TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER
DATE: SEPTEMBER 11, 2006

SUBJECT: APPROVAL OF CONTRACT WITH ECOLOGY ACTION INC. IN THE AMOUNT OF $250,000 TO PROCEED WITH A SMALL COMMERCIAL ENERGY EFFICIENCY PROGRAM

RECOMMENDATION
Staff recommends that Council:

1. Approve and authorize the City Manager or designee to execute the attached contract with Ecology Action for a turn-key Small Commercial Energy Efficiency Program in an amount not to exceed $250,000 over a three year term.

2. Authorize the City Manager or designee to exercise the option to renew the contact for the second and/or third year provided the contractor is responsive to the City’s needs and the quality of the contractor’s work is acceptable during the first year of the contract.

BACKGROUND
In 1997, California State AB1890 was passed requiring municipal utilities to collect an electric charge to fund public benefit programs. The funding level established for Palo Alto is approximately 2.85% of electric revenue annually. AB1890 established that funds be expended in any one or more of four program categories:

- Demand-side management programs
- New investment in renewable energy resources
- Research, development and demonstration programs
- Low income services.

To comply with AB1890, the City Council approved an initial public benefit package with funding allocations as part of the budget process for 1998-99 (CMR:237:98). The program allocation served as a guideline and was expressed by a range, which in sum cannot exceed $1.77 million cap. The cap allocation for a given program may be exceeded, with a corresponding reduction in another program if, for example, customer demand is high for a particular program.
The components and details of public benefit programs will continuously evolve through an iterative process involving the residents and businesses of Palo Alto, staff, Council and the UAC.

DISCUSSION
Although City of Palo Alto Utilities (CPAU) has a long history of offering incentive programs to Palo Alto customers, there has been low participation from small commercial customers due to lack of adequate financial resources and insufficient staff time to design, implement and manage a specialized program that meets the needs of a small commercial customer. In order to be able to provide high quality, high value services to small commercial customers, CPAU Utilities Marketing Services (UMS) recommends securing the services of Ecology Action Inc. to provide a full service, “turn-key” energy efficiency installation and service program with delivered verified energy savings for low cost to both CPAU and to customers.

This recommendation for a full scale program is based upon the highly successful pilot project CPAU ran between June 1, 2005 and February 1, 2006. The 2005 “Palo Alto Right Lights Program” substantially over-delivered on program targets as well as demonstrated a low retrofit cost per customer. Staff set a target goal to serve 32 customers with an energy reduction of 64 kW or 320,000 kWh. Ecology Action was able to audit 45 sites, reaching an impressive 141% of goal. Accordingly it also was able to get 79 kW energy reductions or 405,279 kWh. Not only was “Right Lights” a cost-effective program to run, it also eliminated 445,807 lbs. of CO² from being discharged into the environment. Since the start of this program, Ecology Action has been able to deliver verifiable energy savings to the hard-to-reach small commercial customer class. See appendix A for complete pilot program details.

The primary goal for the Small Commercial Energy Efficiency Program is to improve customer satisfaction by achieving a high participation rate, measured as percentage of customers participating in the lighting retrofit. The ideal customer class is businesses with 1 to 9 employees and under 10 kW in demand. The turn-key program will help business customers reduce energy use and lower annual energy costs in their business through a variety of project services and installations, such as:

- Energy efficient lighting: Fluorescent fixture conversion, compact fluorescent lamps (CFL), high intensity discharge (HID) replacement of incandescent lamps, and light emitting diode (LED) upgrades of exit signs.

- Performance-based operation and maintenance system improvements and verification to increase operational efficiency for rooftop “packaged” heating, cooling, and ventilating systems sized between 5 and 20 tons. The contractor will check and replace belts, clean condenser and evaporator coils, tighten cover panels, provide a new filter, economizer lubrication/check/cleaning, check and properly charge the refrigerant, install locking Schrader valve caps, assess airflow performance, and check/reprogram existing thermostats.
- Programmable thermostats replacement.
- Anti-sweat heater controls for refrigeration doors, primarily in convenience stores and flower shops.
- Occupancy sensors, wall box lighting sensors, wall or ceiling mounted lighting, plug load sensors, lighting time clocks.

A unique feature of this program is the measure to assure air conditioning performance and to capture operations and maintenance savings. Most rebate programs focus on equipment replacement using stated manufacturer energy efficiency ratios as a standard of assuring the best units are installed. However, ongoing research by E Source, Northwest Energy Alliance, and Portland Energy Conservation, Inc., all indicate that stated manufacturer ratios are not yielding the expected energy savings and that a focus on assessing HVAC installed performance may be a better approach to capturing energy and demand savings. Federal Energy Management Program (FEMP) indicates potential savings of between 5% and 20% of energy bills through implementation of low and no-cost operation and maintenance schedule which targets energy efficiency.

Program services targeted to the heating, ventilation, and air conditioning systems under this contract would be offered to customers during the initial site visit for lighting and efficiency assessment. Customers would be provided with marketing material describing the operations and maintenance program and its benefits. The contractor would then manage and coordinate all aspects of scheduling with customers and the City’s project manager. Each participant will be provided with a report from the contractor of findings, operations and maintenance measures performed, and anticipated energy and dollar savings.

The selected provider will perform and deliver a follow-up survey of solicited participants with analysis through on-site surveys and participant surveys. Quarterly and final reports detailing work described above will be provided.

**Summary of Bid Process**

<table>
<thead>
<tr>
<th>Bid Name/Number RFP 116342</th>
<th>Name/Number of Bid here 4</th>
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<tbody>
<tr>
<td>Proposed Length of Project</td>
<td>36 months</td>
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<tr>
<td>Number of Bids Mailed to Contractors</td>
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<tr>
<td>Total Days to Respond to Bid</td>
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<td>Pre-Bid Meeting?</td>
<td>Yes</td>
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<tr>
<td>Number of Company Attendees at Pre-Bid Meeting</td>
<td>5</td>
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<tr>
<td>Number of Bids Received:</td>
<td>4*</td>
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*Bid summary provided in Attachment B.

An evaluation consisting of three Utilities staff members review the proposals. A total of five companies were invited to bid on this project. One company chose not to respond due to high
workload. All contactors were invited to a pre bid meeting to gain a better understanding of the project goals and targets on March 14, 2006. The committee carefully reviewed the firm’s qualifications and submittal in response to the criteria identified in the RFP. The committee evaluated the proposals on four main criteria consisting of: consultant’s strengths and qualifications, program management expertise, program cost effectiveness, and successful completion of similar projects with CPAU. Please see Attachment B for detail criteria of each category.

Ecology Action Inc. (EAI) was selected based on its expertise with the small commercial energy efficiency programs. EAI has audited and installed energy efficiency measures for small commercials customers for the past 10 years in communities that surround Palo Alto. EAI has done similar work for Pacific Gas& Electric (PG&E) and was awarded a 10.25 million contact for its Energy Partners Program to serve small businesses in San Mateo, Santa Clara, Santa Cruz, Monterey and San Benito counties through 2008. EAI has also completed a successful pilot program with CPAU.

RESOURCES IMPACT
Staff has determined that sufficient budgeted funds do exist to allow for the implementation of this program for FY 2006-07.

POLICY IMPLICATIONS
This recommendation is consistent with the Council-approved Utilities Strategic Plan Objective #1, Enhance customer satisfaction and utility infrastructure. It also supports Key Strategy No. 6: Provide targeted customer and environmental programs and services. Strategy No. 7: Implement programs that improve the quality of the environment.

ENVIRONMENTAL REVIEW
This project is categorically exempt from California Environmental Quality Act (CEQA).

ATTACHMENTS
A: Appendix A - 2005 Palo Alto Rights Program: Impacts and Results
B: Bid Summary
C: Certificate of Non-Discrimination
D: Contract

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