



STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC WORKS

Testimony of Jonathan Holmes
Acting Commissioner, Department of Public Works
To the GAE Committee
February 28, 2011



Senate Bill 1059
An Act Implementing
Recommendations of the Commission on Enhancing Agency Outcomes

The Department of Public Works (DPW) offers the following observation about section 305 of this legislation, which provides for a pilot program for an energy performance contract.

Several years ago, DPW attempted a pilot project using this concept and we found that there was no significant benefit to the state. Performance energy 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 Treasurer's 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 appears to be 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.