

United States Senate

WASHINGTON, DC 20510

December 20, 2016

The Honorable Secretary Jacob J. Lew
Department of Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Dear Secretary Lew:

We are writing to follow up on our May 26, 2016, correspondence to request that the Department of the Treasury consider additional information in determining whether water conservation rebates and storm water management rebates, including the installation of green infrastructure, could be excluded from residents' taxable income. Since our initial correspondence to you, we have received additional information showing significant, measurable energy savings that result from water conservation. Given the compelling data we have received, we now have reason to believe that water conservation rebates should be considered exempt from inclusion in gross income under 26 U.S.C. § 136 (Section 136), which provides such an exemption for energy conservation measures.

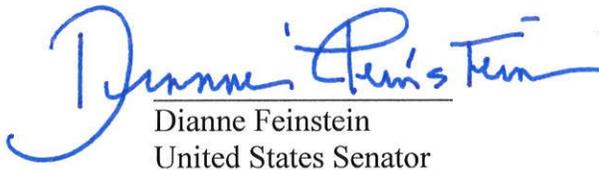
We have attached a letter from the Director of the Center for Water-Energy Efficiency at the University of California, Davis, which details the Center's findings that water conservation in California in Summer 2015 resulted in energy savings equivalent to those of energy efficiency programs. Notably, their research found that water conservation-related greenhouse gas savings over the Summer of 2015 were equivalent to taking about 50,000 cars off the road for a year. Additionally, The Los Angeles Department of Water and Power has estimated total energy savings of approximately 24,400 MWh for fiscal year 2015/16 from the residential and commercial indoor and outdoor water conservation rebates that it provides. These figures are even higher after including energy savings from hot water heating and other customer end uses. In Colorado, water utilities have also been working to implement conservation programs that have the benefit of saving water and electricity or natural gas, including residential shower head exchange programs. Similar conservation measures are underway at urban utilities throughout the country, including in Arizona, Nevada, and Washington.

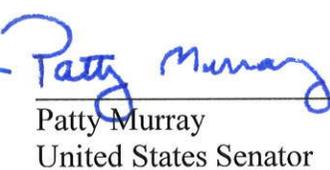
Section 136 was added in 1992, when there was a clear line between energy and water conservation. Today, that distinction is largely gone and the nexus between saving water and saving energy has been established. Commissioner Lopez of the Bureau of Reclamation has stated, "[W]ater and energy efficiency are intrinsically linked. When we conserve water, we conserve the energy it takes to move it." Water conservation also results in other energy savings, including reductions in energy use for heating and for treatment. We believe the federal agencies involved in energy and water conservation and the Department of the Treasury currently have the authority to interpret Section 136 more broadly.

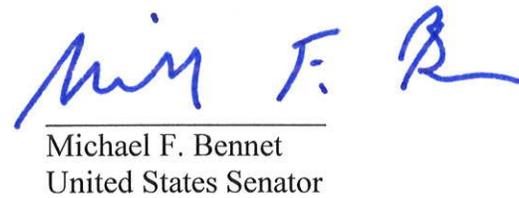
It appears that many, if not all, water conservation rebates result in per capita energy savings. The same is true of rebates designed to collect, treat, and use storm water or reduce storm water inflows into combined sewers. There are many challenges impacting our nation's water supplies, and it is imperative to maintain the effectiveness of incentives for residents to participate in water efficiency and storm water management programs. We would like to request that you clarify that in cases where a public utility can attest to energy savings from water conservation and storm water management measures, such rebates issued by a public utility can be excluded from gross income under Section 136. This is in line with the process many utilities already follow for energy conservation measures.

We look forward to working with you to ensure the success of water conservation and water quality efforts in our states.

Sincerely,


Dianne Feinstein
United States Senator


Patty Murray
United States Senator


Michael F. Bennet
United States Senator

Enclosure

cc: The Honorable Ernest Moniz, Department of Energy
The Honorable Sally Jewell, Department of the Interior
The Honorable Gina McCarthy, Environmental Protection Agency

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December 7, 2016

The Honorable Dianne Feinstein
United States Senate
331 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Feinstein:

Earlier this year my research group, the Center for Water-Energy Efficiency at the University of California, Davis, conducted an analysis of the energy and greenhouse gas (GHG) emissions reductions associated with California's mandatory water conservation targets of 2015-2016. While the formal publication of the research is forthcoming, I am writing to provide a summary our key findings: California's water conservation in 2015 resulted in electricity and GHG reductions equivalent to the combined energy savings of the three investor owned electricity utilities' energy efficiency programs.

Background:

In April 2015, in response to the fourth consecutive year of drought, California Governor, Jerry Brown mandated a 25 percent statewide reduction in water use (relative to 2013 levels) by urban water suppliers across the state. The more than 400 water agencies affected by the executive order were also required to report monthly progress towards the conservation goal to the State Water Resources Control Board. Our research uses the reported data to assess how the broad community of water utilities responded to this mandate. In addition to reviewing water use relative to the conservation target for each reporting water utility, we also calculated the electricity savings associated with the reduced demand on water infrastructure services using estimates of average energy intensity per hydrologic region. We then converted the electricity savings into avoided greenhouse gas (GHG) emissions based on the emissions factor specific to the water utility's regional electricity provider.

Results:

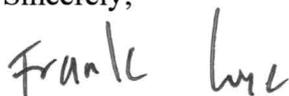
This approach allowed us to estimate the total water, energy, and GHG savings aggregated at the state level, as well as for each of the individual water utilities. One of the significant findings of this research is that the electricity savings associated with the observed achievements in water conservation is roughly equivalent to the total electricity savings estimated for all the investor owned utility energy efficiency programs for the period from July through September 2015 (the period where data was available for both initiatives). Electricity savings from investor owned utilities during this period was 459.4 GWh and energy savings resulting from water conservation in the same period was 460.0 GWh. In addition, the water conservation-related GHG savings over the same period represent the equivalent of taking about 50,000 cars off the road for a year.

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Finally, given the breadth of the results produced, we built a companion website, called “H2Open” (<https://cwee.shinyapps.io/greengov/>), to this research effort that allows users to view and explore the data and results across scales, from individual water utilities to the statewide summary.

Thank you for the opportunity to share the results of our research with you. Please let me know if I can provide any additional information. I can be reached by phone at (530) 752-5467 or by email at fjloge@ucdavis.edu.

Sincerely,

A handwritten signature in black ink that reads "Frank Loge". The signature is written in a cursive, slightly slanted style.

Frank Loge
Director, Center for Water-Energy Efficiency
Professor, Department of Civil and Environmental Engineering
Krone Endowed Professor in Environmental Engineering
University of California, Davis
One Shields Avenue
Davis, CA 95616

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References:

1. [Water Conservation Reporting](#) (State Water Resources Control Board)
2. [CA Power Mix by Utility](#) (California Energy Commission)
3. [Average Energy Intensity by Hydrologic Region](#) (California Public Utilities Commission)
4. [GHG Emissions by Fuel Type](#) (US EPA)
5. [CA Energy Efficiency Programs Statistics](#) — Electricity Savings and Program Costs — (California Public Utilities Commission)
6. [Cost of Conservation Mandate to Water Suppliers](#) — \$75 per af — (State Water Resources Control Board)