



CITY OF RAPID CITY

RAPID CITY, SOUTH DAKOTA 57701-2724

PUBLIC WORKS DEPARTMENT

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MEMORANDUM

TO: Public Works Committee

CC: Honorable Mayor Hanks
Gunar Dzintars, Energy Plant Manager

FROM: Dirk Jablonski, Public Works Director

DATE: February 5, 2008

RE: Performance Contracting for Energy Conservation

Direction was given at the January 29, 2008 Public Works Committee meeting to have Public Works Department staff provide a report on the status of an energy use analysis that was previously considered. This memorandum will provide that report.

In 2006 Johnson Controls presented a performance contracting concept to the City Council. Based on the information provided at that time, the Public Works Department solicited proposals for the performance based solutions to identify energy use conservation projects.

A performance contract calls for the contractor to identify specific benefits if the customer follows the recommendations of the contractor. In energy audits, certain energy and respective cost savings are identified if the owner contracts with the contractor for design, construction and equipment purchase. Design fees have been found to be about 50% higher than if the City used an independent engineering consultant. The City would also be obligated to use only equipment provide by the supplier.

Two proposals were received. One was submitted by Johnson Controls and the other by Siemens.

In each it was noted that the City would assume all the cost risk and the contractor was not responsible for the achievement of identified project benefits. In addition, the City

would have to contract with the vendor for all design services and sole source equipment purchases. Any change in operation would void any prospective benefits.

It is strongly recommended, therefore, that the City not enter into a performance contract for energy savings initiatives. That is not to say the City should ignore energy savings potential. In fact, the City has not. A recent example is the Council's directive to replace all the incandescent bulbs with LED bulbs in the traffic signals. This was done without the need of a consultant with the same result.

The Public Works Department has drafted a proposal for a consultant to review the operation of the City Energy plant and to consider the use of alternative fuels. The request to proceed with that initiative is forthcoming.

SUMMARY It is recommended that the City not enter into a sole source performance contract with an equipment supplier. The City can proceed using its own staff and consultants. Council will be asked for authorization to request proposals for an audit of the Energy Plant in the near future.

