

BEST PRACTICES FOR PROCUREMENT OF ENERGY MANAGEMENT SERVICESⁱ

TERM	DESCRIPTION	BENEFIT
Guaranteed Savings	<p>At the end of the investment grade audit (IGA) process, the ESCO will provide the owner with a fixed minimum guaranteed annual energy savings, measured in kWh, BTUs, or other appropriate unit of energy. The annual energy savings are guaranteed (with no carryover from previous years or to subsequent years) by the ESCO. If these savings are not realized during the annual guarantee period, the ESCO will reimburse the owner for the shortfall. <i>Any excess savings remain the property of the awarding authority.</i></p>	<p>A savings guarantee ensures that the risk of equipment underperformance is the ESCO's. It allows the building owner to calculate the real return on the investment in the project, and enables definitive modeling of future cash flows to create a financial model with confidence. In some cases, this guarantee can also assist the building owner in getting 100% up-front financing for the project. This guarantee is backed by the ESCO - <i>the contract will make clear how and when the owner is made whole in the event of any shortfall in guaranteed savings.</i></p>
Guaranteed Maximum Price	<p>At the end of the IGA process, the ESCO will provide a GMP for the recommended project. The owner and the ESCO will sign a contract to implement a project with a known, fixed maximum cost. For each ECM identified, the ESCO is to provide a detailed analysis documenting the proposed annual energy or water savings performance of the ECM after installation, startup, and testing.</p>	<p>Like the savings guarantee, this standard construction method allows the owner to make investment decisions with confidence and predict returns and financing scenarios. Once formally selected, the ESCO will conduct an IGA of facilities and energy systems at the project site to substantiate its ability to achieve the estimated total cost savings for the site.</p>
Transparent Pricing	<p>ESCOs will use transparent pricing methods. The exact pricing methodology will be negotiated on each project, but as a suggested minimum, ESCOs will provide: At IGA phase: a breakdown of project costs that includes a fixed price for individual measures, breakdown of each measure's cost structure (labor, material, etc.) and the project's "soft" costs (project management, training, etc.). At project completion: a breakdown of final cost for each energy conservation measure, as well as total amount of soft costs, ESCO overhead and profit. Additional information to ascertain that competitive bidding requirement have been met.</p>	<p>Transparent pricing allows owners to 1) understand the project costs before committing to proceed, 2) to negotiate project cost structure, and 3) to satisfy bidding requirements.</p>
Standard Measurement and Verification Protocol	<p>ESCO will use the most recent version of the Federal Energy Management M&V Guidelines. This guideline is an application of the International Performance Measurement and Verification Protocol (IPMVP) to measure and verify savings.</p>	<p>These protocols are internationally recognized as best practice guidelines for the measurement and verification of savings from energy efficiency retrofits.</p>

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Commissioning/re-commissioning	The ESCO is responsible for providing the owner with an energy conservation measurement (ECM) commissioning plan that assures the agency that the performance of the ECMs achieves facility and/or process performance requirements as set out in the agreement. ECM Commissioning is to be accomplished through a process of verification and documentation.	The commissioning process focuses on bringing building operation to the original design intent and ensures that the owner realize savings.
Incentives and Credits	It is the ESCO's responsibility to: 1) determine all incentives and credits offered by the local utility serving the facility or any tax incentives, 2) coordinate with awarding authority to prepare the documentation required to apply for credits, rebates, incentives, and effectively apply for them, and 3) address IRS regulation owner/agency transactions to fully support successful leveraging of credits and incentives.	These funds can be leveraged to reduce the owner's total investment. Use of these funds make some projects financially viable.
Project Acceptance	Project acceptance protocols must be followed in order for the acceptance to be valid. After installation of all ECMs the agency will notify the ESCO in writing of full project acceptance, which will constitute the start of the post-acceptance performance period and commencement of ESCO payments. The agency and ESCO should mutually agree on, and specify the anticipated schedule for the ESCO's submittal of report and the duration for agency review for acceptance.	Following a rigorous process provides backup and documentation of the construction process. If any questions arise about the proper installation of equipment, the owner has the paperwork that demonstrates how and when the installation was accepted.
Training	It is the ESCO's responsibility to describe in detail how training for each ECM will be provided for owner staff.	The level of O&M responsibility to be assumed by agency personnel will be detailed. Regardless of who performs O&M activities, the ESCO is responsible for assuring ECM performance.

Terms: IGA: Investment Grade Audit
ECM: Energy Conservation Measure
ESCO: Energy Services Company
O&M: Operations and Maintenance

ⁱ Adapted from the American College and University President's Climate Commitment: The Federal Energy Management Program