

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 #119:

Wrapping up the IGA and its Report

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

Summary: The differences between the IGA and the subsequent Project Proposal, or what is commonly referred to as the Financials, is the subject of this lesson. We explore the relationship between the IGA and the Project Proposal – and the proposal’s components, the work to be completed, and the associated costs.

In this lesson, we’ll turn our attention from the Investment Grade Audit or IGA to what is sometimes referred to as the Financials but is in fact the GESPC Project Proposal.

Noting the difference between the Investment Grade Audit and this subsequent Project Proposal is more important than some recognize. The IGA is a study of the existing utility and operational consumption and costs. It includes the variables that impact those savings and set of recommended improvements in the form of retrofits, replacements, and activities. The Financial proposal is then the summary of those recommendations and their associated costs to implement and how those implementation costs will be funded and repaid.

From a procurement perspective, paying for a study is a well justified fee for service effort supported by the recommended performance contracting process of competitive procurement as outlined in the This financial look as part of the IGA is critical to whether the proposed scope put together by the ESCO will even cash flow and the energy savings derived from said project will ultimately pay for the project. In real life the ESCO has been doing this exercise all along to not get to the end and not have a project that will not cash flow.

Using the NC template documents the owner will already be familiar with the lay out found during the RFP in Attachments A, B and C. The same format is used here as part of IGA Schedule M and N. The owner should take time to review the numbers and ask questions as to how the ESCO arrived at these figures and percentages.

Following the brief introduction, the facts of the proposal should be presented to illustrate the proposed work to be completed and the associated costs. This includes the total amount the institution will pay for all the services of the project to fulfill the implementation of the recommended measures and the services, the financing and all of the activities that follow over the full-term of the agreement including the post construction services, things like operation and maintenance if any and annual measurement and verification activities and reports. This would typically be called the Performance Period.

Next the proposal should turn to the financing of the project. Project funding can come from a variety of sources each with their own conditions, interest rates and provisions. And while third-party financing in the form of loans or leases will likely have its own contractual instruments, it's important that the proposal outline a

summary of those conditions and stipulations and make clear the cost of money in rate percentage and dollars. Since final financing cannot yet be procured until the proposal is final and accepted by the owner, the rates stated will likely expire in a certain number of calendar days. This too should be noted. For some projects, implementation funding could include planned buydowns of the total investment from incentives, capital contributions from appropriations, loans, leases, and even in some cases future tax credit benefits. Each and all of these should be detailed to illustrate the complete financial commitment.

Clearly showing the costs of the project and where the money comes from to fund implementation, is a big part of these proposals. Equally as important is how these funds will be repaid by the savings and activities of the work and how they might be impacted by several anticipated variables over the life of the project.

The Cash Flow Proforma is a tabular display of the costs to repay the principal and interest of the upfront project financing. It shows how the guaranteed cost savings offset or exceed those costs for every year of the financing term. This proforma is, of course, based upon all the assumptions agreed to by and between the ESCO and the Owner or institution remaining constant -- a case that is likely never to occur.

To this point -- think of all the impacting variables and assumptions made and agreed to in the IGA and whether they will remain the same for the next 20 or 10 or even five years is literally inconceivable. The proposal should make that point clear and refer to the IGA section that speaks to anticipated changes. Variables like weather, the number of occupants in the space, changes in facility and system schedules; even maintenance and operating procedures may have an impact on savings.

The way that measurement and verification, math and engineering principles account for those changes and their impact on the repayment of the upfront project funding are a part of what should be clear to all parties in the consideration of a performance contract.

These sorts of changes are inevitable. And while those routine changes can be anticipated and how they are managed must be described in the proposal, other, non-routine changes -- unexpected impacts one could never foresee -- are also likely to occur.

Still, it is the science and engineering of how savings are calculated that should be relied upon to guide these baseline adjustments that will be required. Great partnerships rely on the integrity and ethics of both parties -- the ESCO and the Owner -- to optimize and validate the actual savings that can be achieved for every project.

Well, that brings us to the major decision point. Presented with all this information about how to modernize and enhance the efficiency and stewardship of the facilities and systems, with the appropriate documentation and following the guides of a well vetted public sector model, the Owner must decide whether to accept the work of the IGA and accept the proposal and move to final performance contract negotiations or to pay for the work of the study and walk away. Assuming that all is acceptable, the Owner executes the notice of final approval which, technically, launches the next phase in the performance contracting process, the implementation, or construction, phase.

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 19 Quiz

1. What is the GESPC proposal?
2. With Schedule M and N of the IGA looking the same as the RFP Attachments B and C, why does this help?
3. It's important that the IGA include the conditions that bound the financing for the project. List some of the conditions that would be helpful to document in the IGA.
4. How would you define the cash flow proforma?
5. Not all changes can be anticipated. What do these projects rely on to guide the baseline adjustments that will be required in the future?

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