Energy Savings Performance Contracting Summary

Prepared by DOT/PF

- Under an Energy Savings Performance Contract (ESPC), an Energy Savings Contractor (ESCO) is selected through a competitive Request for Proposal process to complete an energy audit, recommend, design and implement Energy Conservation Measures (ECM's), and guarantee energy savings.

- The contractor will first complete an investment grade energy audit that identifies conservation measures, along with their payback periods, and present it to the facilities owner or manager. The manager will select a set of conservation measures that meets their desired financial goals, and will negotiate the implementation cost with the ESCO.

- When selecting the ECM's to be implemented, it is critical to avoid "cherry picking" quick payback measures, such as lighting upgrades, and ignoring longer payback items such as heating and ventilation system upgrades. Since lighting upgrades are typically the quickest payback for an ECM, they can help to offset the cost of a longer payback ECM, such as a boiler upgrade, when accomplished under an ESPC.

- Example: Lighting Upgrade will pay back in 3 years. Boiler Upgrade will pay back in 12 years. Combined the payback will be 7 years. It is also common for an owner to package several buildings together under one agreement to leverage savings in one facility towards another, providing that the buildings have the same funding source. This allows for a greater amount of work to be accomplished.

- Capital funding can be used to fund the entire contract; however, more typically, financing is obtained from either the ESCO or third party financing. The amount financed, plus the interest charges, are paid back over time from the dollar savings that are realized from the reduction in energy consumption. The financing period may range from 8 to 25 years, depending upon the ECM's chosen and the owner's financial requirements (our contract with Siemens utilized third party financing with a payback ranging from 12 to 15 years).

- A combination of capital funding – such as the ARRA energy funds – and financing may be chosen to fund the project. Arizona is leveraging $10 million in ARRA energy funds with about $40 million in private financing to accomplish $50 million in energy efficiency projects in state facilities. This approach will also work for Alaska. Under any of these scenarios, a limited amount of capital or operating funding is required to pay personnel cost to implement the contract.

- The ESCO guarantees that the ECM's will reduce the energy consumption in the facility. If the energy savings are less than what the ESCO guarantees, the ESCO will monetize the difference in guaranteed versus actual savings and will reimburse the owner this amount. Example: ESCO guarantees a savings of 30,000 Btu's, but only 25,000 Btu's are saved, the ESCO will write a check for the cost of the missing

5,000 Btu's. Under some performance contracts, if the energy savings are greater than that which the ESCO guaranteed, the owner is required to share the monetized cost of the excess savings with the ESCO. Our contract with Siemens did not have this language, i.e. excess savings belong to the State.

- The U.S. Department of Energy guidance regarding the ARRA energy funds specifically encourages the use of these funds for energy performance contracting, as a method of leveraging and extending the life of the funds.