

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](mailto:reid.conway@ncdenr.gov).



## What Makes Guaranteed Energy Savings Performance Contracting Successful

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

**Summary:** A brief history of Performance Contracting offers an introduction to the concept and insights into what makes a project successful.

In this lesson we will focus on the beginning of the GESPC concept and the basics to a successful project. Just as with everything there is a beginning and there's a variety of stories of how performance contracting got started. One of the earliest stories was documented in the book Financing Energy Projects Deskbook by Albert Thurmann and Fred Wainwright.

Thurmann and Wainwright highlighted the first example of a performance contract project dating from the 1970s, a hospital in Philadelphia. Thermal, a division of Royal Dutch Shell, introduced the concept of using third-party financing to improve energy efficiency and cut operating costs.

These early energy financing agreements generally provided each party a share of the energy cost savings and became known as "shared savings." The concept initially worked well but soon fell from

favor. Influencing factors included the decrease in utility rates which raised the question of where the reduced utility bills were really coming from; were they in fact achieved savings or the result of declining rates?

The performance contracting industry survived by morphing from the shared savings idea to the concept of extending a written guarantee of savings. This guarantee serves to protect the public and private sector financially if the savings are not achieved. And this business model continues to evolve.

Although it has evolved a lot since the introduction of the guarantee, a couple of things remain constant: It is all about trust and credibility, whether the savings will pay for the project and if the parties will do what they say they will do. But trust and credibility are a two-way street. For example, when an ESCO says what they are going to do and something goes wrong, they should say, “we’ll get it fixed.” And, if the guaranteed savings don’t materialize, they cut a check for the difference and fix the problem.

On the other hand, owners that hide or fail to share the challenges, complaints, concerns, and goals of a project are failing to collaborate in effecting the best possible outcome for their own project. Many owners continue to operate and maintain their sites after the construction is completed but may not think through the impact of seemingly minor changes in day-to-day operations that may put their savings at risk. Working closely with and reporting those changes with your ESCO can avoid misunderstandings and potentially even disputes. Later within the IGA, both the owner and the ESCO will agree to terms on what changes will need to be communicated.

So, how does the public sector gain trust and build confidence in the GESPC process?

Education, focused oversight, and peer to peer recommendations are huge for anyone considering a performance contract.

The public sector has heard of the general concept, usually from an ESCO, but for many it sounds too good to be true. It is the success of their peers that have used it that makes a difference. Talking to people about their experience and the process and having focused oversight as you enter and navigate your way through a project are key. Gathering of information is valuable in understanding the GESPC process.

Focused oversight is a key. This is a lot about asking the hard questions up front. And to do that you have to make sure you have experienced people at the table who know what questions to ask.

From the owner's team, you should include at a minimum, the purchasing department, finance and budgeting, the legal department, facilities, and maintenance. Sharing their perspectives and insights and getting answers to the questions they pose will help ensure that all the i's get dotted, and the t's get crossed. But if you don't include the relevant people (final decision makers) in your organization you simply increase the chances something will go wrong.

In addition, there are state oversight programs. State oversight programs were developed in the early 1990s to provide oversight and guidance to both owners and ESCOs. States with GESPC Programs continue to demonstrate the greatest successes because these programs address one of the longstanding challenges; the different levels of knowledge and experience between the Owners and ESCOs.

Here in North Carolina this GESPC process is overseen by the State Energy Office (SEO). It is the job of SEO to come along side and help

governmental units throughout the entire process. SEO has many resources that can be found on their website.

(<https://deq.nc.gov/conservation/energy-efficiency-resources/utility-savings-initiative/performance-contracting>) Since SEO has final approval the selection of the ESCO, getting SEO involved early is key to a great project. SEO can help steer you around possible pitfalls and issues you may go through. By providing on-site technical assistance at no cost, SEO provides education, outreach, and training to your staff as you contemplate if GESPC is right for you.

The ESCO does this every day and for most end-users it is the first time they have been engaged in this process and they are trying to figure out the details and their risk.

In addition to the State oversight programs, there are owner agents, or expert 3<sup>rd</sup> party GESPC consultants, that provide experienced guidance to ensure that all parties have clear understanding of the details, roles, responsibilities, and the impacts of each decision along the way.

To re-emphasize, we feel a real key to ensuring GESPC project success is to have all the right people at the table and the ongoing focused oversight throughout the process. That's how you build trust and confidence.

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](mailto:reid.conway@ncdenr.gov). If you have additional questions, feel free to include them as well.

## Lesson 101 Quiz

1. Performance contracting can be traced back to what decade?
2. Name some of the solutions that PC offers the end user.
3. What are some of the ways public sector institutions can gain trust and confidence in the performance contracting concept?
4. Name the primary obstacles to using performance contracting?
5. Who is responsible should something go wrong in the PC?
6. Who should be on the team when doing a PC?
7. What is the purpose of the guarantee in a performance contract?
8. In lieu of an in-house team approach to a performance contract, what are some alternative ways to reduce risk to the public entity?
9. What is the downside to not having all the relevant people at the table on the owner's team?
10. Where can a GU go for help and expertise on PC in NC?

## Terms and Acronyms

3 <sup>rd</sup> Party	3 <sup>rd</sup> 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

