HB 1173

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1173 (Delegate Curran)
Commerce and Government Matters Referred to Economic and Environmental Affairs

State Procurement - Energy Performance Contracts

This amended bill extends the maximum duration of an energy performance contract (EPC) from 12 years to 15 years. The bill specifies that the Maryland Energy Administration must review proposed requests for EPCs to ensure that they preserve the State's flexibility to investigate and use economically justifiable new technologies. The bill also specifies that before approval of an EPC, the Board of Public Works must determine whether the proposed energy technology is appropriate for the time period provided in the contract.

Fiscal Summary

State Effect: Potential indeterminate decrease in expenditures; revenues would not be affected.

Local Effect: None.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

Background: Chapter 490 of 1992 requires State agencies to reduce their energy use 15% by 1996 and 25% by 2001. With an energy performance contract (EPC), an outside vendor installs an energy efficiency system. The savings that result from lowering fuel and utilities expenditures are used to pay the contractor over a period of time. Once the project is paid off, these cost savings accrue to the State.

State Effect: To the extent that authorizing a longer duration for an EPC allows projects with longer term payoffs to be installed, cost savings on utility expenditures could be realized in the out-years. This assumes that technology does not outpace the duration of the contract and that the cost model assumptions would prove to be realistic over the duration of the contract. The traditional way of funding energy projects is to purchase the equipment through the capital budget. Using an EPC would eliminate these up-front costs (though if the State paid for the initial installation costs then any utility cost savings could be redirected to other priorities immediately rather than at the end of the contract period).

A total of ten EPCs have been approved to date, involving $26.3 million in energy efficiency improvements, with $3.6 million in guaranteed annual savings. Five additional EPCs are under development, involving $12 million in improvements and $1.2 million in guaranteed annual savings. One potential project that could be undertaken with a contract term in the 12 to 25 year range is a chiller project that addresses ozone depletion through chlorofluorocarbon (CFC) mitigation; the fiscal 1998 capital budget request includes $5.1 million for a chiller CFC mitigation project. It is projected that for the next two fiscal years requests for this project could total $10 million, as part of an overall $23 million CFC mitigation project. If all these mitigation components could be handled using EPCs, in the out-years these capital requests would not be required. Instead, the costs of the project would be paid off over the length of the contract through the energy expenditure savings.

The Maryland Energy Administration (MEA) advises that approximately 25% ($4 million) of the fiscal 1998 Facilities Renewal Capital Budget Request is for energy related projects that could be funded through longer term EPCs in lieu of capital funding.

The bill requires that (1) MEA review EPC proposals to ensure that they preserve the State's flexibility to investigate and use economically justifiable new technologies; and (2) the Board of Public Works determine, based on MEA's review, whether the proposed energy technology is appropriate for the time period provided in the contract. These requirements could be handled with existing resources.

Small Business Effect: To the extent that the bill results in additional EPCs being undertaken by the State, small businesses could benefit from the opportunity to compete for additional energy efficiency contract work, usually as a subcontractor, in the areas of project identification, design, equipment installation, maintenance, and management of energy systems or equipment.

Information Source(s): Board of Public Works, Department of Budget and Management, Department of General Services, Department of Health and Mental Hygiene, Department of Public Safety and Correctional Services (Division of Capital Construction and Facilities Maintenance), Department of Transportation, Maryland Energy Administration, University of Maryland System, Department of Fiscal Services

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