Performance Contracting

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Terms and Acronyms

- Performance Contract
  - Guaranteed Energy Savings Agreement
  - Energy Savings Performance Contract
- ESCO – Energy Service Company
- RFP – Request for Proposal
- IGA – Investment Grade Audit
- M&V – Monitoring and Verification
- ESA – Energy Services Agreement
- ECM – Energy Conservation Measure
- LGC - Local Government Commission
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 Statues 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
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Thank You for Attending