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BEFORE THE SENATE COMMITTEE ON UTILITIES
PRESENTATION OF THE
KANSAS CORPORATION COMMISSION
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Briefing on Financing of Energy Conservation Projects

Thank you, Chairman and members of the Committee. I am Jim Ploger, Director of the Kansas Energy Office at the Kansas Corporation Commission. I appreciate the opportunity to be here today to brief you on the financing of energy conservation projects on State buildings.

The Kansas Energy Office administers the Facility Conservation Improvement Program, commonly known as FCIP. It is a streamlined program allowing public entities to finance energy improvements with future avoided utility costs.

Typically, an institution contacts our office expressing interest in the program. In most cases, the Kansas partners providing energy services conduct a walk-through analysis of the buildings. This is followed, usually within a couple weeks, by the Energy Service Companies (ESCOs) making a presentation to the institution indicating their visions of the potential energy related improvements.

The institution, with the consultation of the state's FCIP administrator, selects an ESCO to conduct an investment grade audit – which may take several weeks, depending on the number of buildings involved and complexity.

The institution then determines which proposed energy conservation measures to move forward with – assuming the projected avoided energy costs can cover the financing of the project. Financing is obtained (which will be discussed later) and construction begins.

All throughout this process, the FCIP administrator from the Kansas Energy Office provides third-party, objective oversight between the institution and ESCO. This service remains available for the institution throughout the financing period in case there are any future disputes on the measurement and verification of results.

For this service, a small fee – usually financed with the project – is assessed for the FCIP administrator's services.

For a brief history of the development of our program, HB 2603 became effective when it was published in the Kansas Register on April 20, 2000. The bill, commonly referred to as "enabling legislation", applies to all state agencies and municipalities throughout the state. This includes unified school districts, cities, counties, municipal hospitals, state colleges and universities and all state agencies.

The enabling legislation became a reality as a result of nearly unanimous support from the public and private sectors. A task force worked on the draft legislation in the fall of 1999 and presented it to the Joint Committee on State Building Construction in December. The committee then pre-filed the bill before the start of the Kansas 2000 Legislative session.

With strong support from trade associations and individuals representing schools, hospitals, state agencies, counties, cities and energy service companies (ESCOs) serving Kansas, HB 2603 passed the Kansas House by a 118-0 margin, then cleared the Kansas Senate by a 40-0 margin; and was signed by Governor Bill Graves on April 12, 2000.

KSA 75-37,125 states: *(b) Subject to the provisions of subsection (c), a municipality or state agency may enter into a contract or lease-purchase agreement for an energy conservation measure which meets the criteria of this section.*

The law also allowed the state to use the state procurement method to establish a "state contract" establishing pre-qualified energy service companies (ESCOs) for use by public entities in implementing energy savings performance contracts (ESPC).

With the passage of the legislation, a request for qualifications was issued to energy service companies. A three member procurement negotiating committee (PNC) was formed. The Department of Administration, the Division of Purchasing and a representative of a state agency (University of Kansas) served on the PNC. Nine ESCO's responded to the RFP. Interviews occurred in the fall of 2000 and the field was reduced to a group of five ESCO's.

The program is similar to the U.S. Department of Defense Super ESCO Program – with pre-qualified ESCO's providing services through the FCIP. This allows agencies and municipalities with limited technical staff to enter into agreements with less time and expense involved in the contract development stage and helps to assure thoroughness and uniformity on projects.

The negotiating process continued through the spring of 2001 during which standard fees for investment grade audits and contract service markups were agreed. The FCIP entered its first energy savings performance contract in the August 2002.

As they say, the rest is history. Since then, over $85 million in energy conservation projects have been implemented for state agencies and municipalities (including schools and community colleges).

The early successes of the program allowed Pittsburg State University to address two aging central plant steam boilers. One did not pass the boiler inspectors review and the other failed shortly after firing up in the fall of 2002. These units were well beyond their expected useful life. These were replaced in an exceptionally short time, using the FCIP process, in less than 60 days. This would not be possible under more traditional methods of procurement.

At the Hutchinson Correctional Facility, water consuming appliances were replaced as a cost saving measure. After the first several months of completion, the city came out and replaced the water meters assuming that they had failed. The reduction in water consumption was exceeding all projections.

The University of Kansas realized enough utility cost reductions through projects to allow excess savings to fund the much-needed completion of a primary electrical distribution loop. This enhanced the reliability of the electric system, thus making the University a more attractive prospect for research grants, estimated to be possibly worth $200 million.

Soon after FCIP projects began, it was discovered that the Kansas partner ESCOs could bring more competitive private financing of projects than the Division of Accounts and Reports could acquire. The traditional Accounts and Reports request for proposal covered, at a minimum, a one year period of time ensuring that the financing institution followed the Kansas instrument for lease finance and secured a rate for this annual period.

The ESCOs requesting financing for specific projects from the same financing institutions were familiar with and had agreed to the terms and conditions of Division and Accounts and Reports lease instrumentation were able to competitively secure finance rates for the moment. In other words, by removing the risk of securing the finance rate for any other obligations including the balance of the year and focusing only on a specific project, the finance

institutions are able to be far more aggressive. A number of national financing firms, such as GE Finance, CitiCapital, and SunTrust Bank were very familiar with the concept of energy performance contracts. This methodology of finance procurement resolves the fundamental request for competitive bidding; while significantly streamlining the process.

Also, project-by-project financing became more appropriate with specifics being known, such as exact funds needed, the specified financing period, and the exact entities (customer and ESCO). The program is a testimony to the success of pre-planning. For cities, counties and municipalities other than state agencies, the FCIP program recognizes that the end user may enter into its own procurement methodologies as they see fit. This is just another way that the program provides structure, proven success and programmatic methodology while allowing flexibility to fit a variety of stake holders.

For your information, I am attaching a summary of the state owned building projects completed or underway. This list does not include the newest project – as of last week – a $12.3 million project at Wichita State University with an estimated payback of about 11 years.

Also attached for your information is a sample of the pro forma cash flow sheet for a project currently underway, the Kansas Insurance Department. It illustrates the financial arrangements that are typical of a FCIP project.

Thank you. I would be happy to answer any questions.

Attachment A

Kansas Facility Conservation Improvement Program Projects

(State Owned Building Projects - as of January, 2006)

Agency	***Area*** *(Sq. Ft.)*	***Project Amount***	***Avoided Annual Energy Costs***
Kansas School for the Blind	112,689	$467,153	$44,519
Hutchinson Correctional Facility	424,030	$2,355,000	$332,196
Pittsburg State University	1,379,549	$4,500,000	$358,975
Kansas State University - Housing	1,080,981	$2,418,169	$356,097
Kansas Neurological Institute	414,539	$2,268,817	$177,764
University of Kansas - Campus	5,881,330	$18,393,010	$1,723,488
University of Kansas Medical Center	1,912,889	$12,500,000	$964,768
Kansas State University - Campus	5,532,479	$21,090,000	$1,629,935
Winfield Correctional Facility	227,385	$1,164,639	$182,400
Wichita Work Release Facility	54,672	$261,000	$33,100
Norton Correctional Facility	308,150	$1,682,971	$189,000
Lansing Correctional Facility	716,157	$3,583,697	$445,736
Fort Hays State University	1,839,022	$4,689,072	$348,816
Parsons State Hospital	394,618	$2,058,435	$194,542
Kansas School for the Deaf	243,108	$1,016,810	$95,151
El Dorado Correctional Facility	609,431	$2,123,556	$220,610
Topeka Correctional Facility	245,069	$887,985	$96,252
Ellsworth Correctional Facility	201,676	$998,090	$111,829
Larned Correctional Facility	131,327	$178,035	$19,996
Pittsburg State University - Housing	232,009	$1,550,401	$60,425
Kansas Insurance Department	36,000	$692,419	$83,143
TOTAL	**21,977,110**	**$84,879,259**	**$7,668,742**

Kansas Energy Office

Attachment B

Table O.1

Kansas Insurance Department

Pro Forma Cash Flow for Kansas Insurance Department FCIP Project

Project Costs		
Installation Costs	$	670,137
Investment Grade Audit Fee	$	2,880
FCIP Fee	$	19,403
Less Up-front Avoided Future Cost	$	-
Net Financed Amount	$	692,419
Annual Costs		
Technical Services Fee (Year 1)	$	-
Annual Avoided Future Cost	$	71,000
Net Annual Costs	$	71,000

Projected Savings (Annual)		
Utilities	$	11,041
O&M	$	1,628
Net Projected Savings	$	12,669
Finance Factors		
Term		10 years
Interest Rate (Estimated)		3.70%
Ongoing Fee Escalation Rat		2.0%
Energy Escalation Rate		2.0%
O&M Escalation Rate		2.0%

YEAR	PROJECTED UTILITY COST SAVINGS	GUARANTEED UTILITY SAVINGS	OPERATIONAL & MAINTENANCE COST SAVINGS	AGREED ANNUAL CAPITAL CONTRIBUTION	TOTAL ANNUAL FUNDS AVAILABLE	ANNUAL DEBT SERVICE	TECHNICAL SERVICE FEE	GUARANTEED PROGRAM COST	PROJECTED ANNUAL EXCESS SAVINGS
Construction	$255	$243	$0	$0		$2,313	$0		
1	$11,041	$10,515	$1,628	$71,000	$83,143	$82,945	$0	$82,945	$724
2	$11,262	$10,726	$1,661	$71,000	$83,386	$82,945	$0	$82,945	$978
3	$11,488	$10,940	$1,694	$71,000	$83,634	$82,945	$0	$82,945	$1,236
4	$11,717	$11,159	$1,728	$71,000	$83,887	$82,945	$0	$82,945	$1,500
5	$11,952	$11,382	$1,762	$71,000	$84,144	$82,945	$0	$82,945	$1,769
6	$12,191	$11,610	$1,797	$71,000	$84,407	$82,945	$0	$82,945	$2,043
7	$12,435	$11,842	$1,833	$71,000	$84,675	$82,945	$0	$82,945	$2,323
8	$12,683	$12,079	$1,870	$71,000	$84,949	$82,945	$0	$82,945	$2,608
9	$12,937	$12,320	$1,907	$71,000	$85,228	$82,945	$0	$82,945	$2,899
10	$13,196	$12,567	$1,946	$71,000	$85,512	$82,945	$0	$82,945	$3,196
11	$13,460	$12,818	$1,985	$0	$15,444	$0	$0	$0	$15,444
12	$13,729	$13,075	$2,024	$0	$15,753	$0	$0	$0	$15,753
13	$14,003	$13,336	$2,065	$0	$16,068	$0	$0	$0	$16,068
14	$14,283	$13,603	$2,106	$0	$16,389	$0	$0	$0	$16,389
15	$14,569	$13,875	$2,148	$0	$16,717	$0	$0	$0	$16,717
16	$14,860	$14,152	$2,191	$0	$17,051	$0	$0	$0	$17,051
17	$15,158	$14,435	$2,235	$0	$17,392	$0	$0	$0	$17,392
18	$15,461	$14,724	$2,280	$0	$17,740	$0	$0	$0	$17,740
19	$15,770	$15,019	$2,325	$0	$18,095	$0	$0	$0	$18,095
20	$16,085	$15,319	$2,372	$0	$18,457	$0	$0	$0	$18,457
TOTALS	$268,279	$255,496	$39,556	$710,000	$1,012,075	$829,453	$0	$829,453	$188,382

Notes 1) Custom Energy guarantees efficiency will be achieved that may generate dollar savings to cover total annual program costs.
2) One hundred percent (100%) of excess savings may be spent at discretion of Client.
3) Escalation for Utility/O&M savings & technical service fee is estimated.
4) Maintenance savings are associated with reduced replacement for lighting / mechanical equipment and outsourced maintenance.
5) Actual debt service payment will be per the amortization schedule established by the lessor with Client.

ESCO_____Date_____

Customer_____Date_____