



U.S. Department of Energy
Energy Efficiency and Renewable Energy

Rebuild America Energy Technology Seminar

Introduction to Performance Contracting

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What Is Performance Contracting (ESPC)?

- Design Build, Performance Based Project
- Contractor Assumes Performance Risk
- Contractor Compensation is Tied to Measured Performance





What Is An ESCO?

- ❖ A Company that Helps Customers:
 - ◆ Upgrade Facilities Including:
 - ◆ Energy Efficiency Upgrades;
 - ◆ Systems Upgrades;
 - ◆ Improved Environments; and
 - ◆ Operational Enhancements
 - ◆ By Providing an Integrated Package of Services
 - ◆ Pay for Some or All of the Cost with Guaranteed Energy/Operational Cost Avoidance





What Services Do ESCO's Typically Integrate for Customers?

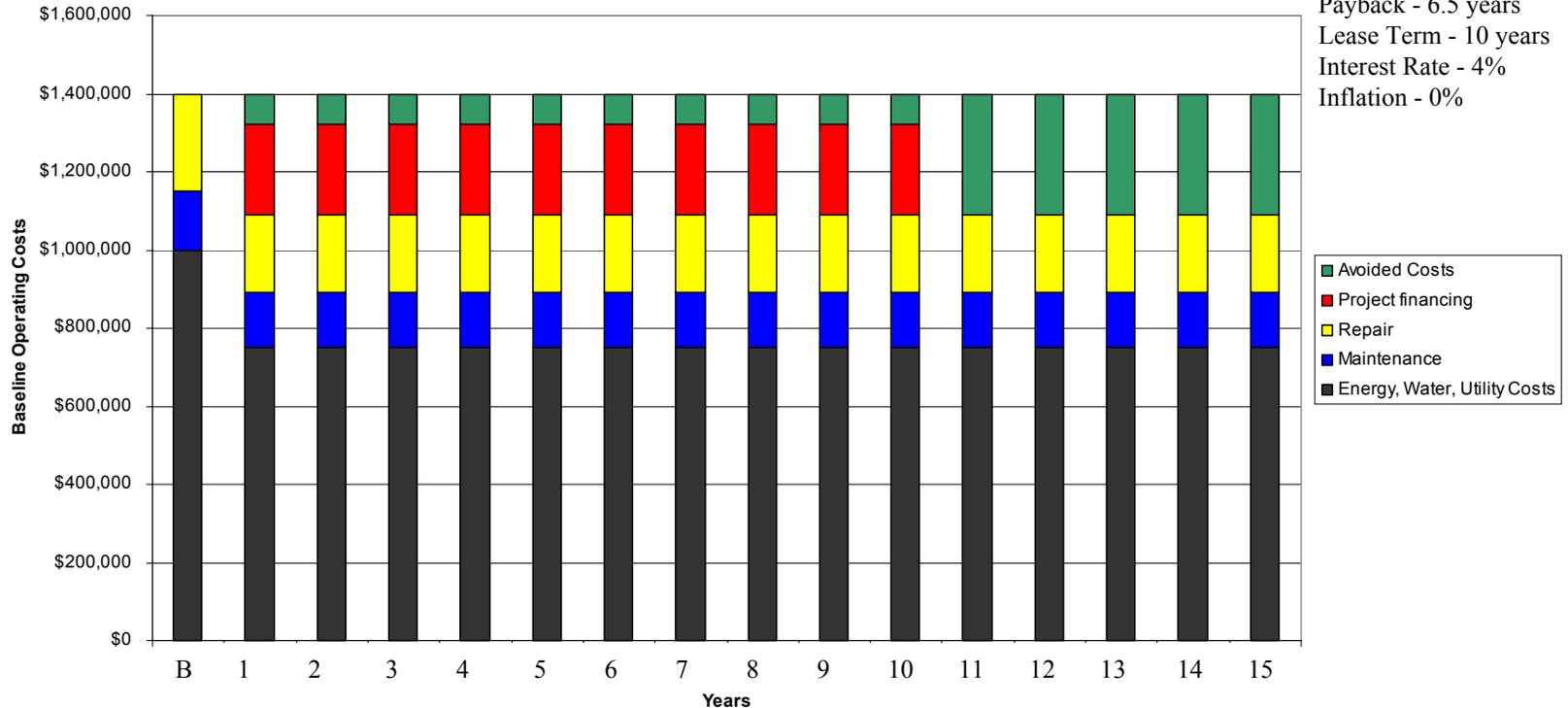
- ❖ Audit and Feasibility Analysis
- ❖ Engineering Design
- ❖ Financing
- ❖ Installation
- ❖ Maintenance and/or Training
- ❖ Measurement & Verification (M&V)
- ❖ Performance Guarantee



It Is Possible to Structure Projects to Pay from Cost Avoidance

15 Year Financial Impact

Project - \$2.0 million
Savings - \$310,000
Payback - 6.5 years
Lease Term - 10 years
Interest Rate - 4%
Inflation - 0%





Performance Contracting in New York

Article 9 of State Energy Law

- Bundled Solution through a single contractor
- RFP Process
- 35 year payback (18 years for K)
- Non-debt accounting treatment
- Non-appropriation clause





Bundling vs. Cherry-Picking

- ❖ Comprehensive Bundle of ECMs
 - ◆ Problem (e.g. – Aging Equipment Needing Replacement)
 - ◆ No Money for Project to Solve Problem
 - ◆ Add Short Payback ECMs
- ❖ Cherry-pick the Short Payback ECMs
 - ◆ Makes Subsequent Comprehensive Projects in Same Buildings More Difficult





Who Needs an ESPC?

- ❖ Any Organization Looking For:
 - ◆ Cost Reductions – Energy, Operations, Maintenance, Energy Procurement
 - ◆ Energy Use Reduction
 - ◆ Project Financing
 - ◆ Upgrades of Aging Systems and Existing Buildings
 - ◆ Environmental Solutions (IAQ, CFC, Emissions)



Advantages of an ESPC

- ◆ Little or No Up-front Funding
- ◆ Allows Replacement of Outdated Equipment
- ◆ Helps Acquire O&M Services
- ◆ Helps Fix Problems
- ◆ Guaranteed Performance
- ◆ Eliminates Technical and Financial Risks
- ◆ Uses Future Energy/Operational Cost Avoidance Now
- ◆ Allows Bundling



Why Use an ESCO?

- ❖ Expertise:
 - ◆ Survey, Analysis, Design, Financing
 - ◆ Project Management, Installation, O&M, M&V
 - ◆ Energy Procurement
- ❖ Financing Options in Place
- ❖ Minimal Costs until Energy Cost Avoidance Accrue
- ❖ Total Solutions
- ❖ Long-term Partnerships