

# Performance Contracting

Len Hoey, PEM

State Energy Office

Department of Commerce

# Terms and Acronyms

- Performance Contract
  - Guaranteed Energy Savings Agreement
  - Energy Savings Performance Contract
- ESCO – **E**nergy **S**ervice **C**ompany
- RFP – **R**equest for **P**roposal
- IGA – **I**nvestment **G**rade **A**udit
- M&V – **M**onitoring and **V**erification
- ESA – **E**nergy **S**ervices **A**greement
- ECM – **E**nergy **C**onservation **M**easure
- LGC - **L**ocal **G**overnment **C**ommission

# What is Performance Contracting

- An ESCO designs and proposes a package of energy cost reduction measures, installs or implements those cost reduction measures, and guarantees the savings of the cost reductions.
- The issuer pays for the package over time using the stream of revenue provided by the energy reduction measures
- Third party monitoring and verification

# Why not do it yourself?

- Often opportunities to reduce energy costs are well known but owners are unable to take advantage of them
  - Capital
  - Expertise
  - Manpower
- Can you guarantee the savings?

# Performance Contracting Advantages

- A Design-Build process with a single point of responsibility
- Provides capital
- Provides engineering and project management expertise
- No reduction in utility funding over project life
- Guaranteed performance/savings

# Performance Contracting Intangibles

- Improved lighting quality
- HVAC
  - Improved indoor air quality
  - Improved occupant comfort
- Potentially provide educational / teaching opportunities
  - Dashboards
- Energy Star
  - Building labeling

# Performance Contracting Pitfalls

- Failure of owner to perform due diligence
- Failure to understand contract
- Overly optimistic expectations / promises
  - RFP
  - IGA
  - M&V
- Time must be allocated to see process through

# Identify a Project

- Building energy costs greater than \$1.50/sq ft
  - Annual utility costs greater than \$300,000
- 100,000 sq ft or greater
- Building use and occupancy stable
  - No significant renovations or additions planned
- In NC contracts have ranged from \$400,000 to \$60,000,000



# Steps to a Successful Project

- The State Energy Office will provide assistance during each step of the process
- All documents and steps must conform to General Statutes and North Carolina Administrative Code

# Steps to a Successful Project

- Assemble stakeholders
- Create data packet for project (Application)
- Issue RFP
- Evaluate responses (select ESCO)
- Negotiate and Perform IGA
- Negotiate contracts
  - ESCO contract
  - Financial contract
- Local Government Commission approval  
or
- Council of State approval

# Assemble Stakeholders

- Convene a project team consisting of:
  - Engineering
  - Finance
  - Maintenance & operations
  - Administration
  - Purchasing & Legal
  - Building occupants
- The State Energy Office will provide assistance to the team

# Project Data Packet

- Create project scope
  - 3 year billing history for project building(s)
  - Occupancy, use and schedule
  - Indoor air requirements
  - Temperature and humidity requirements
  - Lighting level requirements
  - Prior audit or survey reports
  - Schematics/prints and equipment lists
- This packet will serve as the application to SEO

# The Request For Proposals

- SEO has a template available for use
- Specify any special circumstances (security, building schedule - work schedule conflicts etc.)
- Mandatory onsite meeting
  - Schedule building walk through (site visit)
  - Data packet available to all ESCOs
  - Specify evaluation method and criteria
  - Deadline for responses (give adequate time)
- All questions should be handled in writing with both questions and answers available to all responders.

# RFP Evaluation & ESCO Selection

- Cost benefit analysis performed for each option
- Substantial conformity with RFP
- Guaranteed savings and contract period
- Project cost and time to complete
- Product quality manufacturers warranties
- Check references

# RFP Evaluation & ESCO Selection

- Create short list of responders for oral interview
  - Allow each ESCO a set amount of time to describe their company
  - ESCO may only clarify response not improve it

# Investment Grade Audit

- SEO has a sample contract
- Audit within 10% of RFP calculations
  - Yes – issuer at risk for cost if project terminated
  - No – ESCO at risk for cost if project terminated
- M&V methodology must be stated and conform to:
  - The “International Performance Measurement and Verification Protocol”
- Certification by registered engineer that M&V protocol presented is capable of measuring actual savings
  - May wish to engage same group that will do independent third party M&V for year end validation & reconciliation of savings



# Energy Service Agreement

- ECMs and their installation
  - Specify conditions required: lighting levels, temperature & humidity, water temperature, indoor air quality etc.
  - Specify equipment capacity, operating range maintenance requirements etc.
  - ESCO provides many of the equipment details but owner must be satisfied that all of the items specified are acceptable

# Energy Service Agreement

- Maintenance contract
  - Owner may contract with third party for maintenance service
  - The ESCO may provide the maintenance service
  - The owner may provide maintenance
  - Cost of the maintenance contract is to be included in the total project cost

# The Guarantees

- Construction bond
  - The construction bond ensures the equipment is delivered as specified, properly installed and properly commissioned
  - The construction bond will cover the cost of the project completion if for any reason the contractor is unable to complete the project

# The Guarantees

- Guaranteed savings bond
  - This bond is a standing guarantee that all of the guaranteed savings specified in the contract can be paid
  - The ESCO “shall provide security to the governmental unit in the form acceptable to the Office of the State Treasurer and in an amount equal to 100% of the total cost of the guaranteed savings contract”

# Measurement & Verification

- Actual savings measured are compared to guaranteed savings by third party
- If actual savings less than guaranteed savings, ESCO pays the difference to the governmental unit
- The cost of the required third party M&V is to be included in the contract

# Assistance Available From SEO

- List of pre-qualified ESCOs
- Application assistance (project identification)
- Standard RFP available
- Standard Investment Grade Audit Contract available
- Standard Energy Services Agreement available
- Proposal and IGA Evaluation available
- List of qualified engineering service / M&V providers

# Legislative Basis

- General Statute – Article 3B 143-64.10 through 143-64.17L
- General Statute – Article 8 142-60 through 142-70
- North Carolina Administrative Code – 01 NCAC 41B.0101 through 41B.0901
- LGC Application for Approval of Guaranteed Energy Savings Contracts

# USI Contacts...

- Len Hoey  
919 733 1891  
[lhoey@ncommerce.com](mailto:lhoey@ncommerce.com)
- Renee Hutcheson  
919 715 1158  
[rhutcheson@ncommerce.com](mailto:rhutcheson@ncommerce.com)
- Lyn Martin  
919 208 0328  
[lmartin@ncommerce.com](mailto:lmartin@ncommerce.com)
- Reid Conway  
828 413 5047  
[rconway@ncommerce.com](mailto:rconway@ncommerce.com)



Thank You for Attending

