



## Performance Contracting

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*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  
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## *A Final Thought*

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

*George Patton*

