



NASEO Training: Best Practices in Energy Savings Performance Contracting (ESPC) Program Design

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+ Training Session Objectives

- The purpose of today's training session is to educate the course participants on the following:
 - Best Practices in ESPC Program Design
 - Tools and resources available to you
 - Key lessons learned from other states' experiences
 - Challenges ahead

Following this training session, each course participant should be able to analyze their state's program according to the 10 ESPC Program Design Best Practices and identify opportunities for improvement.



ESPC Definition

Energy Savings Performance Contracting (ESPC)

- The use of **GUARANTEED** savings from the maintenance and operations budgets (utilities) as capital to make needed upgrades and modernizations to your building environmental systems, financed over a specified period of time.” – *U.S. Department of Energy*
 - ESPC, primarily, is a public facilities retrofit program.
 - Not just limited to energy efficiency projects. ESPC can also be utilized for water efficiency, renewables, and other facility upgrades.
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A Rose by any Other Name . . .

- Infrastructure modernization program
 - Financing mechanism
 - Alternative procurement
 - Construction delivery method
 - An industry
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Why Create an ESPC Program

- Demonstrate leadership
 - Risk mitigation
 - Goal attainment
 - Energy efficiency
 - Environmental stewardship
 - Water conservation
 - Economic development (*jobs with no money*)
 - Public infrastructure resiliency
 - Reduce deferred maintenance (*just fix my stuff*)
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+ Program in a Box



+ **ESPC Program Design Best Practices**

Adoption of program design Best Practices has been proven to help state programs overcome barriers to implementing ESPC projects.

1. **SEO Leadership / Single Point-of-Contact**
2. **Strong Legislative and Gubernatorial Support (including enabling legislation)**
3. **Build Consensus with Key Decision-Makers**
4. **Form a Public-Private Stakeholder Group**
5. **Prequalified ESCOs**
6. **Pre-Approved Contracts and Templates Instruments**
7. **Qualified Project Oversight and Technical Assistance**
8. **Education and Outreach**
9. **Funding Strategies: Establish a Self-Funding Program**
10. **Tracking and Monitoring Projects**

+ 1. **SEO Leadership / Establish a Single Point-of-Contact**

- Successful ESPC programs are administered by a champion agency with sustained administrative and technical resources.
 - Identify a program manager or point person to develop the program.
 - State Energy Office staff are well-suited to serve this role because of their knowledge of energy projects.
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2. Strong Legislative and Gubernatorial Support

- If updated legislation is required, ESC has model legislation.
 - Problems that we have seen in state statutes:
 - Specifically spells out what technologies are allowed, thereby excluding those that aren't specifically mentioned.
 - Contract terms are too short to allow for some types of projects (boilers, waste-water treatment, etc.).
 - To become self-funding you may need authority to collect fees and authority to roll-over fees to subsequent years.
 - Rules are different for different market sectors (i.e., schools vs. state agencies).
 - Consider requesting a one-time fund to be used as working capital for program start-up.
 - Executive orders authorizing/promoting ESPC have been used in many states.
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+ 3. Hold Stakeholder Meeting with Key State Decision Makers to Build Consensus

- Need to address the concerns of key agency stakeholders early and often:
 - Finance
 - Legal
 - Procurement
 - Landlord agency
 - Administering agency



4. Form a Public-Private Stakeholder Group

- Establish an ESC Chapter or similar stakeholder group.
 - Leverage the private sector for education and outreach.
 - Private sector partners can also help drive the program from the political side.
 - This is a *working* group that implement many necessary components of the ESPC program.
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5. Pre-Qualified ESCOs

- Having a pre-qualified vendor/ESCO list saves time and money.
 - The value and procurement of pre-qualified vendors: it is a one-time competitive RFP.
 - Streamlines the process as the end-user selects from a pool rather than doing a separate RFP.
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6. Pre-Approved Contracts and Templates Instruments

- The purpose of this Best Practice is to receive legal review and concurrence for key ESPC documents and instruments in advance of the program being launched.
 - A complete set of standardized instruments should be prepared from stakeholder meetings with key leaders in the legal, procurement, and/or financing agencies.
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7. Qualified Project Oversight and Technical Assistance

- Strong ESPC programs provide ongoing support and technical assistance to facility owners that are conducting ESPC projects.
 - This role can be filled by the State Energy Office, other state agency, an engineering firm, or other private entity.
 - The agency or firm acts as a “project ombudsman.”
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8. Education and Outreach

- Consistent education and marketing efforts are crucial for ESPC programs, especially in relation to reaching potential end-users.
 - A variety of entities can engage in this activity:
 - ESC state chapter or other public-private stakeholder group
 - ESCOs
 - Other stakeholders
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9. Funding Strategies: Establish a Self-Funding Program

- While there are several options to fund the program's operation, the self-funding program model is ideal.
 - Investigate the authority to assess fees.
 - Similar to approach used by other state departments, (i.e. legal or IT) that provide services to agencies for a fee.
 - Establish roll-over authority.
 - Ensure fees will remain in a fund exclusively for the use of providing.
 - Examples of self-funded programs include Kansas and Washington.
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10. Tracking and Monitoring Projects

- Establish simple tracking guidelines for projects.
 - Encourage electronic utility billing from providers allowing collection of consumption information.
 - Tools such as EPA's ENERGY STAR Portfolio Manager can be used for tracking and monitoring purposes.
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Challenges Ahead



Challenge 1

- Determine the level of services to be provided:
 - A procurement process to select ESCOs
 - Pre-approved contracts
 - Technical assistance
 - Project oversight
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Challenge 2

- Program funding
 - In an ideal case the program would have start-up working capital and technical staff.
 - Determine whether to charge a fee.
 - Avoid “raids” of funds for other purposes.
 - Establish roll-over authority.
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Challenge 3

- The process of issuing a Request For Proposals (RFP), interviewing potential companies, and negotiating pricing for services is **cumbersome and time consuming.**
 - Establishing pre-approve materials can take a lot of work, but it pays off in the end.
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Challenge 4

- An LBNL report said that educating facility operators and public officials as to how performance contracting works is one of the main barriers to MUSH market projects.
 - Education and outreach is necessary.
 - Utilize public-private stakeholder groups when available.
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Challenge 5

- The quality of enabling legislation and administrative support varies considerably across the U.S.
 - Contract terms range from less than 10 years to 20 years or more.
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Challenge 6

- We have an existing program so what can we do to improve it?
 - Revisit process and documents.
 - Expand success to new markets.
 - Encourage the governor to be a champion.
 - Encourage the legislature to be a champion.
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Questions and Answers/Group Discussion



Training Course Next Steps

- The materials for the written exercise (Part 3) will be emailed to you shortly and posted on the course website.
 - The written exercise will be due by COB on February 20. Please submit via email to cwagner@naseo.org.
 - If you are interested in setting up “office hours” with NASEO staff to help complete the written exercise or further discuss any of the course content, please contact cwagner@naseo.org.
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