



Energy Savings Performance Contracting

What is Energy Savings Performance Contracting (ESPC)?

An innovative way for public sector entities to obtain and finance needed capital energy improvements for their facilities by qualified Energy Service Companies (ESCOs).

ESPC is a performance-based procurement method and financial mechanism for building renewal whereby utility bill savings that result from the installation of new building systems (reducing energy use) pay for the cost of the building renewal project.

A "Guaranteed Energy Savings" Performance Contract includes language that obligates the contractor, a qualified Energy Services Company (ESCO), to pay the difference if at any time the savings fall short of the guarantee.

An energy savings performance contract (ESPC) is a partnership between an ESCO and its customer, formed for the purpose of financing and implementing cost-saving energy efficiency improvements. Financing for energy efficiency improvements must be obtained and is paid back through guaranteed energy savings over the life of the contract.

ESPCs have been in use by public and private customers for over 20 years and have been proven to be an effective method for upgrading existing facilities.

The energy and cost savings achieved by the installed energy project are guaranteed by the ESCO to cover the cost of the project, including financing. By allowing the energy cost savings to cover all project and financing costs, ESPCs provide agencies with the ability to purchase these comprehensive energy improvements (e.g., lighting, heating, air conditioning, and system controls).

Projects may be financed for a maximum of 20 years (Section 41-16-143, Code of Alabama 1975, Article 7 Guaranteed Energy Cost Savings Contracts, Code of Alabama 1975, Amended).

Any shortfall of projected energy savings is guaranteed to be paid by the ESCO. Cost overruns and contractor-initiated change orders are not included in performance contracting.

What are the benefits of Performance Contracting?

- Energy savings produced by the project are guaranteed for all project costs for the life of the contract
- Replacement of aging equipment with new energy-efficient equipment
- Decrease in equipment repairs, lower maintenance costs and lower operating expenses
- Improved facility energy efficiency and reduced energy costs
- Up-to-date training of facility maintenance staff
- Increased productivity from improved indoor air quality and building comfort
- One contract and single point accountability for project performance
- Ability to select equipment and services based upon quality and value
- Projects are repaid from utility bill savings

What types of retrofits are eligible?

- Lighting
- HVAC equipment
- Energy recovery system
- Electric system improvement
- Load management devices
- Energy management system
- Alternative/renewable energy systems
- Boiler and central plant improvement
- Insulation and reduced air infiltration
- Other cost-effective retrofits, demand or rate-based measures

Who is Eligible?

All state agencies, public nonprofit hospitals, colleges, universities, technical schools and local governments, in accordance with Article 7 Guaranteed Energy Cost Savings Contracts, Alabama 1975, Amended.

Who are qualified ESCOs?

Qualified ESCOs should have experience and technical and financial capabilities to perform ESPC projects. A list of ESCOs qualified by the U.S Department of Energy can be found at <https://www.energy.gov/eere/femp/doe-qualified-energy-service-companies>. *This list is for reference only. Exclusion from this list does not exclude an ESCO from performing ESPC projects in Alabama.*

Additional information is available on the Energy Services Coalition website at <http://www.energyservicescoalition.org/>.

For more information, please contact the ADECA-Energy Division at (334) 242-5290.