**ENERGY SERVICE CONTRACTS** **6867**

(New 5/98)

**Program overview** (see also Section 6873): Cost-effective energy conservation projects reduce the cost of running state government. When PWB issues Energy Efficiency Revenue Bonds (see Section 6873), the proceeds are loaned to state agencies to build projects that conserve energy at state institutions. Loans made to state institutions are structured so that the energy savings generated are always greater than the loan payment. The savings that remain after the loan payment is made are split equally between the General Fund and the department conducting the project.

The facility's share of savings must be dedicated to maintenance, energy projects or infrastructure improvements. This approach reduces the overall cost of state government, allows institutions to modernize facilities without using capital funds, and funds continued infrastructure improvement. DGS' Office of Energy Assessments (OEA) staffs this PWB program. OEA identifies energy-savings projects, performs technical and financial analyses, and structures the loans.

In the development of projects for potential financing, two important guidelines are followed: 1) conservative financial and technical assumptions are used, and 2) only proven energy-savings technologies are implemented. These guidelines help ensure that the projects produce the anticipated energy and dollar savings. They also eliminate the requirement for expensive project metering since projected energy-saving assumptions can be accepted with confidence.

**The energy service contract**: The energy service contract is the legal loan agreement that defines the project and ensures repayment of the borrowed monies. The department is required to repay the loan regardless of the success of the project. This is necessary to assure bondholders they will be repaid.

The contract contains the "boiler plate" contract language, a project description, cash flow, payment schedules and the department's intention to apply for benefit sharing. It is signed by the participating department, OEA and PWB. Once the contract is in final form, it must be submitted to the Legislature for comment at least 45 days prior to PWB taking action to approve the loan. When the project is completed, the department applies for benefit sharing by submitting a BCP to request retention of half of the projected savings (intended use must be described).

**Agenda requirements**: PWB agenda requests are prepared by OEA on behalf of participating departments. In addition to information required in Section 6845, OEA reports the contract amount by cost component, the payment structure (amounts and due dates), and the net benefit to the state over the life of the contract.