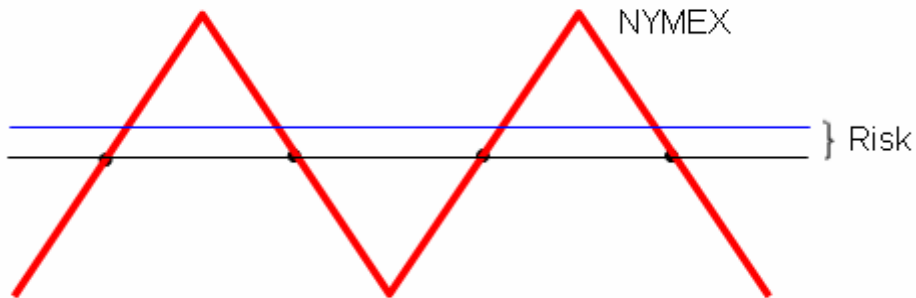


Frequently Asked Questions

1. Instead of a fixed price rate the agency will in reality be exposed to the volatile NYMEX market based on this plan. How is the agency to make any financial projections for budgeting purposes?

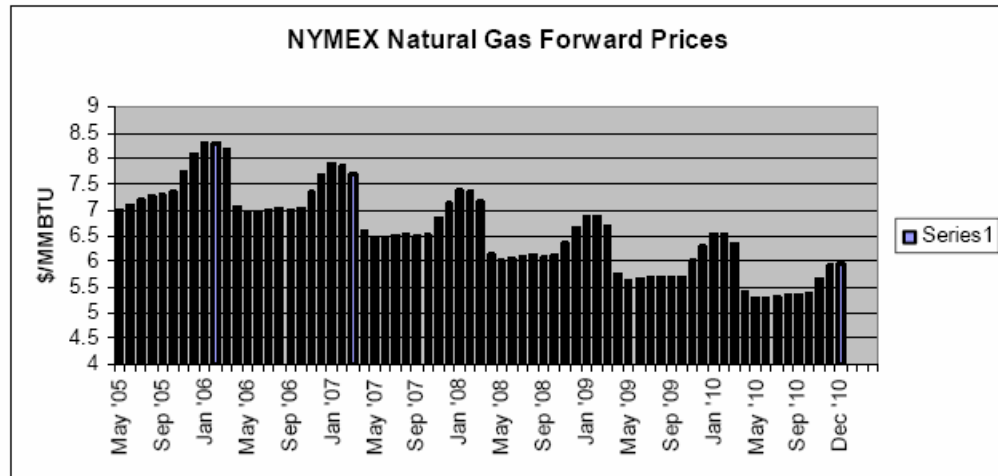
Consider that the fixed price rates for a specified term are in reality a projected average for the NYMEX market price for the same specified term plus an incremental increase to account for risk and the time value of money.



Each PSA will receive three energy procurement options. One of the procurement options will be a fixed price option. LPB will present a +/- analysis for the recommendation while “adhering to the terms of the contract.”¹ The financial projections for budgeting purposes will be based on the fixed price option. Should the fixed price option be selected by the PSA, then the projected budget will be the fixed price option plus the base rate multiplied by the anticipated usage for the budget term (Fixed Price + Base Rate (anticipated usage for the budget term)).

¹ Charley Haupt response to questions raised by Tarek during 4/14/06 meeting.

For budgeting purposes, the



Market on April 14, 2005

2. If billing errors are found and shared with LPB at a rate of 80%, how does the agency benefit from any recovery other than the remaining 20%?

Each PSA will receive numerous benefits. Utilizing the Utility Manager database will assist many areas:

- *Accounting: Direct ledger posting, audit bills in a timely manner, timely payment of bills*
- *Energy Procurement: manage the procurement contract, confirm contract compliance, perform "what if" scenarios for future procurement purchases, track contract performance*
- *DSM Support in Energy Efficiency Projects: accurately track contract performance*
- *Facility Managers and Employees: empowers facility managers and employees to support awareness and behavioral campaigns*
- *Executive and Management Reports: Enables timely development of Utility Cost Breakdown reports for the Executive Branch and stage agencies*
- *Energy Management: enables timely and instantaneously development of Utility Costs details, enables forecast and budget projections, tracks energy consumption and cost trends, tracks avoided costs (savings achieved) and comparison of sites*



3. Since the agency currently performs all the tasks listed in the statement of work, such as bill payment, utility cost tracking, electricity procurement, error checking, and reporting energy use and savings data to SECO on a semi-annual basis as required, what benefits will it receive from having LPB perform them at additional costs?

Not all agencies have systems for performing the tasks described above. This is a statewide contract and all agencies are included in the contract.

4. The agency's performance contracting vendor already reviews bills for errors over the next 15 years and does not share in savings. The vendor also has recommended changes to tariffs if the agency was on a wrong tariff at no additional cost. Since this is already being accomplished, why should the agency pay LPB to provide this service?

Not all agencies have performance contracting vendors working for them. This is a statewide contract and all agencies are included in the contract. If there are no savings identified by LPB during the audit, they will receive no fees.

5. What are the provisions for allowing the \$36 million collective cap to be expanded?

The contract termination date is August 31, 2010 and may be renewed at the discretion of CCG.

On page 6 of the compensation plan, the following compensation statement is reported "This project is entirely funded from realized energy savings and LPB's interests and the State's interests are in alignment with a reasonable negotiated Earnings Cap of \$36,000,000. Therefore, any and all cost overruns of LPB will be the sole responsibility of LPB and no adjustments will be made to account for such events or incidents, except as described in the variable cost sections of the Primary Activities: Energy Information Management System and Utility Bill Processing & Payment." The Energy Information Management System variable costs consist of the following tasks: Construction of a Site, Utility Account Template and 36-months of Historical Data.

On page 10 of the compensation plan, the following provisions have been included for expanding the compensation cap: "Once the database contains all the available historical energy information, we estimated it will contain 7,000 sites, 22,000 accounts and 792,000 billing account records (historical data). If during the initial term of the contract the actual number of sites, accounts and billing records exceeds the amount budgeted in the cost projection, both parties are in agreement that the Earnings Cap for LPB will be increased proportionately only to cover the additional costs LPB incurs in excess of the amounts budgeted in



Figure VI. Conversely, if these numbers are less than those originally estimated, then the Earnings Cap will be decreased proportionally.”

The Utility Bill Processing & Payment variable costs consist of the following tasks: Utility Bill Processing and Payment and Monthly Accrual \Process (75% of bills).

On page 12 of the compensation plan, the following provisions have been included for expanding the compensation cap: “...if the actual number of Energy/Utility Bill Accounts being processed every month exceeds 22,000 and therefore exceeds the amount budgeted in the cost projection set forth in Figure VII for the initial term of the contract, both parties are in agreement that the Earnings Cap for LPB will be increased by increased by the additional accounts processed multiplied by its related cost per unit. Conversely, if these numbers are less than those originally estimated, then the Earnings Cap will be decreased proportionally.”

6. It currently costs the agency significantly less than the \$5.25 - \$6.00 per bill to process payments with in-house staff. How will LPB be paid and from what budget?

LPB will be compensated from energy savings using the percentage savings model as previously described. The rates described above were used to develop budget numbers. These rates are not unit rates of payment.

7. Will the agency be allowed to procure gas contracts on its own? Currently, the Energy Management Services contract states that LPB does not believe it is beneficial to enter into fixed price agreements. This is debatable.

No. All utility contracts will be procured by LPB unless the PSA has previously received a waiver from the procurement process.

8. What specific role will the LPB play in the ESPC process? There is “assistance mentioned several times in the roles described on page 12 of the work plan. Are there specific processes and procedures developed by the LPB to describe this assistance/involvement?

In accordance with page 67 of the Statement of Work, LPB will provide the following services on ESCO projects.

- *Assist PSAs in overall management of ESPC projects: The ECA Team will provide standard oversight tools and the personnel to assist in the creation of any non-standard tools. These tools will consist of standard formats for data collection, data presentation, comparison and evaluation methods.*



- Provide technical review and oversight of all work planned and performed by ESCO on PSA premises: The ECA Team will provide experienced personnel and licensed Professional Engineers to perform sight reviews of projects. These reviews will evaluate each site and proposed projects for each site. For approved projects, the team will perform site visits during construction to inspect the projects for quality and accuracy, as well as perform tests for each system to evaluate functionality and efficiency.
- Review list of Energy Cost Reduction Measures (ECRM) for each PSA location prior to detailed analysis: The ECA Team has over 33 years experience in ESPC projects and will provide a detailed cost and return on investment analysis of each measure to validate its value to the PSA.
- Provide consultation regarding inputs to the analysis models and review of the results as required: The ECA Team will provide knowledgeable guidance on the most important aspects of a proposed model. They will also evaluate the results of the modeling process – both for the actual output and for the adequacy and applicability of the modeling process being used.
- Perform a savings review of the proposed ECRMs: The ECA Team will provide significant expertise in the development of accurate, useful energy models and savings projections for proposed projects.
- Review overall project scope and Detailed Energy Audit (DEA): The ECA Team will evaluate each SOW for its energy impact, review the DEA and when necessary, conduct a detailed audit of any proposed project.
- Work with ESCO and PSA to determine a cost-effective Measurement & Verification (M&V) plan for the various ECRM's proposed at PSA locations: The ECA Team will establish a cost effective measurement and verification capacity for any given project.
- Review and comment on the final M&V plan submitted by the ESCO: The ECA Team will thoroughly review each M&V plan for accuracy, practicality and effectiveness.
- Provide oversight and recommendations to the PSAs regarding selection of a 3rd party independent reviewer: The ECA Team will assist the PSAs in selecting and managing a qualified independent reviewer.



9. How will the LPB facilitate ESPC projects?

LPB will facilitate the projects by prequalifying the ESCOs, identifying the PSA with the highest potential for ESPCs, assisting the PSAs in the overall management of the ESPC projects and provide technical review and oversight of all planned and executed work (review cost reduction measures prior to detailed analysis, provide consulting regarding inputs to the analysis models and review of results, and perform a savings review of the proposed ECRMs).

10. In accordance with the statement about 2/3 of the way down the page on page 2 of the contract, it states that State Agencies are mandated to participate in the contract unless specifically exempted by the CCG in writing. Does this apply to the demand-side energy conservation portion as well?

Yes

11. Is the LPB contract limited to kWh or does it/will it include natural gas, water, power factor, demand and/or wastewater savings?

The contract include all of the categories presented in the question.

12. In the Work Plan on page 12 – Section 9, it appears that multiple ESCOs will be doing PEAs on the same facilities and then the “best value” ESCO is chosen for continuation to the DEA stage. Is this correct? This can be time consuming and a deterrent to many ESCOs agreeing to participate.

Yes. Targeted facilities will be divided into logical packages (geographical, type of facility, priority, etc. and opportunities for aggregation of PSA will be evaluated. Multiple ESCOs will, in fact, provide PEAs on the same facility. LPB will evaluate the PEAs for the “best value” to the PSAs. After the evaluation period, LPB will recommend an ESCO to the PSA for continuation to the DEA process.

13. The statement of work maintains that "project activities are entirely self-funded through realized savings . . ." This contradicts the entire contents of the Energy Savings, Cost, and Compensation Plan. The electricity RFP that is currently being issued by LPB on behalf of HHSC will cost the agency approximately \$325,000 per year for the base fee based on the predicted consumption. How is this saving the agency money?

I assume you are basing the \$325,000 per year total on a base fee percentage of 0.003 multiplied by the anticipated kWh to be used in the upcoming year. If HHSC selects a fixed price option for energy procurement, then HHSC would pay



for the fixed price option plus the base fee. The questions assumes that HHSC would be able to secure an equivalent fixed price option as LPB.

However, it is likely that LPB will offer alternative options that will reduce the total dollar amount paid by HHSC. In this scenario, the base fee alluded to in the question would be a portion of the total savings generated. It would be deducted from the total savings. Then HHSC would receive 20% of the remaining savings.

14. When LPB Energy procures a fixed price electricity contract which includes the base fee of \$0.0030/kWh, how is this different than simply being on a monthly NYMEX market price after all the "realized savings/avoided costs" are calculated and invoiced monthly to the agency at a rate of 80%? Avoided cost savings are being calculated on an artificial baseline when the fixed price less the base fee is subtracted from the NYMEX times the heat rate.

Page 17, item 7d of the Compensation Plan provides a fixed price example. This example is similar to many state agencies. A portion of that example has been reproduced in the following paragraphs.

Performance Savings will be calculated by comparing what the PSA would have paid had it chosen to fix its price rather than float with the market (baseline is the fixed price at same time and contract terms). On a monthly basis, LPB will compare the actual index-based price (which includes the LPB Base Fee) to the fixed price. If the index-based price is lower than the fixed price the PSA would have paid at the time of contracting, then Performance Savings will be calculated by multiplying the difference between the two kWh prices by the total kWh consumed for the month. This calculation is as follows:

Fixed Price	\$0.1085
LPB - recommended Index Price	- \$0.0798
Difference b/n rates	\$0.0287
Difference b/n rates * kWh usage = Avoided Costs (\$0.0287 * 89,971 = \$2,582.17) Note: LPB and the PSA may choose to fix the lower index price for a period of time to guarantee savings.	

On the other hand, if the Index Price (which includes the LPB Base Fee) is higher than the Fixed Price the PSA would have paid at the time of contracting, no Performance Savings or loss is recognized. This calculation is as follows:

Fixed Price	\$0.0654
LPB - recommended Index Price	- \$0.0798
Difference b/n rates	(\$0.0144)



15. Page 4 is states that “Savings achieved through Energy Efficiency measures will not pay for any of this project”. Does this create a dis-incentive to assist Agencies in becoming more efficient?

No. LPB’s compensation agreement includes providing services for Energy Conservation activities. See pages 15 and 16 of the Compensation Plan, Item 9 of the Work Plan, and Section 9 of the Statement of Work.

16. Page 16 states that manpower is limited to 17,280 hours associated with conservation. What occurs if/when this limit is reached?

*Page 6 of the Compensation Plan states the following:
“...For all other Primary Activities, any and all cost overruns will be financed by LPB with the understanding that these increased costs will be paid for out of the Earnings Cap.”*

17. Page 19 Base Fee, and Page 20 Performance Savings both appear to be kWh (electric usage) driven. If this is true, where is the incentive to cut consumption?

The incentive is provide through LPB’s compensation agreement includes providing services for Energy Conservation activities. See pages 15 and 16 of the Compensation Plan, Item 9 of the Work Plan, and Section 9 of the Statement of Work. It is also provided through the Utility Manager software feature, which will be used to identify potential ESPC contracts.

18. Page 21 also appears to kWh driven. If this is true, where is the incentive to cut consumption?

The incentive is provide through LPB’s compensation agreement includes providing services for Energy Conservation activities. See pages 15 and 16 of the Compensation Plan, Item 9 of the Work Plan, and Section 9 of the Statement of Work. It is also provided through the Utility Manager software feature, which will be used to identify potential ESPC contracts.

19. Page 23 also appears to kWh driven. If this is true, where is the incentive to cut consumption?

See answer for question 22.

20. Page 67, It is obvious that the LPB will not “share in any of the Energy Efficiency Savings” and is “in no way responsible or accountable for the achievement of these savings”. Where is the incentive for the LPB to lower the consumption of the State? It appears that any reduction in consumption of kWh will negatively impact the savings the LPB is able to demonstrate as well as the compensation



they are able to earn. Is there an incentive in this contract for them to help Agencies become efficient?

See answer to Question 20.

21. The baseline information used for LPB's savings calculations is an artificial number. It is based on NYMEX and not on actual savings (if agency had procured the energy).
- The PTB is constant for the term of the energy contract while the NYMEX varies month-by-month. This means that there is not fixed cost of energy.

See answer provided in Question 17.

- The compensation paid to LPB will be out-of-pocket expenses and not based on actual savings.

See answer provided in Question 17.

- The Base Fee is too high as this fee is only for an RFP.

LPB's services go way beyond only issuing an RFP. See answer provided in Question 3.

- Savings baseline will be compared against POLR rates in remote areas when the agency would never pay POLR rates.

See answer provided in Question 21.

22. Do we have to pay for Owner's Representative services on ESCO contracts? HHSC says we have to pay \$150/hr out-of-pocket expense to receive these services.

No. LPB's compensation agreement includes providing services for Energy Conservation activities. See pages 15 and 16 of the Compensation Plan, Item 9 of the Work Plan, and Section 9 of the Statement of Work.

23. There is no shared loss if LPB energy purchases would be higher than the agency would otherwise get if they purchased energy on their own.

The assumption is that the PSA can secure lower energy procurement costs than LPB. There is not a process in place to validate that assumption.

Using the three recommendations provided by LPB, one of which is likely the fixed price option, the loss of revenue to LPB takes place should the PSA pick the highest price option.



24. Is aggregation of energy purchase across state agencies available?

Yes

25. How is payment processing going to be handled?

Utility bill processing will be handled in accordance with the procedures outlined on pages 26 through 31 of the Statement of Work.

26. How is M+V going to be measured on projects where ESCOs are involved?

See page 68, item 7 of the Statement of Work. That information is provided in the following paragraph.

Work with ESCO and PSA to determine a cost-effective Measurement & Verification (M&V) plan for the various ECRM's proposed at PSA locations: The ECA Team will establish a cost effective measurement and verification capacity for any given project.

27. What happens at end of contract when performance contracts are still in progress and there are no longer any Owner Representation services available?

PSAs will have been trained on the Utility Manger program module, addressing Energy Efficiency projects and Energy Management. The PSA will still have the 3rd party independent reviewer, whose services were secured at the beginning of the project, available to assist the PSA.

28. We have an ongoing energy contract that is not up for renewal. If one small office is added to our existing contract, does this mean the entire current energy contract now fall under LPB energy procurement portion of the contract?

No.

29. We have over 9,000 separate energy contracts where many of them are the minimum amount per month and many are in regulated areas. How will LPB provide a service in the regulated areas? Will they have be able to generate savings in these areas?

LPB is responsible for energy procurement (regulated and non-regulated areas) throughout the state,. In regulated areas, LPB's energy procurement will result in the addition of a Base Fee (page 19 of the Compensation Plan.



Energy Savings, Cost, and Compensation Plan Additional Questions

30. Section I.1. Pg 3 – This section states all project activities are self-funded through Realized Savings. Is “Bill processing/auditing” a Project Activity? Section II.D. states that the agency will be charged \$5.25/Energy/Utility Bill Account/month as a processing fee. Is this payable regardless of the amount of savings identified?

The Agency charge of \$5.25 per bill is to be funded through procurement savings. It is not an additional payment by the agency to LPB. One component of LPB’s revenue cap structure was developed assuming there are 22,000 utility bills per month. This charge was capitalized (multiplying the per bill charge by the number of utility bills and then by the number of contract months) for use in determining the LPB revenue cap. If the State utility bills exceed 22,500, LPB’s budget will increase by the number of extra bills multiplied by the \$5.25 per bill charge discussed previously.

Is the amount of realized savings calculated by agency or are all agencies rolled together to determine the amount of savings payable to the Contractor?

The amount of realized savings is calculated per Agency, though cumulative savings for all Agencies cannot exceed LPB revenue cap.

31. Section I.2. Pg. 3 – Does the agency have any input and decision making authority in the approval of the realized savings?

The agency does have input but the final decision-making authority rests with the Contract Administrator. Objective criteria was used to determine savings for procurement and bill audit.

32. Section III. B. 7. b. Pg 20 – In Note 2, reference is made to using POLR rates for reference if PTB rates are no longer offered. Since all PTB rates end on December 31, 2006, does this mean that all these contracts will use POLR rates to calculate savings?

If (it is not a given) PTB rates expire and the contracts have not been renewed before December 31, 2006, then POLR rates will be used to calculate savings.

33. Section III. B. 7. c. Pg 20 – How will heat rates be determined for use in the calculations? Why is a varying price used to calculate savings when we would not have contracted a varying price contract?

Part of LPB’s procurement value rests in projecting the risk-reward of whether to contract at fixed rates or variable. If fixed rates are artificially high (post Katrina), LPB did (and would) recommend a variable rate. History demonstrated that a fixed rate saved Agencies considerably. Therefore, while LPB appreciates



the desire for budget certainty that a fixed rate provides, it is hoped that through the LPB process some Agencies at different times consider some exposure to a variable rate. It need not be all or nothing. LPB can demonstrate a product that fixes a majority of usage and floats (variable) limited usage. The contracted heat rate is multiplied by closing of NYMEX gas each month to determine market price from which savings are calculated.

34. Section III. b. 7. e. – When will information be available on natural gas procurement?

Natural gas procurement is available immediately.

35. Section IV. 4. – Explain what is meant by “...Customer’s inaction or delayed action...”.

If LPB provides a mechanism for an Agency to enjoy savings, the Agency, within a reasonable time frame, should act.