# SOA Labor & Commerce Siemens Industry, Inc. Testimony SB-17 4-23-21

McDonough, Amber <amber.mcdonough@siemens.com>

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**To:** Melodie Wilterdink <Melodie.Wilterdink@akleg.gov>
**Cc:** Löki Tobin <Loki.Tobin@akleg.gov>

Greetings Melodie,

Thank you for the opportunity to present to the Labor & Commerce Committee today on SB-17. I wanted to provide a recap of my testimony for the written record:

1. Greetings Madam Chair and members of the committee, for the record, my name is Amber McDonough. I am based in Anchorage and am representing Siemens Industry, Inc. I appreciate the opportunity to provide testimony on SB-17 at the invitation of Senator Begich's Office.

2. Background Info:
   a. I'm an Account Executive for SII Energy & Performance Services; I've been with Siemens 22 years and supported their energy service company (ESCO) business in AK for 13 years. During this time we have implemented approx. $40M of energy saving performance contracts (ESPC) in Alaska.
   b. An ESCO is a company like Siemens that develops and implements ESPC work. This includes energy efficiency projects as well as distributed energy solutions including renewable power, energy storage and microgrids.
   c. An ESPC is at its core a procurement vehicle to fund facility & infrastructure improvements whose savings pay for themselves over time; ESPCs are designed to be budget neutral where the costs of design, development, construction, financing, and the savings guarantee are all funded by energy & operational savings.
   d. Guaranteed annual savings are confirmed each year using a formal Measurement & Verification (M&V) Program performed by the ESCO. Should verified savings not be met the ESCO will pay the difference to their clients – payout rates are historically less than 1% of all savings guaranteed.
3. I reviewed and testified on this bill in February and was happy to see some of my suggestions incorporated, especially regarding the type of high-level preliminary audits (ASHRAE Level 1) prescribed by this bill. This will allow energy savings opportunities to be qualified and quantified prior to engaging the services of an ESCO or incurring the costs of more detailed "investment grade" audits needed to secure bank funding.
4. I have three comments on the current version of SB-17:
   a. Sec 3 & 9 of the bill seem to limited the beneficiaries of this legislation to schools and facilities that served by utilities that receive power cost equalization (PCE) payments; Would the committee consider opening services up to all communities and public buildings regardless of their PCE status?
   b. Sec. 7. AS 44.42.067(a) is amended to read: (a) Not later than January 1, 2026 [JANUARY 1, 2020], the department shall work with other state agencies to retrofit at least 25 percent of all public facilities, starting with those it determines are the least energy efficient, if the department determines that retrofitting the public facilities will result in a net savings in energy costs to the state within 15 years after completion of the retrofits for a public facility and if funding for the retrofits is available. This is a big "if". Bundling loans or authorizing a single bond sale which all community facilities could tap into would address the problem of trying to secure private investors for rural communities and rural education attendance area (REAA) schools; This has been a challenge due to their lack of tax base and revenue sources needed guarantee their ability to repay any debt on their own. If the project bundling is truly intended to create one larger agreement between the State of AK and the financier this would be a big help. **For example: I recently investigated viability of providing a supplemental financing for a City of Galena microgrid project, but traditional ESPC lenders felt the community was too small and the lending risk too great to participate.**
   c. Sec. 10. AS 44.88 is amended by adding a new section to read: Sec. 44.88.179. Rapid economic recovery office. (a) The authority shall create a rapid economic recovery office to facilitate the state

energy policy described in AS 44.99.115(b) and encourage private investment in energy upgrades at state facilities and public schools. What's the best way to do that efficiently? Lately the biggest challenge seems to be perceived risk, even with the more common ESPC projects for state agencies. **For example during a typical ESPC development for a state agency process:**

i. The technical viability of Agency ESPC projects are jointly developed by the DOT&PF Energy Office Project Managers, the Agency Facility Managers and the ESCO, but each agency's financial Administrative Services Director (ASD) director must ultimately agree to sign off on 3rd party loan. *[Current State ESPC financing requires 4 signatures in the OMB approval process: DOT&PF Project Manager, client department leader (Agency ASD or Commissioner), Dept. of Revenue, and OMB Director]*

ii. The individual Agency Finance Director must be educated on how ESPC works and accept the metrics of the ESCO's savings guarantee. However, beyond that that they must also weigh the risk of whether or not the State will continue to fund their facility's utility budget at the same level for the term of the repayment period.

iii. This has sometimes been a tough sell with the Finance Director putting the go/no go decision responsibility back on the Facility Manager who may then hesitate to approve the much needed upgrades.

iv. One solution would be for this bill to provide authorization for State OMB to secure a large bond (say $200M) or set aside a state-wide appropriation budget to fund these future improvements. This would achieve structural efficiencies such as:

1. Paper work reduction – fewer individual loan contracts and legal fees would be required for each ESPC project; perhaps AIDEA/AEA could manage smaller in-state intra-agency or public community loans from the larger pot of secured funding?
2. Lower anticipated interest rates - one larger transaction with a 3rd party lender would result in better value than lots of smaller loans with entities of varying credit ratings.
3. Lower perceived risk – this funding would provide a backstop the State's current ESPC program as well as give public Finance Directors, School Superintendents, and Facility Mangers in these smaller PCE communities the confidence they need to tap into these programs. This would also mitigate the individual organization's repayment risk for private lenders.

5. Another key challenge not addressed today that was recently brought to my attention:
   a. There was recent AG Office decision that is affecting ability of the State DOT&PF Energy Office's ESPC program to function; this "Forrer Case" concerned the State's ability to borrow to pay tax credits due oil companies. The Alaska Supreme Court outcome decreed that all future state debt regardless of size required a vote of the public before it could be finalized. One unintended consequence is that it is a showstopper for ESPC Program as a whole.
   b. This halted a recent ESPC project that would have self-funded the upgrade of all State DOT owned street lights in Anchorage to LED technology. A Siemens competitor has a fully developed a viable project, but DOT is unable to get the State bond council to approve the borrowing needed to get this work done in the manner we have pursued funding for every ESPC project over the last 10-15 years.
   c. I've been informed that the Department of Law is currently reviewing this Supreme Court decision, but this structural road block must removed quickly so the viability of SB-17 as well as the State ESPC program can continue.

Thank you for the opportunity to provide this testimony. I'd be happy to answer any follow up questions you may have.

Best regards,

Amber McDonough, P.E.
**Business Development Manager - Pacific Zone (AK, HI & GU)**
**SIEMENS INDUSTRY, INC.**
Smart Infrastructure

Energy Performance & Services
5333 Fairbanks Street, Suite B
Anchorage, AK 99518
Main: (907) 563-2242
Mobile: (907) 227-3734
Email: amber.mcdonough@siemens.com
Web: Siemens Building Performance & Sustainability Solutions

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