Report Highlights

Energy Efficiency Contracts 2012

Monitoring and Cost Savings

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Audit Control #40110055
Performance Audit Services • December 2012

Why We Conducted This Audit

State law [Louisiana Revised Statute 39:1496.1(E)(2)] requires the Louisiana Legislative Auditor to conduct annual performance audits on each performance-based energy efficiency contract in effect on and after January 1, 2010. As of June 30, 2012, there were three energy efficiency contracts in effect. The purpose of this audit was to determine if the energy service companies conducted their monitoring activities and achieved the cost-savings required by their contracts as of June 30, 2012.

What We Found

Energy Efficiency Contracts. Agencies enter into energy efficiency contracts because it allows them to finance equipment and system upgrades that they might otherwise not be able to afford. The contracts are paid for through guaranteed cost savings that are agreed upon by the agency and the energy service company (ESCO). In the event that the guaranteed savings are not met, the ESCO must pay the agency the difference between the guaranteed savings amount and the actual savings amount. The following table provides a summary of the three contracts in effect as of June 30, 2012.

State Agency	Energy Service Company	Contract Initiation	Contract Length	Total Cost	Total Guaranteed Savings	Projected Net Savings
Louisiana School for the Deaf and Visually Impaired (LSDVI)	Johnson Controls, Inc.	May 19, 2004	15 Years	$4,385,684	$4,421,960	$36,276
Southeastern Louisiana University (SELU)	Honeywell International, Inc.	December 19, 2001	20 Years	$12,141,954	$12,581,651	$439,697
Louisiana Department of Corrections (LADOC)	Johnson Controls, Inc.	September 22, 2011	16 Years	$40,523,206	$40,823,405	$300,199

Monitoring. The ESCOs are conducting all required monitoring activities per their contracts.

Cost Savings

- Johnson Controls, Inc. met the annual savings guarantees for the LSDVI contract for all but one year of the contract through June 2011. Johnson Controls paid LSDVI $17,957, the difference between guaranteed savings and actual savings, in the year it did not meet the savings guarantee.
- Honeywell International, Inc. met the annual savings guarantees for all years of the SELU contract through October 2011.
- Johnson Controls, Inc. has not issued any annual cost-savings reports on the LADOC contract as this contract was initiated within the past year and has a service agreement start date of April 1, 2013. The Office of Facility Planning and Control within the Division of Administration contracted with IMC Consulting Engineers, Inc. to annually monitor the contract. According to Louisiana Administrative Code 34:V.105, as of the 2012 Regular Legislative Session, all new energy efficiency contracts are required to have a third-party monitor.

ENERGY EFFICIENCY CONTRACTS 2012
MONITORING AND COST SAVINGS

LOUISIANA LEGISLATIVE AUDITOR

PERFORMANCE AUDIT

ISSUED DECEMBER 5, 2012

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FOR QUESTIONS RELATED TO THIS PERFORMANCE AUDIT, CONTACT MICHAEL BOUTTE, PERFORMANCE AUDIT MANAGER, AT 225-339-3800.

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Three copies of this public document were produced at an approximate cost of $13.11. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.la.gov. When contacting the office, you may refer to Agency ID No. 9726 or Report ID No. 40110055 for additional information.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 5, 2012

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives

Dear Senator Alario and Representative Kleckley:

This report provides the results of our performance audit on the three state energy efficiency contracts in effect as of June 30, 2012. These contracts involve the Louisiana School for the Deaf and Visually Impaired (LSDVI), Southeastern Louisiana University (SELU), and the Louisiana Department of Corrections (LADOC).

The report contains our findings and conclusions. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the management and staff of the LSDVI, SELU, and LADOC for their assistance during this audit.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/ch

EEC 2012

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Energy Efficiency Contracts 2012
Monitoring and Cost Savings

December 2012

Audit Control # 40110055

Executive Summary

Louisiana Revised Statute (R.S.) 39:1496.1(E)(2) requires the Louisiana Legislative Auditor to conduct annual performance audits on each performance-based energy efficiency contract in effect on and after January 1, 2010. In accordance with this mandate, we scheduled a performance audit of the three state energy efficiency contracts in effect as of June 30, 2012. These contracts include the following:

- Louisiana School for the Deaf and Visually Impaired (LSDVI) with Johnson Controls, Inc. ("LSDVI - Johnson Controls")

- Southeastern Louisiana University (SELU) with Honeywell International, Inc. ("SELU - Honeywell")[1]

- Louisiana Department of Corrections (LADOC) with Johnson Controls, Inc. ("LADOC - Johnson Controls")

The purpose of the audit was to determine if the energy service companies conducted their monitoring activities and achieved the cost savings required by their contracts as of June 30, 2012. Appendix A details our audit scope and methodology. The audit objectives and results of our work are as follows:

Objective: Have the energy service companies conducted their monitoring activities and achieved the cost savings required by their contracts as of June 30, 2012?

LSDVI - Johnson Controls. Johnson Controls, Inc. (Johnson Controls) has conducted its monitoring activities and achieved the cost savings required by the contract as of June 30, 2012. Specifically, Johnson Controls provided the required cost-savings verification reports to LSDVI and the energy consumption inputs used in them are reliable. Based upon the cost-savings reports, Johnson Controls has exceeded the annual guaranteed savings for all but one year of the contract through June 2011. In year one of the contract when Johnson Controls did not meet the savings guarantee, it paid LSDVI the difference between the savings guarantee and the actual savings as specified in the contract. Overall, Johnson Controls has exceeded the annual savings guarantees by $170,691 through June 2011.

[1] SELU's energy efficiency contract was originally with Sempra Energy Services. Sempra Energy Services was acquired by Honeywell in 2006. In this report, the contract is presented as being between SELU and Honeywell.

SELU - Honeywell. Honeywell International, Inc. (Honeywell) has conducted its monitoring activities and achieved the cost savings required by the contract as of June 30, 2012. Honeywell provided the required cost-savings verification reports to SELU and based upon the cost-savings reports, Honeywell has exceeded the annual guaranteed savings for all contract years through October 2011. Overall, Honeywell has exceeded the annual savings guarantees by $344,646 through October 2011. SELU has used the excess savings to fund additional energy savings projects.

LADOC - Johnson Controls. LADOC entered into the contract with Johnson Controls in September 2011. Per the service agreement in the contract, monitoring does not begin until April 2013. As a result, Johnson Controls has not issued any annual cost-savings reports to LADOC; however, a third-party consultant was used to help negotiate the contract and the consultant will be used to monitor the cost-savings reports.

Overview of State Energy Efficiency Contracts

R.S. 39:1496.1 provides that Louisiana state agencies are allowed to enter into performance-based energy efficiency contracts for services and equipment. The state agency awards a contract to an energy service company (ESCO) through a request for proposal process and the contract extends for a period equal to the lesser of 20 years or the average life of the equipment installed by the performance contractor. The ESCO provides equipment and services to the agency intended to reduce the agency's energy consumption.

Current Energy Efficiency Contracts. There are three energy efficiency contracts in effect as of June 30, 2012. These contracts include the following:

- Louisiana School for the Deaf and Visually Impaired (LSDVI) with Johnson Controls, Inc. ("LSDVI - Johnson Controls")
- Southeastern Louisiana University (SELU) with Honeywell ("SELU - Honeywell")
- Louisiana Department of Corrections (LADOC) with Johnson Controls, Inc. ("LADOC - Johnson Controls")

These contracts range from 15 - 20 years in length. Exhibit 1 is a summary of state energy efficiency contracts in effect as of June 1, 2012.

Exhibit 1: Active State Energy Efficiency Contracts
As of June 30, 2012

State Agency	Energy Service Company (ESCO)	Contract Initiation	Contract Length	Years Remaining	Total Cost	Total Guaranteed Savings	Projected Net Savings
LSDVI	Johnson Controls, Inc.	May 19, 2004	15 Years	7	$4,385,684	$4,421,960	$36,276
SELU	Honeywell International, Inc.	December 19, 2001	20 Years	9.5	$12,141,954	$12,581,651	$439,697
LADOC	Johnson Controls, Inc.	September 22, 2011	16 Years	15.25	$40,523,206	$40,823,405	$300,199

Source: Prepared by legislative auditor's staff using information from the LSDVI - Johnson Controls, SELU - Honeywell, and LADOC - Johnson Controls contracts.

Monitoring. All three existing contracts, in accordance with Louisiana Administrative Code (LAC) 34:V.105(D), require that the ESCO use the International Performance Measurement and Verification Protocol (IPMVP) standard to measure the financial performance of the respective contracts. The ESCOs provide the agencies with quarterly or annual reports throughout the term of the contract that summarize the contractor's performance relative to the guaranteed cost savings. These reports compare the actual energy consumed for the given time period to an agreed-upon energy consumption baseline to determine the amount of energy saved.

Cost Savings. According to R.S. 39:1496.1, energy efficiency contracts must include a method to establish their guaranteed cost savings. These savings, at a minimum, must ensure a total annual savings sufficient to fully fund any financing arrangement entered into to fund the contract. In the event that the guaranteed savings are not met, the ESCO must pay the agency the difference between the guaranteed savings amount and the actual savings amount. This arrangement helps agencies finance equipment and system upgrades that they might otherwise not be able to afford.

Objective: Have the energy service companies conducted their monitoring activities and achieved the cost savings required by their contracts as of June 30, 2012?

Based on our analysis, Johnson Controls, Inc. (Johnson Controls) and Honeywell International, Inc. (Honeywell) are in compliance with the monitoring requirements specific to their contracts. The ESCOs are providing the required cost-savings verification reports to the agencies and the energy consumption inputs used in them are reliable.

Based on the cost-savings reports, Johnson Controls exceeded the annual savings guarantees for the LSDVI - Johnson Controls contract for all but one year of the contract through June 2011. In year one of the contract when Johnson Controls did not meet the savings guarantee, it paid LSDVI the difference between the savings guarantee and the actual savings as specified in the contract. Honeywell exceeded the annual savings guarantees for all years of the SELU - Honeywell contract through October 2011.

LADOC entered into the contract with Johnson Controls in September 2011. Per the service agreement in the contract, monitoring does not begin until April 2013. As a result, Johnson Controls has not issued any annual cost-savings reports to LADOC; however, a third-party consultant was used to help negotiate the contract and the consultant will be used to monitor the cost-savings reports.

Each of these contracts is discussed in detail below.

LSDVI - Johnson Controls Contract

Contract Summary. On May 19, 2004, LSDVI entered into a contract with Johnson Controls for energy conservation equipment and consulting services. The term of the contract is 15 years with a total cost of $4,385,684. The contract specifies guaranteed savings of $4,421,960 that will be achieved through both measureable savings of energy consumption and operational savings. Exhibit 2 summarizes the cost and savings guarantee terms of the contract.

Exhibit 2: Projected Financial Performance
LSDVI - Johnson Controls Contract

(A) Net Lease Payments	(B) Service Costs	(C) Total Costs (A+B)	(D) Energy Savings	(E) Operational Savings	(F) Capital Cost Avoidance Savings	(G) Total Guaranteed Savings (D+E+F)	(H) Projected Net Savings (G-C)
$3,285,739	$1,099,945	$4,385,684	$2,593,836	$936,180	$891,944	$4,421,960	$36,276

Source: Prepared by legislative auditor's staff using information from the LSDVI - Johnson Controls Energy Efficiency Contract.

Johnson Controls is in compliance with the monitoring requirement. The contract requires Johnson Controls to measure energy-related cost savings and provide a report on the cost savings to LSDVI within 60 days of each anniversary of the performance commencement date[2] or within 30 days of receiving the final electricity bill for the time period. Johnson Controls provides monitoring services on both the guaranteed cost savings and the equipment installed as part of this energy efficiency contract. Throughout the term of the agreement, or until the monitoring service is cancelled by LSDVI, Johnson Controls receives a fee of $15,677 per year for the portion of the service agreement that includes monitoring the associated energy and cost savings. Despite only being contractually obligated to produce annual reports, Johnson Controls issues additional quarterly reports to LSDVI with relevant performance information from the previous three months.

Outside of the monitoring provisions in the contract, LSDVI staff monitors energy consumption by analyzing its accounting department's monthly reports on energy bills. Energy consumption is analyzed on a year-to-year basis to determine if any significant changes have occurred. LSDVI staff compares the energy consumption numbers in the cost-savings verification reports with the numbers from the energy bills to make sure Johnson Controls uses the correct numbers in its calculations. LSDVI uses the cost-savings verification reports to verify whether or not the guarantee has been met.

Johnson Controls is meeting its annual guaranteed cost savings. The LSDVI - Johnson Controls contract contains a cost-savings guarantee for each year of the contract. Based upon the cost-savings reports, Johnson Controls has exceeded the annual guaranteed savings for all but one year of the contract through June 2011. In year one of the contract when Johnson Controls did not meet its guaranteed cost savings, it paid LSDVI the difference between the savings guarantee and the actual savings as specified in the contract.

To verify the accuracy of the cost savings in the cost-savings verification reports we compared the energy consumption data in LSDVI's utility bills from November 2004 through June 2011 to the energy consumption data used by Johnson Controls to generate the annual cost-savings verification reports. The inputs used to generate the annual cost-savings verification reports for the LSDVI - Johnson Controls contract were reliable. Exhibit 3 is a summary of contract results to date, including whether the cost-savings guarantee was met for each year. Overall, Johnson Controls has exceeded the annual savings guarantees by $170,691 through June 2011.

[2] The performance commencement date is the first day of the month after the month in which all equipment is installed per the contract.

Exhibit 3: LSDVI - Johnson Controls Contract Cost-Savings Summary							
Period	**(A) Electricity Savings**	**(B) Gas Savings**	**(C) Water/Sewer Savings**	**(D) Operation Savings**	**(E) Total Actual Savings (A+B+C+D)**	**(F) Annual Guaranteed Savings**	**Savings in Excess of Guarantee (E-F)**
Installation (Nov 04 - Aug 05)	$44,412	$7,206	$3,799	$52,087	$107,504	$86,000	$21,504
Year 1 (Sept 05 - Jun 06)	84,717	35,962	1,445	100,806	222,930	240,887	(17,957)*
Year 2 (July 06 - June 07)	111,602	86,641	12,522	124,026	334,791	289,064	45,727*
Year 3 (July 07 - June 08)	130,441	69,969	23,989	125,641	350,040	289,064	60,976
Year 4 (July 08 - June 09)	125,797	51,666	23,352	119,832	320,647	289,064	31,583
Year 5 (July 09 - June 10)	79,517	59,866	27,190	124,259	290,832	289,864	968
Year 6 (July 10 - June 11)	120,919	56,648	17,882	122,305	317,754	289,864	27,890
Total	**$697,405**	**$367,958**	**$110,179**	**$768,956**	**$1,944,498**	**$1,773,807**	**$170,691**

*In Year 1 Johnson Controls paid a shortfall refund of $23,115 and in Year 2 Johnson Controls paid a shortfall refund of $27,940. According to the Year 3 report from Johnson Controls, it misinterpreted the contract regarding energy rates to be used. Based on the incorrect utility rates used, the original calculation of savings resulted in Johnson Controls making an overpayment of $5,158 for Year 1 and $27,940 for Year 2 to LSDVI. Johnson Controls did not request a refund for the shortfall checks nor additional equipment to be installed since its error affected prior fiscal years' budgets.
Source: Prepared by legislative auditor's staff using information from LSDVI Cost-Savings Reports.

SELU - Honeywell Contract

Contract Summary. On December 19, 2001, SELU entered into a contract with Sempra Energy Services, now Honeywell, to design and install energy conservation measures and to provide monitoring and training services. The contract term is 20 years and has a total cost of $12,141,954. The cost is financed by guaranteed savings of $12,581,651 which are to be achieved over the duration of the contract. Exhibit 4 summarizes the cost and savings guarantee terms of the contract.

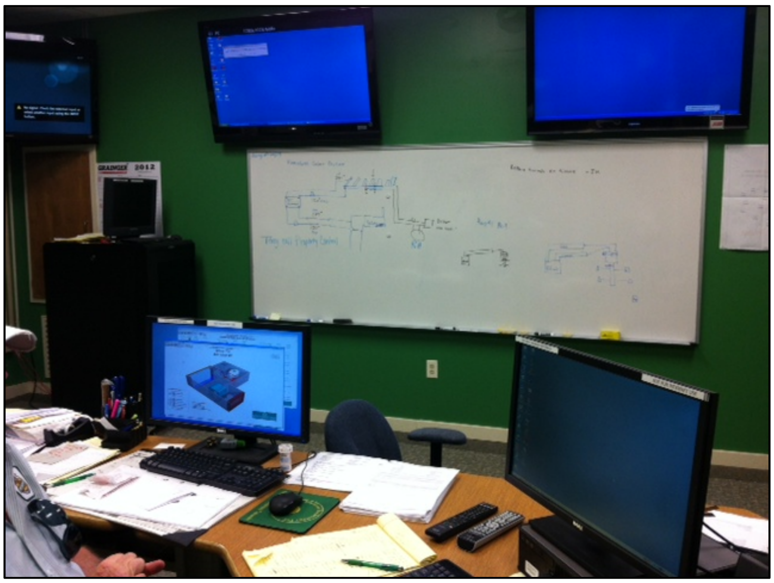
Exhibit 4: Projected Financial Performance SELU - Honeywell Contract							
(A) Net Lease Payments	**(B) Service Costs**	**(C) Total Costs (A+B)**	**(D) Energy Savings**	**(E) Lighting Material Savings**	**(F) Mechanical Maintenance Savings**	**(G) Total Savings (D+E+F)**	**(H) Projected Net Savings (G-C)**
$11,751,142	$390,813	$12,141,954	$11,823,501	$502,337	$255,813	$12,581,651	$439,697

Note: The calculations in this exhibit are based on rounded numbers.
Source: Prepared by legislative auditor's staff using information from the SELU Energy Efficiency Contract.

Honeywell is in compliance with monitoring requirement. The SELU - Honeywell contract requires Honeywell to provide monitoring services on both the guaranteed cost savings and the equipment installed. As required by the contract, Honeywell monitors the energy savings and provides SELU with an annual performance report, typically issued within the first quarter of the year, detailing the cost savings achieved for the prior year. Our determination on Honeywell's monitoring and the reliability of the inputs in the cost-savings reports is based upon our review of the controls in place with SELU's energy monitoring system. Honeywell uses the data directly from SELU's monitoring system to prepare the reports. Each report serves to identify cost savings achieved over the previous year relative to the agreed-upon baseline. SELU uses the cost-savings reports to verify whether or not the guarantee has been met. For the first year following project completion, SELU paid Honeywell a fee equal to $27,608 for the monitoring work performed as specified in the contract. The fee for the second year was $15,512 and is adjusted annually based on the Average National Consumer Price Index.

SELU upgraded its energy monitoring system in 2005. The system allows SELU to optimize its equipment and is sophisticated enough to control building temperatures within a half a degree. With the capabilities available through its energy monitoring system, SELU can monitor its energy usage in real time. Exhibit 5 is a picture of the SELU energy monitoring system center.

Exhibit 5: SELU Energy Monitoring System Center



Source: Photograph courtesy of SELU officials. Observed by legislative auditor's staff on June 26, 2012.

Honeywell is meeting its annual guaranteed cost savings. The SELU - Honeywell contract contains a cost-savings guarantee for each year of the contract. Based upon the cost-savings reports, Honeywell has exceeded the annual guaranteed savings for all years of the contract through October 2011. SELU reported no issues with the reliability of the inputs used to generate the annual cost-savings verification reports for the SELU - Honeywell contract. SELU officials are aware of the energy consumption prior to Honeywell providing a report. In addition, based on our conversations with SELU officials and the controls in place over SELU's energy monitoring system, SELU would be aware of any inaccuracies in the cost-savings report.

SELU has used the energy monitoring system to identify areas where it could perform additional energy savings measures outside of the contract with Honeywell. For example, with the additional cost savings that SELU has realized in excess of the guaranteed savings amount specified in the contract, SELU was able to install solar panels and move to more energy efficient lighting. Both of the energy savings measures are beyond what is specified in the contract and increases the total energy savings over the life of the contract. According to SELU officials, they plan to use the savings from these additional projects to fund future energy efficiency projects. Exhibit 6 is a summary of contract results to date, including whether the cost-savings guarantee was met for each year. Overall, Honeywell has exceeded the annual savings guarantees by $344,646 through October 2011.

Exhibit 6: SELU - Honeywell Contract
Cost-Savings Summary

Year	(A) Energy Savings	(B) Lighting Material Savings	(C) Mechanical Maintenance Savings	(D) Total Savings (A+B+C)	(E) Annual Guaranteed Savings	(F) Savings in Excess of Guarantee (D-E)
Interim (Feb 02 - Oct 03)	$691,729			$691,729		
Year 1 (Nov 03 - Oct 04)	613,252	$20,000	$10,185	643,437	$573,608	$69,829
Year 2 (Nov 04 - Oct 05)	627,969	20,600	10,490	659,059	621,131	37,928
Year 3 (Nov 05 - Oct 06)	627,969	21,218	10,805	659,992	621,681	38,311
Year 4 (Nov 06 - Oct 07)	627,969	21,855	11,129	660,953	620,481	40,472
Year 5 (Nov 07 - Oct 08)	627,969	22,510	11,463	661,942	618,881	43,061
Year 6 (Nov 08 - Oct 09)	627,969	23,185	11,807	662,962	621,431	41,531
Year 7 (Nov 09 - Oct 10)	623,060	23,881	12,161	659,103	622,729	36,374
Year 8 (Nov 10 - Oct 11)	623,060	24,597	12,526	660,184	623,044	37,140
Total	**$5,690,946**	**$177,846**	**$90,566**	**$5,959,361**	**$4,922,986**	**$344,646**

Note: The calculations in this exhibit are based on rounded numbers.
Source: Prepared by legislative auditor's staff using information from the SELU Cost-Savings Reports.

LADOC - Johnson Controls Contract

Contract Summary. On September 22, 2011, the LADOC entered into a performance-based energy efficiency contract with Johnson Controls that covers nine different sites.[3] The contract term is 16 years with a total cost of $40,523,206 and guaranteed savings of $40,823,405. Exhibit 7 summarizes the cost and savings guarantee terms of the contract.

Exhibit 7: Projected Financial Performance
LADOC - Johnson Controls Contract

(A) Net Lease Payments	(B) Service Costs	(C) Total Costs (A+B)	(D) Electricity & Natural Gas Savings	(E) Water Savings	(F) Operational Savings	(G) Total Guaranteed Savings (D+E+F)	(H) Projected Net Savings (G-C)
$33,670,400	$6,852,806	$40,523,206	$37,865,702	$945,948	$2,011,755	$40,823,405	$300,199

Source: Prepared by legislative auditor's staff using information from the LADOC Energy Efficiency Contract.

[3] The nine sites are LADOC Headquarters, Dixon Correctional Institute, B.B. Rayburn Correctional Center, Elayn Hunt Correctional Center, Louisiana Correctional Institute for Women, David Wade Correctional Center, Forcht-Wade Correctional Center, C. Paul Phelps Correctional Center, and Louisiana State Penitentiary.

Monitoring Requirement. The three components of the service agreement portion of the contract state that Johnson Controls will perform the following monitoring functions:

- Calculate the measured annual energy savings and operation and maintenance savings achieved for the applicable guarantee year.

- Reconcile the energy and operation and maintenance savings with the guaranteed savings above.

- Advise LADOC of whether there is a guaranteed savings shortfall or guaranteed savings surplus for the applicable guarantee year.

As agreed to in the contract, LADOC will pay Johnson Controls $6,852,806 for the service agreement which includes measurement and verification, waste management compactor monitoring, and premium level services on identified facilities and equipment. The service agreement start date is April 1, 2013, and will be paid in monthly installments that increase throughout the term of the contract. The first payment is $31,393.38 with the last payment set at $44,125.31.

Third-Party Monitoring. On April 1, 2009, the State of Louisiana Division of Administration (DOA), Office of Facility Planning and Control (FPC) contracted IMC Consulting Engineers, Inc. (IMC) to serve as a third-party consultant on the energy efficiency contract between LADOC and Johnson Controls. In this capacity, IMC helped LADOC negotiate the parameters of the services and the guaranteed savings associated with the contract. The total cost of the IMC contract is $95,200.00. A portion of this cost is specifically related to the monitoring aspect of the contract and includes, but is not limited to, a review of annual savings/shortfall calculations, measurement and verification methodology, and adjustment to the baseline used to calculate cost savings. IMC will be paid $13,600.00 for the annual review in each subsequent year after Year 1.

The cost associated with the IMC contract is not included in the calculation of net cost savings because Act 989 of the 2003 Regular Session established the Energy Performance Contract Fund to pay for the third-party monitoring associated with energy efficiency contracts. The ESCOs pay a fee, not to exceed 2.5% of the contract, which goes into the fund to pay for the monitoring. The LADOC contract is the only existing energy efficiency contract with a third-party monitor. According to LAC 34:V.105, as of the 2012 Regular Legislative Session, all new energy efficiency contracts will be required to have a third-party monitor.

Annual Guaranteed Savings. Because this contract was initiated within the past year and has a service agreement start date of April 1, 2013, Johnson Controls has not issued any annual cost-savings reports to LADOC.

APPENDIX A: SCOPE AND METHODOLOGY

R.S. 39:1496.1 provides that the Louisiana Legislative Auditor (LLA) shall conduct annual performance audits of performance-based energy efficiency contracts. LLA shall establish a written schedule for the execution of such performance audits, with the schedule posted on the Louisiana Legislative Auditor website no later than February 1 of each year.

Audits shall be conducted on each performance-based energy efficiency contract in effect on and after January 1, 2010. LLA shall coordinate with the Commissioner of Administration to develop a description of information to be included as part of each energy efficiency contract performance audit. The results of any such audit shall be published no later than thirty days prior to the commencement of each Regular Session of the Legislature. In accordance with this legislative mandate, we scheduled a performance audit of the energy efficiency contracts currently in place as of June 1, 2012. The audit objective was to answer the following question:

Objective: Have the energy service companies conducted their monitoring activities and achieved the cost savings required by their contracts as of June 30, 2012?

To answer the audit objective, we conducted the following procedures:

- Researched and reviewed state laws on energy efficiency contracts.
- Researched and summarized various aspects of current energy efficiency contracts, including contracts held by Southeastern Louisiana University (SELU), the Louisiana Schools for the Deaf and Visually Impaired (LSDVI), and the Louisiana Department of Corrections (LADOC).
- Met with Office of Facility Planning and Control (FPC) staff to discuss the audit and get input on what information to include as part of the audit.
- Met with FPC staff and IMC Consulting Engineers, Inc. (IMC) staff to discuss the LADOC contract.
- Obtained cost-savings verification reports to determine compliance with the contract monitoring requirements.
- Used cost-savings verification reports to summarize the cost savings achieved for the energy efficiency contracts held by SELU and LSDVI.[4]

[4] The LADOC energy efficiency contract was entered into in 2011 and therefore does not have associated cost-savings verification reports.

- Interviewed officials at SELU and LSDVI to develop an understanding of the processes used to track and verify the energy consumption associated with the equipment installed as part of the contract.

- Obtained energy consumption data from SELU and LSDVI for each contract's term.

- Compared the energy consumption data received from LSDVI to the energy consumption data used in the cost-savings verification reports to verify the accuracy of the energy consumption inputs used.

- Observed SELU's energy monitoring system and gained an understanding of the controls in place over the system.

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.