FAQ : Guaranteed Energy Savings Program (GESP) Cities, Counties, Schools

General Program Questions

Q: Is GESP a grant program?

A: No. GESP is state technical assistance, administered by the Department of Commerce Division of Energy Resources, on Energy Savings Performance Contracting. The money used to pay for upgrades is repurposed from the existing operations and maintenance budgets as a result of the installation of more efficient equipment. The savings each year go towards paying for the upgrades over time, until the new equipment is paid off.

Q: What kind of technical assistance is provided by the state?

A: GESP includes a variety of technical assistance that includes:

•Energy Services Companies have been pre-qualified and vetted by the state to ensure they have the financial backing to provide a savings guarantee for a project:

- Ameresco, Inc.
- Chevron U.S.A. Inc.
- Consolidated Edison Solutions, Inc.
- Control Technology & Solutions LLC
- Harris Mechanical Contracting Company
- Honeywell
- Johnson Controls, Inc.
- McKinstry Essention, Inc.
- Noresco, LLC
- Siemens Industry, Inc.
- Trane U.S. Inc.

•A Master Contract has been vetted by the Attorney General and written in favor of the government entity when going through GESP.

•Site-Specific RFP & Contract Templates have been created to reduce the staff time required to go through an energy savings performance contract.

•Pricing is more transparent with open book pricing, and maximum markups are disclosed during the bid process.

•There is competitive bidding of trade work & equipment.

•There are measurement & verification guidelines to outline this process.

•There is third party M&V oversight.

•General project oversight and assistance is provided. For example, there is a sequence of meetings throughout the GESP project development process to pick the ESCO, decide on the projects to move forward with, check-in to see how the project performs.

Q: Why would a local government use GESP?

A: A local government would use GESP for a variety of different reasons. Some include:

- Reduce overall operations and maintenance costs in your buildings
- Achieve a variety of upgrades in a turnkey implementation, now as opposed to a piecemeal approach to achieve upgrades
- Your local government lacks financing for upgrades
- Attain a renewable energy system for the local government
- Progress in GreenStep Cities – GESP is Best Action Practice BLANK

Q: How many GESP projects are there?

A: 15 sites are currently under development with work done in 290 buildings.

Q: How quickly can a local government get started with the GESP?
A: It takes time, 1-3 conversations, to perform the opportunity assessment and determine if GESP is a good fit for a local government. If the local government easily meets the broad qualifications of the GESP, it is easier to get started with the program. If the local government is at the threshold of the broad qualifications for GESP, it may take more time to get the information required to assure that GESP is the best process for the project.

Financing

Q: Is it debt free financing?

A: No, it's budget neutral. The agreements are set up so the (guaranteed) energy, operation and maintenance savings are used to pay the lease payment. You are basically trading dollars within your operating budget. This means it shouldn't impact the entity's operating budget, but a lease purchase would show up as a debt.

Q: Does it affect a local government's bond rating?

A: Making investments in infrastructure can actually help with a bond rating. By renewing your infrastructure you're actually able to bring down operating costs and create long-term value.

Q: When does the energy saving guarantee start?

A: In some cases the ESCO will perform M&V on the existing system/equipment to establish the baseline for a particular Energy Conservation Measure. In other cases the baseline is established based on calculation that match existing conditions to the utility bill. The first Guarantee Year begins after final completion and acceptance of the project. Therefore there are initial savings from the energy conservation measures that benefit the local government.

Q: Do energy costs generally go up or down during the construction process of energy conservation measures?

A: During construction (i.e. installation of the Energy Conservation Measures), existing HVAC systems/equipment will be removed and modified/replaced with new more energy efficient systems/equipment. When existing equipment is removed it will stop consuming energy. When the new equipment is installed and operating, it will consume less energy than the equipment it replaced. Therefore, energy use will be reduced both during and after project construction

Q: What is the interest rate of the lease purchase agreement with GESP?

A: Lease purchase financing is competitively solicited by the energy service company on behalf of the State Institution . Currently, the interest rates of lease purchase agreements have been varying between 3-6% depending on several project dependent variables, for example one of which is the term of the lease.

Q: Do local governments have to enter into a Lease Purchase Agreement to pay for the project?

A: No, a local government could pay for the energy savings performance contract by other means. However, a lease purchase agreement may allow the local government be able to attain more energy conservation measures/upgrades.

Q: What are the maximum mark-ups and fees? What does this mean for the bidding process for local governments?

A: When each ESCo was qualified, they each included a maximum mark-up. When ESCos submit bids for projects they can bid no higher than the maximum mark-up set when they qualified, but they can bid lower. This allows for a more competitive bidding process when ESCos bid against each other for projects.

The Investment Grade Audit

Q: What is the investment Grade Audit?

A: The investment Grade Audit is the audit of all the facilities in a GESP project the energy service company completes to determine the opportunities for the types of projects, costs, and paybacks of those projects that is completed during the Project Development Phase of GESP.

Q: Who pays for the audit?

A: No payment is made until a decision is made as to whether to proceed with the project. If the project moves forward, the cost of the audit is included in the total project cost and financed with the project. If there are not enough opportunities to make a viable project then the ESCO walks away uncompensated. If there are sufficient opportunities but the local unit of government decides not to move forward on a project, the local unit of government must pay for the audit.

Q: How much does the investment grade audit cost?

A: It typically costs $0.10 - $0.15 per audited square foot.

Facilities/Upgrades/Energy Conservation Measures

Q: Can a new construction project be financed through the GESP process?

A: Yes, for the incremental cost of energy efficiency. The typical scenario when GESP is used in conjunction with new construction involves a building owner who wants to make their building more efficient, but they are either over budget and must "value engineer" the building to reduce the cost, or the original design did not include high efficiency systems and equipment to begin with and they would like to modify the design to include them but the cost is beyond their budget. In either case, the ESCO will use a building energy modeling software tool to first model the within budget building design to establish the baseline, then model the building with their proposed energy efficiency improvements. The difference between the energy consumption profile of the two models will determine the savings used to justify the GESP project for the difference in cost between the standard efficiency building design and the high efficiency building design. The cost difference would be funded with a lease purchase agreement. The savings to pay the lease payment would be the project difference in the projected cost of utilities between the two designs.

Q: Can renewable energy studies be funded through the GESP process, or conducted during the IGA?

A: Solar, wind, geothermal, combined heat and power and other renewable strategies are evaluated along with all other Energy Conservation Measures as part of the GESP project. The type, use and location of the facility will affect which strategies will be the best to consider. The local government should specify the desire to evaluate different kinds of renewable energy technologies at the specific facilities in the Site Specific Request for Proposal.

Economic Development

Q: Does the Guaranteed Energy Savings Program (GESP) create local jobs?

A: A GESP project involves a lot of sub-contracted/tradework. There is a document that contractors can fill out to be considered pre-qualified, and then those who do qualify can competitively bid on the projects. The energy service company and local government mutually develop criteria for pre-qualifying subcontractors to select for the work within the existing template developed by the Department of Commerce when completing a project with GESP.

Measurement & Verification/Guarantee

Q: How much would a city typically spend on M&V in a GESP contract?

A: The annual M&V fee is typically is 2% - 6% of the projects installation cost.

Q: Who pays for the M&V?

A: The cost of the measurement & verification is included in the total project cost and financed with the project.

How do local governments get started?

Q: What are the qualifications of the Guaranteed Energy Savings Program (GESP)?

- Upgrades are in Public Buildings
- Bundle together enough upgrades with a minimum project value of $300,000*
- Potential to save a minimum of 20% of annual utility budget – not all the low-hanging energy conservation measures are implemented
- Pay for that project:
    - With the savings in the operations budgets
    - With the savings in the maintenance budgets
    - Buy down the project cost with bonds, grants, other funds
- Pay for the project between 5 – 25 years
- City Council, County Board, or School Board is open to approve an alternative method of contracting and financing enabled by state statute to implement the upgrades

*Feel intimidated about bundling together a project that costs $300,000? Check out the Local Government Blog Series (http://mncerts.org/blog-series/govt-action) on the Clean Energy Resource Teams (CERTs) website and learn about energy conversation measures, costs, and paybacks other cities, counties, and schools have successfully completed across Minnesota.

Q: What type of information is needed to determine if GESP is a good fit for a local government?

A: The opportunity assessment involves a conversation about what kinds of public buildings the local government has, how much money the local government is spending on operations and maintenance overall and per square foot, what facility upgrades the local government has recently finished, and what kinds of energy conservation measures and upgrades the local government is interested in for in their buildings. The B3 Energy Benchmarking System compiles a lot of this information for the local government. Learn more about the B3 Energy Benchmarking System (http://mncerts.org/b3).

Here is a step by step process that can help on-ramp a local government into GESP:

Step 1. Compile a list of public buildings and annual utility costs for those buildings

> Tip – The B3 Energy Benchmarking System has this information in the Reports Tab – if your public buildings are entered. Learn more about the B3 Energy Benchmarking System (http://mncerts.org/b3).

Tip – If you would like to use a template to compile a list of your city's, county's, or school's public buildings, enter them into the Site Specific Request for Proposal, available on the Department of Commerce website.

Step 2. Loop in the Right Staff:

A) Management Staff (e.g. City Administrator, Mayor, Council Member, County Administrator, Sustainability Coordinator, Superintendent, School Board Member) that will champion the project through the government decision making process.

B)Facility Management Staff (e.g. City Engineer, Public Works Director, Facility Director) to make a potential list of energy conversation measures your city, county, or school are interested in achieving.

Step 3. Determine the goals, needs, and issues with your public buildings in your city, county or school.

Tip – Answer the qualifying questions on the CERTs webpage to understand your city, county, or schools goals, needs, and issues (http://mncerts.org/gesp-qual-quest).

Step 4. Call Peter Lindstrom with CERTs and review a list of public buildings, annual utility costs, and building goals, needs, and issues to determine if recommended broad qualification criteria are met.

Peter Lindstrom
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Clean Energy Resource Teams (CERTs)
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If the local government fits the qualification criteria, then:

Step 5. Peter Lindstrom will set-up an online GoToMeeting to begin the Opportunity Assessment with Peter Berger, GESP Program Manager at the Minnesota Department of Commerce.

Tip – Someone from CERTs can travel to your city, county, or school and give a GESP overview presentation or the GoToMeeting can be used for a deeper conversation about contract or measurement & verification details of GESP with the Department of Commerce.

If the opportunity assessment determines that the project is a GESP opportunity, then:

Step 6. Compile information to draft the Joint Powers Agreement. Below is the information we need to draft the Joint Powers Agreement:

- Agency / Local Unit of Government proper name
- Agency / Local Unit of Government address
- Authorized Representative
- Name
- Title
- Address
- Phone number
- Email address
- Vendor ID # (State SWIFT #) – will be 10-digits
- FEIN # (Federal Tal ID #)

Step 7. Present GESP & Joint Powers Agreement to City Council, County Board, School Board for approval.

Step 6. Gain council/board approval and sign Joint Powers Agreement to finish Opportunity Assessment and Define Project Goals to put together a Request for Proposal to solicit for project bids from an Energy Service Company.

Then what happens? Read more about the GESP process (http://mncerts.org/gesp-process).