



STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC WORKS

Testimony of the Department of Public Works
To the Energy and Technology Committee
March 8, 2011



House Bill 6544 An Act Concerning Energy Efficiency

The Department of Public Works (DPW) offers the following observation about sections 6 and 7 of this legislation, which provides energy performance contracting.

DPW attempted a pilot project using this concept several years ago and we found that there was no significant benefit to the state. Energy Performance Contracting is a financial lease vehicle in which a contractor performs capital energy improvements for a customer and the customer repays the project cost with energy savings generated by the improvements.

There are several factors which make these arrangements unattractive for the State. These arrangements include a financing cost which is repaid by the customer, in this case, the state. This financing is generally provided at prevailing commercial rates, which are much higher than the State's bond costs. The State Treasurers Office has indicated that this is not a cost effective avenue for the State to finance capital improvements.

Along with the cost of the financing, by funding these improvements from an agency's energy budget, the project shifts these capital improvement costs to the General Fund budget. These projects are framed as lease agreements, which provide certain tax advantages to private sector customers; advantages that the State does not realize. Also, contractors tend to try to include stipulated or fixed savings into projects. These are savings which are not directly measurable, but are deemed to have accrued to the customer regardless of whether they are achieved or not.

Considering these factors, it is more effective for the State to implement self-funded conservation work itself, and immediately reap the savings benefit, rather than utilizing a third party with costs which will both delay and reduce the savings benefit to the State. . However, our previous experience may not hold true today with innovations in technology and financing. We are raising concerns and simply want to protect the State from unnecessary costs. DPW is willing to participate in a pilot for an energy performance contract if it is deemed to be cost-effective compared to current financing mechanisms in use.

Thank you for the opportunity to submit this testimony.

For further information, please contact:

Jeffrey R. Beckham

Director

Legislation, Regulations & Communications

Department of Public Works

165 Capitol Avenue

Hartford, Connecticut 06106

jeffrey.beckham@ct.gov

860 713 5694 ofc

860 970 8254 cell