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## Southwest Energy Efficiency Project

*Saving Money and Reducing Pollution through Energy Conservation*

**Testimony of Larry Kinney, PhD, before the Nevada Senate Government Affairs Committee, in support of AB 398, a bill to establish a temporary alternative procedure pursuant to which certain performance contracts for cost-savings energy measures in buildings occupied by governmental entities are bid.**

I am a Senior Researcher with the Southwest Energy Efficiency Project (SWEEP), a Boulder, Colorado-based independent, non-profit organization that analyzes and promotes cost-effective energy efficiency measures in Nevada and five other southwestern states.

I am here to support AB398 because I believe that the legislation will enhance the procedures through which cost-effective energy and water conserving measures can be achieved in state facilities without capital outlay, and set the tone for diminishing energy waste in both the public and private sectors.

I have been involved in energy conservation work in the building sector for three decades and have been acquainted with performance contracting for almost 20 years. Several trends in the evolution of the industry are particularly relevant to AB398. First, the industry has grown and matured since its inception and energy services companies now customarily provide energy conservation services that work well both when installed and over the long term. Most companies offer a range of contractual options to fit customers' needs and simplified contractual procedures in the interest of all parties have become routine. Second, since performance contracts in which the company supplying the energy saving services are paid from energy bill savings, much-needed conserving actions may be taken with no capital outlay. Accordingly, this option is particularly attractive and popular in the public sector.

The recent history of performance contracting in the State of Colorado is instructive. The Colorado Governor's Office of Energy Management and Conservation, the State's Energy Office, has been actively promoting Performance Contracting in state-owned facilities and institutions of higher education for seven years. Since then, about \$8 million of Performance Contracts have been completed, most involving colleges and universities in the state. Only four small projects totaling \$317,000 have involved state buildings. In the last several years, however, the industry has experienced a veritable boom. At present, over \$51 million of Performance Contracts are in various stages of development and completion in Colorado. These include over \$25 million of state facilities and a similar sum for university and school facilities.

Over 15 Energy Services Companies are active in providing Performance Contracting in Colorado—there are well over 60 nation wide--and the number is growing.

Approximately 2 billion dollars worth of Energy Performance contracts were completed in the US in 2000 when the industry was experiencing an annual growth rate of 24%. Considering all projects implemented by energy services companies nationwide, about 86 percent are in the public sector.<sup>1</sup> Energy efficient lighting and HVAC system improvements were accomplished in 82 percent of 1500 Performance Contracting projects recently studied by analysts of the Lawrence Berkeley National Laboratory and the National Association of Energy Service Companies. Interestingly, actual savings achieved were found to be greater than pre-project estimates in 69 percent of the cases of lighting-only retrofits and 79 percent of non-lighting retrofits, reflecting a high standard of quality that characterizes the maturing energy services industry. Accordingly, this form of doing business has become broadly accepted by federal agencies as well as state and local governments.

Recognizing the value of performance contracting in enabling energy savings retrofits without the need for up-front capital expenditures, Arizona's Governor Janet Napolitano recently signed legislation requiring major agencies and state universities in Arizona to cut their energy use per square foot of floor area 10 percent by 2008 and 15 percent by 2011. It is expected that performance contracting will be the primary means of achieving these goals. There are now over 40 states with legislation on the books that promotes performance contracting in state and local governments as well as in schools and institutions of higher education.

### **Recommendation**

I understand that the version of the bill that is under consideration is an interim step, with follow-on legislation anticipated in upcoming sessions. In the future, I hope that the Nevada legislature will extend the scope of the legislation currently under consideration to both allow and encourage local governments and school districts in Nevada to undertake performance contracting. This will give them the flexibility to save energy and water without the need to allocate scarce capital resources.

Thank you for the opportunity to participate in this important process.

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<sup>1</sup> "Assessing U.S. ESCO Industry Performance and Market Trends: Results from the NAESCO Database Project," J Osborne *et al*, 2002 *ACEEE Summer Study on Energy Efficiency in Buildings*, Volume 5, p 233. Also see the web site for the National Association of Energy Service Companies, [www.naesco.org](http://www.naesco.org).