

Constellation Energy®

**Response to RFP for West Virginia
Department of Military Affairs and
Public Safety
Division of Corrections**

Cost Proposal

For

**Energy Savings Performance Contract –
COR 61431**

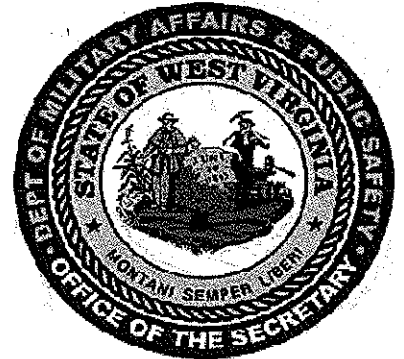
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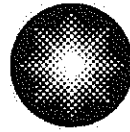
Constellation Energy Projects & Services Group, Inc.

2090 Greentree Road

Pittsburgh, PA 15220

Submission Date: January 25, 2011





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RESPONSE TO REQUEST FOR PROPOSALS FOR
WEST VIRGINIA DEPARTMENT OF MILITARY AFFAIRS AND PUBLIC SAFETY
DIVISION OF CORRECTIONS

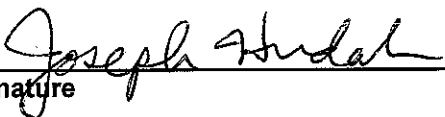
COST PROPOSAL

ENERGY SAVINGS PERFORMANCE CONTRACT – COR 61431

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Signature

1-24-2011
Date

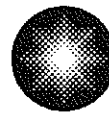
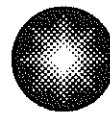


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5. Financial Analysis (Cost Proposal)

- A. Provide a financial analysis to model the project in this proposal over a 15 year term incorporating energy, and operational savings; Turnkey project costs for implementation; Service including, monitoring and Measurement and Verification; and financial transaction costs. Identify all escalations on energy and operational savings and service costs. Complete the B-1 Financial Cash Flow Table as Attachment to this section only. Only use energy cost savings in this cash flow. Do not estimate or include operational savings, as they will only be analyzed and considered after completion of the Investment Grade Audit.

The overall project payback period is over a 15 year term including the first year (12 months) of construction. **Per the interpretation of the WV State Energy Legislation by observers within the State, the construction period needs to be part of the overall term of the project. This was determined from Constellation's experience with other State projects (Cities and Schools). The construction term is not in addition to the 15 year term, but needed to be included in the 15 year term.** Payment of the debt service will not take place until after construction is complete. Operational and material cost savings were not taken into account in this analysis as instructed in the RFP.

- Turnkey cost from Constellation for 4 site project: \$13,650,682
- Total energy savings for the 4 site project: \$ 1,042,787 (baseline year 1)
- Straight payback analysis: 13.1 years

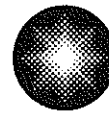
See Attachment B-1 for specifics on the energy savings.

For this submission, ARRA Funding totals were not disclosed during the Mandatory Site Visits and the RFP release. Once the total ARRA funding has been identified, WV DOC would have two choices on how to utilize the funds:

- 1) If WV DOC wished to implement projects that were only funded with ARRA funds, then Constellation would work the IGA phase to identify specific ECMs and projects for each facility up to that point of funding.
- 2) The other choice for WV DOC would be utilize the ARRA funding amount on a much more comprehensive project, with the ARRA funds going to buy-down some of the overall cost with a capital payment. The cost of the ARRA piece will be able to be deducted from the total amount needing financing.

For example, if ARRA funding for the 3 sites was \$3,500,000, then if the total project presented was approved, then \$10,150,682 would need to be financed. The WV DOC would then be able to coordinate with its financier using a capital payment of the ARRA funding that would be built in to the overall financing package. Constellation will work with the WV DOC to determine exact dollar cost amounts and savings.

Disclaimer: cost and savings were based on the scheduled walkthrough audits, equipment seen, and information provided. More detailed analysis will take place during the Investment Grade Audits.



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- B. Other Costs:** Describe other costs such as maintenance and monitoring agreements and describe how they will be applied. Also state whether these are annual costs and if they are required each year of the contract.

Other costs include Constellation annual Measurement & Verification (M&V) fee which is incorporated into the overall cost of the project, but accounted for to make sure that annual positive cash flow is maintained.

The M&V service is utilized to confirm Project Savings levels as specified in the IGA Report.

At the end of each Measurement Year the energy and water savings from all of the ECMs will be measured or calculated and compared with the projected levels.

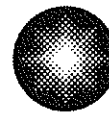
Constellation shall verify Guaranteed Savings amounts after ECM commissioning and M&V methodology agreed upon by Customer and Constellation, in accordance with the International Performance Measurement and Verification Protocol ("IPMVP"). See M&V section for the four different M&V methodology options allowed by IPMVP. Constellation will work closely with the DOC to determine which M&V methodology option is best suited, most cost effective, and weigh the risk factors for each energy conservation measure (ECM).

No maintenance costs have been included in this cash flow scenario, as Constellation does not typically include ongoing maintenance costs in its proposal. If outside ongoing maintenance is needed, Constellation will broker an agreement with a local subcontractor and the maintenance agreement will be directly between WV DOC and the subcontractor. There is no need to have Constellation get involved and add another layer of markup that will add to the overall project costs.

- C. Financing Options:** Describe alternative financing options for portions of the project that may not be funded via ARRA funding. Denmark Correctional Center is currently not ARRA funded.

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, (Dodd-Frank). Dodd-Frank created a new class of entities generally entitled "Municipal Advisors". Dodd-Frank made it unlawful for Municipal Advisors to provide certain services to municipal entities related to municipal financing initiatives without registration with the SEC. The SEC has begun a rulemaking proceeding in which it will further determine the implications of being classified as a Municipal Advisor. The SEC promulgated its draft initial rules in December 2010, and it is anticipated to issue its final rules clarifying the registration obligations in 2011. Despite the current uncertainty related to being a registered Municipal Advisor, Dodd-Frank required that all Municipal Advisors register temporarily with the SEC by October 1, 2010.

Until there is further clarity from the SEC rulemaking process, CEPS has decided that it will take a conservative approach regarding the activities it will perform associated with municipal financing of its projects. Thus, CEPS is able to collect potential RFP responses related to financing options for municipal customers and forward those financing options on to the municipal customer without recommendation. Due to the uncertainties in federal law as described above, CEPS is not currently able to either directly finance or to advise on the terms of financing, or recommend a third party financier, for this project. In particular, please note that, in performing any obligations under this RFP Response, CEPS is not acting as, or holding itself out as, a Municipal Advisors and the information, opinions or views that CEPS may provide are not intended to be, and do not constitute, advice within the meaning of Dodd-Frank. CEPS is not acting as an agent, advisor or fiduciary of any municipal customer, but solely as a principal in an arms-length transaction.



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Topics we will cover in this section are:

- Achieving Our Customers' Goals;
- Securing Utility and Government Project Incentives;
- Constellation's Relationship with Funding Sources.

Achieving Our Customers' Goals

Our objective on every project is to achieve (or exceed) the goals both Constellation and our customers set for energy savings and environment improvements.

That's why it is critically important that we make sure all our customers' energy and environmental initiatives yield their targeted benefits.

Constellation assures such protection in three specific ways:

1. Selecting the proper performance guarantee protocols – although some types of technology installations carry very little risk (such as replacement-in-kind), more involved solutions require substantial metering and verification (M&V) to ensure investment protection.

In all cases, Constellation stresses the use of the International Performance Measurement & Verification Protocol (IPMVP). Not only will these protocols help both parties gain assurance that the investments made will yield the cost and energy savings targeted – our measurements will include a calculation of the reduction in greenhouse gas (GHG) emissions generated by the projects we help implement;

2. Prepare for Growth – Constellation understands that facilities grow and change. That's why we develop recommendations that anticipate these changes, working with our customers to craft energy / environmental strategies that support and reinforce the strategy and mission of the institution.

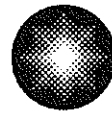
We help our customers succeed in a dynamic world. We understand that planning for growth is the only rational response when working with forward-looking customers;

3. Future pricing structure – if the base year used to estimate energy costs is not a reasonable indicator of future pricing, savings estimates can fall short even though performance is accurately predicted.

Securing Utility and Government Project Incentives

Constellation has extensive experience in securing incentives and grants from Federal sources, including ARRA, state and utility programs designed to support energy projects.

Constellation will evaluate utility, State and Federal financing, rebate and grant programs to offset capital costs for qualifying ECMs. Constellation is intimately familiar with these programs and has, on behalf of our customers, provided the necessary documentation to receive countless rebates and incentives.



Should Federal or State programs change, we have dedicated personnel who track changes and impending deadline cutoffs on key programs. This becomes critically important in three scenarios:

- we are effective in determining when projects qualify for various rebates or grants, and immediately adapt project plans to accommodate these incentives. We are then experts in making sure our customers qualify for and receive these incentives;
- we are extremely diligent in understanding the limits and deadlines associated with grants and rebates that our customers' projects intend to utilize. ***If we find that a project is in danger of losing out on an incentive of some type, we are extremely effective at doing whatever is necessary (accelerating documentation, securing extended deadlines, etc.) to make sure our customers continue to receive the planned-for benefits;*** and
- we are also effective in determining how we can change the existing plans of a customer project if we determine that this change unlocks the project's eligibility for financially material incentives.

Cost Proposal

During the IGA phase, the following items will be further defined and presented to the WV DOC for their review:

- the total cost (including design/engineering, project management, labor and material costs),
- projected energy savings,
- projected operations and maintenance (O&M), and
- savings and simple payback period associated with each ECM.

These figures will be backed up with calculations and actual counts that the WV DOC can assemble into a cash flow, pro-forma document that will show the annual guaranteed savings and the debt payment for the requirements of the West Virginia Code Chapter 5a Article 3b - 1. This can be assembled in a 15 year payback analysis.

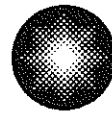
Project Projections

Attachment B-1 details the projected savings, annual project costs, and a guaranteed savings. The same type of analysis will be provided for the WV DOC in the IGA Phase.

In order to maximize the savings opportunities, Constellation will assess all potential ECMs from an economic perspective before recommending the final list of ECMs for implementation. As a part of the economic analyses that will be conducted for each equipment and system, both savings as well as costs will be evaluated and presented through this proposal.

The following components have been used to generate the savings projections –

- Projected Energy Savings
- Measurement & Verification Costs
- Annual Debt Service Costs



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- D. **Cost of the Investment Grade Audit:** Provide an estimate of the cost of the investment grade audit that will be conducted after ESCO selection. The cost shall be broken down into fixed cost and cost per square foot for the Investment Grade Audit.

Fixed Cost = \$85,000 or Unit Cost = \$0.07/square foot. (Approximately 1,200,000 square feet between the 4 sites)

E. **Attachments for "Financial Analysis" Section**

Label Attachments and list here including Attachment Name, Description, and Location in RFP Response. Insert attachments here at the end of this section, or include elsewhere in a clearly marked location for easy reference.

Attachment:

Attachment B-1 Guaranteed Savings Table

ESCO's PRELIMINARY ANNUAL ENERGY SAVINGS ANALYSIS FORM, (ATTACHMENT B-1)
 West Virginia Department of Military Affairs and Public Safety, Division of Corrections
GUARANTEED ENERGY SAVING CONTRACT

Project Cost ¹ \$13,650,682
 Term (months) 180 (Inc. Const)
 Annualized Estimated Interest Rate: 4.25%
 Construction Period ² (months) 12
 Escalation Rates for Annual Fees: 2.0%

Escalation Rates by Utility & Fuel:
 Electric: 3.0%
 Natural Gas: 2.5%
 Fuel Oil: 2.5%
 Steam: 3.0%
 Water: 3.0%
 Operational: 2.0%
 Coal: 3.0%

Year	Electric Cost Savings	Natural Gas Cost Savings	Fuel Oil Cost Savings	Steam Cost Savings	Water Cost Savings	Coal Savings	Material Savings	Total Cost Savings ⁴	Guaranteed Cost Savings	Annual Service Fees ³	Estimated Payment	Net Savings
1 - Construct	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	\$130,732	(\$443,791)	\$1,312,277	\$0	\$43,569	\$0	\$0	\$1,042,787	\$1,042,787	\$65,000	\$841,071	\$136,716
3	\$134,654	(\$454,886)	\$1,345,084	\$0	\$44,876	\$0	\$0	\$1,069,728	\$1,069,728	\$66,300	\$866,712	\$136,716
4	\$138,693	(\$466,258)	\$1,378,711	\$0	\$46,222	\$0	\$0	\$1,097,369	\$1,097,369	\$67,626	\$893,027	\$136,716
5	\$142,854	(\$477,914)	\$1,413,179	\$0	\$47,609	\$0	\$0	\$1,125,728	\$1,125,728	\$68,979	\$920,033	\$136,716
6	\$147,140	(\$489,862)	\$1,448,508	\$0	\$49,037	\$0	\$0	\$1,154,823	\$1,154,823	\$70,358	\$947,749	\$136,716
7	\$151,554	(\$502,109)	\$1,484,721	\$0	\$50,508	\$0	\$0	\$1,184,674	\$1,184,674	\$71,765	\$976,193	\$136,716
8	\$156,101	(\$514,662)	\$1,521,839	\$0	\$52,024	\$0	\$0	\$1,215,302	\$1,215,302	\$73,201	\$1,005,385	\$136,716
9	\$160,784	(\$527,528)	\$1,559,885	\$0	\$53,584	\$0	\$0	\$1,246,725	\$1,246,725	\$74,665	\$1,035,344	\$136,716
10	\$165,607	(\$540,716)	\$1,598,882	\$0	\$55,192	\$0	\$0	\$1,278,965	\$1,278,965	\$76,158	\$1,066,091	\$136,716
11	\$170,575	(\$554,234)	\$1,638,854	\$0	\$56,848	\$0	\$0	\$1,312,043	\$1,312,043	\$77,681	\$1,097,646	\$136,716
12	\$175,692	(\$568,090)	\$1,679,826	\$0	\$58,553	\$0	\$0	\$1,345,981	\$1,345,981	\$79,235	\$1,130,031	\$136,716
13	\$180,963	(\$582,292)	\$1,721,821	\$0	\$60,310	\$0	\$0	\$1,380,802	\$1,380,802	\$80,819	\$1,163,267	\$136,716
14	\$186,392	(\$596,850)	\$1,764,867	\$0	\$62,119	\$0	\$0	\$1,416,528	\$1,416,528	\$82,436	\$1,197,377	\$136,716
15	\$191,984	(\$611,771)	\$1,808,988	\$0	\$63,983	\$0	\$0	\$1,453,184	\$1,453,184	\$84,084	\$1,232,384	\$136,716
TOTAL	\$2,233,725	(\$7,330,963)	\$21,677,442	\$0	\$744,434	\$0	\$0	\$17,324,638	\$17,324,638	\$1,038,306	\$14,372,308	\$1,914,024

NOTES:

1. Includes: Hard costs and project fees
2. No payments are made by Agency during the construction period
3. This figure should represent the ESCO's proposed annual service/maintenance fees including but not limited to M&V and equipment maintenance.