

Disclaimer:

The State Energy Office of North Carolina would like to thank the National Energy Services Coalition for allowing the use of this resource for USI participants. A great deal of work went into compiling this information into a single location. As you go through this program and/or have additional questions, please contact Reid Conway reid.conway@ncdenr.gov.



GESPC-U Lesson #107:

The Investment Grade Audit: Dollars and Cents

FYI: Terms and Acronyms can be found on the last page

Summary: We begin the IGA process and outline the partnership between owner and ESCO and how mutual expectations for the project are established.

The IGA language has always existed to allow GU and the ESCO to be partners in performing the investment grade audit in accordance with the scope of work described. The owner agrees to work diligently to provide full and accurate information – the ESCO on the other hand agrees to work diligently to assess the validity of the information provided and to confirm or correct the information as needed.

These responsibilities emphasize that the entire agreement is a partnership – and the two parties are working together to collect accurate information about utility consumption, operational prices and all of the variables that impact them. It bears repeating that the ESCO is to confirm all information provided by the institution or Owner. Simply stated, as an ESCO, if you're going to write a contract that holds you to the guarantee of savings and performance, confirming information is your responsibility relieving the Owner of any liability for the accuracy of the information.

Expanding on that thought of individual responsibilities, it's also important for owners to understand that their expectations for the

project must be clearly articulated to their ESCO. As a minimum, what does the owner want to see their ESCO include in the IGA analyses and results thus helping to narrow the scope of the IGA.

Details such as financial limitations; things like simple payback, whether each suggested measure should perform financially independently or whether the entire package of measures, savings and costs, be combined and evaluated to meet the owner's criteria. As an important note: Performance contracting was always envisioned to leverage the aggregate of short payback and long payback measures.

Does the owner want a minimum threshold project size? Is there a maximum financing period the institution requires that may be shorter than what is allowed in enabling legislation?

As discussed in the last Lesson the IGAs are not free. The process of how the ESCO get compensated for their work is dependent on the outcome of the IGA results. But suffice it to say, that if an IGA report meets the established criteria set by the owner, the owner is responsible for paying for the IGA. And the method of payment is a function of how the ESCO and the owner move forward after the completion of the IGA.

To be sure, ESCOs are operating a business and to deliver the kind of comprehensive study that most owners envision and deserve, is real work, it takes real time, it takes meters and monitoring equipment, and for sure requires expertise and experience to deliver a real scientific analysis. The integrity of the IGA agreement and the integrity of the study performed by the ESCO is such that at the end of the day the owner can decide whether to move forward with a paid for by savings contract. If the ESCO has developed a viable scope of work, presented it to the owner, and the owner's expectations are met, they will move

forward into a contract for the next phase in the performance contracting process, the implementation phase.

And that reflects back on the definition of viability. Only by having a clear understanding of that definition can you move forward and be assured that both parties are satisfied with the product.

As we've established, the work of the IGA is not free, and the owner needs to understand that and likely encumber or at a minimum earmark funds prior to the IGA just in case they must pay for it out of pocket.

In effect, these are conditional procurements, and the contract language establishes what is required to meet those conditions. So, you may wonder, what it is that drives the price of a study?

For most state programs there has been a competitive procurement that outlines audit price for facilities – usually based on an agreed upon dollar per square foot. So, once you identify the scope of the facilities to be included in the project, the square footage, meaning the total area that you want studied, then you have identified the proposed price for the audit. For some state programs, the average cost per square foot could be given by SEO for other similar projects. Where you have non-facility applications, there is a need for a separate price negotiation -- if you are going to include the athletic fields at a high school – that really wouldn't get priced by the square foot rate – for these situations, the scope of the effort needs to be defined and the two parties agree to a reasonable fixed fee price.

Some other really good examples include measures like streetlights, stop lights and parking lot lighting upgrades. As LED technologies have come along, these applications have become a nationwide trend.

Other applications might include water and wastewater facilities. So, there may always be some form of non-square foot negotiations of price for an IGA that should be considered.

To dive deeper into this is the example when street lighting is but a part of the overall comprehensive project and not the entire project – so while one might be driven by cost per square foot the other needs negotiated amount so that added together, you come to a final price and scope of the IGA.

And once you have established a scope of work and a price and what would be clearly acceptable as a viable IGA, then the means of compensation to the ESCO is well defined. There are three events that are described in most IGA agreements. One, that the owner may be called upon to pay directly, or out of pocket, for the audit, hence the recommendation to encumber funds upfront. This presumes that the IGA fulfilled the expectations that were established by the owner for a viable project but for whatever reason the owner decides not to move forward to implement the project.

For clarity, if the IGA meets the criteria set by the owner, the IGA will always be paid for by the owner. Maybe out of pocket or maybe from the savings of the subsequent project. If a project ensues as was always envisioned, the owner will pay the price of the IGA as a fee in the paid for by the guaranteed savings of the project.

And the third and final option – if there's just not a way to develop a viable project to meet the agreed upon criteria, there is no charge to the owner. This exemption eliminates the financial risk for the public sector of having to pay for an IGA that does not fulfill the owner's criteria. This is precisely why the ESCO needs all the information upfront defining a viable project before embarking on the detailed investment grade audit that may not result in a project, and

subsequently, the ESCO not getting paid. This could happen as well if the ESCO does not deliver the IGA in the agreed upon time or manner found within the language of the contract.

The ESCO industry has been around for over 25 years, and it is well understood what the work is to access the data, to study the utility costs, to identify the operational costs, walk through the facility, interview the owner and occupants, and gather the information needed.

The owner will need to dedicate time for working with the selected ESCO for the development of the IGA/Scope. Time will be needed to review all the documents created by the ESCO. These projects are open book priced meaning that the owner can see all the cost for material, subcontractors, profit, overhead, etc. For the best project the owner needs to be intimately involved and needs to always negotiate. Lower project costs lead to short paybacks and quicker return on investment.

Once you feel comfortable with the information above, please scroll down and complete the quiz below. Email your answers to Reid Conway at reid.conway@ncdenr.gov. If you have additional questions, feel free to include them as well.

Lesson 7 Quiz

1. Why is the IGA a partnership?
2. How does an owner manage expectations?
3. How is the cost of IGA determined?
4. Who is responsible for paying for the IGA?
5. Why must the owner dedicate time?
6. What is open book pricing and why is it valuable?

Terms and Acronyms

3 rd Party	3 rd Party Engineer
COS	Council of State
DOA	NC Department of Administration
DPI	NC Department of Public Instruction
ECM	Energy Conservation Measure
ESA	Energy Services Agreement
ESC	Energy Services Coalition
ESCO	Energy Service Company could be interchangeable with QP
ESPC	Energy Saving Performance Contracting
GEPC	Guaranteed Energy Performance Contracting
GESPC	Guaranteed Energy Saving Performance Contracting
GS	General Statute
GU	Governmental Unit
IGA	Investment Grade Audit
IPMVP	International Performance Measurement and Verification Protocol
LGC	Local Government Commission (Housed in the Treasurer's Office)
LGU	Local Governmental Unit
M and V	Measurement and Verification
OR	Owner's Representative
OSBM	NC Office of State Budget and Management
PC	Performance Contracting
Pre-Bid	Meeting held prior to the bid opening
QP	Qualified Provider could be interchangeable with ESCO
QR	Qualified Reviewer
RFP	Request for Proposal
SEO	State Energy Office
UNC	Refers to the UNC System
USI	Utility Savings Initiative