



Performance Contracting

WRATT recommends that school systems evaluate Performance Contracting (sometimes referred to as 'shared-savings contracts') as a method of replacing old, inefficient lighting and HVAC systems without the need for up-front capital investment. This type of contract is also applicable to businesses and companies that do not have the necessary capital for modifications to reduce energy costs. In Performance Contracting, an outside company agrees to cover the cost of needed capital improvements and associated construction and/or renovation work for a contractually guaranteed share of future utility savings. After the cost of improvements is paid off, all subsequent savings accrue to the school system. It can be a win/win opportunity.

Performance Contracting usually involves 6 steps:

First, an engineering company analyzes the school's needs and discusses with decision makers.

Second, a preliminary survey is performed of the building(s):

- Existing information is gathered.
- Utility performance is analyzed.
- Potential operational and energy improvements are identified.
- Findings are discussed.

Third, the engineering company conducts a comprehensive audit of the building(s).

- Specific energy conservation measures are identified.
- Energy and operational savings for the various options are projected.
- Capital investment costs are estimated.

Fourth, results of the audit are presented to the decision makers.

- Different cost options are presented showing investment and projected savings versus payback time.
- Total Life cycle costs associated with the various energy-saving options are clearly stated.

Fifth, the best options are selected, a contract is developed and the project implemented.

Sixth, once the improvements are implemented, the engineering company trains building operators to achieve maximum performance.

While Performance Contracting can be very useful in reducing long-term utility costs, as with any other powerful tool, you have to be careful how it's used!

Remember that a comprehensive audit of the facility's equipment and operation is necessary to correctly identify energy-saving options and costs. Make sure that such an audit precedes any agreement on shared savings, and that you fully understand how the various options' costs and payback are calculated.

There may be a tendency for some contractors to ignore the total life cycle costs of the various options. For instance, the purchase and installation of a specific suite of equipment may provide well-defined savings for the first third of its lifetime when the contractor is being repaid for his investment. But high maintenance costs in the last third of the equipment's life might easily exceed any real savings the school system could otherwise have realized in this period.

Many substantial energy cost savings approaches may be easily identified by the school system without outside contractual obligations. For instance, there's no reason to enter into a long-term contract for suggestions that could also have been provided, at little or no cost, in discussions with your local utility company. It's better to "pick the low-hanging fruit" yourself, rather than paying someone else to do it!

Finally, remember to 'check the references' of your potential contractor. Ask for contacts in other school systems with whom they've worked. Many state's economic affairs or consumer services agencies also provide advocates with whom Performance Contracting can be discussed. In Alabama, contact: Mr. Van Johnson, Science, Technology, and Energy Division, Alabama Department of Economic and Community Affairs, (334)-242-5322.