question for Metropolitan in terms of maintaining its mission. Under the current model and consistent with its statutory obligations, Metropolitan provides regional leadership in conservation, which is consistent with the role to provide regional supply reliability. Under an opt-out approach, this role could be impaired.

Staff does not recommend an opt-out approach for conservation or other Metropolitan programs. Fundamentally, it runs against Metropolitan’s regional approach to water management. Rather, staff would recommend working with the Board and the member agencies on approaches to refine the Regional Conservation Program so that it is clearly aimed at providing regional benefits and complements the local efforts of the member agencies.

**Policy**

By Minute Item 47526, dated June 10, 2008, the Board adopted the Water Supply Alert Resolution.

By Minute Item 47393, dated February 12, 2008, the Board approved the Water Supply Allocation Plan.

By Minute Item 45841, dated July 13, 2004, the Board adopted the Integrated Water Resources Plan Update.

By Minute Item 44812, dated March 12, 2002, the Board adopted Resolution 8805, fixing and adopting rates and charges for FY 2002/03, including the Water Stewardship Rate.


Metropolitan Water District Administrative Code Sections 4301 (a) (b): Cost of Service and Revenue Requirement

Metropolitan Water District Administrative Code Sections 4304 (c) (f): Apportionment of Revenues and Setting of Water Rates and Charges to Raise Firm Revenues

**Fiscal Impact**

None

	8/4/2010
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	8/4/2010
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