



CITY OF MILPITAS AGENDA REPORT (AR)

Item Title:	Report on Request for Proposals for an Energy and Water Savings Performance Contract and Approve and Authorize the Interim City Manager to Execute the Professional Service Agreement with Engie Services U.S. Inc. for Conducting an Investment Grade Audit of City Facilities and Land
Category:	Community Services and Sustainable Infrastructure
Meeting Date:	10/1/2019
Staff Contact:	Tony Ndah, 408-586-2602
Recommendation:	<ol style="list-style-type: none">1. Receive report on Request for Proposal for Energy and Water Savings performance contract to identify, engineer, install, commission, and maintain Energy Conservation Measures on City facilities and land;2. Approve and authorize the Interim City Manager to execute a Professional Service Agreement with Engie Services U.S. Inc. for the purpose of conducting an investment grade audit on City facilities and land in the maximum amount of \$150,000.

Background:

A significant amount of the City's infrastructure is at or near the end of its useful life, resulting in deferred and/or recurring maintenance problems and inefficient operations. As a result, the City's utility and operation and maintenance (O&M) costs have increased above their optimum levels. Energy Savings Performance Contracting can provide a budget-neutral approach to implementing infrastructure improvement projects without using funds from capital budgets. An Energy Services Company (ESCO) develops and implements energy and water conservation projects and guarantees ongoing cost savings to the City for a specified period of time. Guaranteed cost savings from energy and water saving projects are designed to meet any finance payments over the useful life of the equipment.

In Fall 2017, staff began efforts to explore an Energy Services Performance Contract with the specific goal of implementing energy and water savings projects and utilizing the savings to pay for the financing on the projects. The work effort included exploring the structure of the project, including engaging in conversations with other cities on how they implemented similar programs and lessons learned through the process.

As a result of this initial work, staff determined that the best model for moving forward included issuing a Request for Proposal (RFP) in order to select and engage an Energy Service Company (ESCO). In May of 2018 the City issued Request for Proposals No. 2229 to select an ESCO for a guaranteed energy and water savings program.

The RFP was written to allow proposers to provide the City with a range of energy saving projects from lighting retrofits to water conservation measures in buildings through the replacement of fixtures. The goals of this program include:

- Project funding through a guaranteed reduction in water consumption and utility costs, as well as incentives and grants;
- Reduction of energy consumption and peak energy demands;

- Reductions in maintenance and other operational costs to the City;
- Renewable energy generation and optimum location of energy storage devices for arbitrage, which is the ability to purchase low-cost off-peak energy and re-sell this energy during on-peak periods;
- Turn-key project design and implementation of improvements and updates to the City's infrastructure.

As part of the RFP process, the City provided firms with some City energy usage data, and invited firms to a one-day site walk to view relevant City facilities. Six ESCOs submitted proposals.

Analysis:

RFP STRUCTURE AND RESULTS – The RFP structure provided information to the proposers on areas of focus for the City, such as the City's desire to implement LED lighting, solar PV, and HVAC improvements. Some California government entities have constructed utility savings projects without public bidding by following California Government Code section 4217.10 *et seq.* Government Code section 4217 *et seq.* does not require public bidding if the project meets certain conditions. However, the City nevertheless engaged in a competitive procurement process to allow for competition amongst the proposers and to allow the proposers to bring their market-proven methods forward for the City's consideration. The evaluation team included individuals from the Public Works Department, Finance Department, Engineering Department, City Manager's Office, and a consultant for the Public Works Department with experience working with ESCOs, in order to help evaluate the energy and water savings aspects of the proposals.

On May 31, 2018, RFP No. 2229 was released on PublicPurchase.com, the City's eProcurement website. Notice that the RFP was released was emailed to 622 firms registered on PublicPurchase.com and 65 firms accessed the bid documents. The RFP closed on October 17, 2019, and six proposals were received. After thorough review by the Purchasing Division, all six were deemed responsive per the minimum qualifications specified in the RFP. A six-member evaluation committee was convened to review the proposals and prepare a shortlist of vendors to advance to the interview phase of the evaluation process. Shortly after completion of the proposal review phase, one firm withdrew from consideration.

The RFP evaluation progressed in two phases. The evaluation team first evaluated the submitted proposal documents. From the original six proposals received, three companies were selected to move forward to the second phase based on the quality of their proposal, experience of the proposer, and costs associated with the proposal. The second phase further refined the rankings of the proposers based on the expertise and overall quality of proposal as evaluated through an interview process.

Following the interview phase, final scoring reflected Engie Services U.S Inc. as the highest ranked ESCO. Final rankings are set forth in the table below.

Rank	Company	Score
1	Engie Services U.S. Inc.	83.83
2	Ameresco Inc.	77.75
3	ABM	69.08

Staff began negotiations with Engie Services U.S. Inc. and has developed the proposed terms as put forward in this report and the attached professional service agreement for the development of an investment grade audit for the City.

PROGRAM STRUCTURE – An ESCO program contains a series of Energy Savings Measures (ECMs) where the projected savings derived from implementing the ECMs equal or exceed the cost of implementing the ECMs as measured over what is generally a 10-15 year financing term. Furthermore, the program is proposed to be separated into two phases, each with several distinct elements. The first phase is project development and the second phase is implementation of the identified projects. These phases align with the recommendations in this memorandum. The chart below outlines the components of each phase.

Project Development	Project Implementation
Investment Grade Audits (IGAs)	Financing
Energy Saving Measures (ECM) Identification	Construction Contract Award
Selection of ECMs for Implementation	Construction
Project Package Development	Monitoring and Verification (M&V)

The components of the project development phase are incorporated into the professional service agreement – which is the contract staff is currently asking Council to approve. The components of the project implementation phase will be incorporated into one or more "Energy Services Contracts." Staff will be returning to the Council at a subsequent date to request approval of any Energy Services Contracts. Both of these agreements are described in more detail below.

Phase 1 – Project Development:

Project development involves several stages of review of the City's assets to develop an IGA for the City. The IGAs provide an intense look at City property and facilities and are conducted to an industry standard level of detail. The audits are used to identify ECMs at an investment grade level, meaning the degree of certainty in the savings associated with projects is high at the completion of this stage. The completion of the IGAs is expected to result in one or more groupings or "packages" of ECMs that are "feasible." A package of ECMs is feasible if--over the period of time needed to finance implementation of those ECMs--the combined savings from the ECMs is projected to exceed the combined cost of implementing the ECMs. Accordingly, not every individual ECM included in a "package" must have a projected savings that exceeds the projected cost of implementing that individual ECM.

The development of the ECM packages is the end of the first phase. Once the ECM packages are developed, a financing plan will be prepared for each package and the package will be implemented separately through an Energy Services Contract, if approved by Council. At this point, the ECM package will include all delivery costs, including City project management costs and costs associated with issuing financing. This ensures that Council has the opportunity to review each ECM package and the associated financing prior to authorizing the implementation phase.

The City does not begin incurring contract costs until the IGA has been completed. Once the audit has been completed, the fee for the completion of the IGA for the City would be \$150,000. If feasible ECM packages are brought forward for Council consideration and approved, the cost of the IGA is incorporated into the overall project costs as part of the Project Implementation Phase. If the City does not proceed with any of the ECMs, the City will compensate Engie for the lump sum IGA development fee, under the professional service agreement, and the City can choose to implement the ECMs through future CIP and O&M projects.

The costs associated with the IGA are extremely reasonable and it is in the interest of Engie and the City to move to the project implementation phase, since that will be the phase where the City is expected to realize the energy and water savings it desires and Engie generates the profit for its work.

Phase 2 - Project Implementation:

Council is not being asked to approve anything related to the Project Implementation at this time. An Energy Services Contract with contract terms for the design and implementation of the ECM packages will be presented to Council for approval if ECM packages are identified for implementation. As ECM packages are assembled, staff will work to establish a financing plan associated with those packages.

The project implementation phase is expected to take 8 – 12 months to complete, depending on the final scope of the ECMs selected by the City.

PROPOSED MEASURES:

As part of the RFP response, Engie provided a preliminary investment grade audit for the City. Some of the measures that were identified for the City fall in the areas below:

- Lighting - LED lighting retrofits (interior, exterior, and streetlights).

- Renewables and Energy Storage - solar photovoltaics, battery storage, microgrid controls, and electric vehicle charging stations.
- Energy Management and Controls – Plug load control, high-efficiency transformers, and SCADA control upgrades.
- Heating and Cooling systems – building HVAC retrofits and controls
- Water Savings – weather based irrigation controls and indoor water fixture retrofits and commissioning.

Before and during ECM installation, Engie would provide the City with the required documents concerning installation procedures such as a quality assurance plan, notification of work outside regular hours, planned utility outages, and ECM testing. Engie would also be responsible for bidding the work, awarding the contract, and managing the installation of the projects. The City would be responsible for monitoring the ESCO's progress during ECM installation to ensure that the work is proceeding as planned.

PROJECT BENEFITS:

There are several benefits to the ESCO model including:

- Potential opportunity for cost savings (i.e. any savings beyond the financed costs for project implementation).
- The ability to renew aging infrastructure and address some portion of the deferred maintenance backlog in a timely manner.
- The possibility to further address the City's Climate Action Plan goals, especially those focused on energy efficiency, renewable energy, and water savings at a rate far quicker than might otherwise be possible.

NEXT STEPS:

Upon Council approval, Engie will begin the project development phase, which includes detailed on-site energy audits, interviews with City staff and stakeholders to ascertain priorities, problematic equipment, and ongoing maintenance concerns.

Engie will provide a final IGA report that provides a comprehensive evaluation of potential efficiency, water, and other infrastructure upgrade measures, along with costs, savings, and simple payback of any viable measures. City staff will work with Engie to determine a final scope for the Council to approve, and negotiate terms of an Energy Services Contract. The IGA process is expected take approximately six months to develop a final scope, costs, and savings.

Policy Alternatives:

Alternative 1: The City could establish its own team for evaluation of lands and facilities to identify ECMs and potential projects.

Pros: City would not spend funds on consultant services for this work.

Cons: City would have to hire staff with the appropriate expertise for this effort.

Reason not recommended: This alternative is not recommended at this stage as Engie provides expertise not currently held among City staff.

Fiscal Impact:

The fee for the completion of the Investment Grade Audits (IGA) for the City is \$150,000. If feasible Energy Saving Measures (ECM) packages are then made a part of a project package and brought forward to Council for approval as part of the Project Implementation Phase, the cost of the IGA will be carried forward and financed in association with the project package and the related Capital Improvement Program (CIP) project budget. If there is a situation where the ECMs are not brought forward for approval, the City will compensate Engie for the lump sum IGA development fee.

California Environmental Quality Act:

By the definition provided in the California Environmental Quality Act (CEQA) Guidelines Section 15378, this action does not qualify as a "project" for the purpose of CEQA as this action has no potential to result in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment.

Recommendation:

1. Receive report on Request for Proposal for Energy and Water Savings performance contract to identify, engineer, install, commission, and maintain Energy Conservation Measures on City facilities and land;
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Attachments:

1. Professional Service Agreement with Engie Services U.S. Inc.