

Performance Contracting

Energy Management for Small Water Systems

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Savings or Avoided Costs

Savings =

Avoided costs =

What is Performance Contracting

- An ESCO proposes and designs a package of energy cost reduction measures, installs or implements those cost reduction measures, and guarantees the savings of the cost reductions.
- The issuer pays for the package over time using the stream of revenue provided by the energy reduction measures
- Third party verifies ESCO reconciliation report

Understanding Your Needs



- **To deliver superior services to your residents**
- **To maintain sustainability as a City**
- **To train staff and educate citizens regarding energy conservation & water improvements**
- **To reduce greenhouse gases**
- **To expedite modernization of plants**
- **To reduce utility and operational costs**

Business Pressures

- **Citizen's want superior services**
- **Continually maximize efficiency and manage costs**
- **Balance goals and/or mandates for environmental initiatives with financial impact**
- **Aging & outdated plants & infrastructure**
- **Sustainability & Alternative Power sources**
- **Lack of upfront capital**
- **Balance rate increases with need for conservation**

Funding Options

1. **Cash**
2. **Bond Funds**
 - Affects future bonding capacity
3. **State Tax-Exempt Municipal Lease – 3rd Party**
 - Quick & minimal paperwork
 - Competitive financial rates
4. **Revenue Bonds – Increase Revenue & Billables**
 - Rate Increase or Tax Increase
5. **Performance Contract**
 - Cash
 - Utility Bills & Operating Budget
 - Capital Avoidance
 - Utility Rebates & Incentives



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
- Can you guarantee 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 owner to perform due diligence
- Failure to understand contract
- Overly optimistic expectations / promises
- Poor project specifications
 - IGA
 - M&V
- Time must be allocated to see process through

Steps to a Successful Project

- Assemble stakeholders
- Create data packet for project (Application)
- Issue RFP
- Evaluate responses (select ESCO)
- Perform IGA
- Negotiate contracts
 - ESCO contract
 - Financial contract
- For State Agencies – Council of State approval
- For Counties and School Districts receive Local Government Commission approval

The Timeline



The Guarantees

- 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

The Guarantees

- Guaranteed savings bond
 - This bond is a standing guarantee that all of the guaranteed savings specified in the contract can be paid
 - 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”

Measurement & Verification

- Actual savings measured are compared to guaranteed savings by third party
- If actual savings less than guaranteed savings, ESCO pays the difference to the governmental unit
- The cost of the required third party M&V review is to be included in the contract

Assistance available from SEO

- Application assistance (project identification)
- Standard RFP available
- Standard Investment Grade Audit Contract available
- Standard Energy Services Agreement available
- Proposal Evaluation Training available
- List of qualified engineering service / M&V providers

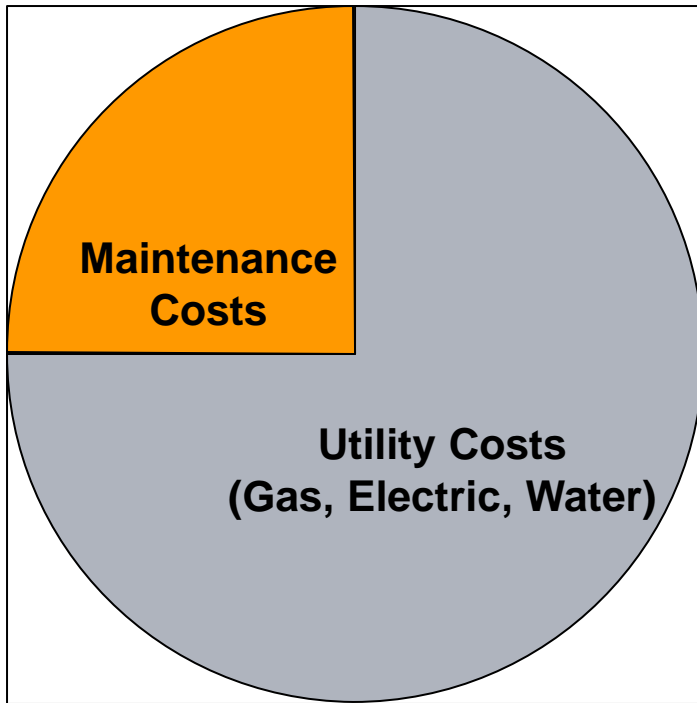
Legislative Basis

- General Statute – Article 3B 143-64.10 through 143-64.17L
- General Statute – Article 8 142-60 through 142-70
- North Carolina Administrative Code – 01 NCAC 41B.0101 through 41B.0901
- LGC Application for Approval of Guaranteed Energy Savings Contracts

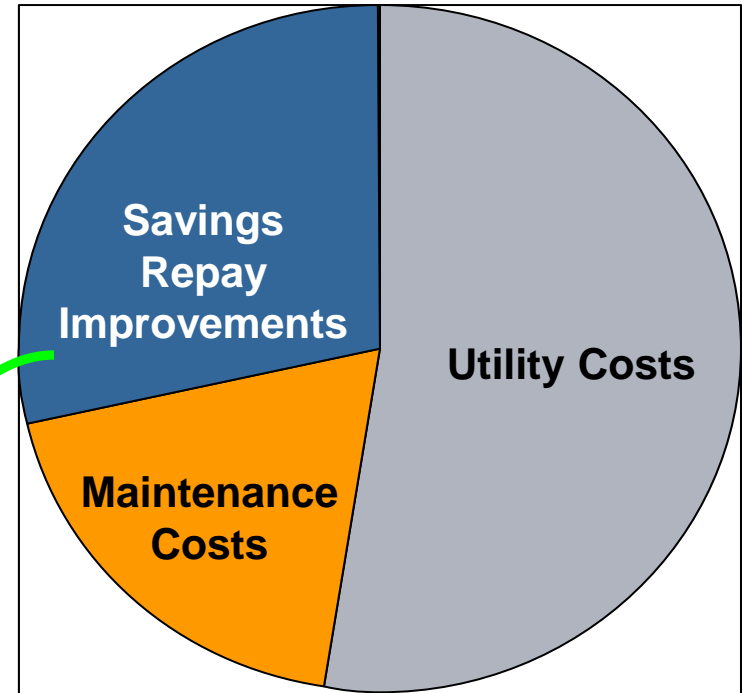
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Annual Operating Budget



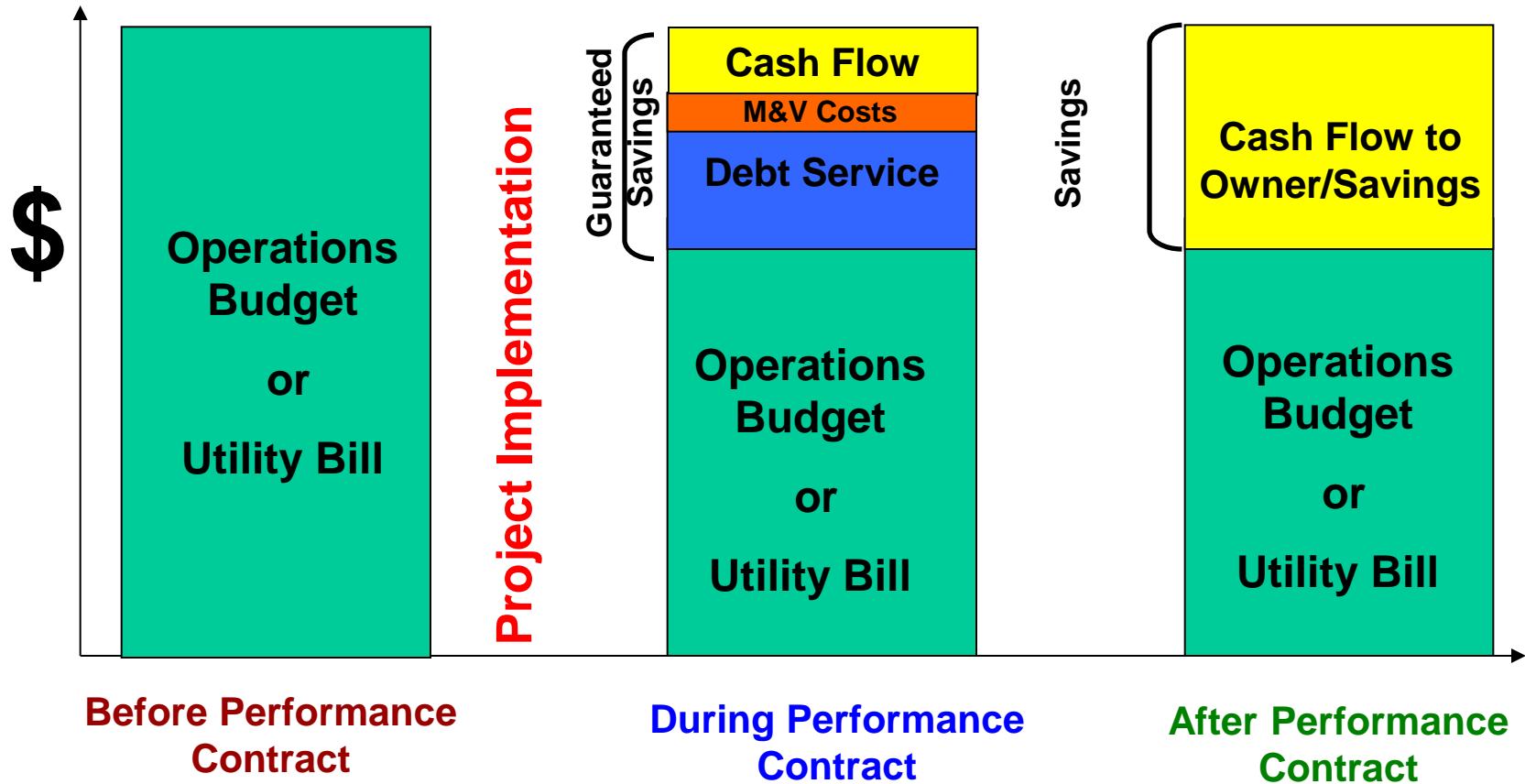
Before Improvements



After Improvements

Savings generated fund the project!

PC Funding – Utility Budget



Performance Contracting - A Comparison

	<u>Plan/Bid/Spec</u>	<u>Performance Contracting</u>
Financial	Capital/Bond/Cash	\$\$ You are already Spending – Operating Budget
Relationship	Scope? Completion? Commissioned? Warranty...Gone	Continuous Partnership over life of contract
Upfront Fees	Yes	None
Performance & Financial Guarantee	None	Operational & Financial
Change Orders	Yes – Almost Always	Not Typically

Benefits of PC

- **Solutions to Infrastructure & Operational Needs**
- **Guaranteed Results = Minimal Risk**
- **Reduced Operating & Utility Costs**
- **Best Life Cycle Cost, Not Just Lowest Price**
- **Turnkey Project Development & Implementation**
- **Saves Time & Provides Solutions!**