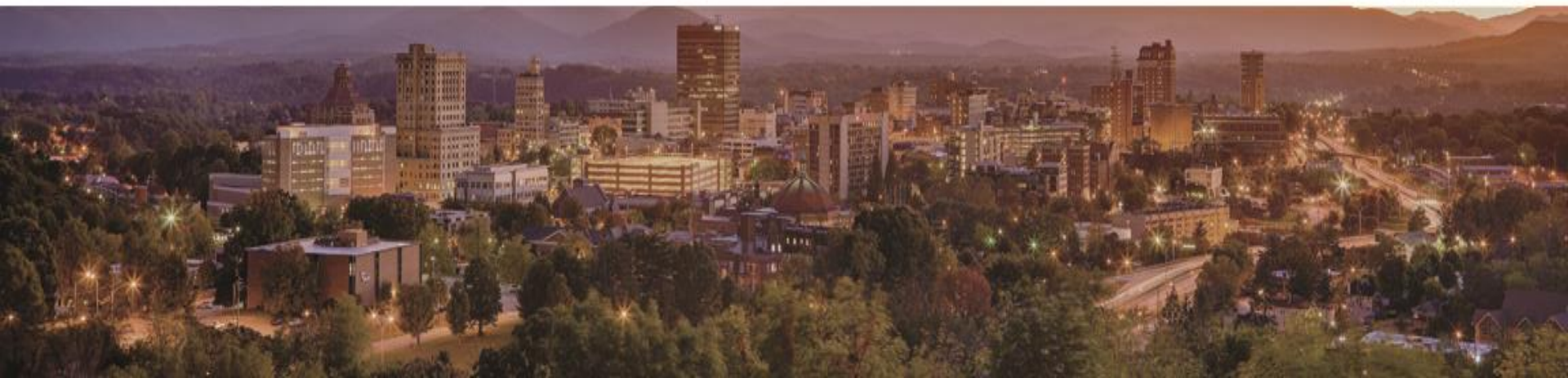




Performance Contracting

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Len Hoey, PEM
Utility Savings Initiative
Department of Environmental Quality



SAVINGS or AVOIDED COSTS

Savings =

Avoided costs =

Terms and Acronyms

- Performance Contract
 - Guaranteed Energy Savings Performance Contract
- ESCO – **E**nergy **S**ervice **C**ompany
- IGA – **I**nterim **G**rade **A**udit
 - Detailed Energy Survey
- M&V – **M**onitoring and **V**erification
- ESA – **E**nergy **S**ervices **A**greement
- ECM – **E**nergy **C**onservation **M**easure
- LGC – Local Government Commission in Treasurer’s Office

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 Governmental Unit 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
- Who guarantees the savings?

Performance Contracting Advantages

- A Design-Build process with a single point of responsibility
- Provides capital
- Provides engineering and project management expertise
- Guaranteed performance/savings

Performance Contracting Pitfalls

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

Performance Contracting Pitfalls

While reducing operating costs through energy reductions is important your primary concern is remaining in compliance with your permit requirements!

Available Assistance

- The Utility Savings Initiative will provide assistance during each step of the process
- All documents and steps must conform to General Statutes and LGC Application for Approval
- School of Government, University of North Carolina at Chapel Hill – Environmental Finance Center
- North Carolina Division of Water Infrastructure

Steps to a Successful Project

- Assemble stakeholders
- Create scope of work for project
- Issue RFP
- Negotiate:
 - Attachments A, B and C
 - IGA
 - ESCO contract (ESA)
- Select ESCO

Steps to a Successful Project

- Perform IGA
- Finalize costs and terms
- Issue financial RFP
- For local governments receive LGC approval
- Sign ESA
- Construction
- Guarantee period

Energy Services Agreement

- **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

Energy Services Agreement

- Savings Guarantee and Security Instrument
 - The ESCO guarantees that if there is a difference between actual savings and guaranteed savings they will issue a check for the shortfall
 - 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”

Legislative Basis

- General Statute – Article 3B Part 2 143-64.17 through 143-64.17L
- General Statute – Article 8 142-60 through 142-70
- 01 NCAC 41B.0101 through 41B.0901
- LGC Application for Approval of Guaranteed Energy Savings Contracts

Assistance Available Through USI

- Project Identification
- Standard RFP available
- Standard Investment Grade Audit Contract available
- Standard Energy Services Agreement available
- List of pre-qualified ESCOs

Contact Information for USI

- Web Site – Google **NCDEQ USI**
- Len Hoey 919-707-9250
len.hoey@ncdenr.gov
- Utility Savings Initiative
217 W Jones Street
1639 Mail Service Center
Raleigh, NC 27699-1639

A Final Thought

"A good plan implemented today is better than a perfect plan implemented tomorrow."

George Patton

