

Key Items to Discuss with ESCO — Clarifying Expectations

DOE FEMP Super ESPC

The following list of items is intended to be discussed at the start (kickoff meeting) of any single relationship between an agency and an ESCO intending to propose on a project. It is meant to clarify the “expectations” of the two parties. The relationship would be as a selected ESCO following a site competition or as an ESCO given an approval to submit a contractor-identified initial proposal. This is meant to be a very open process and each party should disclose and be willing to discuss all pertinent topics. Success of the project depends upon open communications and a partnership approach.

Site Goals

A good place to start is with a discussion on the goals for the agency, the site, and the project. What is most important to the agency and the site – energy reduction, meeting Federal mandates, upgrading equipment, reducing maintenance, etc.?

Project Boundaries

The project is defined by several sets of guidelines or boundaries. These guidelines are usually guided by the willingness of the agency to consider the type of project an ESCO is willing to propose. There are three primary boundaries; Potential project buildings and/or sites, potential energy conservation measures (ECM's) that may be considered, and simple payback ranges that the agency is willing to consider.

Project Buildings/Sites

Both parties in the transaction need to agree on the buildings and/or sites that can or should be included in the project proposal.

ECM's

While the actual final ECM's will not be known at the time of the project development meeting, there are probably several opportunities that both parties are either expecting or desire to see in the proposal. ECM considerations might include aging infrastructure, new technology demonstrations, compatibility with other HVAC systems, a comprehensive approach, inclusion of renewables, etc.

Simple Payback Ranges

The use of the simple payback (measure installed cost divided by measure cost savings) as a determining factor in ESPC projects is a useful discussion item. EO 12902 states that agencies should install all measures with a simple payback of less than 10 years. It does not prohibit them from installing measures with over a 10-year simple payback.

Measures, considered as a package, will probably have a maximum payback of around 10 years (repayment is generally around 2 X simple payback). Since the concept has been used as a limiting factor for both contractors and agencies alike, the issue of simple payback should be discussed both in terms of individual ECM's and the comprehensive project proposal.

Project Requirements/Limitations

The project requirements and limitations are those issues that are relevant to any project regardless of the scope and buildings included in the proposal.

Contract Length

The contract length is often a comfort issue with the agency. The acceptable range must be discussed prior to proposal development in order to ensure that an unacceptable proposal is not delivered after several months of work. Unnecessary limitations should be avoided if possible, as the project will decrease in scope and ECMs proposed if too restrictive. A 12-17 year repayment term is considered reasonable; longer repayment terms (18-23 years) may be needed for more "difficult" projects and shorter (8-11) year terms may be possible.

Amount of Investment

The amount of project investment (installed cost) is not limited in the Super ESPC contract, but is similar to those comfort issues often encountered in the simple payback arena. The first estimate of project size should be discussed in order to ensure that the proposed project cost will be acceptable to the agency. Again, arbitrary restrictions should be avoided as it will limit the project scope. Only the largest sites should consider breaking their potential projects into more than one delivery order.

Operations and Maintenance Services

The potential scope should be discussed in terms of possible options for O&M on the installed measures and affected systems. The ordering agency may prefer complete O&M services provided by the Contractor, some level of shared O&M, or no Contractor performed O&M. Setting the expectation in advance will make the first proposal more accurate to the final project.

Operations and Maintenance Savings

If savings from operations and maintenance efficiencies (a legitimate source of savings under ESPC) are to be included in the project cost savings, this item should be discussed so the Contractor has a realistic feel for the amount of "true" cost savings that can be included in the project.

Escalation

Several of the amounts in the DO may be escalated. Discussion should occur on whether savings should escalate over time due to projected utility cost increases or inflation of O&M savings. Another escalation point will be the service phase costs. If the intent of the Contractor is to escalate any of these costs in the initial or final proposal, discussions should occur and a preliminary escalation should show up in the initial proposal.

Codes and Environmental Requirements

Often a project site may have certain codes or regulations in place that may have cost or feasibility impacts on potential ECM's. These issues can be discussed at the initial kickoff meeting based on an anticipated set of ECM's. If there are potential environmental concerns (asbestos, hazardous waste disposal) these should be discussed.

Available studies

The Contractor should be provided with all available previous studies or surveys so that the opinions and recommendations of other firms can be considered, and so that time will be saved in gathering pertinent information.

Project Timeline

The project timeline is not only the final construction schedule, but also the timeline expected for development of the proposal into a signed contract. The elements of this timeline are critical for efficient proposal review and setting of expectations for measurement of project development progress. The primary purpose is to keep the development of the proposal on track and always pointed at the best acceptable project for the agency. Communication on a regular, consistent basis is a key to success.

Contractor Milestones

The Contractor milestones are those items that they are committed to delivering either based on the Super ESPC proposal process or on internal plans used by the Contractor to keep their proposal development process on track and aimed at the right target.

Agency Milestones

The agency milestones are those points in the proposal process where a general level of acceptability needs to be indicated to keep the proposal process on track. These points may include, management support for project scope and size, facility technical manager acceptance of potential project direction, and planned review times for interim reports on development of the proposal.

Risk/Commitment Points

While no project is complete or a liability is real until the final contract is signed, there

are points in the process where risk is assumed or commitments are made. These points may include intent to award notification, indication of agreement of ECM's, etc. The impacts of changing attitudes and uncertain direction should be discussed to develop a common level of understanding of the importance of direct communication.

Each of these topics should be explored, but agreement doesn't need to be reached during the first meeting. It is expected that over the course of the project all of these items will be discussed and a conclusion that accommodates both parties' needs will be met.