

Best Practices to a Phased Approach Utility Energy Service Contract (UESC) Project

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May 3, 2019



UESC: A Typical Approach to Award

- **Step 1:** Obtain a no cost Preliminary Assessment (PA) based on Installation identified ECMs as well as those the utility identifies as possible ECMs. The PA report becomes the scope of a UESC contract
- **Step 2:** From the PA, select which ECMs to move forward with for a FS which will provide a report and cost details
- **Step 3:** Installation selects ECMs from the FS
- **Step 4:** Award the construction of the ECMs and move into implementation

When Can a Modification Occur?

- **In Design Phase** – if agency has funds and the ECMs are related to original scope of work, then a mod is feasible
- **In Construction Phase** – if agency has funds and the ECMs are related to original scope of work, then a mod is feasible
- **After Implementation Phase** – if the original strategy did not include a phased approach concept from the beginning (out-of scope) meaning a mod is **NOT** feasible

Note: Phase of existing project, impact to financing, scope of the modification, and the original scope of work are factors to be considered.

Modification of a UESC

Modification of a UESC contract may occur:

- If the modification pertains to the original set of ECMs
- If the modification is related to unforeseen site conditions
- If the total project demonstrates savings

Modification of a UESC may NOT occur:

- If the ECMs are not included in the PA, a new UESC Contract/Task Order is warranted
 - If the term of the UESC contract exceeds 25 years
- *Contracting Officer (KO) is responsible for making the determination on whether a modification can or cannot occur.

UESC: Phasing

- ECMs can be awarded in multiple groups depending on the customer needs and ensuring the project cash flows.
- **Example:**
 - Phase (Group)1: Lighting, Chillers, Boilers
 - Phase (Group)2: CHP, Chillers, Boilers, AHU, Controls, Lighting
 - Phase (Group)3: Process Environmental Systems, Lighting and Controls

UESC: Phasing Benefits

- By incrementally awarding ECMs in phases, the ECMs that are less complex like lights, boiler upgrades and occupancy sensors can be constructed while the IGA for the other more complex design ECMs is being developed.
- The Installation receives earlier benefit of energy savings without having quick payback lighting upgrades wait for a highly complex combined heat and power plant to be designed.

UESC: Phasing

When a UESC is to be implemented in phases:

- **The preliminary energy assessment must include all intended ECMs from the onset**
- **The term of each individual UESC phase is not to exceed 25 years**
- **No limit on individual ECM payback term as long when they are bundled together the contract term is no longer than 25 years**

UESC Phasing Example

The original preliminary assessment includes a bundle of 18 ECMs.

- First 10 of the ECMs will be installed at time of award would be Phase one in FY19.
- 5 additional ECMs would be a modification to the contract and would be installed in phase two in FY20.
- The remaining 3 ECMs would be modified onto the contract as phase three in FY21 (as long as pay term for all ECMs is no longer than 25 years).

Financing the Phased UESC

- In the phased approach, the financier is selected for all three phases.
- The Treasury Bill Rate (T-bill) is used as an index for various variable rate loans such as mortgages, student loans and loans received for UESC Contracts as well.
- The spread would be set when the first phase is awarded. For subsequent phases the pre-determined spread would be applied to T-bill rate at the time of the phase award.

Phased Approach

Most Common Reasons to Utilize a Phased Approach

| | |
|--------------------------|---|
| Time Constraints | <ul style="list-style-type: none">• Implementing Simpler ECMs• Customer Requirements |
| Financing Constraints | <ul style="list-style-type: none">• Customer lacks on-hand funds• Utility having difficulty financing larger amounts |

- In conclusion, the phasing approach has to be agreed upon by Contracting Agency, Customer and Utility Provider
- Phasing approach is not intended to add additional ECMs, to enable the project to grow. Phasing approach is intended to assist in awarding the project.