

Benefits and Limits to Performance Contracting

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Benefits of Performance Contracting

- **Replace aging equipment with new equipment**
- **Access to 3rd party financing for needed capital energy improvements**
- **Improved facility energy efficiency and reduced energy costs**

Benefits of Performance Contracting

(continued)

- **Reliable and persistent long-term energy saving project performance**
- **Enhanced local economies through the ESCO's use of local subcontractors**
- **Decreased equipment repairs and lower maintenance costs**

Benefits of Performance Contracting

(continued)



- **Freed-up budget dollars to fund other activities**

increased productivity from improved indoor air quality (IAQ) and building comfort conditions

Benefits of Performance Contracting

(continued)

- **Optimized equipment performance through project commissioning**
- **Better overall management and control of facility**

Risk Reduction Benefits of Performance Contracting

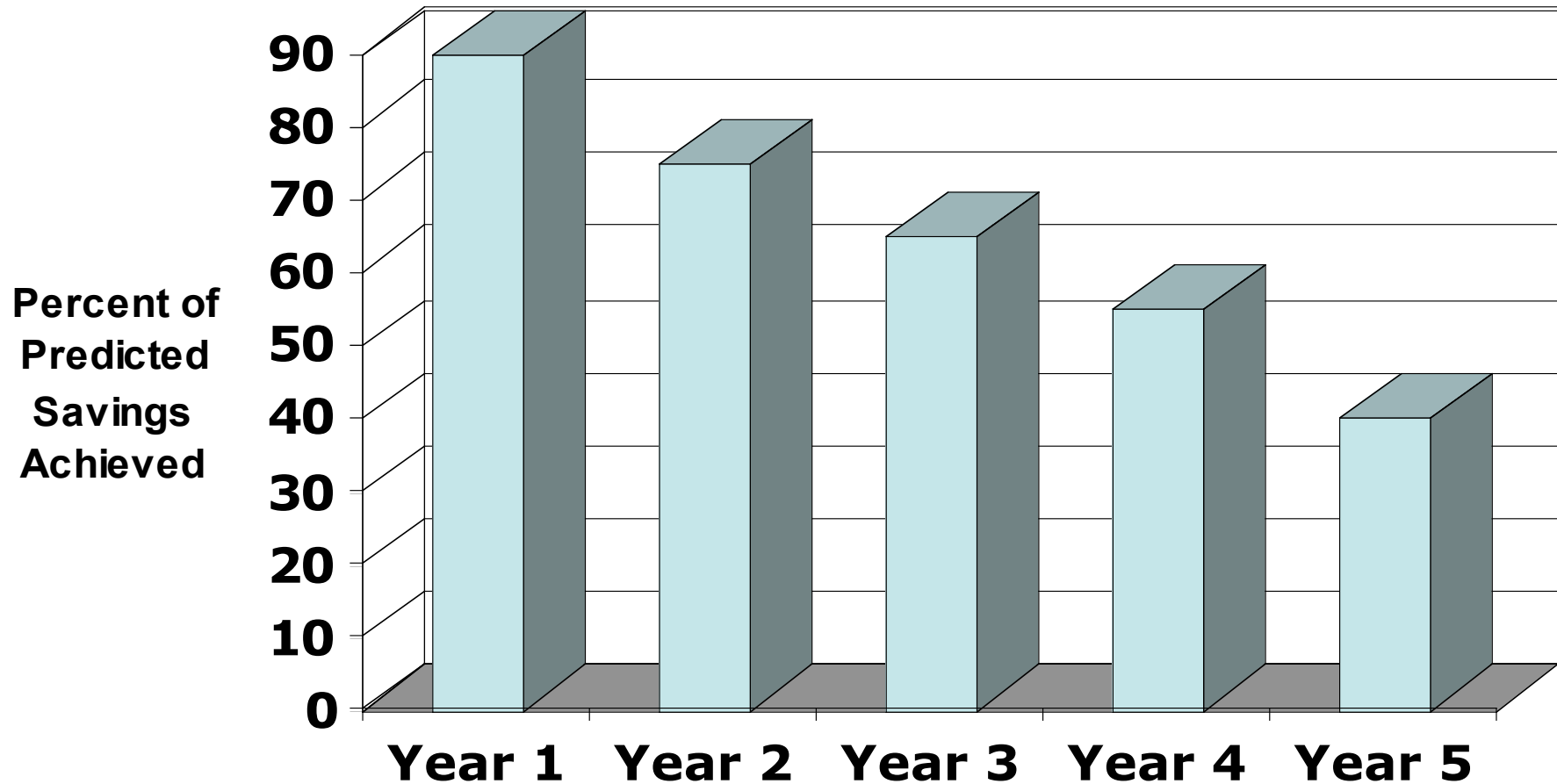
- **Contractually guaranteed measured savings reduces the risk of savings erosion over time**
- **Integrated project analysis, design, and construction reduces the risk of lost savings opportunities and schedule delays**
- **Utility savings and performance monitoring reduces the risk of under-funding key maintenance requirements**

Risk Reduction Benefits of Performance Contracting *(continued)*

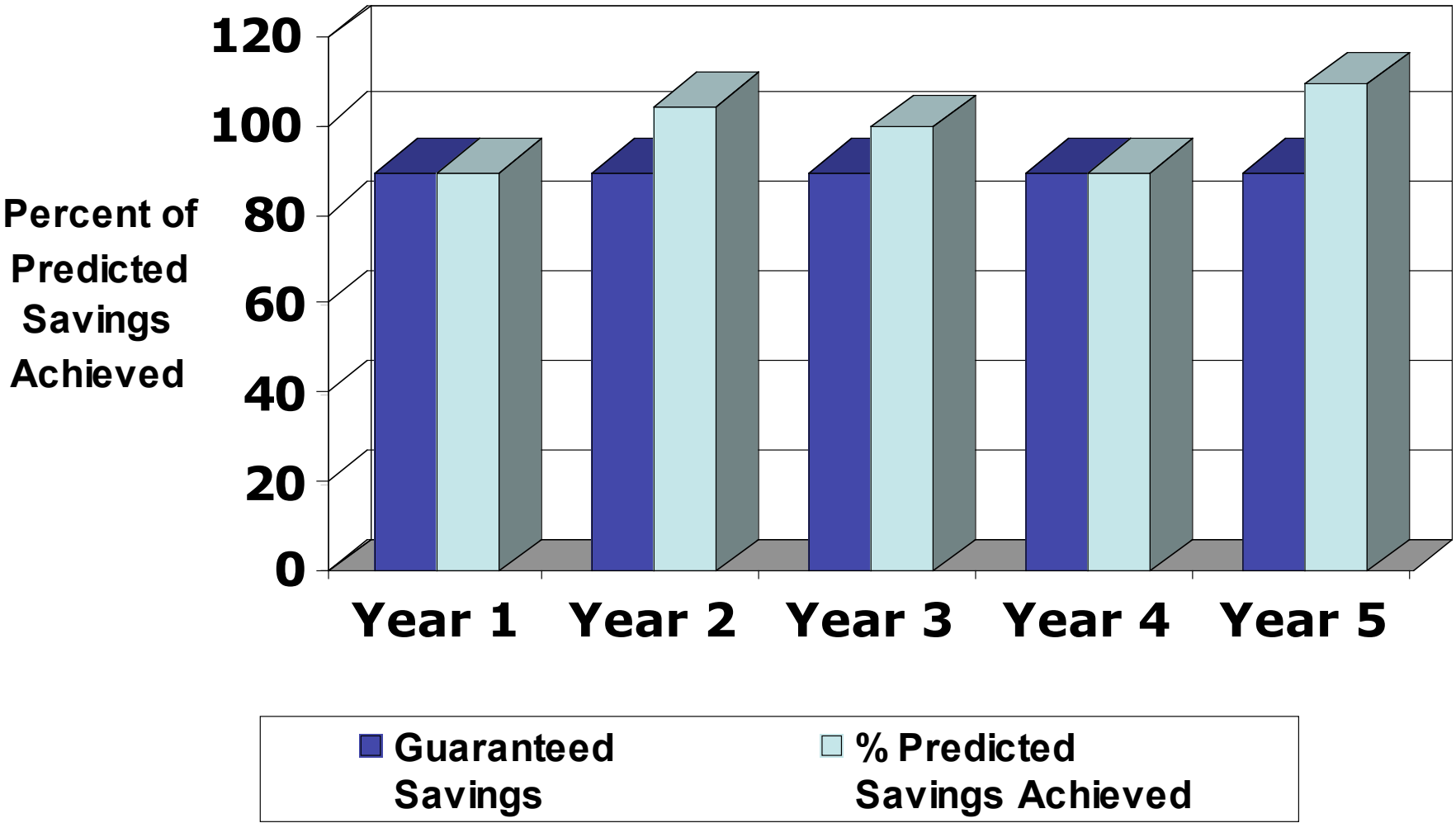
- **Up-to-date training and knowledge for facility operating personnel reduces the risk of project non-performance**
- **Ability to select services and materials based upon quality and value, rather than on lowest first cost, reduces the risk of inadequate maintenance**



Savings Erosion Over Time is Typical of Conventional Energy Projects



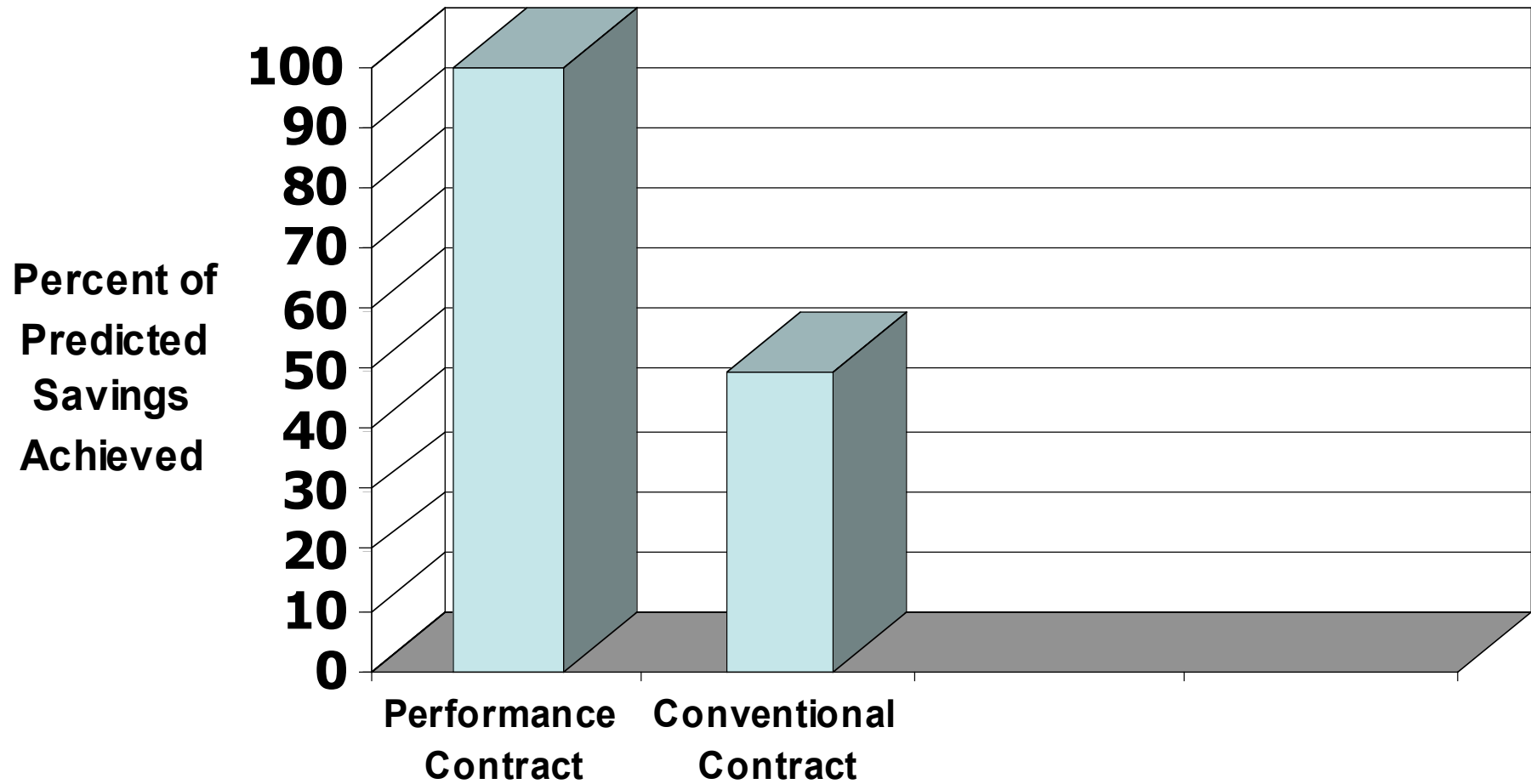
Stable Savings Guaranteed Over Time is Typical of Projects



Performance Contracts May Deliver Double the Value of Conventional Contracts

	<u>Cumulative Savings Over 10 Years</u>	<u>Project First Costs</u>	<u>Cumulative Net Benefits</u>	<u>Benefit/ Cost Ratio</u>
Spec & Bid Procurement (Minimize First Cost)	\$1,200,000	\$600,000	\$600,000	2.00
Performance Contract Procurement (Maximize Net Benefit)	\$2,000,000	\$660,000	\$1,340,000	3.03

Comparison of Cumulative Long-Term Energy Savings Achieved Over Ten Years



Conventional Bid and Spec EPC Negotiated Procurement

Performance Contracts

Conventional

- May take several years to secure sufficient funds to implement comprehensive energy projects
- High staff costs due to a piecemeal approach to bidding and managing each separate project

- All funds needed for a comprehensive energy project are readily available
- Lower staff cost and quicker completion of a comprehensive project

Conventional Bid and Spec EPC Negotiated Procurement *(continued)*

Conventional

- **Multiple contracts with multiple vendors can result in conflicting project requirements**
- **Energy savings are not guaranteed**

Performance Contracts

- **One contract with single point accountability for project performance**
- **Long-term energy savings are guaranteed by the ESCO**

Conventional Bid and Spec EPC Negotiated Procurement *(continued)*

Conventional

- **Guarantees of comfort and operating standards are not usually offered by equipment vendors**
- **Incremental project implementation misses savings design opportunities**

Performance Contracts

- **Performance contracts typically contain explicit comfort and operating standards**
- **Comprehensive project implementation maximizes savings design opportunities**

Conventional Bid and Spec EPC Negotiated Procurement *(continued)*

Conventional

- **Energy projects must compete for limited budget resources with other improvement projects**
- **No direct incentive for building staff to reduce energy costs**

Performance Contracts

- **Energy projects are funded with utility bill savings**
- **ESCO compensation is tied to providing energy savings over the term of the contract**

Conventional Bid and Spec EPC Negotiated Procurement *(continued)*

Conventional

- **Limited staff or lack of expertise may put project performance at risk**
- **Operations and maintenance budgets are usually under-funded, resulting in wasted energy**

Performance Contracts

- **ESCO provides ongoing technical expertise to insure project performance**
- **Utility bill savings finance operations and maintenance required to maintain project performance**

Limitations of EPC

- Requires Facility Minimum of \$500k generally to attract ESCO attention
- Not cost-effective for addressing single measure unless financing unavailable otherwise
- Requires some sophistication in Project Management, Oversight
 - Guarantees
 - Fees
 - M&V Issues

Managing an EPC

- Attorney should Review Energy Services Agreement
- Oversight requires one day per week during construction
- Some towns may desire consultant to review engineering, costs
- Anticipate “Soft Costs” of 35-45% of Project Total