

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** CS/HB 1357 Guaranteed Energy, Water, and Wastewater Performance Savings Contracting Act

**SPONSOR(S):** Energy & Utilities Subcommittee & Cummings

**TIED BILLS:** None. **IDEN./SIM. BILLS:** CS/SB 1594

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Energy & Utilities Subcommittee	11 Y, 0 N, As CS	Whittier	Collins
2) Appropriations Committee	26 Y, 0 N	White	Leznoff
3) Regulatory Affairs Committee			

### SUMMARY ANALYSIS

The Guaranteed Energy, Water, and Wastewater Performance Savings Contracting Act (Act) encourages agencies to “invest in energy, water, and wastewater efficiency and conservation measures to minimize energy and water consumption and wastewater production and maximize energy, water, and wastewater savings” and to reinvest any savings resulting from those measures in additional energy, water, and wastewater efficiency and conservation measures.

The Act provides for contracts that are required to produce immediate and long-term energy cost savings through Energy Savings Contracting (ESCO). A state agency may pursue an ESCO project if it finds that the amount the agency would spend on energy conservation measures would not likely exceed the amount of the cost savings for up to 20 years from the date of installation. ESCO projects are typically financed through a third-party financial institution. The bill clarifies that in a guaranteed energy, water, and wastewater performance savings contract between an ESCO and an agency, the contract may provide for repayment to the lender of the installation construction loan through installment payments.

Currently, state agencies, municipalities, and political subdivisions are authorized to utilize the provisions of the Act. The bill expands the Act to include a county or city school district or an institution of higher education, including all state universities, colleges, and technical colleges.

ESCO projects are required to produce a net cost savings to the state in every year of the contract. Agencies may use the recurring cost savings to repay the third-party loans, but they are required to gain the spending authority through an annual legislative budget request process.

All ESCO projects must be approved by the Department of Financial Services (DFS) and the Department of Management Services (DMS). Proponents of the bill state that the length of time between an audit and approval by the Department of Management Services and DFS is so long that the audit may become outdated. The bill requires DFS to complete its review and approval of the guaranteed energy, water, and wastewater performance savings contract within 10 business days of receiving it.

The bill also adds to contract requirements that a contract must include an investment-grade audit, certified by DMS, which states that the cost savings are appropriate and sufficient for the term of the contract.

The bill will likely have a minimal fiscal impact on state government. However, it is anticipated that the provisions of the bill will be handled within existing agency resources.

The bill provides an effective date of July 1, 2013.

# FULL ANALYSIS

## I. SUBSTANTIVE ANALYSIS

### A. EFFECT OF PROPOSED CHANGES:

#### **Present Situation**

##### ***Guaranteed Energy, Water, and Wastewater Performance Savings Contracting Act***

The Guaranteed Energy, Water, and Wastewater Performance Savings Contracting Act (Act) encourages agencies to “invest in energy, water, and wastewater efficiency and conservation measures to minimize energy and water consumption and wastewater production and maximize energy, water, and wastewater savings” and to reinvest any savings resulting from those measures in additional energy, water, and wastewater efficiency and conservation measures.<sup>1</sup>

The Act provides for contracts that are required to produce immediate and long-term energy cost savings through Energy Savings Contracting (ESCO). A state agency may pursue an ESCO project if it finds that the amount the agency would spend on energy conservation measures would not likely exceed the amount of the cost savings for up to 20 years from the date of installation. ESCO projects are typically financed through a third-party financial institution. Currently, state agencies, municipalities, and political subdivisions are authorized to utilize the provisions of the Act.

ESCO projects are required to produce a net cost savings to the state in every year of the contract. Agencies may use the recurring cost savings to repay the third-party loans, but they are required to gain the spending authority through annual legislative budget request process.

“Energy, water, or wastewater cost savings” means a measured reduction in the cost of fuel, energy or water consumption, wastewater production, and stipulated operation and maintenance created from the implementation of one or more energy, water, or wastewater efficiency or conservation measures when compared with an established baseline for the previous cost of fuel, energy or water consumption, wastewater production, and stipulated operation and maintenance.

A proposed contract or lease must include the following information:

- Supporting information required by statutes pertaining to legislative budget requests, deferred-payment commodity contracts, and consolidated financing of deferred-payment purchases.<sup>2</sup> For contracts approved under this section, the criteria may, at a minimum, include the specification of a benchmark cost of capital and minimum real rate of return on energy, water, or wastewater savings against which proposals shall be evaluated.
- Documentation supporting recurring funds requirements in statutes pertaining to deferred-payment commodity contracts, and consolidated financing of deferred-payment purchases.<sup>3</sup>
- Approval by the head of the agency or his or her designee.
- An agency measurement and verification plan to monitor cost savings.

Section 489.145(6), F.S., requires the Department of Management Services (DMS) to verify that the cost savings of all proposed ESCO projects are sufficient for the term of the contract. DMS is also

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<sup>1</sup> Section 489.145(2), F.S.

<sup>2</sup> See ss. 216.023(4)(a)9., 287.063(5), and 287.064(11), F.S.

<sup>3</sup> See ss. 287.063(5) and 287.064(11), F.S.

required to provide technical assistance to the agencies regarding these projects. According to DMS, “In order to verify that ESCO-related cost savings are sufficient for the term of the contract, DMS first evaluates the technical merits of the energy audit. This process includes evaluating the assumptions made for the baseline and the proposed savings models, and the calculation methods used to generate the proposed savings.”<sup>4</sup> DMS then attempts to determine if the proposed energy savings are achievable.

Once ESCO projects are approved by the DMS, the Department of Financial Services (DFS) must review the financial terms of the contract. Proponents of the bill state that the length of time between an audit and approval by the DMS and DFS is so long that the audit may become outdated.

### **Effects of Proposed Changes**

The term “agency” means the state, a municipality, or a political subdivision. The bill expands this list of entities to include a county or city school district or an institution of higher education, including all state universities, colleges, and technical colleges.

The bill amends the definition of “energy, water, and wastewater efficiency and conservation measure,” to mean a “training program incidental to the contract, facility alteration, or equipment purchase to be used in a building retrofit, addition, or renovation, or in new construction, including an addition to existing facilities or infrastructure, which reduces energy or water consumption, wastewater production, or energy-related operating costs.” The definition includes, but is not limited to, the following measures:

1. Installing or modifying:
  - Insulation of the facility structure and systems within the facility.
  - Window and door systems that reduce energy consumption or operating costs, such as storm windows and doors, caulking or weatherstripping, multiglazed windows and doors, heat-absorbing or heat-reflective glazed and coated window and door systems, additional glazing, and reductions in glass area.
  - Automatic energy control systems.
  - Energy recovery systems.
  - Cogeneration systems that produce steam or forms of energy such as heat, as well as electricity, for use primarily within a facility or complex of facilities.
  - Renewable energy systems.
  - Devices that reduce water consumption or sewer charges.
  - Energy storage systems, such as fuel cells and thermal storage.
  - Energy-generating technologies.
  - Automated, electronic, or remotely controlled technologies, systems, or measures that reduce utility or operating costs.
  - Software-based systems that reduce facility management or other facility operating costs.
  - Energy information and control systems that monitor consumption, redirect systems to optimal energy sources, and manage energy-using equipment.
2. Replacing or modifying:
  - Heating, ventilating, or air-conditioning systems.
  - Lighting fixtures to increase the energy efficiency of the lighting system without increasing the overall illumination of a building, unless the increase in illumination is necessary to conform to the applicable state or local building code.
3. Implementing a program to reduce energy costs through rate adjustments, load shifting to reduce peak demand, demand response programs, changes to more favorable rate schedules, or auditing utility billing and metering.
4. An improvement that reduces solid waste and associated removal costs.

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<sup>4</sup> *The ESCO Program: Challenges & Recommendations*, Department of Management Services' Division of Real Estate Development & Management, October 4, 2011, p. 9.

5. Meter replacement, installation of an automated meter reading system, or other construction, modification, installation, or remodeling of water, electric, gas, fuel, communication, or other supplied utility system.
6. Any other energy conservation measure that reduces British thermal units (Btu), kilowatts (kW), or kilowatt hours (kWh); reduces fuel or water consumption in the building or waste water production; or reduces an operating cost or provides long-term cost reductions.
7. Any other repair, replacement, or upgrade of existing equipment that produces measurable savings, or any other construction, modification, installation, or remodeling that is approved by an agency and that is within the legislative authority granted the agency, such as an energy conservation measure.
8. Any other measure not otherwise defined in this chapter which is designed to reduce utility consumption, revenue enhancements, wastewater cost savings, avoided capital costs, or similar efficiency gains to a governmental unit.

The bill amends the definition of "energy, water, or wastewater cost savings" to include "identified avoided capital savings" when determining the difference between costs associated with implementation of the new measures and an established baseline for the previous costs of fuel, energy, water consumption, wastewater production, stipulated operation and maintenance, and identified avoided capital costs.

The bill clarifies that in a guaranteed energy, water, and wastewater performance savings contract between an ESCO and an agency, the contract may provide for repayment to the lender of the installation construction loan through installment payments. The period may not exceed 20 years. The bill provides that a facility alteration that includes expenditures that are required to properly implement other energy conservation measures may be included as part of the performance contract. In these instances, the installation of those measures may be supervised by the performance savings contractor.

The bill also adds to contract requirements that a contract must include an investment-grade audit, certified by DMS, which states that the cost savings are appropriate and sufficient for the term of the contract.

The bill requires DFS to complete its review and approval of the guaranteed energy, water, and wastewater performance savings contract within 10 business days of receiving it.

## B. SECTION DIRECTORY:

**Section 1.** Amends s. 489.145, F.S., relating to the Guaranteed Energy, Water, and Wastewater Performance Savings Contracting Act; revises the terms "agency," "energy, water, and wastewater efficiency and conservation measure," and "energy, water, or wastewater cost savings"; provides that a contract may provide for repayments to a lender of an installation construction loan in installments for a period not to exceed 20 years; requires a contract to provide that repayments to a lender of an installation construction loan may be made over time, not to exceed 20 years from a certain date; requires a contract to provide for a certain amount of repayment to the lender of the installation construction loan within 2 years after a specified date; authorizes certain facility alterations to be included in a performance contract and to be supervised by the performance savings contractor; limits the time allotted to the Office of the Chief Financial Officer to review and approve an agency's guaranteed energy, water, and wastewater performance savings contract; requires that a proposed contract include an investment-grade audit certified by the Department of Management Services which states that the cost savings are appropriate and sufficient for the term of the contract; clarifies that for funding purposes of consolidated financing of deferred payment commodity contracts an agency means a state agency; conforms language.

**Section 2.** Provides an effective date of July 1, 2013.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

### A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

See *Fiscal Comments*.

2. Expenditures:

See *Fiscal Comments*.

### B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

### C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The bill may have a positive effect on the Energy Savings Contracting industry if more agencies enter into guaranteed energy, water, and wastewater performance savings contracts.

### D. FISCAL COMMENTS:

The bill adds to contract requirements that a contract must include an investment-grade audit, certified by DMS, which states that the cost savings are appropriate and sufficient for the term of the contract. Current law directs DMS to review the investment-grade audit for each proposed project and certify that the cost savings are appropriate and sufficient for the term of the contract. There is no fiscal impact for DMS to administer the provisions in this bill.

The bill requires DFS to complete its review and approval of the guaranteed energy, water, and wastewater performance savings contract within 10 business days of receiving it. DFS stated that it can handle the provisions of this bill within existing resources.<sup>5</sup>

## III. COMMENTS

### A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not Applicable. This bill does not appear to require counties or municipalities to spend funds or take action requiring the expenditures of funds; reduce the authority that counties or municipalities have to raise revenues in the aggregate; or reduce the percentage of state tax shared with counties or municipalities.

2. Other:

None.

### B. RULE-MAKING AUTHORITY:

None.

### C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

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<sup>5</sup> March 15, 2013 Department of Financial Services Bill Analysis on file with the House Appropriations Committee.

#### **IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES**

On March 27, 2013, the Energy & Utilities Subcommittee heard the bill as a Proposed Committee Substitute (PCS). The committee adopted an amendment to the PCS that removed references to “use of alternative energy suppliers” and “negotiation of lower rates using new suppliers” within the definition of “energy, water, and wastewater efficiency and conservation measure.” This change maintains consistency with the current legal framework for the provision of retail electric service in Florida. The bill was reported favorably as a committee substitute. The staff analysis is drafted to reflect the committee substitute.