



# **LOCAL GOVERNMENTS:**

**SAVE ENERGY.**

**SAVE MONEY.**

**FIX PROBLEMS.**

**Energy Savings Performance Contracting (ESPC)** is a turnkey service which provides local governments with a means to finance facility improvements, address deferred maintenance and implement energy efficiency and/or renewable energy projects through utility cost savings, accompanied with guarantees that the savings produced will be sufficient to finance the full cost of the project. No need to raise taxes or fees. If this sounds too good to be true, it's not. Read on!

Kentucky is promoting Energy Savings Performance Contracting as a vehicle for local governments to undertake and finance energy efficiency improvements. To help local governments best take advantage of this financing mechanism, the Department for Local Government (DLG) is conducting education and outreach activities, providing procurement and contract guidance, as well as technical assistance, to units of local governments and their subsidiaries.

## **STEP ONE: DECIDE**

Decide if energy savings performance contracting is a good solution for you. Your first step is to consider how a performance contract would work for you. You will want to look at your facility needs, current staff capabilities and your potential to make improvements.

**Find out if your facility is a good candidate for a performance contract.** Your ability to use energy performance contracting depends on whether there are significant energy-saving opportunities to interest an energy services company (ESCO).

**Assemble a team.** Put together a team within your organization. They should work together to explore the possibility of a performance contract. Include maintenance staff as well as financial, legal and pro-

curement staff at the onset.

**Assess ESCO services and benefits.** ESCOs offer a wide variety of services including financing, construction management, staff training and long-term maintenance services. Decide what is important for you.

### **What can an ESCO do for me?**

- Identify and evaluate energy saving opportunities;
- Provide engineering services from design to equipment specs;
- Order and install equipment;
- Manage construction of a wide variety of projects;
- Provide long-term energy management and maintenance services;
- Guarantee performance and savings; and
- Arrange financing if needed.

## **STEP TWO: SELECT**

**Develop a facility profile.** Describe your facility's energy use, equipment, operating schedule, maintenance problems, and planned equipment replacement or renovation plans. Also include the utility bill history for the past three years, if available.

**Develop an RFP.** A request for proposals (RFP) is an excellent way to identify interested ESCOs and compare approaches. The procurement process for ESPC's is defined by statute (KRS 45A.352).

**Invite ESCOs to tour the facility.** Interested ESCOs will need to visit your facility and interview facility staff before submitting their responses.

**Evaluate the proposals.** Evaluate the qualifications of each ESCO for the skills, expertise and experience you need. Interview the top contenders to better evaluate their approach to the project and ability to work with you.

**Select an energy service company (ESCO).** The ESCO will be your partner for a long time, so it is important to select one that shares your vision and is able to meet your needs.

## **STEP THREE: CONTRACT**

**Contract with your ESCO to identify energy-saving opportunities.** Your ESCO will perform an investment-grade energy audit that identifies energy-saving opportunities

and evaluates their potential. This provides you with critical information to later negotiate your performance contract. The ESCO will then prepare a project development agreement proposing a package of projects to include in the performance contract.

**Negotiate an energy audit and project development agreement with your ESCO.** Establish criteria for the audit. The cost of the energy audit can be rolled into your performance contract. It must be paid in full if you do not sign a performance contract, so you need to have funds set aside. If your criteria are not met, you do not pay for the audit.

**Review the energy audit.** Review the technical and cost details presented in the audit and discuss the suggested improvements with your ESCO. Your ESCO will recommend a group of retrofits that optimizes cost-effectiveness and benefits.

#### Potential retrofits:

- Heating: replace aging boilers, steam traps and pumps.
- Cooling: replace aging chillers, cooling towers or pumps.
- Ventilation and Distribution: install variable speed fans or replace fan or pump motors.
- Controls: install a new energy management control system or improve operational strategies
- Lighting: replace lamps and ballasts or entire fixtures, both indoors and out.
- Water and wastewater systems: install variable speed devices.

## STEP FOUR: NEGOTIATE

**Negotiate an energy savings performance contract with your ESCO.** An energy savings performance contract is your road map for implementing and tracking the project over the term of the agreement. It should clearly define roles and responsibilities and explicitly state how savings are determined and how the guarantee will function.

**Negotiate the scope and terms of the contract.** Get input from your engineering, financial and legal team. Negotiate costs and ask for open-book pricing to ensure that you receive good value.

**Negotiate a guarantee to meet your needs.** The guarantee is often the cornerstone of an energy savings performance contract. It usually covers the annual debt service and requires the ESCO to pay any remaining balance if expected annual savings are not reached.

**Arrange financing.** Your ESCO will help you secure financing unless you have your own financing source. The most attractive option for governments is usually tax-exempt financing with an annually renewable lease-purchase agreement. The Kentucky League of Cities, the Kentucky Association of Counties and the Kentucky Council of Area Development Districts can provide bond financing. And with ES-PCs, this loan amount does not count against your debt limits!

**Review maintenance requirements and services.** In order to guarantee performance or savings, an ESCO often requires maintenance on new equipment. Additional services can include reviewing operation strategies, reporting on equipment operating problems, and repairing and replacing equipment.

## **STEP FIVE: SAVE**

**Approve the installation.** Review the requirements detailed in the contract and check that all equipment was installed as specified. Also confirm that standards of comfort such as temperature and light levels were achieved.

**Operate the building as agreed in the contract.** The ESCO can maintain, monitor and verify the installation as specified.

**Maximize benefits through trained staff.** Your ESCO will train your facility staff in optimal operation of equipment and systems. This will help ensure savings and minimize future maintenance, while maximizing the life of the equipment.

**Verify savings and enjoy the benefits.** Follow-up measurement and verification helps ensure that you are getting full value from your energy performance contract.



For additional information  
and sample documents, visit the  
**Department for Local Government**  
Energy Efficiency and Conservation Resources  
available to help at

*www.dlg.ky.gov/eec*

Call us at  
**502-573-2382**

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*www.EnergyServicesCoalition.org*

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