Financing Sustainability: Financing Energy at the Local Level
December 6, 2011 Webinar- Questions and Answers

Questions for Brendan Reed, City of Chula Vista (IOU partnerships)

Questions answered during the webinar

Q: Do you use PACE funding for any of your programs?

A: We are still exploring the establishment of a commercial and multi-family PACE program. However, we currently have a Community Revolving Loan Fund (using EECBG funding) to finance energy efficiency retrofits at residential and commercial properties.

Q: Could you please explain further how the LGP is funded?

A: Local Government Partnerships, similar to all Investor Owned Utility (IOU) energy efficiency rebates and programs, are supported by ratepayers through a "Public Purpose Programs" surcharge on energy bills.

Q: What role have private consultants played in the Chula Vista LGP process?

A: Private consultants have provided technical assistance to the City's LGP.

Questions not addressed during the webinar

Q: Is your partnership a ratified agreement or more informal? How does that work?

A: The Local Government Partnership is a formal agreement between the IOU and the public agency typically for the CPUC's 3-year Energy Efficiency Portfolio Cycle.

Q: How do you enforce your solar ready ordinance? Has it worked?

A: The Solar Ready Ordinance, which requires pre-wiring and pre-plumbing for solar photovoltaic and solar hot water, respectively, in all new residential units, is integrated into the building permit/plan check process.

Questions for Maria Sanders, City of El Cerrito (Energy Revolving Loan Fund)

Question answered during the webinar (answers in webinar recording minutes 39-43)

Q: Does the budget savings transferred back to EWAP account include avoided maintenance cost savings or is it just energy cost savings?

Q: Do you have the metrics in place to enable measurement of actual savings to compare them against projected (estimated) savings?

Q: You referenced some rebates in the presentation, where are those coming from?

Q: At what point in the year is the estimated savings transferred into the fund? What, if any, appropriations or budget adjustments for this fund are a part of the City's annual budget process?

Questions not addressed during the webinar

Answers will be provided shortly.

Questions for Laura Ryan, City of Pleasanton (Contracting with ESCOs)

Questions answered during the webinar

Q: Were all departments on board to work with the ESCO?

A: Absolutely. We didn't receive push-back from any of our departments when we presented this option and asked for feedback. That's probably the key: involve stakeholders at the beginning, not after the decisions have been made.

Q: Given the progression to outsource/contract for PW services, was there hesitation/conflict when engaging PW employees on this work? Or was it their idea?

A: Our Operations Services Department (aka Public Works) was instrumental in deciding to pursue a performance contract and providing input for specific projects. However, in our due diligence phase, we talked with some cities whose workers thought it was a ploy to eliminate union jobs. Once the scope was reviewed with the employees, and they had the opportunity to weigh in/participate, the issue was resolved. Performance contracting may be perceived as an issue if not handled appropriately from the beginning.

Q: Is it possible to have the ESCO's cost/savings verified by an independent third party?

A: Of course – if you're willing to pay for it.

Q: How do ESCO's profit, what is in it for them and how are they competitive between ESCO's?

A: ESCOs don't make their money on the financing end. In a performance contract, cities select ESCO services in some or all of the following areas, based on a negotiated scope of work: Identification, development, design and implementation of selected efficiency measures. Implementation typically includes turn-key project management and issuing RFPs for labor + equipment. The pricing (overhead + profit) for ESCO services is included in the turn-key, not-to-exceed contract amount negotiated between the City and the ESCO. Also, Cities pay (M&V fees) for ESCOs to assume risk on their behalf in the form of a guarantee.

Typically, other than the embedded profit margin, which will vary by company, the benefit to the ESCO is (1) good PR/brand recognition, (2) tax credits, which local governments cannot take advantage of, (3) expansion of subcontractor base, and (4) creation of jobs. As far as differentiation among ESCOs, some of the things you'll want to consider include: is the ESCO vertically integrated (do they also manufacture the products they're recommending)? Do they insist that you sign up for their maintenance program? Do their company values match yours? Are they relatively local (in regard to response time, project management)? How familiar are they with your local initiatives, goals, and what you've already done? Do they have the internal resources (subject matter experts, subcontractors, equipment, funding, etc.) to adequately perform the work?

Q: Were you satisfied with the ESCO's energy audit, given that they are typically just a business development tool that is difficult to work off of should you not elect to move forward with the ESCO?

A: Our investment-grade energy audits have not yet been completed. Once they've been done, if we elect NOT to pursue the work, we may be required to pay a "break fee" based upon a negotiated Letter of Intent to compensate the ESCO for the development work completed (and we retain the data).

Questions not addressed during the webinar

Q: Often the performance guarantee is an opt-in paid component of the contract; did your city pay for the performance guarantee? How did you evaluate whether or not it was worth the upfront cost? Have they paid out/is the project performing to the extent anticipated?

A: There is no upfront cost for the guarantee. For the first few years, we're required to allow the ESCO to true-up the savings through its measurement and verification process. The cost for the M&V work is included as a separate line item in the project cost estimates, but it's really a "pay as you go" charge (you wouldn't want to pay for 20 years of M&V upfront). We have the ability to opt out of the M&V (and associated fees) after a few years if everything is on track; however, that voids the "guaranteed savings" clause. If you're certain that you're achieving the savings, you can choose to proceed with "stipulated savings," and avoid M&V fees (and the associated guarantee) altogether. If you've been making adjustments all along, or may implement certain changes that could affect the savings, this could be risky.

Q: I am interested in your AMR water meter project, can you expand on it?

A: This program is still in the development stage. However, we are looking at upgrading our infrastructure to utilize point-to-point transceivers (automated meter reading) to reduce staff and fleet dedicated to meter reading. There will be no staff reduction; the staff will be assigned different work (proactive vs. reactive). The system software offers numerous advantages, including improved customer service, such as instant reads for account changes, and system diagnostics. As you may know, old meters tend to read low, which equates to lower revenues. This real-time system is more accurate and provides diagnostic tools to flag anomalies (leaks, tampering), resulting in financial and water savings.

Q: Do you feel that the financing costs are less than issuing bonds to pay for projects?

A: We have not made a formal decision on how we will finance this contract. If (1) the types of projects qualify for tax-exempt municipal bonds under the current tax code, (2) the bond term doesn't exceed the useful life of the projects, and (3) the amount of the bond issuance is large enough to carry the associated fixed costs (fees to attorneys and investment banks), bonds may be the way to go. Another consideration is how the bonds will be secured; anticipated savings is not considered creditworthy collateral. That said, our city has adequate reserves to cover this work, and it has excellent credit and access to low interest loans.

Q: It sounded like working with an ESCO was only positive for your City. Can you list any challenges, concerns, issues you addressed through the recruitment, project design, project implementation or project monitoring phases?

A: We have just begun this process, so we've only completed the recruitment phase. We haven't had any overwhelming challenges, but I will say that the ESCOs not selected did not want to take "no" for an answer, and continue to ask us to reconsider.

Q: Do you know of any examples of cities with results from first 2-3 years of working with ESCOS, after initial "True-ups?"

A: Most ESCOs prominently feature (web or print) case studies of work they've done under performance contracts. We completed a thorough reference check before selecting an ESCO to work with. We also required the ESCOs to list specific types of projects within a 200-mile radius of our city (knowing the California standards are typically more stringent than others, and wanting to be able to contact our colleagues in nearby cities for candid references). During our reference checks with these cities, we were told that the savings calculations were very conservative, and most of them were saving more than projected.

Q: Do any of these programs or the funding that support them require actual measurement performance of the energy measures?

A: Yes! Monitoring and verification is part of the contract. Most ESCOs follow the International Performance Measurement and Verification Protocols (IPMVP). Typically, M&V is performed more frequently in the beginning of the contract to ensure that the projected savings are on target, however, as the "customer", you can set the M&V frequency as you wish (no less than annually, however).

Q: Are there certain types of projects that are a better fit for a performance contract? How are you determining what is a good fit?

A: We are actually coming up with two lists: the quick (reasonable) simple payback (less than 10 years) and the "community benefit/common good" list (beneficial projects with not such a great payback). We will cautiously add projects from the second list as long as the overall contract is financially viable.