



**Compendium Of Best Practices and Lessons Learned  
In State Programs and ESC State Chapters**

**ENERGY SERVICES COALITION**

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## Introduction:

The Energy Services Coalition, and its public and private sector partners, offer this Compendium of Best Practices and Lessons Learned as an example of how and why state and local governments are using Guaranteed Energy Savings Performance Contracts (GESPC) to identify, procure and implement energy efficient technologies in our nation's public buildings and infrastructure.

The primary objective is to accelerate the increased use of the performance contracting vehicle for the purchase of cost-effective energy efficiency and renewable energy systems by public agencies. The information and lessons assembled in this Compendium is designed to provide insight into how public sector agencies have addressed the barriers and challenges that they have encountered in utilizing a GESPC and how they have tackled issues around leadership, oversight, and education and awareness for the process.

The ESC is rolling this information out through our network of chapters in 30 states. GESPC Program Administrators and their staffs in state programs across the country are invited to use this living document and to provide feedback and suggestions on how to improve the information that is based on real-life examples.

## Purpose:

This information was gathered through one-on-one phone interviews with more than 30 private and public sector individuals engaged in managing, developing, implementing or marketing guaranteed energy savings performance contracting programs, products and services. Additional information was gathered through a multi-phase Needs Assessment instrument that was administered to State Program Offices during the Spring of 2016.

As agencies continue to look for ways to finance energy efficiency retrofits, they are discovering that Guaranteed Energy Savings Performance Contracts is a financing tool that offers significant opportunities. This financing mechanism allows for the avoided future energy costs to pay for energy retrofits today, and is helping public sector agencies, large and small, reduce energy costs and pollution, while boosting economic development in the manufacturing, trades, and service industries.



Over the past year, the message that the ESC has heard expressed many times over -- is that the lack of expertise, knowledge and understanding of the GESPC process is a major barrier to GESPC becoming business as usual in many government institutions and agencies. Although a good deal of information exists, the real-life experiences of how these solutions are employed at the state and local level is in short-supply.

The experiences of our ESC State Chapters in addressing the educational needs of end-users at the local level, and our public sector partners in developing programs to deliver technical assistance and streamlined document templates and other program resources, help raise awareness and provide solutions to barriers to implementation. This Compendium utilizes existing information on GESPC, and is augmented with real-life solutions to barriers that our partners have encountered throughout the process.

This is Version 1.0 of this effort to document the lessons learned. The ESC will continue to update and revise this tool in the coming months and years.

### **Target Audience:**

While the Compendium addresses GESPC in general, this document targets the state program managers as a priority audience for the following reasons:

- The best reference is the people that have used GESPC.
- There are some pretty good role models out there.
- Statewide programs that are extended for use by local units of government are the primary means of reaching large numbers of facility end-users in a large number of states.



## **GESPC Program Readiness: The first step to achieving meaningful results**

Two main categories of questions were asked as part of our one-on-one interviews with public and private sector stakeholders conducted in the summer of 2015:

- What makes a GESPC program successful?
- What are the barriers to success?

The responses varied but there were some common themes and trends. Of more importance however, was the discovery of the problem/solution sets. What were the problems our state partners encountered and what were the solutions that removed the barrier. The following are examples of the answers to our two main questions and will be explored in more detail in this compendium and in future updates.

### **What makes the program successful?**

- Chapters make things a little easier as GESPC requires an enormous amount of education. Education is a heavy lift and done right, the public-private partnership is a great vehicle for providing objective education to the public sector state and local agencies end-users.
- Leadership and champions in agencies and the executive branch is critical to maintaining support for a program in the long run.
- Good legislation works well to protect agencies (guarantees) and the state's best interest and typically includes contract terms that fully capture the opportunities available, and contain a tracking requirement to document and report successes.
- Having people resources with experience and technical expertise is nearly mandatory to achieve highest value projects that minimize owner risk.
- Consensus among decision-makers in finance, legal and procurement is critical to reducing complexity, and the less complex the process is the more success a state will have with its program and ultimately its projects.
- Standardized documents reduce the need for extensive review of each project's legal terms and conditions reducing the length of each project's development cycle making for more projects.

### **1. What Makes Programs Successful: Chapters**

#### **Do State Chapters make programs successful? Or, are State Chapters the product of a successful program?**

Although Chapters play a vital role in what are considered Tier 1 states (successful GESPC programs), the partnerships in these states is of such long standing that it is nearly impossible to say that the program's success grew out of the partnership with the Chapter.

However, it is worth noting that of the Tier 1 GESPC states in the country, the vast majority have State Chapters that contribute to the marketplace awareness to the benefits of GESPC.



On the flip side, the bottom five states that responded to a recent Needs Assessment administered by the ESC, none had a State ESC Chapter. While the data may be anecdotal, it is clear that the absence of a State Chapter is a weakness and an impediment to success.

### **Why does a State Chapter contribute to the success of a State Program?**

A Guaranteed Energy Savings Performance Contract (GESPC) has a public-private partnership at its very core in that typically there is a private sector provider of finance and separately of the design, implementation and guarantee of performance for public sector facilities or systems. But, the ESC public-private partnership is much broader than just individual project development and implementation. Marketing of the performance contracting business model and the state's rules and regulations, also benefit from the Chapter's public/private partnership.

Chapters provide a forum for productive and open discussion, consensus development and in-service education amongst the public agencies, ESCOs, project financiers, other stakeholders and program clients. There are numerous examples where this model is working effectively:

- The Delaware ESC Chapter has made an annual conference part of its main activities and this effort has created more opportunities for energy efficiency work in public buildings and created a Champion of decision-makers at the state level that are playing a major role in achieving the state's energy efficiency goals.
- Barriers differ from state to state, and the ESC Chapter model has been a good vehicle to identify barriers in various market sectors and develop workshops to address those state-specific barriers. A number of Chapters have hosted forums to help local units of government better understand the state's Guaranteed Energy Savings Program and how to use performance contracting to finance energy efficiency improvements. Chapters have also identified barriers to acceptance in market sectors such as Corrections and Waste Water Treatment Facilities – developing workshops and case studies that address the lack of awareness in those sectors. These workshop forums allow chapters to address state-specific issues as they arise and to provide education and awareness on issues and solutions independent of a larger conference setting with competing topics.
  - The Minnesota Chapter sponsored several very successful "Financing Energy Savings Projects for Local Governments and Schools" forums geared toward counties, cities and municipalities, school districts, townships, municipal utilities, and other local units of government to help them better understand GESPC. The Chapter is currently developing materials and workshops to address the Corrections market in the state.
  - The Kentucky Chapter regularly provides training and education to local leaders on GESPC. The Chapter held a series of workshops in 2014 on wastewater treatment plant upgrades using GESPC. These workshops were conducted throughout the state. As a result, many local government and municipality officials are better informed of how GESPC can help upgrade and increase energy efficiency of these facilities, and several are exploring projects to achieve these goals.
  - In 2014, the New York Chapter was instrumental in helping organize and promote a workshop for NYSERDA to launch the state's green bank. The workshop introduced the Green Bank and how it could work in concert with energy performance contracting to implement energy efficiency projects in New York.



- The North Carolina Chapter uses the workshop model to educate potential customers on the ESPC business model. In 2016, the Chapter began a series of M&V workshops throughout the state.

The biggest barrier to the establishment and ongoing operation of a Chapter is public participation. The public sector's commitment over time is a key factor in the staying-power of a Chapter in any given state. In states that lack public participation the ESC has witnessed that private sector involvement in marketing a consistent message around the GESPC concept and its benefit -- independent of promoting an individual company's services -- is commonly absent.

Chapters require consistency in public sector involvement. States that have maintained public sector representation, even in cases of normal turnover of their GESPC Program Administrator, have a cohesive private sector that understand the value Chapter relevancy has in the marketplace.

## **2. What Makes Programs Successful: Leadership**

It's been said that energy efficiency knows no political boundary. Notwithstanding, in the past ten years we have witnessed an evolution in what is required in the way of political leadership to support GESPC at the state level.

Nearly all states are beyond the point of needing a nudge from leadership to implement the public policy that provides the authority to engage in GESPC in a state. Still, the need for leadership is as important as ever. Leadership today has taken on many different forms in an effort to address obstacles that have arisen that slow, threaten, or prevent the GESPC model from working in a particular state. And, to that end, it has been proven many times over how important it is to have someone in a position of leadership championing the cause -- whether that leadership comes from an agency director, cabinet member, or governor. Examples of the need of leadership in all of these forms are common place:

- The agency director is necessary from a programmatic standpoint to insure the sustained administrative and technical resources required to effectively implement projects.
- The cabinet member has the authority to demand cooperation from an individual or agency head who is dead-set against it because it is different.
- A governor's support conveys policy priorities to the state's agencies and institutions.

In the past decade several governors have issued Executive Orders promoting GESPC to great effect. Over the years these edicts have ranged from supporting the creation of a program, to creating demand by calling upon state agencies to embrace energy goals.

The State of Kansas was one of the early pioneers in establishing an innovative statewide GESPC program, and a great deal of credit for that success goes to the support from the leadership of the Governor right down to the agency director. An Executive Order issued by former Governor Kathleen Sebelius expanded the Kansas Facility Conservation Improvement Program (FCIP) beyond state agencies to local units of government, and ordered that the state's landlord agency collect energy data associated with state-owned and leased space and identify locations appearing to use excessive energy as possible candidates for GESPC.



Alabama’s Governor, Robert Bentley, ordered his state’s departments and agencies “to investigate the feasibility of employing energy performance contracting for energy saving capital projects and employing them when favorable.”

A Wisconsin Executive Order from its former Governor, Jim Doyle, required “any state agency responsible for state-owned facilities (to) examine the feasibility for a performance contract for energy and operational cost savings,” under the state’s GESPC statute.

Minnesota Governor Mark Dayton issued an Executive Order that called upon the state’s Commissioner of Commerce to “create and staff an Office of Guaranteed Energy Savings Program to offer a technical assistance program for state agencies, local units of government, and school districts that elect to implement energy saving and renewable energy improvements through Guaranteed Energy Savings Contracts.”

An Executive Order from former Delaware Governor, Ruth Ann Minor, directed the state’s Energy Office to “develop the strategy and procedures to implement energy savings and conservation techniques including the use of performance contracting and demand-side management.”

These examples illustrate how effective leadership can open doors and provide instant credibility for the performance contracting concept. But, as important as the leadership from Executive branch is to creating programs and opening doors, the value is even greater when the priority or support transcends administrations. What we came to understand during the interview process conducted in the summer of 2015, was that continuous gubernatorial support is critical to maintain program consistency and is central to allowing a program to build upon its success.

In our interviews States described the dramatic impact a change in administration can do not only to a state’s GESPC program, but also to private sector investment in energy efficiency improvements in that state. Nowhere is this more evident than in a Mid-Atlantic state whose was a great champion for GESPC. Under the Governor’s leadership, this state became a model for other states as it implemented nearly \$500 million in GESPC projects in a few short years. But his successor did not share the same enthusiasm for the performance contracting approach, instead exploring other vehicles to the same end and as a result the pipeline of projects that flourished under the previous administration slowed considerably during the subsequent administration.

### **3. What Makes Programs Successful: Good legislation**

There have been a number of lessons learned over the past several years that differentiate between legislation and good legislation. Through an analysis of the ESC Needs Assessment instruments we have learned what provisions make GESPC legislation successful. These include length of contract, a reporting function to track and report successes, and a guarantee requirement.

Limited contract terms were especially noted as an impediment to fully capturing the opportunities available and in the case of states that had terms of 10 years or less these were determined to be a barrier.

But it was also clear through this analysis that the statutes in states are inconsistent and range from legislation that does not encompass all state public facilities, or includes different provisions for various



institutional market sectors. The problems caused by these inconsistencies in state GESPC legislation are often inadvertent, that is, they are not deliberate restrictions on performance contracting but rather language drafted by legislators with a limited knowledge of how GESPC actually works.

Additionally, if there is one common “challenge” created by legislation – it has to do with appropriations. This challenge has been raised many times, in many states, during the past 30 years and has been considered remedied by the appropriations clause within the ESC’s model enabling legislation as cited below (see Section 8. Terms of Contracts).

#### **Section 8. Term of Contracts.**

A Guaranteed Energy Savings Performance Contract, and payments provided thereunder, may extend beyond the fiscal year in which the Guaranteed Energy Savings Performance Contract became effective, subject to appropriation of moneys, if required by law, for costs incurred in future fiscal years. The Guaranteed Energy Savings Performance Contract may extend for a term not to exceed twenty-five years. The allowable length of the contract may also reflect the useful life of the cost-savings measures. Guaranteed Energy Savings Performance Contract may provide for payments over a period of time not to exceed deadlines specified in the Guaranteed Energy Savings Performance Contract from the date of the final installation of the cost-saving measures.

In the more recent history, a few states have looked to Green Banks or Sustainable Energy Utilities as another means to resolve this concern.

The Needs Assessment also provides support to the need for tracking and reporting. The Tier 1 states as identified by their program design and the GESPC investment per capita in the state, have a specific requirement in legislation or program rules to establish tracking and reporting mechanisms to identify where projects occur and the significant impacts that they have upon the state and its patrons. These states gather information ranging from the project name, square footage affected, BTUs saved, separately all energy and water source savings, jobs created, greenhouse gas offsets and other pertinent information. In most cases, there is a requirement that this information is submitted annually to the legislature.

Finally, good legislation has a savings guarantee in energy units to validate success and proof of concept.

What has emerged from interviews and responses to the Needs Assessment is that legislation, when done right, provides clarity to programs that otherwise can be confusing. Yet, we also heard that this legislation needs to be considered a work in progress and changes should be considered to enhance the process and the program.

#### **4. What Makes Programs Successful: Program Oversight**

Of the Key Attributes for successful programs, perhaps none is more impactful than an educated and capable program administration team.

Many states around the nation have constructed programs that contain a significant number of the attributes of successful programs. These include leadership support in the state from governors, policy





makers and state administrations, template contract instruments, preapproved providers, essential marketing, recordkeeping and program and project recognition.

Still, having all the tools but ineffective or missing oversight has proven problematic because oversight provides the experience and expertise necessary to implement successful projects. Oversight brings an understanding of impacts, consequences, reasonableness and effective application to the process. Said another way, tools can be put in place – but effective oversight in the use of the instruments makes a difference.

Proponents of GESPC are reluctant to talk about the complexity of the projects and the concept itself in part due to fear that the mention of complexity may slow the uptake or use of GESPC, however; it's the lack of owner or customer understanding of the considerable depth of project elements and considerations that can be the very root of what is later perceived as a bad or poorly performing project.

Expertise regarding a myriad of disciplines is required to navigate a successful project. Skills including a basic understanding of mechanical and electrical engineering, fundamental construction processes, procurement and determinations of price reasonableness, finance and budgeting concepts, contract negotiation and the unique concept of measurement and verification to validate the persistence of the savings projected all are a part of the review and analysis required.

Much of the support and standardization effort for GESPC has been to assemble the tools and guides, flowcharts, white papers and even books attempting to guide and or educate the end-user in an effort to insure successful projects.

Yet for many end-users and owner agencies, GESPC involvement may be only once or once every 10-15 years which may challenge the desire or even reasonable ability to become knowledgeable in the broad and varied considerations to fairly negotiate the transaction.

Some states have leveled the field by creating a GESPC program that provides guidance and oversight to state agencies and provides an offer to assist the units of local government who elect to participate in GESPC as a means of modernizing infrastructure and generating new energy and water efficiencies. Whether a staff associate(s) trained to fill the role or by using an outside resource -- providing oversight yields confidence in decision making, provides experience and expertise to help guide the process, and builds a consistency of what is required to successfully harvest the benefits of Guaranteed Energy Savings Performance Contracting.

Too often comments like “this is the way this has always been done” or “all the other states do it this way” or “that’s not how the Federal Government/FEMP does it” mask the owner’s need to gather a full and complete understanding of all facets of a consideration and the nuances that should be weighed. An extraordinary advantage is gained in helping to ensure project success when resources are added to the owner’s team that have expertise and experience with all stages of GESPC projects from development and design all the way through annual measurement and verification reporting and non-routine baseline adjustment considerations.

Even within the Federal Energy Management Program with all the tools and resources that they’ve developed for their projects, each project is assigned a Project Executive, a Contract Officer and a Project Facilitator along with a backstop of technical experts and finance specialists to review the final audit and proposal. Insuring sound engineering practices, price reasonableness, technological fitness for



applications, high-value means of persistence validation and best value application of financial products and resources are nearly impossible tasks to additionally undertake for someone on the owner's staff who already had a full-time career.

## **Barriers to success?**

In addition to the success of a program, there are critical issues and barriers that have presented themselves and seem to be fairly common regardless of the state. These issues include:

- Shortened Guarantees.
- Pricing Transparency.
- Smaller projects still not attractive to ESCO's.

### **1. Barriers to Success: Shortened Guarantees**

Of the foundational elements of Guaranteed Energy Savings Performance Contracting in state and local government projects, perhaps none is more important than the guarantee of avoided costs related to the planned and projected energy savings.

In many states, policymakers have embraced Guaranteed Energy Savings Performance Contracting as an alternative means of procurement and financing and adopted the required enabling legislation. The justification for legislative action is in no small part due to the contractual guaranteed savings from the provider, the Energy Services Company (ESCO). The confidence in the ESCO to have the experience, expertise and financial wherewithal to participate in these programs as qualified providers rests on their ability to offer customer solutions with a contractual guarantee, typically termed savings guarantee, to repay the initial capitalization of the measures that ultimately produce the savings. And if some error of the ESCO's work product causes the energy avoidance not to be realized, the ESCO is contractually bound to make up that shortfall, as guaranteed, protecting the owner/agency/state. It is this confidence of performance, demonstrated by the agreed upon measurement and verification procedures and reports that assures owners and policymakers that no needed budget dollars are required other than that portion of funds repurposed from the existing operating utility, maintenance and operations budgets.

In recent years a trend has emerged that puts at risk this very foundational element, the guarantee. At question is the need to continue the measurement and verification procedures and reports that validate the avoided energy consumption over the length of the contract. Compounding the consideration is a sometimes increased, sometimes perhaps overstated cost to perform M&V that encourages curtailment prior to full-term.

In place of actually verifying the savings the parties agree to stipulate the savings have been achieved for the balance of the term of the agreement. This approach calls into question the value of the guarantee. Without some real measurement and verification activity and appropriate reporting, the persistence of savings cannot be confirmed or denied.

As GESPC programs mature, the very evidence of efficacy can be found in the annual M & V reports that illustrate, regardless of the adjustments required to accommodate the changing use of facilities that the implemented measures continue to provide the avoided energy consumption as projected. And where



they do not, the ESCO is called upon and expected to provide a check or in some cases products and services commensurate with the shortfall, just as guaranteed. Historically, when shortfalls do occur, the ESCO community is quick to work to resolve whatever is negatively affecting the savings achievement to eliminate future risk of shortfalls for the term of the project. In every case, whether achieving the originally projected savings, or repaying the shortfall as a part of the guarantee, policymakers and agency owners are rewarded with the fulfillment of the obligations to the budgeting process that the project intended.

It appears that conversations are growing about the value of Measurement and Verification activities, procedures and reports throughout the term of the GESPC agreement. One argument is that once confidence of performance has been achieved, there is no need for the ESCO to perform the activities, or the owner to pay for the activities that simply over and over validate the performance.

For some energy conservation measures that require no maintenance, do not depreciate in performance over time, never fail beyond the rates or terms advertised by the manufacturer regardless of the maintenance or conditions, it would seem logical not to perform M & V tasks; but then what would those measures be?

Projects should contain a viable guarantee supported by an effective measurement and verification plan in accord with each state's enabling legislation.

Additionally, as utility commissioners, planners and air quality regulators look to efficiency to offset demand on the utility grid and to help achieve cleaner air, it will be incumbent upon GESPC projects to prove that they continue to deliver the savings they projected and guaranteed to procure.

## **2. Barriers to Success: Pricing Transparency**

It is the responsibility of owners and oversight administrators of Guaranteed Energy Savings Performance Contracts for public agencies and institutions to ensure that owners pay fair and reasonable prices for the goods and services procured as a part of GESPCs. Nationally distributed model GESPC instruments and processes contain a Request for Qualifications which typically establish maximum markups to be proclaimed for services provided by the Energy Services Companies. The submitted markup values should be considered only as a part of that procurement process.

The RFP response of ceiling markups for considerations of the cost of work for a project including design, project management, commissioning, training and the like should serve two separate and distinct purposes. One, to establish an upward bound of dollars in relationship to the total project costs allowable per each discipline of work; and two, as a reference to contrast against other respondents.

In most procurement processes, this pricing response is for a program, not a project. And even if it is for a specific project, the request and subsequent response come at a time when little is known about the details of the project and therefore far too premature to assume that costs can be reasonably estimated for services that will be required to fulfill the project. In a misapplication of this pricing information, some have suggested that these markup percentages guide the cost determination for the ESCOs internal work effort for each discipline. The appropriate determination of cost estimates is based upon the scope of work and services to be performed for a project for that consideration of work. As an example, if all of the design for an ECM is subcontracted to others (and therefore a part of the



subcontractors cost to the project), a reasonable cost that might be considered allowable for ESCO design might be their review and oversight of the subcontracted design work and as such should be able to be defined by the estimated number of hours that will be spent in the review and at the appropriate rate for the personnel that will be involved in that review.

The procurement process ceiling percentage does however dictate that as a true cost estimate for a project is developed which of course is represented in dollars, that the dollar amount for that discipline shall never exceed the percentage of total project cost submitted in the proposal response.

Work completed by the providers for a project shall be held to the test of reasonableness for the scope of work performed and subject to transparency, audit and review as required. Methods to determine reasonableness followed may include:

- Competitive bidding - market forces inherent in the competitive bidding process are considered adequate to establish price reasonableness (generally a part of the Qualified Providers subcontractor cost determination).
- Price comparison - prices paid in the past, prices from similar other projects or prices from independent published resources can be used to determine whether the prices offered for similar equipment and services are fair and reasonable. For the most part, the equipment installed and the services provided under GESPC involve systems that provide electrical service, lighting, heating, air conditioning, and ventilation for buildings, water conservation and building envelope measures. Similar ECMs have usually been installed in the past at the same facility or at other agencies, either in previously awarded ESPCs or in appropriations-funded projects.
- Cost analysis - the review and evaluation of the separate cost elements and profit in an ESCO's proposal (including cost or pricing data or information other than cost or pricing data), and the application of judgment to determine how well the proposed costs represent what the cost of the contract should be, assuming reasonable economy and efficiency

The transparency of the scope of work, all costs to the project and subsequently a Guaranteed Energy Savings Performance Project become a critical part of ensuring and illustrating value to the policymakers, constituents and project owners served.

Finally, after all costs are appropriately estimated and reviewed, the project price can be determined by the application of the previously agreed to overhead and profit percentages submitted in the response to the Request for Proposals for each project.

When project owners are provided the information to attain confidence in the reasonableness of the costs and pricing and transparency provides full disclosure of the details prescribed in this model, both parties end up working toward the best possible solution that the avoided energy costs can procure.



### 3. Smaller projects still not attractive to ESCO's

Our research and interaction with state GESPC program managers confirms that despite considerable efforts, small projects still represent a challenge for many state programs.

It's relatively common in the industry for ESCOs to cite one million dollars as a reasonable condition for the size of a project to garner their full attention, while many continue to be involved in projects that are much, much smaller. As might be expected, when project opportunities are lush in a marketplace, traditional providers lean toward the multimillion dollar projects. As those opportunities dwindle, so it seems do the size of the projects.

Additionally, it is more predominant that the smaller size projects seem to occur in more rural areas within a state and are equally therefore less traveled or frequented by the ESCO community in general. Adding to the challenge of working in more rural areas of each state and further compounding the challenges of providing GESPC solutions for their users is the travel distance and expenses associated with the ESCOs subcontractor base. It is not uncommon for the ESCOs to develop a small but loyal following of subcontractors that understand the nature of working within a GESPC framework. They tend to be located within the more populated areas of each state and therefore new project bid opportunities for rural projects must include the economics of travel and lodging in their pricing models which may cause these commonly used contractors to become unviable resources. This tends to lead to local subcontractors being engaged in the projects who have less of a complete understanding of the GESPC model and working relationship with the ESCO community which may also impact project price.

The compounding of these considerations and factoring distance from other or similar project opportunities seem to leave small, rural project opportunities thirsty for a pool of qualified providers. States have pursued answers to these hurdles through open discussion with their ESC Chapter members and prequalified providers but are challenged to present solutions to this concern.

Some states have attempted to bundle together a number of small project opportunities under a common umbrella project, but report significant challenges with all parties coming together on group decisions as well as the intricacies that arise out of each project having unique financial and guarantee nuances that the impact of the one, may serve to spoil success for the whole. More specifically, if five little projects bundle together to form a single project served by one ESCO, what if any impact should all participants share in the event of excess savings or the predicament of a shortfall? And if each project participant is managed as an independent contract with independent obligations and success, what then is the advantage of the bundle? Examples of this bundling concept typically try to pull together a few local communities and local schools into a single GESPC construct. To date, we cannot cite a glowing success.

In early 2012, the Commonwealth of Kentucky solicited a Request for Information seeking answers to questions that would seem at the heart of the small projects dilemma. An excerpt from the RFI appears below followed by the Key Points of the responses provided:



What can the state, local governments or school districts do to:

-Increase the understanding and utilization of ESPCs by local governments and school districts of the size that currently attract the services of ESPCs (i.e., with projects of roughly \$1 million or more or energy bills of \$500,000 or more);

-Increase the understanding and utilization of ESPCs by smaller local governments and school districts that currently are not able to utilize ESPC services because they are too small to develop projects with sufficient energy savings to attract an ESCO.

-Consider all alternatives, including, but not limited to bundling or aggregating projects to achieve scale, selective procurement processes for a geographic region, etc.

Key points of the responses can be summarized as follows:

1. Education and marketing are paramount – while some local governments are using this financing mechanism, it is still largely un-tapped due to a lack of understanding, unless there is a strong champion
2. Size of entity/project is not necessarily a limiting factor – ESPCs may pick up smaller projects for strategic reasons; also, expanding the scope to include street lighting, water/wastewater infrastructure, along with buildings may bring some smaller entities to scale
3. There are mixed views even among the ESPCs on the value of some of the ideas put forth in the RFI, namely: standardized contracts; pre-qualification of ESPCs; market or geographic segmentation; standardized pricing
4. There is no clear path on the concept of bundling projects among separate legal entities
5. There was some discussion among a couple of respondents on treating tiers of larger vs. smaller projects – but no clear solution
6. Next to education and understanding, incentives, financing, and credit are still limiting factors; some suggested grants and incentives; another suggested state backing or guarantees of loans
7. No statutory or regulatory changes are apparent from the comments



Some states report that they've tried to encourage prequalified providers to accept a mix of large and small opportunities as a part of their commitment to the state program. Several years ago, a couple of states attempted to create what they coined "GESPC Lite" programs attempting to qualify a separate set of providers who would undertake projects that were limited to lighting and small HVAC measures. This created a new set of challenges to educate the new providers on the needs and nuances of providing a performance guarantee and subsequent measurement and verification reporting common to the traditional ESCO community.

To engage the expertise within a company to support the engineering, procurement, project development and project management resources that afford the reliability to extend a guarantee of performance and the financial wherewithal to support it under the umbrella of single or sole source responsibility and risk has proven to lead the ESCO providers to search out project opportunities large enough to sustain the business model and we see no indicators of this changing anytime soon.

While we inherently believe that there would be significant value to creating a model similar to the Federal Energy Management Programs ENABLE offering, most states suffer from inadequate oversight resources to insure that the projects are developed, reviewed and managed in strict accordance to that sort of program's guidelines so as to mitigate risk and project disputes that could/might arise.

Should budgets become even further constrained and efficiency technologies continue to advance it is likely that we as a nation will continue to seek solutions for small project opportunities that look to guaranteed savings to finance the improvements that for many are so desperately needed.

