



**PERFORMANCE  
CONTRACTING  
OWNER'S  
REPRESENTATIVES**



**Michigan School Business Officials  
Facilities/Operations Director  
Virtual Conference**

## New Approaches and Best Practices in Performance Contracting

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Kurt Carter

MBA, CEM, CMVP, CEP, CIGC

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### Presenter Biography:



Mr. Carter has over 30 years experience in energy, with 20 years specifically in performance contracting. He has developed over 35 Performance Contracts and reviewed over 100 ESPC proposals. He developed performance contracting projects with Johnson Controls, Ameresco, and Illinova. In 2011, he formed Performance Contracting Owner's Representatives LLC, an independent, unbiased firm helping Michigan school districts have more successful Performance Contracts.

#### Certifications/Education:

<b>MBA</b>	Masters Degree, Business Administration
<b>CEM</b>	Certified Energy Manager
<b>CMVP</b>	Certified Measurement & Verification Professional
<b>CEP</b>	Certified Energy Procurement Professional
<b>CIGC</b>	Chartered Industrial Gas Consultant

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## Overview



1. Definition—What is it and how it works
2. Common Challenges—What to Avoid
3. New Methods –Getting What You Want
4. Summary/Best Practices

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## What is Performance Contracting?



### Definition:

- Short for Energy Savings Performance Contracting (ESPC)
- Procurement methodology
- The use of “guaranteed” savings from the utilities and maintenance budgets as capital to make needed upgrades and modernization to your building environmental systems, usually financed for a specific period of time.

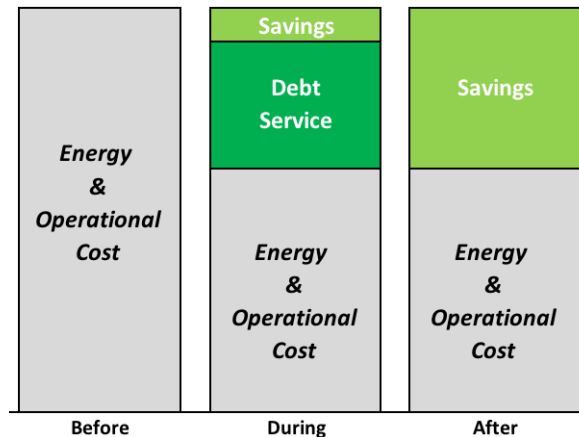
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## How does Performance Contracting work?



### Energy Savings Performance Contract



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## How does Performance Contracting work?



### Key Positive Aspects

1. Solves the funding dilemma
  - a) Uses efficiency improvements (new equipment) and savings guarantees to cover costs.
  - b) Non-voted/no new taxes
  - c) District Financial Advisor/Bond Counsel recommends best finance vehicle. (Various bonds, lease options).
2. Turnkey
  - a) More accountability--One contract/One responsible party
  - b) Easier to manage--Vendor holds and manages subcontracts and installation
3. Firm Fixed Cost
  - a) No cost over-runs. (Little to no change orders--unless you request additional scope.)

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## How does Performance Contracting work?



### Key Positive Aspects (cont'd)

4. Best overall combination of savings, costs, guarantee, etc.
5. Large/high impact projects
  - a) Get caught up → Upgrade multiple buildings at once
  - b) Numerous ECMs simultaneously (boilers, lighting, controls, HVAC, etc.)
  - c) Engineering study is included
6. Faster process than typical voted bond/bid/spec
7. "Guaranteed" function/savings

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## How does Performance Contracting work?



### What you hear from vendors...

*"It's all guaranteed. We'll write the district a check if there is a savings shortfall."*

### What School Districts say...

*"Sounds too good to be true. What do I need to know?"*

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## How does Performance Contracting Work? (The elephant in the room)



### A candid look at School District's Most Frequent Complaints:

*(The good news is each of these can be overcome...and we'll show you how.)*

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## How does Performance Contracting work? (The elephant in the room)



### A candid look at School District's Most Frequent Complaints:

1. Savings don't feel real
2. Guarantees are misleading
3. Little competition (Commonly get only 1 bid)
4. Difficult to review proposals

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## Development



### Issue: Only one bid received

1. Typically results from having the ESCO help you through the development process.
2. Frequently raises costs up to 20% (No significant competition. Vendors and subs strongly incentivized to increase profit margins. "Open book" pricing not a solution.)
3. Does not reveal if you could have achieved better savings (or better guarantees!)
  - a) Recent example: Savings increased 61% through rebid. Stronger guarantee. More than \$1 Million of additional improvements (for a 3-building district.)

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## Development



### New Approach #1:

#### Getting real competition

1. Don't pre-develop with just one vendor
2. Develop with independent assistance
  - a) Easier/saves you time
  - b) Better knowledge of vendor fit/unpublished vendor track records
  - c) Stronger competition → lower costs, more savings, better guarantees

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## Proposal Review



### Issue: Proposal Review

1. Difficult & Time consuming
2. Can't see under the hood
3. Highest \$ proposal touted as best/"the most free stuff"
4. Is it really "No risk" since "It's all guaranteed?"

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## Proposal Review (Real Savings)



### New Approach #2

Make sure the project stands strongly on its own (without the guarantee).

1. Identify key measurements and assumptions (baselines, rates, escalations, counts, etc.) → ensure they are realistic. Do savings need to be adjusted?
2. Look under the hood. Costs should be unbundled. Optimize scope elements.
3. Operational Savings → be careful. Know assumptions.

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## Proposal Review (Real Savings)



### New Approach #2

Make sure the project stands strongly on its own (without the guarantee).

4. Cash Flows:
  - a) Assumptions
  - b) Approaches
  - c) Adjustments
5. Determine best proposal/options. Some cash flows may not still be desirable (ie. now have negative cash flows)

\*This approach takes significant time and expertise. The results can dramatically change the real savings & scope.

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## Guarantee



### Issue: Weak Guarantee

1. Misleading/Guarantee not as you expected
2. Easy for vendors to get out of paying
3. "Opportunity to Save" vs real savings

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## Guarantee



### New Method #3

Get a strong guarantee.

1. Don't rely on verbal promise or vendor name → Know the details
2. Guarantees are ALWAYS and ONLY determined by the contract language.
3. Contract language ALWAYS ties Guarantee to Measurement & Verification details.
4. Evaluate savings by each type of guarantee (Stipulated, Partially Measured, Fully Measured (Whole Facility)).
5. Know what is being measured, how, and with what frequency.

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## Best Practices



Issues	Condition	Best Practice
Only 1 Bid	Caution -no cost competition -no savings competition	Multiple -best savings -best value -best IMPACT
Bundled Costs (Across ECMs or Buildings)	Caution -Buried costs/hidden profit	Unbundled. Can identify poor investments & optimize.
Paybacks are all similar	Caution -Can indicate cost shifting	Should show faster and slower payback items.
Operational Savings High as % of overall project savings.	Caution -May be overstated	Conservative. Assumptions are well understood/valid.
Cash Flow weak or increasing payments	Caution -Back end loads risk -Project may be too big	Level or near level payments. Positive CF cushion.
Guarantee has significant amount of stipulated or partially measured savings	Caution -Risk is on the District -Savings may be overstated.	Strong guarantee/ riskier savings tied to greater measurement or actual bills.

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## The Results



Performance contracting can be the best choice for comprehensive energy retrofit projects to ensure...

1. Successful Projects
2. High Impact
3. Real Savings/Better Returns
4. Stronger Guarantees

But the details are important!

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## The Results



*This presentation was designed as a primer to help Facility Directors gain a better overall understanding of Energy Savings Performance Contracting, common challenges, and how better outcomes are achieved. ESPC's are generally large and complex projects. As such, PCOR recommends all projects are thoroughly reviewed with an independent firm specializing in ESPC. Your facilities are unique. Your success is worth the call.*

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**THANK YOU**



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**KURT CARTER, MBA  
CEM, CMVP, CEP, CIGC**  
*President & CEO*

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734-347-4021



KCarter@pcownersreps.com



www.pcownersreps.com



401 Sunfish Lane  
Temperance, MI 48182