



An Energy Efficiency Workshop & Exposition

Palm Springs, California

*Please be courteous to our speakers*



***Turn off all cell phones  
and***

***Set pagers to vibrate***



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Palm Springs, California

## *Alternative Financing UESC Option*

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Southern Company

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## *Southern Company Profile*

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- Parent company of:

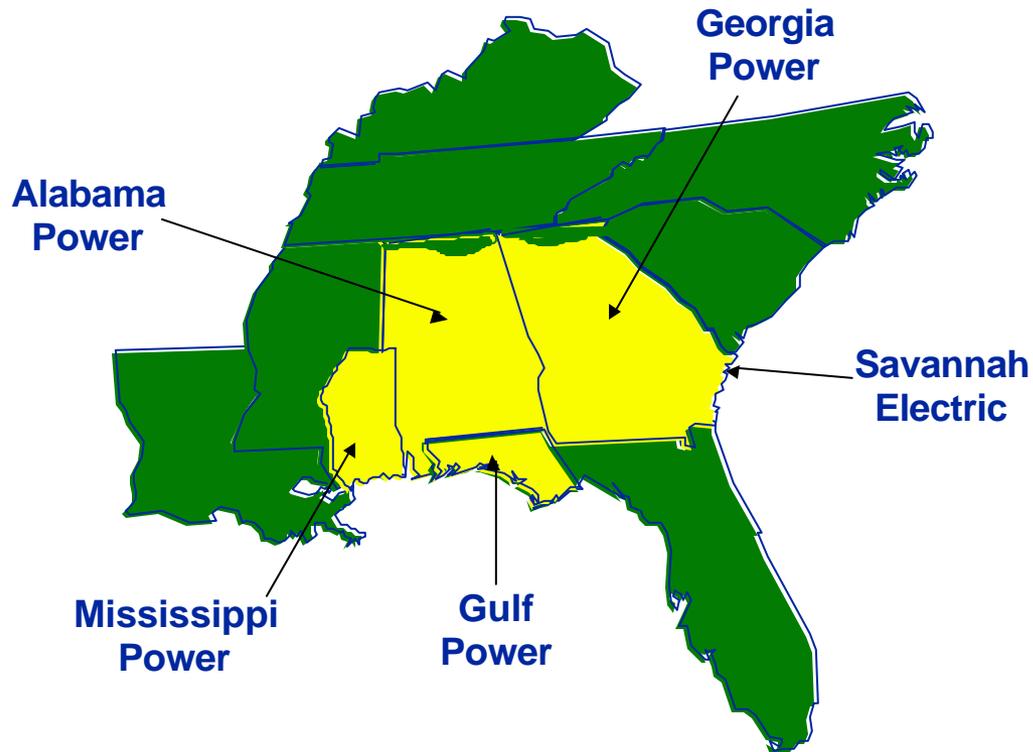
Gulf Power	Mississippi Power	Alabama Power
Georgia Power	Savannah Electric	Southern Nuclear
Southern LINC	Southern Energy	Southern Company Energy Solutions

- Engaged in energy projects with Federal Customers since 1996
- 26 major DoD installation customers
- Energy projects with all DoD components and several larger Civilian customers
- Over \$80 million executed Federal energy services contracts



## *Service Territory*

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June 2-5, 2002

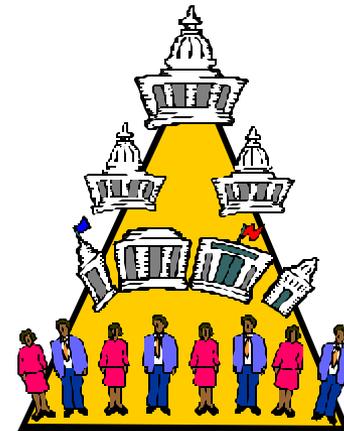
[www.energy2002.ee.doe.gov](http://www.energy2002.ee.doe.gov)



## *Resume of Federal Clients*

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- Department of Defense (DoD):
  - Air Force
  - Army
  - Navy
  - Marine
- Civilian Agencies (Examples):
  - FLETC
  - Centers for Disease Control
  - VA Hospitals
  - NASA
  - United States Post Office





## *Utility Incentive to Perform UESC*

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### **Southern Company Perspective:**

- Improve customer satisfaction in the present regulatory environment
- Customer retention in a future, less regulated environment
- Help protect base from closure in upcoming BRAC process
- Build and increase partnership with customer
- Further develop energy expertise
- Earn a moderate profit



## *Why Bother?*

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- Energy Policy Act of 1992 (EPACT)
  - Authorizes and encourages Federal agencies to enter into programs with utilities to increase energy efficiency
  - Sets policy standard
- Executive Order 13123
  - Supercedes 12902
  - 35% reduction by 2010
- Leverage appropriated dollars
- Upgrade the infrastructure
- Increase Base effectiveness (Avoid Son of BRAC)
- Access to private capital



## *UESC Competition*

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- Regular procurement methods
  - Advertised in CBD, A/E design, competitive bids, etc
- The Federal procurement system itself
  - Lowest cost/technically acceptable
  - Entrenched bureaucracy
- Energy Savings Performance Contracts (ESPC)
  - Competed by the Federal Agencies
  - More complex contracting vehicle
  - Requires savings guarantees, measurement and verification, and ongoing maintenance
  - Comprised of private industries:
    - Noresco / Duke Solutions / ERI / Energy Masters



## *ESPC vs. UESC Contract*

<u>Contract</u>	<u>UESC</u>	<u>ESPC</u>
<b>Authority</b>	10 USC 2865 10 USC 2866	42 USC 8287
<b>Prime</b>	Utility	ESPC Contractor
<b>Term</b>	25 year maximum (10 year – Agency)	25 year
<b>M&amp;V</b>	Negotiable	Required
<b>O&amp;M</b>	Negotiable	Required
<b>Partnership</b>	Long term	Duration of contract



## *ESPC vs. UESC Contract Comparison*

<u>Contract</u>	<u>UESC</u>	<u>ESPC</u>
<b>Competition</b>	Exempt from CICA Established Source	Min. Required
<b>Payment</b>	Utility bill	Annual or monthly invoice
<b>Regulatory Oversight</b>	Public Service Commission	None
<b>Cost</b>	No OH	OH to procuring authority



## *The Rules on UESC*

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- Energy Policy Act of 1992 (EPACT)
- FAR Part 41
  - Establishes and authorizes use of GSA AreaWide contract by Federal agencies for Utility Services
- 10 USC 2865 & 42 USC 8256
  - Alternative utility finance for energy savings
- 10 CFR 436
  - Establishes ten year Life Cycle Cost decision criteria
- Contract Vehicles
  - GSA AreaWide Utilities Contract
  - Navy Basic Ordering Agreement (BOA)



## *Public Utilities Contract*

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- Only regulated public utilities may participate
- Any Federal agency customer may use the GSA contract
- Establishes general terms and conditions
- Provides ability to perform energy projects on an “established source” basis
- Allows for negotiation of terms, conditions and savings criteria



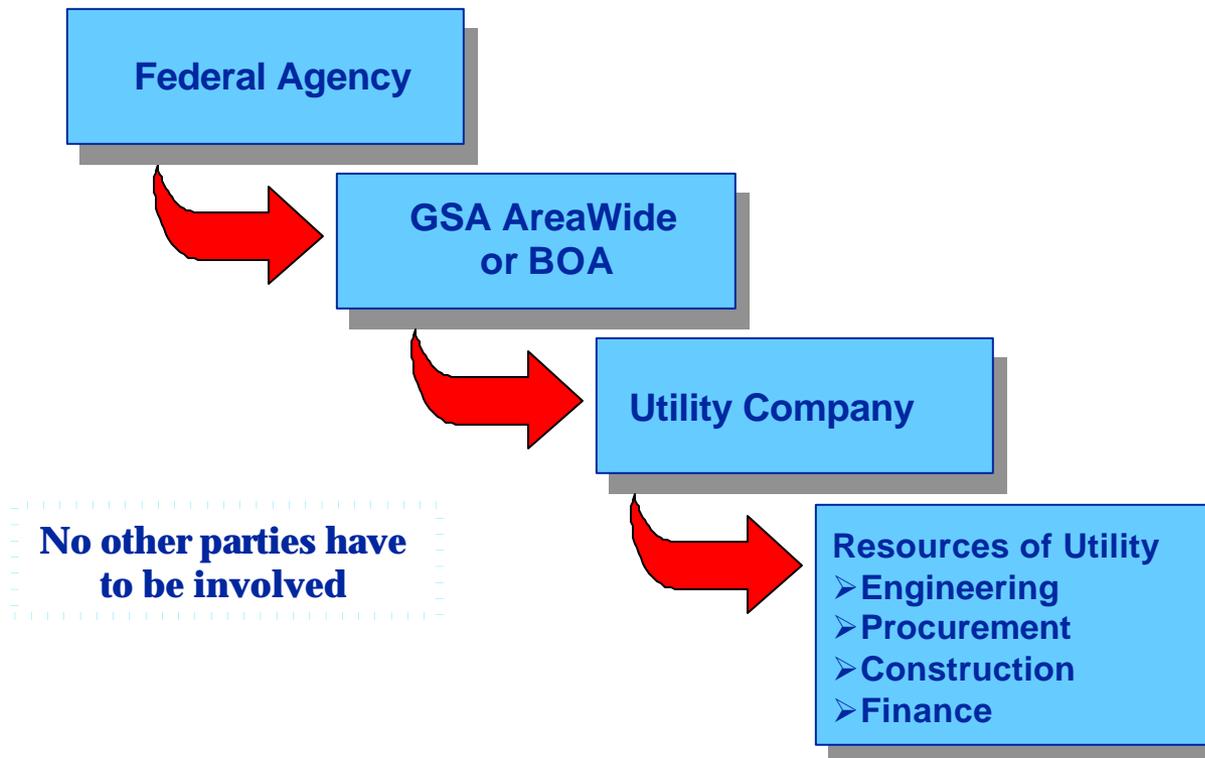
## *Services Provided*

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- Audits
- Feasibility studies
- Engineering and design
- Equipment purchase
- Installation
- Measurement and verification
- Operations and maintenance
- Project management
- Financing
- Training



# The Contracting Process





## *Project Development*

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- Feasibility study
  - Fuel neutral
  - Life cycle cost based
- Design
  - Customer involved in specifications
- Pricing
  - Customer involved in identifying subs
  - Subs/materials competitively procured
  - Best value approach
- Project management
  - On site project manager, locally based



## *Procurement Advantages*

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- Utility often willing to work up to certain level of detail at risk
- Uses existing relationships with local Contractors
- Streamlined procurement process
- Payment through utility bill
- One-stop-shop for turnkey and financed projects
- Negotiation of mutually beneficial terms (like commercial items acquisition) with long standing entity



## *Level of Price Competitiveness*

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- Utility typically gets 3-4 bids on construction
- Choice is usually “best value”, not lowest bid
- Consideration can be given for existing and previous work history with Facility and Utility
- Typically presented as “firm- fixed price” to Government



## *Costs Premiums NOT Typically Included in UESC*

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- Mandatory O&M
- Mandatory guarantee
- Mandatory M&V
- Higher financing premiums
- Additional fees to contract holder

**O&M and M&V are negotiable, not mandatory!**



## *Difference in Finance Terms*

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- Typically lower interest rate on similar project
  - Credit and stability of Utility
  - Minimal risk due to level of savings guarantee
- Shorter finance term (can be > 10 years)
- Savings in interest charges over life of loan
- Payments typically on monthly utility bill

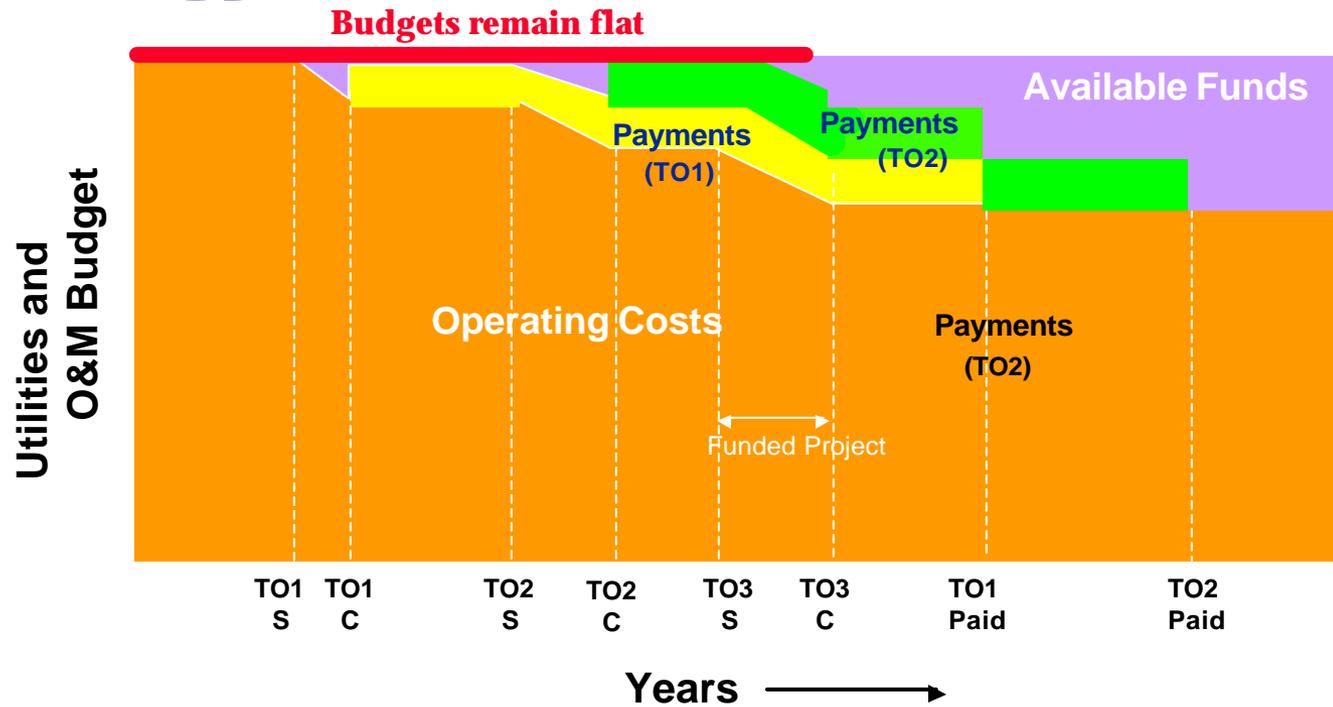
### **Example:**

Same initial investment cost at 8% interest

UESC (10 years) approximately 1/3 total interest cost of ESPC (25 years)



# Impact on Utility Budget





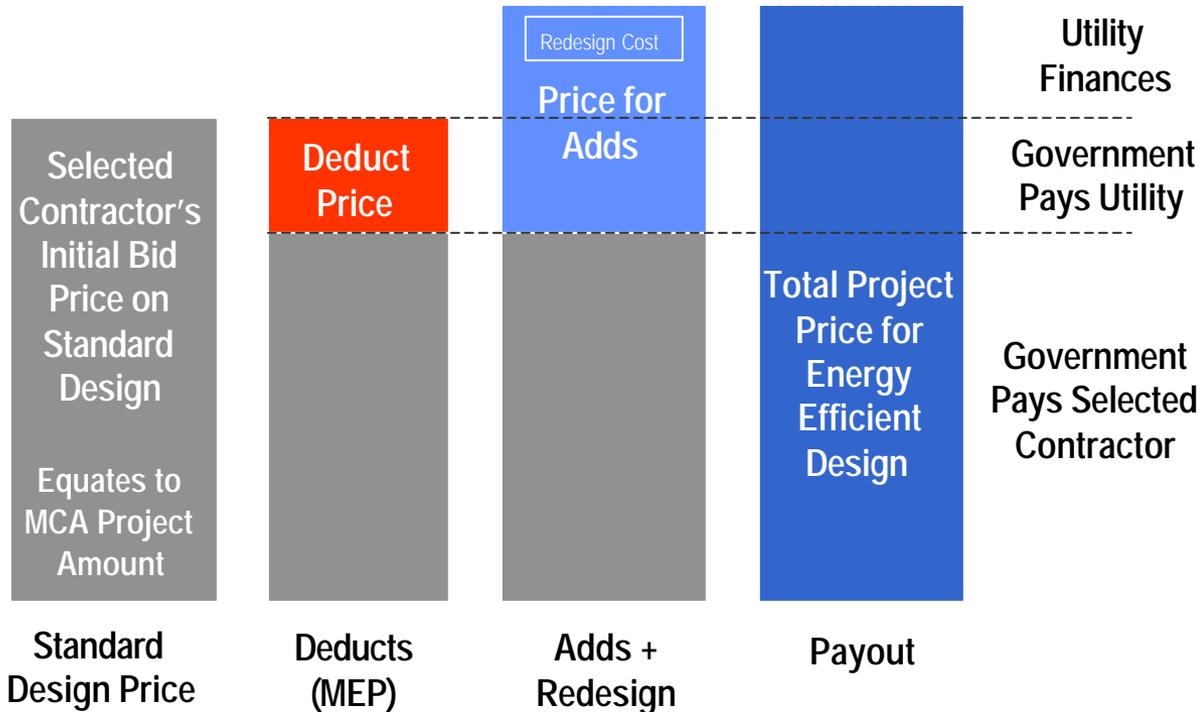
## *Use of Appropriated Dollars*

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- ESPC legislation restricts the use of appropriated funds
  
- UESC contract can use appropriated dollars (no statutory restriction on the type of funds)
  - Any color
  - Any time



# UESC for Energy Efficiency in New Construction





## *Choosing a UESC partner*

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- Established relationship
- Local presence
- Fuel neutrality
- General energy expertise
- Relationship with & use of local contractors
- Emphasis on use of small & minority businesses
- Resume of Federal energy projects



## *UESC really is:*

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- Legal
- Builds on an existing relationship
- Local partnerships
- Highly competitive
- Extremely flexible
- Viable alternative