

BMP Exemption Submittal Guidance

A. Before Submitting an Exemption Claim

If the Cost Effectiveness Analysis (CEA) results in the BMP not cost effective to implement. Your next step is to submit an exemption. The following offers guidance to be certain your exemption claim is valid before submitting for an exemption.

1. Review MOU Section 4.5 concerning exemptions. The MOU includes specific provisions for exemptions.
2. Check your coverage requirements. The Council provides tools to calculate coverage, but the tools depend on accurate data inputs by the user. Council requires water suppliers to accelerate implementation schedule if necessary to obtain cost effectiveness. For example: If your agency must perform 500 surveys over the next ten years, but the CEA proves not cost effective at a pace of 50 surveys per year. The agency must look at accelerating the pace to performing all 500 surveys in one year. Usually the cost efficiencies prove such a scenario cost effective.
3. Review the CEA spreadsheets to be certain all data is entered. It is important to realize that a blank data field equates to a zero value. If you are uncertain of a value to be entered, leaving the data field blank is not an acceptable because the spreadsheet is now calculating the value as zero.
4. When entering discount rates in the CEA tools, be certain to use net discount rates. Net discount rates are adjusted to subtract average rate of inflation.
5. Perform simple logic checks on your CEA. Check your average cost per item (survey, rebate, toilet, etc) on the CEA. Often the results lead you to find obvious errors. For example: a showerhead distribution program of 1,000 showerheads may total to \$150,000 in costs. This equates to \$150 per showerhead distributed -- this is obviously an unreasonable CEA. There is probably a data input error that has caused this problem.
6. Do not include project costs that are not likely to be incurred, such as project evaluation. It is unlikely that there is benefit to performing a formal evaluation on a small project.
7. Do not include costs that will be incurred even if the project is not implemented.
 - a. For example: The proposed BMP project will require 10 hours per week of manage and administrate. The water supplier will have this management task performed by the Conservation Coordinator as part of his/her duties. There will be no difference in the expenses incurred by the water supplier if the BMP is implemented or not implemented; therefore, the labor cost of managing the program is not to be included in the CEA.
8. Evaluate the labor costs with the option of contracting the services out to a vendor, or using temporary labor services. Many conservation projects include temporary low-skill level job duties that can be performed by interns, Community Based Organizations (CBOs) or contracted out at less cost than using in-house water supplier employees, depending on water supplier policy. Some projects

seem to benefit by using local CBOs to perform duties, such as toilet distribution programs.

9. Small projects seldom benefit from large mass- media campaigns. If the per unit costs for promotions exceed \$5.00 per participant, there are likely better ways to garner participation.

B. Common Problems of CEAs and Exemption Submittals of BMPs

BMP 1:

1. Too much surveyor time estimated for each survey.
2. Advertising and publicity costs are not reasonable or effective. When target marketing to a small segment (high water users), direct mail is often the best method and relatively inexpensive.
3. Savings percentage is calculated from the average customer instead of the targeted customer having above average water consumption.

BMP 2:

1. Field labor estimates are too high. Direct install programs generally are less than 30 minutes per home, distribution programs are less than 5 minutes per home.
2. Costs and savings are conflicting between a direct install program and a distribution program.
3. The water use of pre-existing fixtures is erroneously estimated. The average flow rates should be estimated from pre-1992 housing only.

BMP 4:

1. CEA reveals the societal B/C ratio to be very high (over 5), while the utility perspective is very low (below 1). These results indicate improper cost sharing. The customer should provide a greater share of the cost, which will greatly improve the utility B/C ratio.

BMP 5:

1. Field Labor time to measure and survey the landscapes is often overestimated.
2. Aerial photography is seldom the most cost effective method to measure commercial landscape.

BMP 6:

1. CEA results in poor B/C ratio because of high rebate value. Rebate value should be as high as possible, but not exceed cost-effectiveness. Water supplier is not required to perform activities if cost effectiveness is only achieved when rebate value falls below \$50.






BMP 9:

1. Program costs are over-estimated due to field labor costs. Engineers are not required for most commercial and institutional survey. There is great water conservation potential in plumbing fixture replacements alone, and this does not require an engineering firm to calculate cost and savings for the participant.

BMP 14:

1. Free-ridership estimates are misused. Marketing strategies should be implemented to reduce free-ridership.
2. Alternative strategies to rebate programs should be explored. Generally, direct distribution is more cost effective than rebates for small projects (less than 3,000/year).

C. Checklist Exemption Claims

-  Document all project design alternatives analyzed. The CEA spreadsheets allow you to save different scenarios.
-  Provide project descriptions in addition to the CEA scenarios. In all Exemption Submittals, include: electronic version of CEA spreadsheets with all saved scenarios, narrative description of each scenario, and documentation cost sharing efforts.
-  Include all major assumptions used in performing the CEA.
-  If the benefit-cost ratio is close but not quite cost effective, contact the Council Technical Advisor for assistance. Often there are project design options that can lower costs or increase water savings and persistence.
-  Include documentation of efforts to acquire cost sharing partners from other entities that would benefit from the BMP implementation.

D. Exemption Claim Documentation

For exemption claims, the MOU places the onus of proof on the Water Supplier. It is to the advantage of the Water Supplier to provide complete documentation of its efforts to discover a cost effective means to implement the BMP. As the BMPs are presumed cost effective unless proven otherwise, it is the responsibility of the Water Supplier to provide adequate evidence in its claim for exemption. The Council suggests the Exemption Claim include the following:

1. Cover letter from signatory, including:
 - a. BMP(s) for which exemption is claimed
 - b. Reporting period for the exemption claim
 - c. Reason for the exemption claim
 - i. Not within legal authority
 - ii. No available funds, or
 - iii. Not cost effective
- 2 A. If not within legal authority:
 - a. Explanation of law preventing implementation
 - b. Documentation of efforts to work with the legal authority to allow implementation
 - c. Note: cannot be self-imposed restrictions
- 2 B. If no available funds:
 - a. Documentation of efforts to obtain funds
 - b. Copy of CEA to determine avoided cost of conserved water (electronic copy preferred)
 - c. Note: cannot be used if new water supplies are planned or being developed at a higher cost than the avoided cost of conservation.

2 C. If not cost effective:

- a. Copy of CEA with all scenarios and alternate strategies (electronic copy preferred)
- b. Narrative description of each scenario analyzed including:
 - i. Type of program (rebate, voucher, direct install, distribution, etc.)
 - ii. Target market (type of customers, high water users, pre-1992 homes, etc.)
 - iii. Marketing method (direct mail, bill stuffer, mass media, telemarketing, etc.)
 - iv. Average marketing cost per unit (rebate, device, survey, etc.)
 - v. Average administrative labor cost per unit
 - vi. Average field labor cost per unit
 - vii. Average total cost per unit for the project.
 - viii. Total coverage requirement
 - ix. Explanation of why Water Supplier situation is not typical, and probable causes for the CEA results to have a benefit cost ratio of less than 1.
- c. Documentation of efforts to obtain cost sharing partners with other entities that would benefit from the project.

Exemption MOU Compliance Charts

