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## **APPENDIX C-8: Five Steps to Successful Energy Savings Performance Contracting Handout**



## Steps

### to Successful

# Energy Savings Performance Contracting



## Step 1

### Decide if energy savings performance contracting (ESPC) is a good solution for you.

*Your first step is to consider how a performance contract would work for you. Review your facility needs, current staff capabilities, and the potential to make cost-saving facility improvements.*

**Find out if your facilities are a good candidate for a performance contract.** Your ability to use energy savings performance contracting depends on whether there are significant energy and water-saving opportunities to interest an ESCO. See the Mini-Audit below. Ask your State Energy Office for guidance to get started.

**Assemble a team.** Put together an energy action team within your organization to explore the possibility of a performance contract. Include maintenance staff as well as financial, legal and procurement staff at the onset.

**Define your goals.** Think big! ESPC projects can be broad in scope and scale with projects that deliver efficiency savings.

**Assess ESCO services and benefits.** ESCOs offer a wide variety of services and manage a large-scale, comprehensive approach to upgrading facilities, all paid for through efficiency savings. Decide what is important for you.

### What can an ESCO do for me?



Identify and evaluate energy, water and operational savings opportunities



Provide engineering services from design to equipment specifications



Order and install equipment, and manage construction of a wide variety of projects



Provide long-term energy management and maintenance services as desired



Educate about financing and bring in financial incentives



Guarantee performance and efficiency savings



## Step 2

### Select an energy service company (ESCO).

*The ESCO will be your partner for a long time, so it is important to select one that shares your vision and is capable to meet your needs. A request for proposals (RFP) is an excellent way to identify interested ESCOs and compare approaches. See the model RFP.*

**Get assistance.** Your State Energy Office will provide information, resources and assistance to guide you through the selection of an ESCO.

**Develop a facility profile.** To help the ESCO understand your facilities, describe the energy use, equipment, operating schedule, maintenance problems, and any planned equipment replacement or renovation plans. Also include the utility bill history for the past three years. See the Model RFP mentioned above as a template and for tips.

**Share your goals.** List any specific projects you'd like the ESCO to consider. This is not intended to be prescriptive, as the ESCO will identify cost-saving strategies to develop an effective project. Set a high bar to achieve deep retrofits – more savings to support more projects.

**Solicit ESCOs.** Follow the Model RFP process, get approval from your procurement department, and invite ESCOs to participate. Your State Energy Office will provide a list of pre-qualified providers, or visit the following websites to find a list of service providers:

[National Association of Energy Service Companies \(http://www.naesco.org/members-escos\)](http://www.naesco.org/members-escos)  
[Energy Services Coalition \(http://mojo.energyservicescoalition.org/members\)](http://mojo.energyservicescoalition.org/members)

**Invite ESCOs to tour the facility.** Interested ESCOs will need to visit your facility and interview facility staff before preparing their proposals.

**Evaluate the proposals.** Evaluate the qualifications of each ESCO for the skills, expertise and experience you need. Interview the top contenders to better evaluate their approach to the project and their ability to work with you.

## Step 3

### Contract with your ESCO to identify cost-saving opportunities.

*Your ESCO will perform an investment-grade audit that identifies cost-saving opportunities and evaluates their potential. This provides you with critical information to later negotiate your performance contract to implement the projects. Next, the ESCO will prepare a project development agreement proposing a package of measures to include in the performance contract. See the Model Investment Grade Energy Audit and Project Development Agreement with negotiating tips.*

#### **Negotiate an Investment Grade Audit (IGA) and project development agreement with your ESCO.**

Establish your criteria for the audit (identify which budget savings categories can be applied and the maximum financing term). The cost of the IGA can be rolled into your performance contract so that guaranteed savings pay for it. If you do not sign a performance contract, you will be responsible for paying for the audit, so it is critical to have funds set aside in advance. You do not pay for the audit if the ESCO is unable to identify a package of measures to be paid for with projected savings, given the criteria you established.

**Review the IGA results.** Review the technical and cost details presented in the IGA and discuss the suggested improvements with your ESCO. Your ESCO will recommend a group of retrofits that optimize cost-effectiveness and benefits.

**Ensure efficiency savings can be measured and verified:** A measurement and verification (M&V) plan must specify how to determine efficiency savings for each measure even as operating or climate conditions change.

#### **Projects are bundled together to pay for the total cost**

- **Controls:** Install a new energy management control system to improve operational strategies
- **Lighting:** Replace lamps and ballasts or entire fixtures
- **Heating:** Replace aging boilers, steam traps, and pumps
- **Cooling:** Replace aging chillers, cooling towers, or pumps
- **Ventilation and Distribution:** Install variable speed fans or replace fan or pump motors
- **Water:** Improve landscape irrigation and switch out plumbing fixtures
- **Renewables:** Wind, solar thermal, and solar electric can be included as well, when cost-effective in the bundled package

## Step 4

### Negotiate an Energy Savings Performance Contract with your ESCO.

*An energy savings performance contract is your road map for implementing and tracking the project over the term of the agreement. It should clearly define roles and responsibilities and explicitly state how savings are determined and how the guarantee will be applied. See the Model Energy Savings Performance Contract with negotiating tips.*

**Negotiate the scope and terms of the contract.** Get input from your engineering, financial and legal staff. Negotiate costs and ask for open-book pricing to ensure that you receive good value.

**Negotiate a guarantee to meet your needs.** The guarantee is the cornerstone of an energy savings performance contract. Efficiency savings are guaranteed and projected to cover the annual financing payment. The ESCO pays any remaining balance if projected annual efficiency savings are not reached.

**Arrange financing.** Work with your financial officer to determine the best funding or financing strategy, with educational support from your ESCO as needed. A common option for governments is municipal tax-exempt financing with an annually renewable lease-purchase agreement. Leverage grants, utility rebates and in-house funds to maximize your project scope and reap more benefits.

**Review maintenance requirements and services.** In order to guarantee performance or savings, an ESCO often requires maintenance on new equipment. Additional services can include reviewing operation strategies, reporting on equipment operating problems, and repairing and replacing equipment.

#### Resources and Model Documents Available

- Free guidance from your State Energy Office
- Model Request for Proposals (RFP)
- Guidance to hire a third party facilitator
- List of ESCOs
- Model Investment Grade Audit & Project Development Agreement
- Model Energy Performance Contract
- Financing Solicitation Package

Visit your State Energy Office website for downloadable and customizable documents [\[State Energy Office Documents Web page\]](#).

## Step 5

### Verify savings and enjoy the benefits.

*Follow-up monitoring helps ensure that you are getting full value from your energy savings performance contract. The success of the monitoring effort depends on the level of detail you documented in the contract.*

**Approve the installation.** Review the requirements detailed in the contract and check that all equipment was installed as specified. Also confirm that standards of comfort such as temperature and light levels were achieved.

**Operate the building as agreed in the contract.** The ESCO will maintain, monitor and verify the installation as specified.

**Maximize benefits through trained staff.** Your ESCO will train your facility staff in optimal operation of equipment and systems. This will help ensure savings and minimize future maintenance, while maximizing the life of the equipment.

**Review the quarterly measurement and verification (M&V) reports.** Meet with your ESCO regularly to monitor your success.

### Don't delay!

Get started now and by next year you can be enjoying new equipment, improved comfort and reduced maintenance. Efficiency savings that could be paying for facility improvements are wasted every day of delay!

### Contact us today! We're here to help you get started.

Your State Energy Office

Web Site

Contact Information