

## **Task X**

### **New Work to Performance Contracting**

The objective of this new work is to facilitate the use of performance contracts and other energy service company (ESCO) contracts. Performance contracting is a well-established mechanism for promoting the installation of energy efficient building equipment and systems. For example, facility owners and energy service contractors use this method to retrofit equipment to save money on building operations. The savings in energy bills due to the installation of this more energy efficient equipment is then shared between the facility owner and the ESCO under the terms of the agreement they entered. In this scenario, the ESCO has taken on the project's performance risk by guaranteeing a specified level of energy savings. Its compensation for this risk is directly tied to achieving savings. The financing for such a project could come from the ESCO, the equipment supplier or a third-party company.

Reasons why a property owner may enter into a performance contract vary. It could be a financial reason—a property owner may lack the money to invest in new equipment. It could be a business strategy—a property owner only wants to pay for the equipment once the value-added functions, such as reduced energy bills, are demonstrated. For an ESCO, the motivation could be that it provides another way to connect with customers and initiate new business relations. For some companies and government organizations, performance contracts can be used to inspire innovations and encourage the use of more energy efficient equipment.

By building upon the experiences of those countries familiar with performance contracting, such as Canada, the United States and some European countries, and listening to the needs of countries that are developing such systems, the Task experts will:

- Provide a better understanding of how performance contracts and other ESCO financial options and services can be used.
- Outline the benefits of performance contracting and their potential to promote energy efficiency and mitigate global climate change.
- Outline the regulatory and legal context for such contracts to function.
- Identify the market potential in countries that lack a mature performance contracting industry.
- Identify and share information on potential barriers and problems associated with implementing these contracts.
- Share success stories and solutions to problems that may arise.
- Formulate definitions of different types of performance contracting.
- Identify solutions and schemes on how to find suitable ESCOs and how to improve the tendering process.

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*More information about Task X can also be found on the web site:*

<http://dsm.iea.org/research/project10/project10.htm>