

May 23, 2016

California Department of Water Resources
Division of Integrated Regional Water Management
Financial Assistance Branch
Post Office Box 942836
Sacramento, CA 94236

Attn: Leslie Pierce

DWR_IRWM@water.ca.gov

RE: Ecolab, Inc. Comments to Draft 2016 Water-Energy Grant Program Guidelines and PSP

Dear Ms. Pierce:

We at Ecolab, Inc. ("ECOLAB") want to thank the Department of Water Resources ("DWR") for its leadership in tackling the state's historic drought and advocating for action to reduce water consumption throughout the state. Moreover, we appreciate DWR's support for funding for innovative water-energy projects targeting the commercial and institutional ("CII") sectors. As you know, the CII sector represents 30% of urban water use¹. Offering industries an incentive program that promotes investment in and utilization of water savings technologies will significantly reduce energy use/GHG emissions and water usage.

By way of background, ECOLAB is headquartered in St. Paul, MN, employs 47,000 associates, and is a global leader in water, hygiene and energy services. ECOLAB serves a wide range of commercial, institutional and industrial sector customers, including healthcare, food service and hospitality, food and beverage processing, as well as provides industrial water services. ECOLAB's Nalco Water division is the world's leading water treatment and management company and helps its customers conserve water and energy to meet their sustainability goals at more than 1.3 million locations around the world. Businesses around the world are setting and achieving ambitious water and energy conservation goals and ECOLAB is helping them achieve these vitally important goals. ECOLAB supports its customers' efforts to operate in a more sustainable way and, at the same time, help reduce the amount of energy and water they consume to produce essential goods and services.

¹ California Department of Water Resources "Commercial, Industrial and Institutional Task Force Water Use Best Management Practices Report to the Legislature," Executive Summary, October 21, 2013, page 4.

We are grateful for the work that DWR has done over the years, including your 2013 CII Task Force review and final Report that recognized the CII Sector “is fundamental to California’s economy and structure” and which identified the following key areas for potential savings for CII water users:

- Restrooms
- Cooling
- Landscapes
- Process Water Inefficiencies
- Kitchen and laundry uses

Indeed, DWR’s 2013 CII Task Force report went on to suggest the following strategies in the above areas:

- Adjustments of equipment and fixing leaks;
- Modification of equipment and installation of water saving devices and controls;
- Replacement with more efficient equipment;
- Water reuse/recycling; and
- Waterless processes

While significant funding has been made available by the state for landscape removal, to date the State has deployed less funding to incentivize and enable the CII sectors to step up their engagement in water and energy conservation. Prominent CII operations such as cooling, boiler, commercial laundry and others are common in hotels, hospitals, schools and manufacturing yet currently there is no mechanism to help drive the significant water and energy savings that could otherwise be generated by these industries and applications. With the 2013 DWR CII Task Force Report in mind, ECOLAB offers the following specific comments to DWRs draft 2016 Water Energy Grant guidelines, released on April 11th, 2016:

(1) Eligibility of technologies (page 9):

At least one of the key strategies addressed in DWRs 2013 Task Force Report was omitted entirely from consideration in your draft guidelines; your Report specifically recommended modifying equipment and installing water saving devices and controls. However, the draft guidelines limit eligibility to eight, very specific products/devices. The prescriptiveness and very narrow scope of this section is likely to preclude innovative control systems that would otherwise result in greater energy and water savings than those specifically outlined in the draft.

The following is but one example of a proven water and energy savings technology that is not included in the list of program eligible equipment. Program and product offerings are available in the market that can provide automation, control, and ongoing assurance that water and energy savings are achieved, and equally as important, can be consistently sustained over time. One such system that Nalco Water designed and markets for cooling towers, boilers, and other water using equipment has been proven to sustain up to a 30% reduction in water consumption. This system utilizes real-time monitoring, unique chemistry, equipment, and 24/7 information management to detect system disruptions before they occur, determine the appropriate program response, and deliver water and energy savings, asset protection and lower operating costs. The result is a balanced, efficient and safe cooling, boiler or membrane system...requiring less maintenance, no over/under-dosing of chemicals, lower operating costs and maximum asset protection.

Nalco Water's offering is called "3D TRASAR" and has been installed in over 36,000 CII sites globally. For example, a Midwest University has to generate steam to support a network of campus buildings, laboratories and a hospital. The University facilities department is under pressure to reduce energy and water usage while maintaining a sustainable campus. Ecolab 3D TRASAR Boiler Technology was presented as a method to address all of these issues and improve boiler operations. The results led to annualized water savings of 2.3 million gallons and energy (and carbon emissions) reduction of 1.96 million BTU.

(2) Preclusion of bundled program and "soft costs." (page 26)

Operational, maintenance and training costs are specifically not reimbursable by this program. The 2013 DWR Task Force Report recommendations included "waterless processes" which arguably should include some level of ongoing chemistry and services that are designed to maintain the effectiveness of the equipment to achieve water and energy savings. By limiting reimbursement to just the costs of "durable goods," the guidelines are likely to miss a significant portion of energy and water savings results that would otherwise be generated. Since the grants are one-time and require specific quantification of energy and water savings, and the fact that the program does not utilize bond funds, it is unclear why the one-time funding cannot include bundled "soft costs" if they are relevant to and, moreover, maximize the savings quantified?

In addition to the technology offering mentioned above that goes well beyond a one-time equipment purchase yet delivers sustained water and energy savings, there are other technologies that are available on the market today that should be considered for inclusion in DWRs list of eligible project types.

In on-premise commercial laundries, ECOLAB's Aquanomic Laundry Program has the potential to reduce water and energy use (and subsequently GHG emissions) by up to 40%. This program goes beyond an equipment-only solution – rather it combines lower temperature chemistry, a SmartWash process, reliable dispensing equipment, and personalized service, which in combination will maximize water and energy savings. In other words, by limiting eligibility to just equipment, it is very difficult for a user to achieve and sustain the target savings.

Another example is Ecolab's Apex Conveyor program. This combines the latest in conveyor dish machine innovation with Ecolab's Apex Warewash program. This innovative approach delivers water and energy savings as high as 50% compared to traditional conveyor dish machines. The system includes heat recapture, low water use technologies, automatic wash tank change, end of the day cleaning, automatic de-liming, glassware results optimization, and procedure knowledge and training. It is coupled with an ongoing service program to ensure that savings are maintained. This solution has been shown to save up to 182,000 gallons per year per full service restaurant location.

These water and energy solutions, along with the one described in point #1 above, cannot deliver water and energy savings via a one-time installation of equipment. Indeed, the only way to maximize savings and ensure these savings can be sustained is to bundle together technology offerings with ongoing service. Expanding the list of costs that can be included in a program would help greatly to incent water and energy users to adopt these technologies and services.

(3) **Eligibility of Sectors (page 6)**

The 2013 DWR CII Task Force Report made recommendations for strategies in the Commercial, ***Industrial*** and Institutional Sectors, but DWR's grant program, as proposed, addresses only Commercial and Institutional. The definitions from your draft program guidelines are reiterated below:

- “Commercial means light industry and light or non-manufacturing business establishments that provide or distribute a product or service, including retail services, office buildings, restaurants, dry cleaners, ***and other consumer-oriented services or businesses***. This also includes employee uses and recreational facilities (temporary lodging) and may include institutional or governmental use, as well.
- Institutional means any water-using establishments dedicated to public service. This could be higher education institutions, schools, courts, hospitals, government facilities, and nonprofit research institutions.”

The focus on consumer-facing businesses and non-profit institutions is admirable. However, many of the most threatened groundwater basin areas of the state heavily overlap with industrial uses, which both provide substantial employment opportunities in those areas and which also compete with residential users for the available water supply. Perhaps the most prominent of these light industries is food processing.

DWRs own 2013 Report recommendations focused on recommendations that were ideal for water savings for light industries – particularly in those areas of the state that have faced the most stringent mandatory reductions and which have the most threatened groundwater basins. These communities also heavily overlap with the state’s most disadvantaged communities, as defined by CalEnviroScreen 2.0.

However, we would respectfully submit that DWRs proposed constraints on the draft grant program potentially create four unintended adverse consequences:

- a) **Missed opportunity to reduce demands on residential users.** Because DWRs proposed program provides no incentives to industrial users in the same areas to reduce water use, the burden falls disproportionately on residential users, many of whom are in disadvantaged communities.
- b) **Missed opportunity to provide cost savings and water certainty to large employers in disadvantaged communities with threatened groundwater basins.** Because the Department has precluded the eligibility of light industry, including food processing, an opportunity has been missed to reduce costs and create either greater employment certainty for local residents – or greater employment opportunities from the costs savings that would accrue from energy and water improvements.
- c) **Missed opportunity to benefit residents of disadvantaged communities.** Truly disadvantaged communities are lacking in substantial non-profit infrastructure, like hospitals and institutions of higher education. Many residents will never see the benefit of savings to a non-profit infrastructure that either (1) doesn’t exist, or (2) to which they have little access. Consumer-facing businesses like hotels and restaurants in many disadvantaged communities are more likely to be utilized by travelers passing through than by the actual residents of those communities. While consumer-facing businesses are appropriate expenditures of the funds, it is far more likely that the average resident will see a greater positive impact not from reduced costs at the dry cleaner or the hospital, but from the area’s largest users.
- d) **Fee nexus has not been maximized.** Utilization of the state’s Greenhouse Gas Reduction Funds should represent the highest and best use of funds by the feepayers to reduce greenhouse gas emissions in order to satisfy the Proposition 26 “nexus” test. By focusing on some of the lowest energy users (and fee payers) among commercial and

industrial users – and by overlooking those who pay the highest amount in fees, the current proposed guidelines may undermine the state’s Proposition 26 case on the issue of cap and trade.

(4) Structure of proposed awards

The CA Legislature opted not to fund the WEG program in the 2015-2016 budget cycle and allocated new funding for residential or commercial/industrial water efficiency. In response, DWR has reauthorized the WEG program, using the funds the Legislature allocated for a new purpose.

In taking this approach, DWR has maintained the former structure of the WEG program – a grant program to local agencies (and nonprofits) in which funds can be received by the end user only after a robust application process is completed.

However, DWR has limited the commercial eligibility of the program to just small users, such as restaurants, dry cleaners and the hospitality industry. It is highly improbable that a small restaurant or dry cleaner would partner with a nonprofit or local government to engage in a robust grant application process.

In sum, ECOLAB respectfully recommends that DWR consider either expanding program eligibility to larger users – i.e., light industrial, such as food processing – or that DWR re-configured the program into a rebate program which allows businesses to apply for and receive rebates from the state (or local agencies) for potential and verifiable energy/GHG and water savings for a programmatic approach. As with the state’s energy efficiency programs, we believe that a determination of savings should not be limited to those savings that are achievable by durable goods, but by a combination of durable goods and optimization of operations, including consumables and water savings devices and controls. Ecolab further respectfully recommends that DWR include in their program language that encourages applicants to include in their programs structures that allow purchasers to participate in lease programs in addition to outright purchases. Allowing leases to be an avenue for payment will open the program to lessees (who may be cash constrained) and purchasers, all of whom desire to save water and energy. Making leases eligible for this grant program will provide users with some flexibility and, at the same time, help achieve desired water and energy savings.

Sincerely,



Nancy Levenson
Vice President, Government Relations