

Energy Efficiency Contracts – Getting What You Paid For

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Energy Efficiency Contracts: What are they?

- a/k/a energy savings contracts or performance agreements
- Basic idea: a company (“the provider”) analyzes how a district can save money with energy related improvements, then guarantees that the cost of those improvements will be covered by the savings

Energy Efficiency Contracts: Why enter into them?

- Easier sell to taxpayers than other improvements because these pay for themselves
- Financing methods may be more palatable than levy referenda



Energy Efficiency Contracts: Why enter into them?

- Replace outdated equipment and structures
 - Improves school environment
 - May save money beyond contract term
 - Make school “green”

Energy Efficiency Contracts: Who are the providers?

- Typically companies that are already in the HVAC business and are large enough to undertake the risks associated with a long term guarantee
 - Honeywell
 - Johnson Controls, Inc.
 - McKinstry
 - ESG (Energy Services Group) (Honeywell)

Energy Efficiency Contracts - Statutory Process

- The use of these contracts is controlled by statute
- The contracts are not subject to the bid law
- Procedures were created to help ensure that the public's money is protected

Energy Efficiency Contracts - Statutory Process



Energy Efficiency Contracts - Statutory Process

- Contracting procedure (M.S. 123B.65)
 - Publish notice of proposed contract
 - Lets providers know of potential project
 - Providers pitch their proposals at one or more meetings
 - Provide notice of meeting at which provider is selected

Energy Efficiency Contracts - Statutory Process

- Provider will analyze existing structures and systems and calculate costs of improvements and savings
- Contract must describe the methods that will be used to calculate the costs of the contract and the savings attributable to the contract
- Provider must issue a report to the Board describing all costs and giving detailed calculations of the savings

Energy Efficiency Contracts - Statutory Process

- Contract approval: Board must give published notice of the meeting in which it proposed to award the contract, the name of the provider, and the purpose of the contract
- State submissions: the contract and the report to the Board must be sent to the Commissioner of Commerce within 30 days

Energy Efficiency Contracts - Statutory Process

- STATE REVIEW

- No automatic review of the contract by the State
- Can request the Department of Commerce review the report and evaluate the cost and savings calculations to see if they are accurate and reasonable

Energy Efficiency Contracts – Contract Terms

- REVIEW ALL TERMS!
 - Important that District understands how it works
- Many of the general terms are similar to other construction contracts (although details will vary)



Energy Efficiency Contracts – Contract Terms

- SCOPE OF WORK: What is included in the project?
 - All items to be modified or replaced should be listed in the agreement with sufficient such that a third party (citizen, Department of Commerce, etc.) can determine the full scope of work.

Energy Efficiency Contracts – Contract Terms

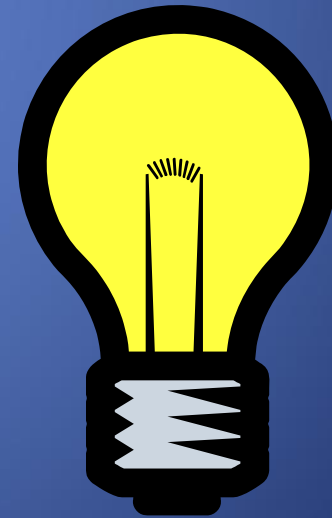
- SCOPE OF WORK

- “Energy conservation measures” M.S. 123B.65

- “a training program or facility alteration designed to reduce energy consumption or operating costs”

Energy Efficiency Contracts – Contract Terms

- “Energy conservation measure”
- Reduction of energy is key
 - Windows
 - Roof
 - Energy control systems
 - Boilers
 - Lights

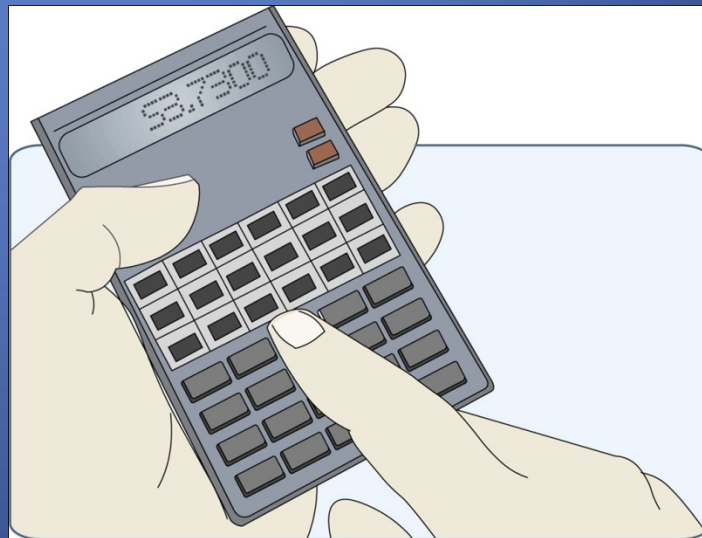


Energy Efficiency Contracts – Contract Terms

- “Energy conservation measure”
- A modification that reduces operating costs without reducing energy consumption is likely not an “energy conservation measure”
 - This is not an opportunity to make non-energy related improvements outside the bid law

Energy Efficiency Contracts – Contract Terms

- MEASUREMENT AND VERIFICATION
- Contract must set forth how savings are to be calculated



Energy Efficiency Contracts – Contract Terms

- MEASUREMENT AND VERIFICATION
- Assumed savings vs. measured savings
 - Not all savings will be measured
 - Contract must specify the nature and amount of savings in both categories
 - The more that is assumed, the less liability for the provider

Energy Efficiency Contracts – Contract Terms

- MEASUREMENT AND VERIFICATION
 - Assumed savings
 - Capital cost avoidance
 - Maintenance cost avoidance



Energy Efficiency Contracts – Contract Terms

- MEASUREMENT AND VERIFICATION

- Measurement

- International Performance Measurement and Verification Protocol
 - Four measurement options

Energy Efficiency Contracts – Contract Terms

- HOW DOES THE GUARANTEE WORK?
 - If annual cost > annual savings, provider owes the District the difference
 - Read contract carefully regarding how this shortfall is handled

ENERGY EFFICIENCY CONTRACTS – CONTRACT TERMS

- PRODUCT WARRANTIES
 - Separate issue from savings guarantee
 - Manufacturer warranty may be supplemented by provider warranty

Energy Efficiency Contracts – Contract Terms

- ADDITIONAL AGREEMENTS
 - Maintenance agreement
 - Savings measurement agreement
 - Watch for termination language!

Energy Efficiency Contracts

- UNDERSTANDING AND IMPLEMENTATION
 - Very important that the Board has a basic understanding as to how the contract works



Energy Efficiency Contracts

- UNDERSTANDING AND IMPLEMENTATION
 - Building staff must also understand the restrictions and obligations contained within the document. Their actions can have major consequences.



ENERGY EFFICIENCY CONTRACTS

- UNDERSTANDING AND IMPLEMENTATION
 - These are long-term contracts (up to 15 years) with long term obligations for both parties
 - If savings are not occurring, and provider is not responding, deal with it as soon as possible

ENERGY EFFICIENCY CONTRACTS

ANY QUESTIONS?

