

Performance Contracting

Richard Self

State Energy Office

Department of Commerce

April 28, 2010

SEO Role

- ⚡ The State Energy Office has traditionally worked with State facilities and provided assistance to other local governments as requested.
- ⚡ Change in NCGS adds Community Colleges to the SEO's charge
- ⚡ Change in NCGS provides for a review and comment for K-12 Schools and local governments.

February 22, 2010

SAVINGS or AVOIDED COSTS

Savings =

Avoided costs =

Terms and Acronyms

- Performance Contract
 - Guaranteed Energy Savings Agreement
- ESCO – **E**nergy **S**ervice **C**ompany
- RFP – **R**equest for **P**roposal
- 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

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 issuer 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 owner 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

Steps to a Successful Project

- Assemble stakeholders
- Create data packet for project
- Issue RFP
- Evaluate responses (select ESCO)
- Perform IGA
- Negotiate contracts
 - ESCO contract (ESA)
 - Financial contract
- For local governments receive LGC approval

Final Contract – Energy Service Agreement

- **Construction Performance 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

Final Contract – Energy Service Agreement

- **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”

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 from SEO

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

Other Funding Sources

- ⚡ QECB – Qualified Energy Conservation Bonds
- ⚡ CREB – Clean Renewable Energy Bonds
- ⚡ QZAB – Qualified Zone Academy Bonds (Schools only)

Contact Information for State Energy Office

- Web Site www.energync.net
- Len Hoey 919-733-1891
lhoey@nccommerce.com
- State Energy Office
1830A Tillery Place
Raleigh, NC 27604
Phone 919-733-2230
Fax 919-733-2953

February 22, 2010