

**TO:** James L. App, City Manager  
**FROM:** Joseph M. Deakin, Public Works Director  
**SUBJECT:** Kinetics Services, Inc.- Energy Conservation Proposal  
**DATE:** August 5, 2003

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**NEEDS:** For the City Council to consider a proposal from Kinetics Services, Inc. to design and build energy saving systems for City facilities.

**FACTS:**

1. Kinetics Services, Inc., a California corporation headquartered in Santa Clara, specializes in mechanical contracting. They were recently selected by the City of San Luis Obispo to build energy reducing facility components.
2. Kinetics presented the City of Paso Robles with an unsolicited proposal to design and build energy retrofit projects. The projects could be installed to conserve and/or generate energy for City facilities.

**ANALYSIS  
AND**

**CONCLUSION:** The City received an unsolicited proposal from Kinetics offering an energy system retrofit program. In brief, Kinetics Services proposes to install more efficient electrical controllers, retrofit light fixtures, and install two small cogeneration systems at select City facilities. The retrofits and installations will reduce electrical energy consumption and/or generate power for utility operations. The retrofit cost is estimated at \$1,400,000. Kinetics Services guarantees that projected electrical cost savings will offset the implementation costs.

An executive summary of Kinetics' proposal is provided for review (copy attached). Copies of the full proposal are also available, and were provided for City Council review. Over the past 6 months, City staff and representatives of Kinetic met and discussed the proposal.

The guarantees offered by Kinetics assure that annual utility savings would equal financing costs. Some consideration remains on the following points:

1. Savings in energy costs are projected to equal facility retrofit payback costs in the first 7 years following implementation. In brief, the proposal does not indicate a net savings for the first seven years.
2. The City has the choice to acquire it's own financing, and it is probably advisable to do so. Ten-year lease-purchase financing rates are very favorable at 3.25% and seven-year rates are 2.85%. The seven-year payback term (see above) is based upon the projected financing rate of 2.85%; improvements would cost \$220,800 (including financing costs), nearly matching the projected annual energy cost savings identified in the proposal (\$221,600).
3. Kinetics and the City need to negotiate and agree upon a method for assuring energy cost savings, which involves agreement on how the energy is measured, what the baseline for determine energy reduction is, how costs are determined, etc.
4. Grant opportunities with agencies, such as the local Air Pollution Control District, may help the proposal. The City and Kinetics would need to determine if grants could reduce the infrastructure retrofit investment costs, thereby increasing City revenues.

5. The City is already researching a grant for purchase of traffic signal LED replacement bulbs following the initiative by PG&E to provide rebates for purchasing such equipment. Under the PG&E rebate program, the City could implement the traffic light retrofit program independent of Kinetics, and likely accelerate the payback from this energy conservation measure.

The proposed energy conservation improvement projects proposed by Kinetics appear feasible – the construction elements are straightforward, and the opportunity to reduce energy consumption is clear. By Kinetics proposal, cost savings on energy usage would be utilized to pay debt service on the financed improvements, and the City would realize savings in excess of costs only after the improvement financing is paid off, i.e., after 7 years. This assumes the retrofitted improvements operate as projected, or that Kinetics would provide the City with monetary assurance.

**POLICY**

**REFERENCE:** None

**FISCAL**

**IMPACT:** The proposal indicates the City will, after the 7-year retrofit payback, enjoy a cost savings on annual energy expense of \$221,000 annually assuming that the retrofit improvements continue to operate at maximum efficiency. Kinetics proposes to guarantee that the savings during the first seven years will be entirely offset the financing costs. Any agreement that is developed needs to provide adequate assurances.

**OPTIONS:**

- a. The City Council to assign an Ad Hoc Committee, with staff support, to further develop the proposal submitted by Kinetics Services, Inc. into an agreement that is tentatively acceptable to both the City and Kinetics, and return to City Council by November 18, 2003, for a decision to accept or deny the proposed agreement.
- b. Amend, modify or reject the above option.

Attachments (1):

- 1) Proposal