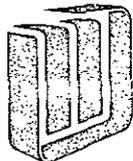


by the Board of Directors of  
The Metropolitan Water District  
of Southern California

at its meeting held JUN 12 1990



**MWD**

*Doreen E. Hoff*  
Executive Secretary

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

May 29, 1990

To: Board of Directors (Water Problems Committee--Action)  
(Finance and Insurance Committee--Information)

From: General Manager

Subject: Conservation Credits Program Financial Contribution

Summary

In September 1988, your Board approved the Water Conservation Credits Program (Credits Program). The Credits Program is similar in concept to the Local Projects Program (LPP). The purpose of the Credits Program is to encourage local water agencies to implement effective water conservation projects through the use of financial incentives. The Credits Program provides financial assistance for water conservation projects which reduce demands on Metropolitan's imported water supplies and require Metropolitan's assistance to be financially feasible. To date, your Board has approved Metropolitan's participation in eight credits projects, with a number of proposals currently under review by staff.

Metropolitan presently pays the lesser of one-half the cost of a water conservation project or an amount per acre-foot of imported water saved based on the avoided cost of State Water Project aqueduct pumping, subject to a minimum payment of \$75 per acre-foot. This letter recommends that the amount paid per acre-foot of imported water saved be increased to a flat rate of \$154 per acre-foot, consistent with the rate approved by your Board for the LPP rate, and subject to a maximum contribution from Metropolitan of one-half the total cost of a credits project. Staff would periodically submit a recommendation to the Board for review of this flat conservation credit rate. This revised payment rate will apply to all future credits agreements.

The proposed action is exempt from the provisions of the California Environmental Quality Act.

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Recommendation

That the Conservation Credits Program be amended to provide a flat rate credit of \$154 per acre-foot of imported water saved, subject to a maximum contribution from Metropolitan of one-half the project cost.

Detailed Report

The Conservation Credits Program (Credits Program) was approved by your Board in September 1988. The Credits Program is similar in concept to the Local Projects Program (LPP). The purpose of the program is to encourage local water agencies to implement effective water conservation projects through the use of financial incentives. In order to qualify for the Credits Program, a water conservation project must generate verifiable savings that reduce demands for water from Metropolitan. In addition, the local agency must demonstrate that Metropolitan's participation is necessary to make the project economically and financially feasible.

To date, your Board has approved eight projects under the Credits Program. They are estimated to yield approximately 43,000 acre-feet (AF) of water over the useful life of the projects. The total cost of these projects is estimated to be \$8 million, with Metropolitan's financial participation under existing program guidelines at \$3.5 million or 39 percent. For each of these projects, there are on-going independent studies being conducted by Metropolitan to verify the actual water savings attributable to each project. Metropolitan's ultimate financial contribution may vary based on verifiable program results as estimated by these on-going studies.

Currently, under the Credits Program, Metropolitan will pay the lesser of one-half the cost of a water conservation project or an amount per acre-foot of imported water saved over the life of the project based on the avoided cost of State Water Project (SWP) aqueduct pumping, subject to a minimum pumping cost of \$75/AF. Based on the Department of Water Resources estimated SWP surplus energy sales for calendar year 1989, the avoided energy cost is expected to be \$106/AF in fiscal year 1990-91. These payments are made only for the amount of water by which the project reduces requirements for Metropolitan's imported water.

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To ensure the aggressive implementation of economically justifiable conservation and reclamation projects, staff has been analyzing the adequacy of the current incentives offered by the Credits Program. The analysis, discussed February 27, 1990 in a separate letter on the LPP to your Board, supports an increase in the credit rate to \$154/AF of water saved. This increased incentive payment will stimulate additional cost-effective water conservation programs in Metropolitan's service area.

The implementation of meaningful conservation measures that produce reliable, verifiable results in water savings is for the most part in the initial stages. In order to encourage local agencies to invest in new innovative water conservation measures, it will require the strong leadership and financial support of Metropolitan. The Credits Program is the major vehicle Metropolitan will use to reach its long-term goals for reduced demands for imported water through conservation which are incorporated in future facilities planning. Increasing the contribution to \$154/AF for water saved will allow Metropolitan to be an equal financial partner with its local agencies in the majority of water conservation projects. Thus, it will provide the necessary financial assistance required to persuade Metropolitan's local agencies to fully embrace the concept that major investments must be made to dramatically increase water conservation in Southern California in the future.

Staff recommends that the minimum \$154/AF contribution not be tied to energy costs or any cost index. Staff would periodically submit a recommendation to the Board for review of this flat conservation credit rate. Under the revised Credits Program, Metropolitan would pay the lesser of one-half of project costs or \$154/AF of water saved over the life of the project. This revised payment rate will apply to all future credits agreements.

The proposed action is exempt from the provisions of the California Environmental Quality Act because there is no possibility that this action would have any impact on the environment.

  
for Carl Boronkay

RWB:MDM:ajs