ENERGY EFFICIENCY CONTRACTS 2013
MONITORING AND COST SAVINGS

PERFORMANCE AUDIT

ISSUED JANUARY 8, 2014

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 8, 2014

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, 2013. 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 2013

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Louisiana Legislative Auditor
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Energy Efficiency Contracts 2013
Monitoring and Cost Savings

January 2014

Audit Control # 40130013

Introduction

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, 2013. 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")
- 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, 2013. The audit objective and results of our work are as follows:

Have the energy service companies conducted their monitoring activities and achieved the cost savings required by their contracts as of June 30, 2013?

LSDVI - Johnson Controls. Johnson Controls, Inc. (Johnson Controls) has conducted its monitoring activities and did not achieve the cost savings required by the contract for Year 7 but did for Year 8 as of June 30, 2013.

SELU - Honeywell. Honeywell International, Inc. (Honeywell) has conducted its monitoring activities and achieved the cost savings required by the contract for Year 9 as of June 30, 2013.

LADOC - Johnson Controls. Johnson Controls has conducted its monitoring activities and achieved the cost savings required by the contract for the construction phase as of June 30, 2013.

Appendix A details our audit scope and methodology and Appendix B summarizes background information.

Objective: Have the energy service companies conducted their monitoring activities and achieved the cost savings required by their contracts as of June 30, 2013?

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 energy service companies 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, we identified the following:

- Johnson Controls did not meet the annual guaranteed cost savings for Year 7 and exceeded the annual guaranteed cost savings for Year 8 of the LSDVI - Johnson Controls contract through June 2013.[1] In Year 7 of the contract when Johnson Controls did not meet the required cost savings, it paid LSDVI the difference between the guaranteed savings and the actual savings as specified in the contract.

- Honeywell exceeded the annual guaranteed cost savings for Year 9 of the SELU - Honeywell contract through October 2012.

- Johnson Controls exceeded the guaranteed cost savings for the construction phase of the LADOC - Johnson Controls contract through June 2013.

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 cost savings of $4,421,960 that will be achieved through both measureable savings of energy consumption and operational savings. Exhibit 1 summarizes the cost and guaranteed savings terms of the contract.

[1] In our last report on energy efficiency contracts, we reviewed the cost savings through Year 6 of the contract. Since our last report, the reports for Year 7 and Year 8 were published and are reviewed in this report. The Energy Efficiency Contracts 2012 report is available on the Legislative Auditor's website at http://app1.lla.state.la.us/PublicReports.nsf/3C778BC1FF89A96186257ACA007099A5/$FILE/0002DD5B.pdf.

Exhibit 1: 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 guaranteed savings have been met.

Johnson Controls did not meet the annual guaranteed cost savings for Year 7 of the contract but did for Year 8. The LSDVI - Johnson Controls contract contains a cost-savings guarantee for each year of the contract. Based on the cost-savings reports, Johnson Controls did not meet the annual guaranteed cost savings for Year 7 and exceeded the annual guaranteed cost savings for Year 8 through June 2013. In Year 7 of the contract when Johnson Controls did not meet its guaranteed cost savings, it paid LSDVI the difference between the guaranteed savings and the actual savings as specified in the contract. According to LSDVI officials, the Year 7 shortfall was the result of two factors--nonfunctioning equipment and an adjustment of the cost-savings guarantee. Johnson Controls repaired the nonfunctioning equipment. In addition, Johnson Controls modified the cost-savings guarantee to correctly reflect the fact that the LSDVI was operating more buildings because the Louisiana School for the Deaf merged with the Louisiana School for the Visually Impaired after the contract was initiated.

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[2] The performance commencement date is the first day of the month after the month in which all equipment is installed per 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 July 2011 through June 2013 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 2 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 guaranteed cost savings by $182,034 through June 2013.

Exhibit 2: LSDVI - Johnson Controls Contract
Cost-Savings Summary

Year*	(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 - June 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
Year 7 (July 11 - June 12)	100,906	35,010	15,422	125,352	276,690	280,541**	(3,851)***
Year 8 (July 12 - June 13)	111,262	47,279	28,112	124,528	311,181	289,064	22,117
Total	**$909,573**	**$450,247**	**$153,713**	**$1,018,836**	**$2,532,369**	**$2,343,412**	**$188,957**

*Cost savings for the years highlighted in gray were reviewed in the Energy Efficiency Contracts 2012 report available on the Legislative Auditor's website at http://app1.lla.state.la.us/PublicReports.nsf/3C778BC1FF89A96186257ACA007099A5/$FILE/0002DD5B.pdf.
** Includes a reduction of $8,523 to reflect the fact that the LSDVI was operating more buildings because the Louisiana School for the Deaf merged with the Louisiana School for the Visually Impaired after the contract was initiated.
*** In Year 7 Johnson Controls paid a shortfall refund of $3,851.
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 cost savings of $12,581,651 which are to be achieved over the duration of the contract. Exhibit 3 summarizes the cost and guaranteed savings terms of the contract.

Exhibit 3: 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 calendar 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 report 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.

Honeywell met its annual guaranteed cost savings for Year 9 of the contract. The SELU - Honeywell contract contains a cost-savings guarantee for each year of the contract. Based upon the cost-savings report, Honeywell has exceeded the annual guaranteed savings for Year 9 of the contract through October 2012. 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 because its energy monitoring system allows it to monitor energy usage in real time. 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. Also, SELU incorporates student participation into its energy efficiency and sustainability efforts. According to SELU officials, students in specific academic programs are working on a wood mill project as part of their academic curriculum. The wood mill is capable of converting recycled tree trimmings into wood pellets that will be burned to generate electricity. These energy savings measures are beyond what is specified in the contract and will increase SELU's total energy savings over the life of the contract. Exhibit 4 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 guaranteed cost savings by $382,994 through October 2012.[3]

Exhibit 4: 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
Year 9 (Nov 11 - Oct 12)	623,060	25,335	12,902	661,298	622,950	38,348
Total	**$6,314,006**	**$203,181**	**$103,468**	**$6,620,659**	**$5,545,936**	**$382,994**

*Cost savings for the years highlighted in gray were reviewed in the Energy Efficiency Contracts 2012 report available on the Legislative Auditor's website at http://app1.lla.state.la.us/PublicReports.nsf/3C778BC1FF89A96186257ACA007099A5/$FILE/0002DD5B.pdf.
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, LADOC entered into a performance-based energy efficiency contract with Johnson Controls. The original contract covered nine different sites; however, the contract was amended in 2013 to compensate for the closure of two sites, leaving a total of seven sites.[4] The contract term is 16 years with a total amended cost of $39,631,903 and guaranteed cost savings of $39,741,809. The amendment reduced the total cost of the contract by $891,303 and the total guaranteed cost savings by $781,397. Exhibit 5 summarizes the cost and guaranteed savings terms of the contract.

[3] The results presented are through October 2012 because the cost-savings report for Year 10, which ended in October 2013, will not be available until the first quarter of calendar year 2014.
[4] The seven 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, and Louisiana State Penitentiary. The two sites that closed were Forcht-Wade Correctional Center and C. Paul Phelps Correctional Center.

Exhibit 5: 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)**
$33,079,706	$6,552,197	$39,631,903	$36,515,906	$945,948	$2,279,955	$39,741,809	$109,907

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

Johnson Controls is in compliance with the monitoring requirement. The contract requires Johnson Controls to calculate the measured annual energy, operation, and maintenance savings achieved; reconcile the energy, operation and maintenance savings with the guaranteed savings; and advise LADOC of whether there is a guaranteed savings shortfall or guaranteed savings surplus for the applicable guarantee year. Johnson Controls has provided LADOC with a cost-savings report detailing the cost savings achieved. As agreed to in the contract, LADOC will pay Johnson Controls $6,552,197 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 was July 1, 2013, and will be paid in monthly installments that increase throughout the term of the contract. The first payment was $30,852.04 and the last payment is set at $41,233.50.

Third-Party Monitoring. On February 11, 2013, the State of Louisiana Division of Administration (DOA), Office of Facility Planning and Control (FPC) contracted E/S3 Consultants, Inc. (ES3) to serve as a third-party consultant on the energy efficiency contract between LADOC and Johnson Controls. The total cost of the ES3 contract is $11,340. 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, a review of the measurement and verification methodology, and recommending adjustments to the baseline used to calculate cost savings. ES3 will be paid $3,024 for the annual review in each subsequent year after Year 1.

The cost associated with the ES3 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 energy service companies 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 Louisiana Administrative Code 34:V.105, as of the 2012 Regular Legislative Session, all new energy efficiency contracts will be required to have a third-party monitor.

Johnson Controls met its guaranteed cost savings for the construction phase. The LADOC - Johnson Controls contract contains a guaranteed cost savings for each year of the contract including the construction phase. Based upon the cost-savings report, Johnson Controls has exceeded the guaranteed cost savings for the construction phase of the contract through

June 2013. The actual savings reported by Johnson Controls in its cost-savings verification report was independently reviewed by ES3. ES3 recommended that Johnson Controls adjust the verified savings calculations to compensate for changes in populations at the seven sites as this will have a significant impact on verified energy savings in the future.[5]

Exhibit 6: LADOC - Johnson Controls Contract
Cost-Savings Summary

Year	(A) Electricity Savings	(B) Gas Savings	(C) Water/Sewer Savings	(D) Operation Savings	(E) Total Actual Savings (A+B+C+D)	(F) Guaranteed Savings	Savings in Excess of Guarantee (E-F)
Construction (Jan 12 - June 13)	$370,885	$526,810	$95,553	N/A	$993,248	$559,951	$433,297
Total	**$370,885**	**$526,810**	**$95,553**	**N/A**	**$993,248**	**$559,951**	**$433,297**

Source: Prepared by legislative auditor's staff using information from LADOC Cost-Savings Report.

[5] As a result of closing two correctional centers, additional inmates were placed at the remaining open facilities which could impact the energy usage at the open facilities.

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 LLA 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 30 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 30, 2013. The audit objective 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, 2013.

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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. To answer our audit objective, we reviewed internal controls relevant to the monitoring activities of energy service companies and the cost savings required by the contracts and performed the following audit steps:

- 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.
- 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.[6]

- Interviewed officials at SELU, LSDVI, and LADOC 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.

- Discussed the results of the LADOC cost-savings verification report with FPC staff and E/S3 Consultants, Inc.

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

APPENDIX B: BACKGROUND

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 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 energy service company 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, 2013. 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. A summary of state energy efficiency contracts in effect as of June 30, 2013, is shown in the following table.

Active State Energy Efficiency Contracts
As of June 30, 2013

State Agency	Energy Service Company	Contract Initiation	Contract Length	Years Remaining	Total Cost	Total Guaranteed Savings	Projected Net Savings
LSDVI	Johnson Controls, Inc.	May 19, 2004	15 Years	6	$4,385,684	$4,421,960	$36,276
SELU	Honeywell International, Inc.	December 19, 2001	20 Years	8.5	$12,141,954	$12,581,651	$439,697
LADOC	Johnson Controls, Inc.	September 22, 2011	16 Years	14.25	$39,631,903	$39,741,809	$109,907

Note: The calculations in this exhibit are based on rounded numbers.
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 34:V.105(D), require that the energy service company use the International Performance Measurement and Verification Protocol standard to measure the financial performance of the respective contracts. The energy service companies 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 energy service company 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.