



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of September 24, 2019

TO: Members of the City Council

SUBMITTED BY: Mike Roberts, Public Works Directory/City Engineer

SUBJECT: Engie Service Company's Feasibility Assessment for Energy Conservation Facilities and Associated Program Development Agreement

RECOMMENDED ACTION: Receive report and presentation from staff on the feasibility assessment findings from Engie, discuss, provide direction to staff if any, approve Program Development Agreement if desired by adopting a Resolution Approving a Program Development Agreement with Engie.

FISCAL IMPACT OF RECOMMENDATION: There is no out of pocket cost for the completed feasibility assessment. Should the City elect to proceed to the next step with Engie by entering into a Program Development Agreement (PDA), the associated \$12,800 fee could be incorporated into the subsequent Energy Services Contract (ESC) that would construct the energy conservation facilities (such as solar arrays, LED lighting retrofits, more efficient HVAC, etc). The fee would then be funded from the projected future savings from the energy conservation facilities. Alternatively, if the City elected not to proceed with the ESC after the PDA was completed, the \$12,800 would become due and could be paid for from the Facilities Fund. If instead Engie determines the energy conservation project is not financially viable per California Government Code 4217, the \$12,800 fee will be waived.

DISCUSSION: Staff has been working with Engie on a possible energy savings project since early 2019. On July 23rd, Engie made a presentation to the City Council on their efforts at the request of Mayor Romero. Following that presentation, staff has been working collaboratively with Engie to further evaluate the potential benefits of constructing energy conservation facilities on City-owned land and buildings and undertaking our due diligence.

Through this effort, Engie has refined their feasibility assessment (Attachment 2) and is prepared to present their updated findings tonight. They are proposing installing solar photovoltaic canopies in parking lots and interior/exterior LED lighting retrofits at City-owned facilities including City Hall, Library, Community Center, Teen Center, and Refugio Valley Park.

Engie's pro forma estimates these facilities will cost at total of \$2M and realize \$9K in savings the first year and a net \$1.98M (in present value) cumulatively after 25 years. An escalation of 4.5%/year is assumed for PG&E's electricity rate which is partially offset by a construction loan rate of 1% per

year, O&M costs of 3% per year, a solar panel degradation rate of 0.5%, plus other costs. The \$1.98M cumulative savings is primarily achieved through the generation of solar energy versus paying PG&E's compounding rates.

Engie has indicated their pro forma is very conservative and they would complete a more thorough analysis under their proposed PDA (Attachment 3), which would provide the data they need to provide a guaranteed level of savings. Engie would also look at other energy saving options such as converting the remaining 500+ metal pole City-owned streetlights to LED, City Hall Boiler and HVAC upgrades, and Library building management system (computerized controller for HVAC). The financial commitment associated with the PDA is discussed in the "Fiscal Impact" section above.

Should the City elect to proceed at this time with a PDA, Engie would be selected as a sole source vendor, which is authorized under Government Code 4217. This legislation was passed to facilitate energy conservation in public agencies by allowing public agencies to sole source design-build contracts in one step, rather than going through an RFP for a design contract and public bid for a construction contract. Staff has spoken with six (6) of Engie's references and they were for the most part very favorable. Their key staff members have sufficient experience (Attachment 4) and their fee structure appears reasonable (See below). The actual fees would be negotiated during the PDA and be incorporated into the ESC, where Engie as the design/build contractor would construct the energy conservation facilities.

Typical Cost Breakdown for ENGIE Energy Project \$2M Project Example		
Category	Cost* **	Percentage
Design	\$160,000	8.00%
PM/CM	\$90,000	4.50%
General Requirements/Training	\$20,000	1.00%
Construction	\$1,400,000	70.00%
Construction Contingency	\$50,000	2.50%
Commissioning & Metering	\$26,000	1.30%
Bonds	\$34,000	1.70%
Overhead	\$140,000	7.00%
Profit	\$80,000	4.00%
Total:	\$2,000,000	100.00%
* Open Book Pricing on work package bids and all project components		
** Actual values to be negotiated		

Following are additional considerations that could be considered in determining the next steps to take:

- Staff spoke with another energy contractor associated with a private development project who expressed interest in working with the City. If an RFP was solicited instead in accordance with the City's purchasing guidelines and sole source policy, it is anticipated there would be interest from other vendors.
- Solar arrays, interior and exterior LED retrofits of facilities, and LED retrofits of park lights and streetlights would provide a highly visible example of the City leading the way in embracing innovative technology to increase sustainability and decrease the City's carbon footprint.

- Should the project proceed, staff resources will be needed to oversee this effort which will detract from the current work plan developed in coordination with the approved FY 19-20 Budget. Staff could look into which programs or projects will be affected. In addition, the staff time to develop and implement the proposed project is not factored in to the financial feasibility analysis done by Engie and as such represents a “hidden cost.”
- Given the current status of PG&E (i.e. bankruptcy filings and failing infrastructure) and their historical rate increases, it would be beneficial to reduce reliance on them for electricity. As currently envisioned, this project will tie into PG&E’s power grid and the City can bank electricity in the day for night use. However, the City cannot use the power generated during the day if PG&E were to have rolling blackouts or other service interruptions.
- At this time the commitment would be for the PDA only. Once that is completed, the Energy Services Contract (ESC) can be evaluated in light of the new information developed under the PDA.

At this time staff is prepared to proceed with direction from Council, if any.

ATTACHMENTS:

1. Resolution Approving the Program Development Agreement
2. Program Development Agreement
3. Feasibility Assessment Findings
4. Resumes of Key Engie Staff

<i>Financial Impact</i>			
Description:			
Funding Source:			
Budget Recap:			
Total Estimated cost:	\$	New Revenue:	\$
Amount Budgeted:	\$	Lost Revenue:	\$
New funding required:	\$	New Personnel:	\$
Council Policy Change: Yes <input type="checkbox"/> No <input type="checkbox"/>			