

How to Review and Analyze ESPC/UESC Price Proposals
Energy 2007 Procurement Track, Session 4
Tuesday August 7, 2007; 8:30 am to 10:00 am

Session Synopsis (intended to give the audience a useful takeaway. Includes websites, key points, best lessons learned, etc.)

Agencies use project development and financing vehicles such as energy savings performance contracts (ESPC) and utility energy services contracts (UESC) because they seldom have enough appropriations to fund all the energy efficiency and renewable energy projects needed to meet their goals. The Government has many options for price reasonableness determination (FAR 15.404-1) in ESPCs and UESCs, some more streamlined than others. Cycle time (time required to achieve an operating project) and price review tend to work against each other, so it is important to strike a reasonable balance. Financed projects can have lower life-cycle costs than waiting for appropriations and direct-funding them, especially when operating projects are achieved on a timely basis, pricing is reasonable, and financing is competitive (ref #1, #2, #3, #4).

Generally ESPC and UESC projects are implemented as orders under a standing contract vehicle (e.g., Indefinite-Delivery Indefinite-Quantity (or IDIQ) Contracts for ESPCs, or GSA Area-Wide Contracts for UESCs). These umbrella contracts, with the standardization they bring, and by having the contractor identify the projects, have the potential to achieve fast cycle times. But when using these vehicles, projects are defined late in the process, and streamlined price review techniques are needed to retain a fast cycle time.

Some lessons learned from the billions of dollars worth of ESPCs and UESCs thus far:

- Contract centers responsible for umbrella contracts should include as part of their vehicle's standardization, the summarization of the entire deal, including all pricing and financing data, in a few standardized schedules (the financial schedules)
- Agencies should implement their projects as orders under umbrella contracts having financial schedules (rather than reinventing the wheel)
- Agencies should use the contractor to identify prospective projects and then negotiate to the final bundle
- Giving "fair opportunity" for orders to the multiple umbrella contract holders, and verifying "price reasonableness" of the selected contractor's proposal prior to issuing an order, are separate requirements, and trying to consolidate them is a bad idea
- Web-based tools derived from past financial schedules exist, enable price reviews in a fraction of the time, and should be used to review the portion of price proposals where they are applicable (ref. #5)
- Early in the project development process agencies should identify gap areas where the web-based price review tools are not applicable, select the FAR 15.404-1 price review techniques for the gap areas, and schedule and budget the expertise (e.g., a cost estimator) so a timely review can be completed
- The portion of price reviewable with the web-based tools should expand over time as agency contract centers share their data from past ESPC, UESC and direct-funded projects.

References:

1. Hughes, Shonder, et. al., ORNL/TM-2002/150, "*Evaluation of Federal Energy Savings Performance Contracting – Methodology for Comparing Processes and Costs of ESPC and Appropriations-Funded Energy Projects*", (March 2003). Available on line at www.ornl.gov/sci/femp/pdfs/espc_lcc.pdf.
2. Hughes, et. al., ORNL/TM-2004/300, "*Reducing Financing Costs in Federal ESPCs*", (December 2004). Available on line at www.ornl.gov/sci/femp/pdfs/fcrwg_rpt_espsc_041207.pdf
3. Shonder and Atkin, ORNL/TM-2004/307, "*Determining Price Reasonableness in Federal ESPCs*", (January 2005). Available on line at www.ornl.gov/sci/femp/pdfs/ORNL-2004-307.pdf.
4. Shonder, Hughes, and Atkin, ORNL/TM-2006/138, "*Comparing Life-Cycle Costs of ESPCs and Appropriations-Funded Energy Projects: An Update to the 2003 Report*", (September 2006), http://www.ornl.gov/sci/femp/pdfs/espc_lcc_2006update.pdf.
5. Access to web-based price review tools available upon request (shonderja@ornl.gov).