2009 Innovations Awards Program

APPLICATION

CSG reserves the right to use or publish in other CSG products and services the information provided in this Innovations Awards Program Application. If your agency objects to this policy, please advise us in a separate attachment to your program’s application.

ID # (assigned by CSG): 09-S-19TX

Please provide the following information, adding space as necessary:

State: Texas

Assign Program Category (applicant): Government Operations – Administration (Use list at end of application)

(See Page 3 of this document for completed application)

1. Program Name
2. Administering Agency
3. Contact Person (Name and Title)
4. Address
5. Telephone Number
6. FAX Number
7. E-mail Address
8. Web site Address
9. Please provide a two-sentence description of the program.
10. How long has this program been operational (month and year)? Note: the program must be between 9 months and 5 years old on March 2, 2009 to be considered.
11. Why was the program created? What problem[s] or issue[s] was it designed to address?
12. Describe the specific activities and operations of the program in chronological order.
13. Why is the program a new and creative approach or method?
14. What were the program’s start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)
15. What are the program’s annual operational costs?
16. How is the program funded?
17. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number.
18. What equipment, technology and software are used to operate and administer this program?
19. To the best of your knowledge, did this program originate in your state? If YES, please indicate the innovator’s name, present address, telephone number and e-mail address.
20. Are you aware of similar programs in other states? If YES, which ones and how does this program differ?
21. Has the program been fully implemented? If NO, what actions remain to be taken?
22. Briefly evaluate (pro and con) the program’s effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.
23. How has the program grown and/or changed since its inception?
24. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?

2009 Innovations Awards Program
Program Categories and Subcategories

Use these as guidelines to determine the appropriate Program Category for your state’s submission and list that program category on page one of this application. Choose only one.

Infrastructure and Economic Development
- Business/Commerce
- Economic Development
- Transportation

Government Operations
- Administration
- Elections
- Public Information
- Revenue

Health & Human Services
- Aging
- Children & Families
- Health Services
- Housing
- Human Services

Human Resources/Education
- Education
- Labor
- Management
- Personnel
- Training and Development
- Workforce Development

Natural Resources
- Agriculture
- Energy
- Environment
- Environmental Protection
- Natural Resources
- Parks & Recreation
- Water Resources

Public Safety/Corrections
- Corrections
- Courts
- Criminal Justice
- Drugs
- Emergency Management
- Public Safety

Save in .doc or rtf. Return completed application electronically to innovations@csg.org or mail to:

CSG Innovations Awards 2009
The Council of State Governments
2760 Research Park Drive, P.O. Box 11910
Lexington, KY 40578-1910

Contact:
Nancy J. Vickers, National Program Administrator
Phone: 859.244.8105
Fax: 859.244.8001 – Attn: Innovations Awards Program

The Council of State Governments
E-mail: nvickers@csg.org

This application is also available at www.csg.org, in the Programs section.
CSG Innovations Awards 2009 Application

State
Texas

Program Category
Government Operations - Administration

Program Name
Council on Competitive Government
Energy Management Services Project

Administering Agency
State Energy Conservation Office

Eddy Trevino, Program Manager
111 E 17th, Austin, Texas 78711-1440
512-463-1876
FAX Number – 512-475-2569
eddy.trevino@cpa.state.tx.us
http://www.seco.cpa.state.tx.us/sa_manager.htm
Two-sentence description of the program
The Council on Competitive Government’s (CCG’s) Energy Management Services Project was developed as a self-funding program to help the state achieve significant reductions in energy costs through the combination of information management, energy procurement and energy conservation projects. This program is enabling the state to achieve energy expenditure reductions (electricity, natural gas, water and wastewater); better manage energy consumption; more accurately forecast agency consumption in state-owned facilities; and provide uniform state-agency reporting to the legislature.

How long has this program been operational (month and year)?
The CCG Energy Management Services Project kicked off in April, 2006. The project is managed by the State Energy Conservation Office (SECO) and is implemented through a contract to LPB Energy Management (vendor).

Why was the program created? What problem[s] or issue[s] was it designed to address?
In order to understand and manage their energy issues, state agencies and local governments needed information and expertise that they could not acquire themselves as individual entities. The State needed a system that would accurately document energy utilization of multiple agencies. The CCG Energy Management Services Project was created to enable agencies to efficiently manage energy consumption, enable agencies to accurately forecast consumption and expenditures in state-owned facilities, and to enable uniform mandated state-agency reporting to legislature.

At the conclusion of the project, the State of Texas will have a consolidated system where energy consumption or energy conservation can be measured and analyzed for all state agencies.

Describe the specific activities and operations of the program in chronological order.
As a self-funding project with limited project funding, the decision was made to begin providing services in areas that would immediately generate cash flow. The project contains three supply side components, one demand-side component, and a database (hardware and software) component. Supply side component categories include: procurement; utility bill processing; and historic utility bill auditing. The demand-side component is performance contracting. Project funding is generated from shared savings in procurement activities and shared savings from historic utility bill audits.

Procurement
Procurement activities initially focused on electricity procurement in deregulated areas of Texas. Several state agencies had a number of electricity meters that were not under contract and payments were made monthly at the default rates (Price to Beat). These agencies signed a Letter of Authorization (LOA) enabling the vendor to obtain historic utility consumption data and to determine current expenditure rates. The vendor compiled this information (load) as if all of the meters were under one contract and sent the information to potential bidders (Retail Electric Providers) to receive “indicative pricing” for the total load under one contract. Indicative pricing was obtained for a number of scenarios.
The vendor then met with the agency to review the indicative pricing scenarios and discuss the development of a Request for Proposal (RFP). Concurrently with the developing the RFP and the indicative pricing scenarios, a number of additional actions were also taking place. Specifically, the vendor developed a qualitative grading metric for use in reviewing the bids of Retail Electric Providers. Then vendor also worked with the agency to formulate the weight distributions for the RFP, as well as criteria for qualitative and quantitative pricing. Furthermore, the vendor worked with both the agency and the Retail Electric Providers to develop contract Terms and Conditions acceptable to both parties.

Once these activities were complete, the vendor issued the RFP. After responses were received, the vendor graded the Retail Electric Provider based on the qualitative and quantitative weights already established. Finally, the vendor and the agency reviewed the submittals and the final scoring. Once this was complete, the agency awarded a contract to the winning Retail Electric Provider.

This same process was followed for all state agency accounts that were not currently under contract (Price to Beat rates) in deregulated areas of Texas.

After initiating the process to address the energy procurement needs of the agencies in deregulated markets, attention was given to state agencies with existing contracts that were getting ready to expire. The procurement process that was utilized to get agencies in deregulated markets great rates was used for agencies with expiring contracts.

For state agencies with offices in parts of Texas where electricity is still regulated, the vendor is still collecting utility information. If the agency requires assistance in dealing with the utility provider, the vendor assists the agency in their communication.

The vendor receives a percentage of the savings generated through this process. The contract stipulates that for vendor agrees to receive 80% of the first $25,000,000 in realized savings, leaving 20% for the agency and then vendor will receive 40% of the next $40,000,000 in realized savings, leaving 60% for agency. The vendor has a total earnings cap of $36,000,000.

**Utility Bill Processing**

Utility bill processing was the next step in the project. There are three distinct purposes of utility bill processing: invoice accuracy validation; population of the Energy Management system; and exportation of the information into the agency’s internal accounting system. The following paragraphs describe the purposes in more detail.

Utility bill processing actually takes place before the processing program is implemented. In this step, the vendor and agency determine how the agency can import the utility bill information directly into their accounting system. In order to get the electronic information in a format acceptable to the agency’s internal accounting system, the vendor must first obtain the flat (electronic) field names and field widths that the agency uses in their internal accounting system. In order to expedite this process, the vendor usually creates an electronic version of the invoice.

While an electronic version of the agency’s invoice is created, the vendor collects hard copies of previous utility invoices submitted to the agency. The vendor converts the hard copy information into an electronic format that can be imported into the agency internal accounting. Multiple tests are performed between the agency and the vendor to ensure the agency receives the information so that it
can be directly imported into the internal accounting system. When the agency and vendor are comfortable that the transfer of information process is functioning properly, data transfer begins.

Next, the agency signs a Letter of Authorization (LOA) for the utilities to change the utility billing address from the agency to the vendor. Once the LOA is signed, it is the vendor’s responsibility to verify the invoice accuracy. In the case where a question arises or an error is identified, the vendor contacts the utility provider directly.

Once invoices are validated, two things happen. First, the invoices are placed into an electronic file. The file is then placed on a file transfer protocol (ftp) site for the agency to download and import into their internal accounting system. Second, at the same time the data is submitted to the agency, the same information is sent the Energy Management database.

Data entered into Energy Management system provides matching of the individual meters with their corresponding facility. The matching of meters to their associated facilities was another problem that is addressed under the Energy Management Project. Once meter information was matched to their facility’s physical addresses, the vendor entered the facility footprint size and square footage into the system. This task challenged the vendor because this information was stored by different divisions within the agency.

The vendor receives no compensation for these services. As of January 2009, the vendor is processing over 15,000 invoices per month.

**Historic Utility Bill Audit**

The final step in the project was the historic utility bill audits. Historic utility bill audits are last because their results will fill gaps in the Energy Management System.

Besides enabling the utility bill processing component, the Letter of Authorization (LOA) permits the vendor to collect 36 months of historic utility bills. Once the historic utility bills are collected, the vendor begins looking for billing and tariff errors. If no errors are found, the collected information is converted into an electronic format and placed into the Energy Management System. If errors are located, the vendor negotiates with the utility provider to obtain a refund. Additionally, the agency is notified, with all support documentation, of the refund/credit they will receive. After the errors have been reconciled, the collected information is converted and inputted into the Energy Management database. At the same time,

The vendor receives a percentage of the savings generated through this process. The contract stipulates that for vendor agrees to receive 80% of the first $25,000,000 in realized savings, leaving 20% for the agency and then vendor will receive 40% of the next $40,000,000 in realized savings, leaving 60% for agency. According to the contract, historic utility bill audit savings generated from a reduction in charges on energy / utility bill will carry forward into the future for four years from the first month the savings are generated and approved as Realized Savings.

**Performance Contracting**

So far, two state agencies have started the process of entering into Energy Savings Performance Contracts (ESPC). The vendor’s job in this process is to help an agency navigate ESPC process. This assistance includes: helping the agency prepare their RFQ, assisting the agency in the interview of Energy Savings Companies (ESCOs); reviewing the Preliminary Energy Audits (PEA); and Utility
Assessment Report (UAR) in selection and negotiation of projects. The vendor receives no compensation for these services.

**Energy Management Program**

One common task in each of the previous referenced subsections is that the vendor is always gathering information for input into the Energy Management database. The vendor is always attempting to gather energy consumption, energy cost, other billing data, facility, and facility footprints (square feet) information.

The energy management application program used on this project is Utility Manager. Agencies have web-based access to their information on Utility Manager. The vendor provides ongoing training on the efficient use of the program through onsite training and webinars.

The vendor receives no compensation for these services.

**Why is the program a new and creative approach or method?**

This project is unique because it is a comprehensive self funding program. Funds for the project are generated from shared savings on two parts of the project: reduced procurement energy expenditures; and shared savings generated from historic utility bill audit refunds and credits. There is no authorized budget for the project.

**What were the program’s start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)**

This project is being managed with one SECO Program Manager. No specific purchases were required at the beginning of the project.

**What are the program’s annual operational costs?**

The program’s annual operational cost is the salary and overhead of the SECO Program Manager.

**How is the program funded?**

The program is self funding.

**Did this program require the passage of legislation, executive order or regulations?**

This contract was approved by the Council on Competitive Government (Council). In 1993, the Legislature created the Council in response to a growing interest in making government more efficient, cost-effective, and competitive. The Council is unique in that: it can create statewide contracts under which state agencies are obligated to participate; and state agencies automatically satisfy state procurement law by participating on CCG contracts.

The Council designated energy management services as an identified state service in its June 27, 2002 open meeting. Council staff determined that opportunities exist for the state to save money through energy management services and by developing and releasing a Request for Quotation (RFQ). The Council believed the state could achieve significant reductions in energy costs through the combination of information management, energy procurement and energy conservation projects.
What equipment, technology and software are used to operate and administer this program?
The software system used in the program is the web-based application of Utility Manager. The hardware and software utilized for to house all of the energy consumption and expenditures along with facility information is provided as part of the contract. At the completion of the project, the vendor will transfer this information to the State of Texas.

To the best of your knowledge, did this program originate in your state?
This program was approved after a Council on Competitive Government (CCG) internal study indicated that opportunities exist for the state to save money through energy management services. The CCG also determined that all of the services required were beyond the capabilities on a single agency. After that determination was made, the CCG approved the creation of a RFO to identify a vendor for the project. To the best of our knowledge, the concept for this program originated in the State of Texas.

Are you aware of similar programs in other states?
No

Has the program been fully implemented?
All phases of the program have been implemented. The vendor continues to work with agencies to gather information for population of the Energy Management program.

Briefly evaluate (pro and con) the program’s effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.

Procurement Pro
With the assistance of the vendor, the State of Texas has saved over $11.5 million as of January 2009 from effective and efficient procurement.

Procurement Cons
Shared savings are used to fund all of the project elements. As a result, the percentage of shared savings received by the vendor is skewed when compared to the percentage a vendor would receive if they only provided procurement assistance. This is a difficult process for agencies to understand.

Utility Bill Processing Pros
In January 2009, the vendor processed about 15,600 for state agencies. By the vendor completing this task, the agency was able to redirects full-time employees to other needed tasks.

Utility Bill Processing Cons
Agencies would prefer not to have invoices redirected to the vendor. They are concerned with a loss of control of the information and the information flows. The agencies also fear the download of information into their internal accounting system will affect their prompt payment ability. This has not been a problem to date on the project.

Historic Utility Bill Audit Pros
The agency receives refunds and or credits on old incorrectly coded bills.

Historic Utility Bill Audit Cons
Shared savings are used to fund all of the project elements. As a result, the percentage of shared savings received by the vendor is skewed when compared to the percentage a vendor would receive if
they only provided historic utility bill audit assistance. This is a difficult process for agencies to understand.

**Energy Savings Performance Contracting Pros**
State agencies that have never participated in Energy Savings Performance Contracts are now able to utilize this strategy on their energy conservation projects.

**Energy Management Database Pros**
Utility consumption and cost information is now being compiled for multiple agencies at one location. In addition, facility footprint information for buildings is being compiled for multiple agencies at one location. Building can be compared to each other to determine most and least energy efficient buildings so energy conservation projects can be prioritized.

State agencies can utilize information for budget forecasting purposes and prioritization of energy conservation projects. State agencies can also utilize report capabilities to facilitate legislatively mandated reporting submittals.

**How has the program grown and/or changed since its inception?**
The fundamental elements of the program have not changed since its inception. The State has observed how the vendor has adapted the sequence of activities to fit the agency’s specific needs.

**What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?**
Other agencies can expect to encounter the following obstacles if they attempt to adopt this type of program.

1. Most of the Realized Savings on the project are generated from electricity procurement. States with regulated markets may have to find alternate funding if their markets are regulated.
2. State agencies may be reluctant to participate in a program such as ours because such a program changes established, internal processes.
3. State agency may fear of loss of control of their energy invoicing process. the bill receipt and payment process by not receiving invoices directly from the utility provider.
4. State agencies that have a dedicated procurement staff may feel the utility billing process under our program is a duplication of services.
5. State agencies that are updating their accounting systems will want to delay entering into the program until their new systems are in place.
6. State agencies find it difficult to appreciate the totality of the project when only two contract elements have shared savings that will fund the entire project.