Pinsent Masons

P2E2 – Energy Performance Contract

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Energy Performance Contract (EPC)

- Originally developed in North America and Europe to give:

  1. an abstract service more credibility to service buyers
  2. more comfort to 3rd party financial agents (i.e. IFC/ADB)

- Private energy service companies (ESCO) install & maintain new energy efficient equipment at no up-front cost to the service buyers - paid back over time from the dollars saved in energy & maintenance bills. The savings are usually contractually guaranteed to exceed payments, so the savings are guaranteed to be available to repay the financing.

EPC - Examples & Procedures

- Funding the energy efficiency or building improvements through the existing budgets: e.g. new lighting technologies, boilers and chillers, energy management controls and etc

- ESCO will:

1. identify and evaluate energy-saving opportunities
2. recommend a package of improvements
3. enter into a EPC with service buyers
4. secure finance from commercial banks + guranttees
5. be paid through savings

Risk Allocation in EPC

- ESCO typically assumes risk for:
  - Design
  - Performance
  - Efficiency
  - Warranty

- Customer typically retains risk of:
  - Latent conditions
  - Rise & fall in energy costs
  - Maintenance
  - Material change to facilities

Buying Energy Services Vs EPC

- Traditional Contract
  - Not outcome focussed
  - Buyer assumes risk of performance
  - Buyer must project managed every step
  - Buyer must become expert in each energy technology
  - High manpower loading means each project is delivered in sequence (it can take years !)
  - Typically no focus on recording and reporting savings

- EPC
  - Designed to deliver energy savings
  - Esco/Contractor takes the risk
  - Turn key delivery: from audit, analysis to commission & monitoring
  - The ESco's core business is energy efficiency
  - Bundle projects
  - Relies on accurate M & V to prove savings