

**STATEMENT OF
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BEFORE THE
HOUSE ENERGY AND COMMERCE COMMITTEE
ENERGY SUBCOMMITTEE
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Thank you, Chairman Upton, Ranking Member Rush, and Members of the Committee, for the opportunity to appear today to discuss the Department of Veterans Affairs (VA) energy management program and allowing us to highlight the success VA has had upgrading our facilities through energy savings performance contracts (ESPCs) and utility energy service contracts (UESCs). These upgrades address pressing building maintenance, repair and replacement needs nationwide, enhancing the reliability and resilience of VA facilities and enabling better care for our Nation's Veterans.

VA Real Property Portfolio

VA's mission is distinct compared to other Federal agencies, in that we operate the nation's largest integrated health care system, with more than 1,200 health service delivery sites, including hospitals, clinics, community living centers, domiciliaries, residential rehabilitation sites, and other types of facilities. Additionally, VA administers a variety of benefits and services, and operates 135 national cemeteries nationwide.

The Department owns and leases real property in hundreds of communities across the U.S., and overseas. Overall, VA maintains more than 155 million square feet (SF) in 6,232 owned buildings, and more than 36,000 acres of land. Approximately 24.6 million SF of space has been acquired through 1,920 leases for the Department. VA's

portfolio of over 180 million SF is one of the largest in the Federal Government and is unlike many Federal agencies. VA owns the majority of its portfolio – 86 percent of its square footage – which means real estate and energy management play an important role in our overall asset management. Another aspect that separates VA from other Federal agencies is the fact that the average age of a VA owned building is approaching 60 years old. Managing a portfolio of that size and age is complex, takes a significant amount of resources, and requires a great deal of flexibility to both modernize and adjust to changing demographics of the Veteran population. Another aspect of VA's real property portfolio management includes working to ensure VA meets performance targets and reporting requirements related to energy, water and environmental management.

Overview of VA's energy management program

In order to coordinate energy, environmental and sustainable building policies and programs at the Department level, VA integrated these areas in 2006 under the Energy Management Program Service within the Office of Management. This integration has been essential in helping VA optimize and prioritize investments and other activities designed to reduce utility costs, increase fuel diversity, and reduce fuel and water consumption. These activities result in more reliable and resilient facilities and provide cleaner, healthier environments for Veterans, visitors and staff, while also helping VA meet requirements of laws, executive orders and presidential memoranda.

Through its combined energy and water management efforts, and in spite of a growing building footprint and increasing patient load, VA has reduced energy

consumption intensity by 33% since 2003, and has decreased water consumption intensity by 30% since 2007. In FY 2017, VA paid an estimated 40% less in utility bills than they would have otherwise due to the energy and water management efforts VA has undertaken since 2003.

In fiscal year 2017, VA avoided paying approximately \$16 million in electricity and natural gas costs through commodities contracts put in place. These commodity contracts are a strategic sourcing initiative to competitively bid utility rates through GSA. Cumulative savings to VA through this successful competitive utilities purchasing program, initiated in fiscal year 2008, have reached \$239 million over the life of those contracts.

Overview of VA's energy performance contracting program

VA began awarding energy savings performance contracts, or ESPCs, starting in the late 1990's. Those contracts were either managed by local VA facility contracting or by using the U.S. Army Corps of Engineers for contracting support. In 2002, senior VA leadership decided to pause on initiating new ESPCs until such time as VA established a new approach to managing these complex contracts. With the creation of the VA Energy Management Program in 2006, VA also designated this office to create a centralized program for managing new ESPCs and utility energy service contracts (referred to as UESCs) for VA facilities nationwide. Soon thereafter, VA established a dedicated contracting office that is now called Program Contracting Activity Central, or PCAC, to serve all of VA's ESPC, UESC and related energy project contracting needs.

Since its first award in 2011, VA's centralized program has awarded over \$630 million of ESPCs and UESCs. These projects are supporting infrastructure upgrades at 60 VA facilities throughout the country using a combination of private sector financing and appropriations to implement energy and water conservation measures. Once installed, these improvements are expected to generate \$40 million of annual avoided energy and water costs, which translates into \$1.08 billion of avoided costs over the life of this portfolio of contracts (through 2040). By leveraging the benefits of private sector financing in these bundled projects, VA facilities are able to efficiently address critical system repairs, infrastructure improvements, site deficiencies, and deferred maintenance. Additionally, these projects are allowing VA to enhance the resiliency and reliability of our facilities, enabling better care for Veterans.

Due in part to VA's successful track record in developing and implementing these projects, VA's energy performance contracting program has seen demand for projects continually increase. In addition to the awarded portfolio, VA is actively developing \$550 million of potential upgrades for another 35 VA facilities. Between awarded and developing projects, VA's centralized program is currently supporting over half of all VA medical centers and anticipates continued expansion as new opportunities are identified. Currently, there are another 15 facilities that have expressed an interest in initiating projects, and additional facilities are evaluating their potential needs.

Success and Benefits

VA's energy performance contracting program has had many successes since the launch of its centralized program and contracting offices in 2006 to support VA ESPCs and UESCs nationwide.

Centralization of the program and contracting offices has allowed VA to standardize processes, provide consistent contract protection and oversight for VA facilities, and continually evaluate and adopt lessons learned and best practices.

Examples of best practices VA has identified and implemented include:

- establishing key goals for the project at the onset, and revisiting these goals through the development process to ensure alignment;
- leveraging financing with appropriations to maximize VA's benefits and savings, as provided for in ESPC authority;
- requiring key VA stakeholders to execute a Customer Service Agreement before projects begin;
- requiring project facilitator support for all VA ESPCs and UESCs for the duration of the contract term; and
- seeking stronger performance assurances or guarantees on UESCs, where feasible.

In June 2016, the Supreme Court ruled on *Kingdomware vs The United States* and declared that VA would need to immediately modify its contracting activities across the agency to comply with the court's interpretation of the "Rule of Two". The "Rule of Two" requires that VA restrict competition to small businesses owned and controlled by Veterans whenever two or more of those small businesses are likely to submit offers and an award can be made at a fair and reasonable price that offers best value to the government. As a result of this ruling, VA needed to recreate its ESPC procurement process to ensure alignment with VA's updated contracting policies. New ESPC

solicitations within VA were essentially paused for the better part of a year as VA collaborated to build its new ESPC procurement process that would meet financial, contracting, and legislative requirements. In June 2017, VA issued the Federal government's first ESPC vehicle to be solicited as a set-aside for eligible Veteran-owned small businesses. VA is actively developing several of these set-aside ESPCs, and is in the process of developing its own umbrella (IDIQ) contract for Veteran-owned small businesses to more efficiently compete for these projects.

Over the last few years, several VA projects have received national recognition for innovation and value.

- VA's VISN 11 ESPC was awarded in 2013 and received a 2016 Federal Energy and Water Management Award for the project's innovative efforts to reduce energy use. This project, which includes eight VA facilities across Michigan, Illinois and Indiana, also received special recognition from the Michigan State Congress, a Michigan U.S. Congressperson, and Michigan's Governor.
- VA's centralized contracting office for ESPCs and UESCs received a 2018 Federal Energy and Water Management Award for its procurement accomplishments while also building a new ESPC vehicle for Veteran-owned small businesses during fiscal year 2017.
- VA's VISN 2 UESC in Northport, New York was awarded in 2016 to address a critical infrastructure repair when the facility's cooling towers failed. VA's lead engineer on the project coordinated with the Department of Defense's Innovative Readiness Training program to provide the helicopter that would

be used to replace the cooling towers on the roof as part of the UESC. This partnership with DoD allowed for a cost-effective approach that took advantage of existing DoD expertise and readiness. A video of the helicopter installation of the new cooling towers has been prominently featured on the Department of Energy's website.

VA has also been an active participant in the Federal performance contracting community that is led by the Department of Energy, and contributes to the generation and distribution of lessons learned and best practices with its Federal counterparts. VA appreciates the support it receives from the Department of Energy's Federal Energy Management Program, its Federal Project Executives, and the supporting National Laboratories.

Future of the Energy Performance Contracting Program at VA

VA's Energy Performance Contracting Program is poised to continue its growth phase, while also balancing the demands of a sizable project portfolio. VA is committed to ensuring measurement and verification is being performed as required, implementation is occurring successfully, and projects in development continue to benefit from lessons learned. VA is collecting project level data using a variety of internal and external reporting tools, including the Department of Energy's eProjectBuilder platform, to help improve the program and underlying authorities.

In the coming months, VA is planning to establish an umbrella (IDIQ) contract to more efficiently support ESPCs using VA's set-aside contract for Veteran-owned small businesses. VA hopes to see an expansion of the pool of qualified Veteran-owned small businesses that are eligible to participate in these opportunities.

For UESCs, VA will continue to seek stronger performance assurances or guarantees where possible to enhance benefits for VA facilities. VA will also work with its utility partners on ways to improve the subcontractor selection process.

VA will work to support the pipeline of VA projects as efficiently and effectively as possible, while maintaining the highest standards of performance.

Conclusion

VA remains focused on supporting the needs of our facilities using energy savings performance contracts and utility energy service contracts. Given the average age of our buildings is approaching 60 years, those needs are significant with respect to upgrading aging infrastructure, modernizing building systems, and enhancing the overall resiliency and reliability of our facilities. Energy performance contracts have proven to be very effective tools for VA, and we hope to continue to expand and improve upon their uses in support of our mission of care for Veterans.

Mr. Chairman and Members of the Committee, this concludes my statement. Thank you for the opportunity to testify before the Committee today. I would be happy to respond to any questions you may have.