

STAFF REPORT
COUNCIL MEETING DATE:
January 23, 2012

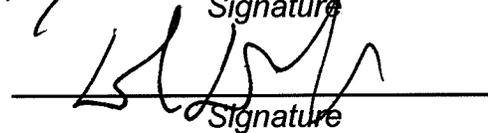
ITEM FOR COUNCIL CONSIDERATION:

Approval of an incentive and loan participation by the City with Southern California Gas Company for funds to replace the pool water heater at the Community Pool.

Report prepared by:
Matthew Roberts, Parks and Recreation Director


Signature

Reviewed by:
Dave Durlinger, City Manager


Signature

STAFF RECOMMENDATION:

Action Item: **Authorize the City Manager to execute an On-Bill Financing Loan Agreement** authorizing the City to accept an incentive and funds to be used for the purchase and installation of a new pool water heater (boiler).

Sample Motion: I move to authorize the City manager to execute the Financing Loan Agreement with Southern California Gas Company to be used for the purchase and installation of a new pool water heater.

I. BACKGROUND:

The pool water heater was originally installed twenty three years ago when the swimming pool was constructed. The current pool water heater is inefficient when compared to today's models. To continue with the energy conservation efforts at the Community Pool, Staff is proposing that the City take advantage of an incentive program offered by Southern California Gas Company (Gas Company). The Gas Company has analyzed the existing heater and the performance data of a high efficiency heater and has concluded that the amount of natural gas the new heater will

save will be at least \$4,400 per year based upon an average BTU¹ cost of \$0.79 per therm².

The estimated total cost to purchase and install the new heater is \$39,392.50. The Southern California Gas Company will provide a cash incentive of \$5,555 and then finance the estimated balance (\$33,837.50) with a monthly charge of \$359.97 on the City's monthly gas bill. The interest rate on this loan is 0%. The estimated monthly charge for repayment of the loan principal will be offset by the reduction in cost of natural gas consumed resulting in no increase in dollar cost to the city during the term of the loan. After the loan is paid off, the City will see a reduction in cost.

II. ANALYSIS:

Staff recommends this approach to replace the aged community pool boiler for several reasons.

1. Replacement of the original pool water heater with a high efficiency model is consistent with the City's effort to be as energy efficient as possible.
2. Replacement of the original pool water heater is inevitable due to its age and replacing it prior to failure will avoid service interruptions.
3. The high efficiency water heater will recover operational pool temperatures more quickly thereby improving customer service.
4. The high efficiency water heater will allow for a longer primary pump shut down period each night thereby reducing electrical energy demands resulting in a cost efficiency.

There are some risks to this proposal. The estimate life of the new water heater is expected to exceed fifteen years; however if for some reason the new boiler does not last past the loan term, the City will still be required to complete the payment until the loan balance is paid off.

The price of natural gas does fluctuate. Should the price fall below \$0.79 per therm, the City will not realize the anticipated savings. However, if natural gas prices go up, the City will benefit beyond the calculated amount. Natural gas prices are volatile. Most recently, Natural gas prices have been going down. Prices may go up or down and are not dependably predicted. Exhibit "C" shows the history of residential gas prices in the United States according to the U.S. Energy Information Administration.

The City council could decide to purchase the new heater outright without a loan. Funds for the purchase could come from the General Fund Reserve or other sources. Southern California Natural Gas Company would still offer the City the incentive amount of \$5,555.00.

Staff recommends the loan option because of the interest rate of 0%. With 0% interest there is no cost to pay over time. As time passes and inflationary pressure reduces the

¹ A British Thermal Unit (BTU) is the amount of heat energy needed to raise the temperature of one pound of water by one degree F. This is the standard measurement used to state the amount of energy that a fuel has as well as the amount of output of any heat generating device.

² A unit of heat equal to 100,000 British thermal units

value of a dollar, payments made in the future are less expensive than those made today. The longer 94 month term maximizes this benefit.

III. POLICY:

Energy efficiency and conservation of operating funds is consistent with best management practices.

IV. FINANCIAL CONSIDERATIONS:

The terms of the proposed agreement include the following terms:

1. A cash grant for \$5,555.00
2. A loan in the amount of \$33,837.50
3. Repayment period of 94 months (7 years 10 months)
4. No interest (0%)
5. Monthly payment \$359.97
6. Total payments = \$33,837.50

V. LEGAL ISSUES:

None

VI. ATTACHMENTS:

- Exhibit A On Bill Financing Loan Agreement
- Exhibit B On-Bill Financing Program Worksheet
- Exhibit C Natural Gas Price History

Exhibit "A"



A Sempra Energy utility

ON-BILL FINANCING LOAN AGREEMENT

The undersigned customer ("Customer") and the undersigned contractor ("Contractor") have contracted for the provision by Contractor to Customer of energy efficiency equipment and services (the "Work"). Subject to the conditions (including the process for Adjustment) set forth in the next paragraph, Southern California Gas Company ("SCG") shall extend a loan (the "Loan") to Customer in the amount of the loan balance (the "Loan Balance") pursuant to the terms of this On-Bill Financing Loan Agreement ("Loan Agreement") and Rule No. 40 (the "Rule"). Contractor shall provide the Work as described in the On-Bill Financing Application ("Application") and any contract between Customer and Contractor, which shall be attached to the Application.

The estimated Loan Balance is set forth below. However, the total cost of the Work as installed, Incentive, Loan Balance, monthly payment, and loan term specified in this Loan Agreement may be adjusted, if necessary, after the Work and the post-installation inspection described in the Application and/or herein are completed (the "Adjustment"). The Adjustment will be calculated using the actual total cost of the Work, as installed, and estimated energy savings (as described in the Application) of such Work. In no event will the Loan Balance be increased without Customer's written consent, even if Customer is eligible for such increased Loan Balance. Moreover, in no event will the Loan Balance exceed the maximum loan amount stipulated in the Application. Customer understands that in order to be eligible for an on-bill financing loan, the initial Loan Balance for Work may not fall below the minimum loan amount, nor may the payback period exceed the maximum payback period. **Accordingly, if after the Adjustment, the Loan Balance falls below the minimum loan amount or if the simple payback period exceeds the program maximum payback period, each as described in the Application, SCG shall have no obligation to extend the Loan, as the Work would not meet program requirements.** The Adjustment described in this paragraph will be communicated to the Customer and Contractor in writing and will automatically become part of this Loan Agreement, except that any proposed increase in the Loan Balance will only become part of this Loan Agreement upon Customer's written consent to such increase. Collectively the Application, this Loan Agreement (including any Adjustment hereunder) and the Rule comprise the "Agreement". In the event of any conflict among the foregoing components of the Agreement, the following order of priority shall apply: 1. the Rule; 2. this Loan Agreement; 3. the Application.

SCG shall have no liability in connection with, and makes no warranties, expressed or implied, regarding the Work. Customer and Contractor agree that the Customer and Contractor shall jointly and severally indemnify and hold harmless SCG, its affiliates, and their respective owners, officers, directors, employees and agents thereof, from and against all claims, demands, liabilities, damages, fines, settlements or judgments which directly arise from or are caused by (a) any breach of the Agreement (subject to the proviso regarding Contractor at the end of this sentence regarding obligations to repay the Loan Balance) or (b) the wrongful or negligent acts or omissions of any party in the conduct or performance of the Work or Contractor's or Customer's duties under the terms of this Agreement; provided, however, that in no event shall Contractor be deemed a co-obligor, surety or guarantor of Customer's obligations to repay the Loan Balance under this Agreement.

Customer represents and warrants that (a) Customer is receiving this Loan for Work obtained in connection with Customer's business, and not for personal, family or household purposes; (b) Customer, if not an individual, is duly organized, validly existing and in good standing under the laws of its state of formation, and has full power and authority to enter into this Agreement and to carry out the provisions of this Agreement. Customer is duly qualified and in good standing to do business in all jurisdictions where such qualification is required; (c) this Loan Agreement has been duly authorized by all necessary proceedings, has been duly executed and delivered by

Customer and is a valid and legally binding agreement of Customer duly enforceable in accordance with its terms; (d) no consent, approval, authorization, order, registration or qualification of or with any court or regulatory authority or other governmental body having jurisdiction over Customer is required for, and the absence of which would adversely affect, the legal and valid execution and delivery of this Loan Agreement, and the performance of the transactions contemplated by this Loan Agreement; (e) the execution and delivery of this Loan Agreement by Customer hereunder and the compliance by Customer with all provisions of this Loan Agreement: (i) will not conflict with or violate any Applicable Law; and (ii) will not conflict with or result in a breach of or default under any of the terms or provisions of any loan agreement or other contract or agreement under which Customer is an obligor or by which its property is bound; (f) all factual information furnished by Customer to SCG is true and accurate; and (g) the On-Bill Financing Program ("Program") was a determining factor in its decision to have the Work performed.

The Application must include the Federal Tax Identification Number or Social Security Number of the party who will be the recipient of the check for the loan amount. Checks may be issued directly to the Customer or the Contractor or both, for the benefit of the Customer, as specified below. Customer and Contractor each understand that SCG will not be responsible for any tax liability imposed on the Customer or Contractor in connection with the transactions contemplated under the Agreement, whether by virtue of the Loan contemplated under the Agreement, or otherwise, and Customer and Contractor shall jointly and severally indemnify SCG for any tax liability imposed upon SCG as a result of the transactions contemplated under the Agreement.

Within sixty (60) days of Customer's and Contractor's written confirmation sent to SCG On-Bill Financing Program Administrator at address listed below of completion of the Work, SCG will (a) conduct a post installation inspection and project verification; (b) adjust, if necessary, the total cost, Incentive, Loan Balance, monthly payment, and loan term as stated above; and (c) issue a check (the "Check") for all amounts SCG approves for payment in accordance with the Agreement. The date of such issuance is the "Issuance Date". The Check shall be issued if the Work conforms to all requirements of the Agreement including, without limitation, the Application. If the Check is made payable to Customer, Customer shall be responsible to pay the amount thereof to Contractor. If the Check is less than the amount due from Customer to Contractor, Customer shall be responsible for the excess. Customer shall repay the Loan Balance to SCG as provided in this Loan Agreement irrespective of whether or when the Work is completed, or whether the Work is in any way defective or deficient.

The Customer agrees to repay to SCG the Loan Balance, in the number of payments listed below and in equal installments (with the final installment adjusted to account for rounding), by the due date set forth in each SCG utility bill rendered in connection with Customer's account (identified by the number set forth below) ("Account"), commencing with the bill which has a due date falling at least 30 days after the Issuance Date. Amounts due under this Loan Agreement shall be deemed to be amounts due under each bill to the Account, and a default under this Loan Agreement shall be treated as a default under the Account. Although a late payment fee may be assessed for delinquent payment of a utility bill, however, no late payment fee will be assessed for delinquent Loan repayment. If the Customer is unable to make a full utility bill payment in a given month, payment arrangements may be made at SCG's discretion. Any partial utility bill payments will be applied to energy charges before payment of the Loan Balance. Further payment details are set forth below. Any notice from SCG to Customer regarding the Program or the transactions contemplated under the Loan Agreement may be provided within any such bill, and any such notices may also be provided to Customer or Contractor at the addresses below or as elsewhere specified in the Loan Agreement, and shall be effective five (5) days after they have been mailed. The monthly payments will be included by SCG on the Account's regular energy service bills. The Loan Balance shall not bear interest. There are no pre-payment penalties; however, Customer agrees to notify the On-Bill Financing Program Staff of pre-payment amounts at the time of payment by telephoning the toll free phone number listed on the bill and by sending written notice to SCG On-Bill Financing Program

Administrator at the address listed below. In the event the Account is closed or terminated for any reason, or Customer defaults under the Agreement, the Customer will be required to repay the entire then-unpaid Loan Balance within 30 days. Customer understands that without limiting any other remedy available to SCG against Contractor or Customer, failure to repay the Loan Balance in accordance with the terms of the Agreement could result in shut-off of utility energy service, adverse credit reporting, and collection procedures, including, without limitation, legal action.

<u>\$ 39,392.50</u>	<u>\$ 5,555.00</u>	<u>\$ 33,837.50</u>	<u>\$ 359.97</u>	<u>94</u> Months	<u>94</u>
Total Cost	Incentive	Loan Balance	Monthly Payment	Term	Number of Payments

Check Made Payable to Contractor \$ _____ Customer \$ 33,837.50

95-2414438
Federal Tax ID or Social Security #, Customer

68-0366899
Federal Tax ID or Social Security #, Contractor

006-514-2700
Southern California Company Account #

City of Carpinteria
Account Name, Customer

Aqua Source
Name, Contractor

5305 Carpinteria Ave., Apt. B, Carpinteria, CA 93013
Service Address, Customer

P.O. Box 1146, Galt, CA 95632
Address, Contractor

David Durflinger, City Manager
Name and Title of Authorized Representative of Customer

Ron Ybarra, CEO
Name and Title of Authorized Representative of Contractor

Signature of Authorized Representative of Customer

Signature of Authorized Representative of Contractor

Date

Date

ACCEPTED: Southern California Gas Company

By _____
Frank Spasaro
SCG On-Bill Financing Program Administrator

Date

Address: PO Box 513249, Los Angeles, CA 90051-1249

Exhibit "B"

City of Carpenteria Pool
On-Bill Financing Program Worksheet
12/17/11

Customer

Account Number 006-514-2700
Meter Number 10582204

Eligible Program

Santa Barbara County Partnership; incentive thru EECIP

Project

To replace the existing 1880 MBtuh pool heaters with new condensing pool heaters at 97% thermal efficiency.

Proposed Measure Savings

5,555 therms

Estimated Total Project Cost*

WHP-2005 Raypak MBTU 1999 X Therm	
Ultra Efficiency Pool Heater	\$29,800.00
Installation	\$6,785.00
Freight	\$200.00
Sales Tax (8.75%)	\$2,607.50
Total	<u><u>\$39,392.50</u></u>

* Total project cost estimate is based on customer's estimate and is subject to true-up at completion of project.

Estimated Incentive

\$ 5,555.00

Estimated OBF Loan Info**

Past 12-month average gas charge per therm	\$	0.7883	
OBF Gas Savings per year	\$	4,379.01	
Estimated OBF Loan Amount		\$33,837.50	
Estimated OBF Simple Payback		7.73	years
Estimated OBF Loan Term		94	months
Estimated OBF monthly loan repayment	\$	359.97	

** All estimated loan and rebate/incentive information will be subject to true-up based on final invoices after installation is complete and project passes post-installation inspection. The last monthly loan repayment will be adjusted slightly to \$360.29 to account for rounding.

Exhibit "C"

Natural Gas Price History Graphic.

