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ENERGY SAVINGS

Performance Contracts Offer Benefits, but Vigilance Is Needed to Protect Government Interests

GAO
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Highlights

Highlights of GAO-05-340, a report to congressional requesters

Why GAO Did This Study

The federal government is the nation's largest energy consumer, spending, by latest accounting, $3.7 billion on energy for its 500,000 facilities. Upfront funding for energy-efficiency improvements has been difficult to obtain because of budget constraints and competing agency missions. The Congress in 1986 authorized agencies to use Energy Savings Performance Contracts (ESPCs) to privately finance these improvements. The law requires that annual payments for ESPCs not exceed the annual savings generated by the improvements.

GAO was asked to identify (1) the extent to which agencies used ESPCs; (2) what energy savings, financial savings, and other benefits agencies expect to achieve; (3) the extent to which actual financial savings cover costs; and (4) what areas, if any, require steps to protect the government's financial interests in using ESPCs.

What GAO Recommends

GAO recommends that the Congress consider clarifying the costs of ESPCs that must be covered by savings. GAO also recommends steps for agencies to better ensure that savings cover the costs of ESPCs, including using expertise, information, and competition more effectively. GAO further recommends that DOE do more to facilitate oversight of ESPCs. DOD, DOE, GSA, DOJ, and VA concurred with the report.

www.gao.gov/cgi-bin/getrpt?GAO-05-340.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim Wells, 202-512-3841, wellsj@gao.gov.

What GAO Found

Although comprehensive data on federal agencies' use of ESPCs are not available, in fiscal years 1999 through 2003, we found that 20 federal agencies undertook 254 ESPCs to finance investments in energy-saving improvements for 5 to 25 years. Through the ESPCs, federal agencies plan to make annual payments amounting to at least $2.5 billion spread over the lifetime of the contracts.

Agencies expect to achieve benefits that include energy savings worth at least $2.5 billion over the life of the contracts, as well as other benefits that cannot be easily quantified, such as improved reliability of the newer equipment over the aging equipment it replaced, environmental improvements, and additional energy and financial savings once the contracts have been paid for. While these benefits could be achieved using upfront funds and with lower financing costs, agencies stated that they generally have not received sufficient funds upfront for doing so and see ESPCs as a necessary supplement to upfront funding in order to achieve the benefits cited. Agencies believe that ESPCs also provide unique benefits such as a partial shift of risk from agencies to private energy services companies and a more integrated approach to providing efficiency measures.

Agencies structure ESPCs so that financial savings cover costs and they reported that many do. However, GAO could not verify that conclusion using the data on ESPCs, and GAO work and agency audits disclosed ESPCs in which unfavorable contract terms, missing documentation, and other problems caused GAO to question how consistently savings cover costs. Furthermore, differing interpretations of the law establishing ESPCs about what components of costs must be paid for from the savings generated by the project or may be paid for using other funding sources have contributed to uncertainties about whether savings are appropriately covering costs.

GAO identified concerns in the areas of expertise and related information and competition that are fundamental to ensuring that savings cover costs and to protecting the government's financial interests in using ESPCs. According to agency officials, they often lacked the technical and contracting expertise and information (such as interest rates and markups) to negotiate ESPCs and to monitor contract performance in the long term. The officials also think there may be insufficient competition among finance and energy services companies and that this could lead to higher costs for ESPCs.