



- Board of Directors
Water Planning and Stewardship Committee

5/8/2012 Board Meeting

8-4

Subject

Authorize changes to water conservation incentives and authorize a five-year agreement with Electric and Gas Industries Association to administer Metropolitan's regional conservation rebate program, in an amount not to exceed \$90 million, which includes a cap of \$4 million for administrative fees and up to \$86 million in conservation incentives (subject to budget approval)

Description

Staff recommends changes within Metropolitan's water conservation program to support implementation of the Long-Term Conservation Plan (LTCP) and help achieve water savings consistent with Metropolitan's 2010 Integrated Resources Plan (IRP). The proposed changes reflect input received in consultation with a Program Advisory Committee (PAC) comprised of member and retail agencies. Changes to the conservation program would be implemented in accordance with the board-approved budget for water conservation. Key changes include the following:

- Increased emphasis on market transformation for landscape water use efficiency including training for residential customers;
- New and modified incentives to motivate customer participation;
- Resumption of regional pay-for-performance program administered by Metropolitan for industrial process improvements and large landscape irrigation efficiency projects; and
- When Metropolitan receives State or Federal grants, all member agencies can use Metropolitan's conservation program incentives as matching funds under these grants.

Administration of Regional Program

Staff completed a competitive selection process and recommends approval of an agreement with Electric and Gas Industries Association (EGIA) to administer a combined regional conservation rebate program, including both residential and commercial rebates. Metropolitan's regional residential and commercial programs are currently administered through separate vendors. The change from two vendors to one will increase program efficiency and eliminate duplicative efforts while providing enhanced customer service to member agencies and their retail customers. EGIA would provide regional program administration for both residential and commercial device retrofits including rebate processing, website development and updates, database management, customer service, and reporting. The maximum amount payable to EGIA for its services under this agreement would be \$4 million. EGIA's administrative fees would be limited to 10 percent of the conservation rebate dollars funded by Metropolitan. This represents a decrease from the current program administration rate of about 14 percent. Metropolitan can direct EGIA to perform additional services to promote the rebate program on a task order basis. The remaining balance of the agreement (\$86 million) accounts for the pass-through of rebate dollars to consumers over the five-year term of the agreement. Metropolitan provides a portion of these incentives through the board-approved conservation budget. Additional funding comes from member and retail agencies that choose to utilize Metropolitan's regional vendor contract to provide supplemental incentives. The maximum contract amount reflects reduced conservation rebate activity and member agency funding, as seen in recent years. Should activity and external funding levels increase, then staff may return to the Board to consider an increase in the contract maximum.

Incentive Changes

Traditional strategies such as financial incentives help motivate customers to increase water efficiency by installing new water efficient devices and fixtures. Metropolitan provides incentives through the regional programs and locally implemented programs administered by the member agencies. Incentives are calculated considering the value of saved water at \$195 per acre-foot over the life of the device but not to exceed 50 percent of average device costs. The list of proposed incentive changes can be found in [Attachment 1](#) and a complete schedule of incentives to become effective July 1, 2012, is listed in [Attachment 2](#).

Strategic Focus – Transforming the Market for Landscape Water Use Efficiency

The LTCP includes a strategic focus within the conservation program to emphasize increased water use efficiency and encourage market transformation. The PAC recommended continuing current strategic focus on “proper irrigation control”. The LTCP supports funding for the strategic focus through methods that may differ from traditional incentive approaches including outreach, education, increased incentives and research. To that end, staff would resume landscape irrigation efficiency training for residential customers using conservation program funding, and initiate additional actions such as conducting large landscape surveys to identify water savings opportunities. Large landscape surveys would help educate property managers, identify inefficient water uses, and make recommendations for improvements. Large landscape surveys have documented water savings. To support the strategic focus for proper irrigation control, staff also recommends an increased incentive for rotating nozzles as shown in [Attachment 1](#) and [Attachment 2](#). This incentive is less than Metropolitan’s board policy of \$195 per acre-foot of water savings over the life of the nozzles.

Program Flexibility

Staff will seek additional funding opportunities and grants to provide increased incentives. Grant funds and Metropolitan’s associated matching funds would be accessible to all member agencies beginning July 1, 2012.

As Metropolitan has moved to an accrual-based budget, member agencies will be provided more time to implement local conservation projects using Metropolitan funds. Member agencies will have until late June to complete projects, rather than being required to complete projects by the end of April, beginning in fiscal year 2012/13.

Policy

By Minute Item 48772, dated August 16, 2011, the Board adopted the Long-Term Conservation Plan and revisions to the water conservation policy principles.

By Minute Item 48266, dated May 11, 2010, the Board authorized modifications to Metropolitan’s Water Conservation Program.

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 program cost.

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, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines). For projects under the plan that may require subsequent approval, a CEQA review will be carried out and, if appropriate, environmental documentation for such projects will be prepared and processed in accordance with CEQA and the State CEQA Guidelines.

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15061(b)(3) of the State CEQA Guidelines.

Board Options

Option #1

Adopt the CEQA determination and authorize:

- a. Water conservation program changes effective July 1, 2012; and
- b. Five-year agreement with Electric and Gas Industries Association to administer Metropolitan's regional conservation rebate program. The maximum amount payable under the contract for EGIA's services would be \$4 million. The contract's overall maximum amount will include pass-through incentive funding from Metropolitan, member agencies, and third parties to conservation program participants, with the overall contract amount not to exceed \$90 million.

Fiscal Impact: Conservation incentive expenditures would be managed within the board-approved budget for each fiscal year. The board-approved conservation program budget is \$20 million in fiscal year 2012/13 and \$20 million in fiscal year 2013/14. The average annual administrative service fees of \$800,000 for EGIA under the proposed contract are less than the approved budgets for administrative service fees of \$1,589,100 in fiscal year 2012/13 and \$1,589,100 in fiscal year 2013/14.

Business Analysis: The proposed changes would help achieve the IRP water savings goal, streamline program implementation, and result in improved cost-effectiveness through reduced overhead costs. Also, Metropolitan's direct costs are used to leverage additional external funding from member agencies, retail agencies, and grants.

Option #2

Adopt the CEQA determination and authorize:

- a. Water conservation program changes effective July 1, 2012;
- b. Staff to return with an alternative recommendation for the regional conservation rebate program administration; and
- c. Execution of an amendment to the existing contract with Electric and Gas Industries Association, increasing the maximum amount payable from \$40 million to \$45 million, to continue processing residential incentives under this contract until a new agreement for program administration is executed.

Fiscal Impact: Conservation incentive expenditures would be managed within the board-approved budget for fiscal year 2012/13 of \$20 million. Administrative service fees would continue at the higher overhead rate of about 14 percent of Metropolitan's conservation incentives, pending a new vendor contract.

Business Analysis: EGIA currently administers Metropolitan's regional residential rebate program and is approaching the maximum amount payable for the current agreement. The residential program would need to stop if contract capacity were reached before a new agreement could be put into place.

Staff Recommendation

Option #1

	4/24/2012
Deven N. Upachyay Manager, Water Resource Management	Date
	4/26/2012
Jeffrey Lightlinger General Manager	Date

Attachment 1 – Changes to Conservation Program Incentives

Attachment 2 – Conservation Incentives

Changes to Conservation Program Incentives

The table below lists the proposed changes to the Conservation Program incentives that will become effective July 1, 2012. The full list of incentives effective July 1, 2012, can be found in [Attachment 2](#).

Incentive Changes	Effective 7/1/2012	Reason
Ice Machines	\$1,000 per machine ¹	New research found increased water savings
Flushometer High Efficiency Toilets	\$100 per toilet ¹	Increased water savings and higher average device cost compared to tank-based toilets
Rotating Nozzles	\$4 per nozzle ¹	Support of strategic focus on outdoor water efficiency
Water broom	Eliminate	Some local jurisdictions prohibit outdoor washing of hard surfaces
New Devices	Effective 7/1/2012	Reason
Laminar Flow Restrictors	\$10 per restrictor ¹	Controls flow of faucets and meets health and safety needs of hospitals
In-stem Flow Regulators	\$1 per regulator ¹	Controls flow of individual sprinkler head

¹ Incentives are less than or equal to \$195 per AF

Conservation Incentives

The following incentive schedule is complete and supersedes all previously approved incentives. For regional commercial rebates, incentives are based on incentive amounts in effect when the reservation is made. All device incentives are limited to cost of the device, unless otherwise noted.

Device	Proposed Incentive (Effective 07/01/2012)
Regional Residential Program	
Weather-Based Irrigation Controller – under 1 acre	\$80
Weather-Based Irrigation Controller – 1 acre or larger	\$25 per station
Rotating Nozzles for pop-up spray head retrofits	\$4 ¹ Minimum 15 per application
High Efficiency Clothes Washer – (Water Factor ≤ 4.0)	\$85
Regional Commercial Program	
Weather-Based or Central Computer Irrigation Controller	\$25 per station
Large Rotary Nozzles	\$13 per set Minimum 8 sets per application
Rotating Nozzles for pop-up spray head retrofits	\$4 ¹ Minimum 15 per application
High Efficiency Toilet (Tank-Type)	\$50
High Efficiency Toilet (Flushometer)	\$100
Urinals – Zero Water Use and Ultra Low Water Use (0 – 0.125 gal/flush)	\$200
Dry Vacuum Pump	\$125 per 0.5 hp
Connectionless Food Steamer	\$485 per compartment
Cooling Tower pH Controller	\$1,750
Cooling Tower Conductivity Controller	\$625
Ice Machine	\$1,000 ¹
In-Stem Flow Regulator	\$1 Minimum 25 per application
Laminar flow restrictors	\$10 per restrictor
Other Incentives Eligible in MWD-Funded/Member Agency Administered Program	
Residential Irrigation Evaluation (without irrigation timer)	\$8
Residential Irrigation Evaluation (with irrigation timer)	\$18
Single-Family Indoor Survey	\$12.50
Residential High-Efficiency Toilet – Single and Multi-family	\$50

¹ Increase may be funded through grants, \$4 incentive is still less than \$195 per AF

Device	Proposed Incentive (Effective 07/01/2012)
Commercial Landscape Survey ²	\$200 per acre
Water Use Accountability ³	\$3.50 per acre per month
Rotating Nozzles for pop-up spray head retrofits	\$4 ¹ Up to cost of device plus project administrative costs ⁴
Industrial Improvement and Large Landscape Projects ⁵	\$150 per AF of Estimated water savings or \$195 per AF of Measured water savings
Customized Projects ⁵	\$195 per AF
Turf Removal	\$0.30 per square foot
Incentives Eligible in Argicultural Conservation Program	
Agricultural Projects ⁵	\$195 per AF
Incentives Eligible in Pay for Performance Contracts	
Industrial Improvement and Large Landscape Projects ⁵	\$150 per AF of Estimated water savings or \$195 per AF of Measured water savings
Grant Funding Program	
Turf Removal	\$1.00 per square foot

² Limited to the full cost of the survey

³ Limited to one-half of eligible project costs and a maximum of five years per project

⁴ Eligible project administrative costs include third party costs billed to the agency

⁵ Limited to one-half of eligible project costs