Frequently Asked Questions About Performance Contracting

Performance Contracting is a contracting vehicle typically utilized by government agencies in times of limited or no capital dollars available to complete major facility improvements that are then paid for by energy savings from the operating budget.

Florida Statutes, 1013.23 - Energy Efficiency Contracting, allows educational entities to complete energy-saving improvements by financing them with money saved through reduced utility expenditures. The agency makes no up-front investment and instead the energy services company finances the project and is paid for through guaranteed annual energy savings.

A request for proposals is issued and a performance contractor, usually an Energy Service Company (ESCO) is selected. After identifying eligible projects, the ESCO designs and installs the needed improvements. The agency pays for the financed project out of savings realized by the improvements. By law, the ESCO must guarantee that the savings will always be at least equal to the payments for the cost of the improvements.

Brevard County Public Schools successfully completed their first performance contact in June 2009. Due to limited capital funds, BPS intends to engage in another round of capital improvements that can be funded and paid for from energy savings.

FAQ’s

How is the Performance Contractor selected?
A committee is identified to interview short listed firms that meet the proposal criteria. They typically are facilities, purchasing and finance professionals.

How are the opportunities for savings selected?
Any traditional energy-using system or operation is considered. These systems are analyzed and evaluated as to the savings that could be realized if they were replaced or modified in a specified amount of time.

How are the original budgets established in the beginning of the project?
ESCO’s use in-house estimators to establish the initial budget along with potential energy savings. When an agreement is reached to move forward on a specific facility improvement, completed designs and scopes are competitively bid by the ESCO.

What does the performance contractor base their savings baseline on?
Cost and use history provided by the District and confirmed by the local utilities companies.
How is the project funded?
Typically, the Agency or ESCO borrow the money from a third party. Payments are made from energy savings directly related to the operating budget.

What will the initial assessment accomplish and how much does it cost?
It will identify all the opportunities for energy savings of the project. If the ESCO is successful in identifying opportunities for energy savings that are acceptable to the District, the cost will be rolled into the overall project. In the event the District declines to accept the recommendations, the District would be responsible for the cost of the assessment. This could range anywhere from $0.05 / square foot to $0.15 / square foot.

Does the owner get to participate in the design decisions?
Yes. The owners representative is a major part of the design and decision making process.

What happens to the money if the savings exceeds the guaranteed savings? Does the ESCO share in the savings?
Any savings above and beyond the original guarantee is kept by the owner. The ESCO does not get any additional monies.

Who makes the assumptions of the cost benefit analysis that validates whether the initiative will generate savings?
ESCO’s use industry standards, manufacturer performance data and industry specific software to complete the calculations. Although each ESCO may use a different software, we have used a product called Metric over the past performance contract.

If we do not accept the assessment recommendations, do we have to pay for the assessment?
Typically yes. The assessment requires detailed site visits, utility reviews, designs, estimating and pricing with local suppliers and contractors.

What kinds of things are evaluated?
Any equipment that uses or has a direct effect on energy consumption. The list includes but not limited to: Electric, water, solid waste disposal, insulation, behavior modification, gas, reclaim water, etc.

Who decides which schools to survey?
This is a collaborative effort between the ESCO and the District staff. They typically target the schools with the most opportunity for savings.

Is performance contracting more costly than traditional methods of contracting?
It does not have to be. If the ESCO is required to have open book pricing and their fee and general conditions are negotiated in the traditional design/build approach, the cost is similar to any other project.
What is the typical length of a performance contact agreement?
The work effort, depending on the scope, can take anywhere from one to three years. The guarantee agreement can be from ten to twenty years. We typically would not exceed fifteen.

What happens if the ESCO does not meet their performance guarantee?
They will write a check to the District for the difference.

What was the dollar amount of the capital improvements completed in the first performance contract?
We completed more than 12 million dollars worth of capital improvements.

How much money did we save in the 7-year term of the contract?
We saved close to 25 million dollars in energy savings during the term of this agreement.

What kinds of capital improvements were made during that initiative?
Replacement of more efficient chillers and related mechanical equipment, upgraded lighting and re-lamping, trash compaction, filter changing, water conservation and behavioral modification.