



# Performance Contracting Benefits

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# Performance Contracting Benefits

## **1 Project Development Costs**

No Payments Until Guaranteed Project has been Developed

## **2 Construction Costs**

Guaranteed Costs

## **3 Impact on Cash Flow and Budget**

Guaranteed Savings

## **4 Partnership**

Joint Project Development

Focus on Life Cycle and Value (not just low cost)

Ensure the Desired Results are Achieved Long Term

## **5 Reduced Risk for the Customer**



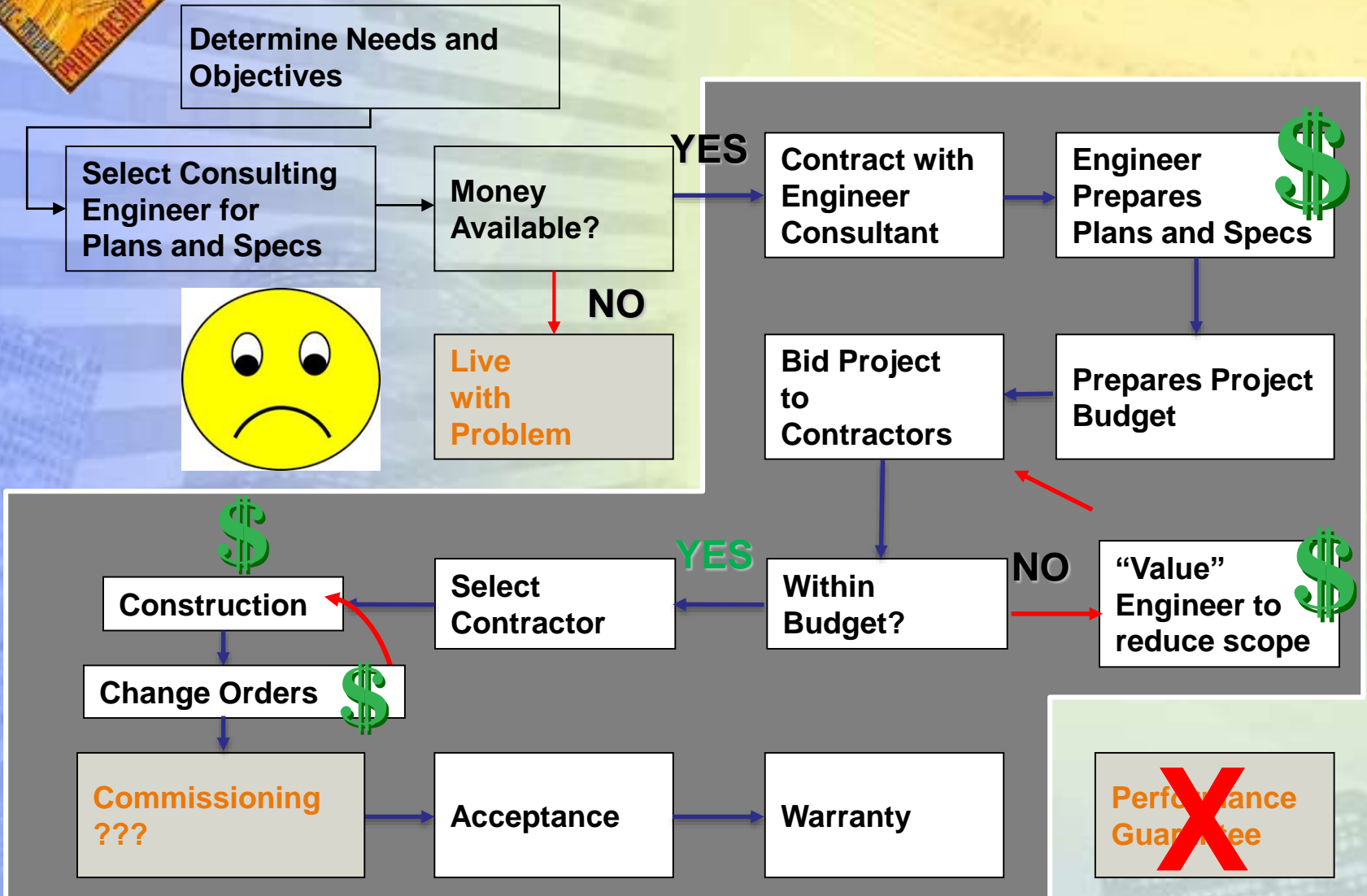
# Project Development Costs

Performance Contracting vs.  
Plans and Specifications

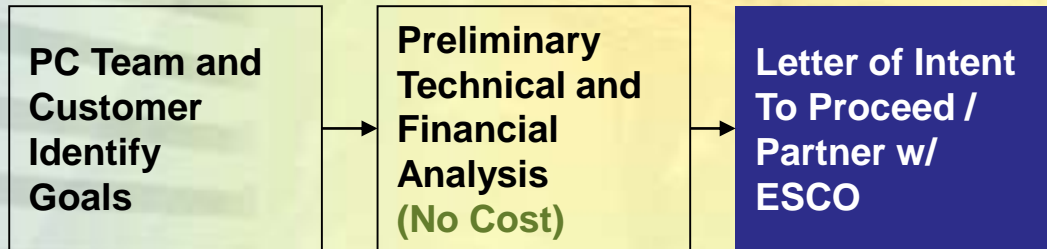




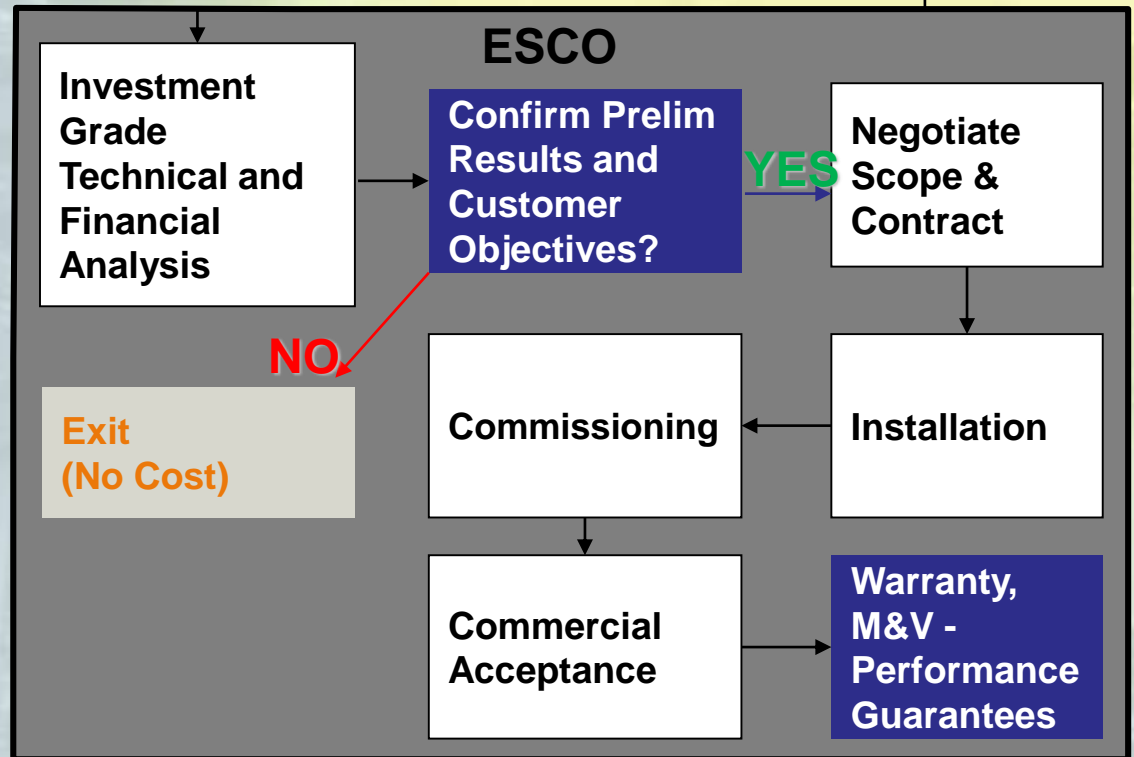
# Conventional Contracting (Plans and Specifications)



# Performance Contracting Saves Time and Money with the Results Guaranteed



- No out-of-pocket costs
- Significantly reduced schedule
- Single point accountability
- Paid through guaranteed savings
- Lowest lifecycle cost





# Construction Costs

## Benefits of Performance Contracting



# Construction Costs

- **No Change Orders**
  - Customers budget 15% on average of the Contract Amount for Change Orders on Plan and Spec Projects
  - Because the ESCO proposes a “performance scope of work” that must meet a legislative cash flow requirement, there are no Change Orders for that scope of work.





# Impact on Cash Flow and Budget

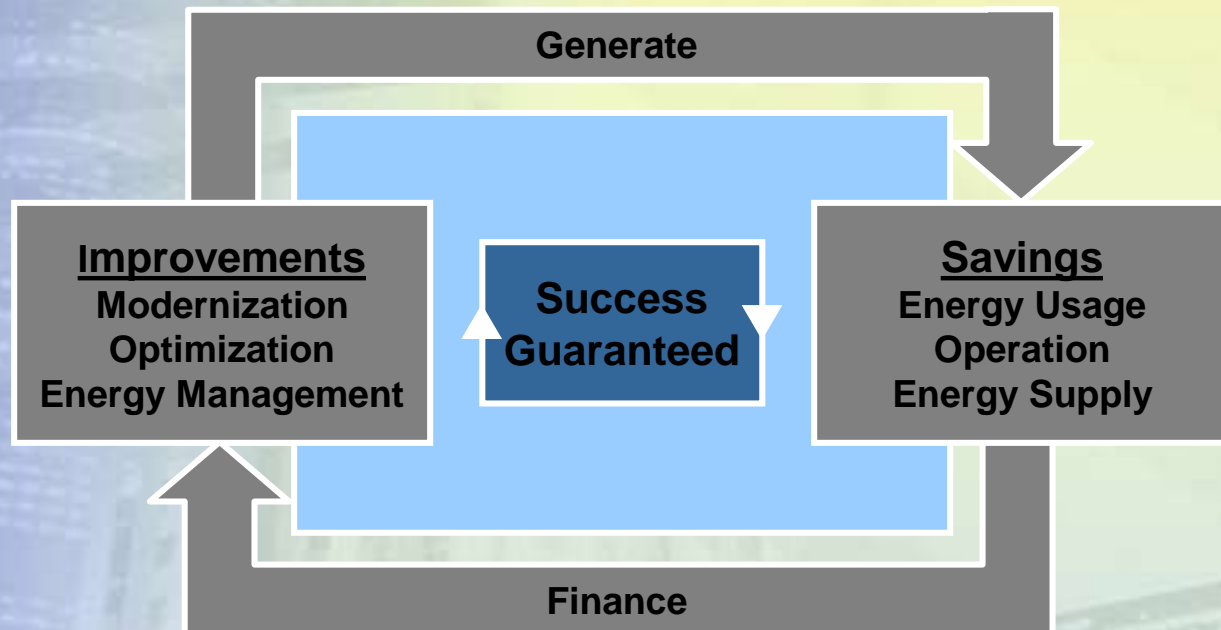
Benefits of Performance  
Contracting





# Performance Contracting – Operating Budget Savings Fund the Project

- Make facility & infrastructure improvements
- Reduce energy use and associated expenses
- Your energy savings finance your improvements
- ESCO guarantees savings



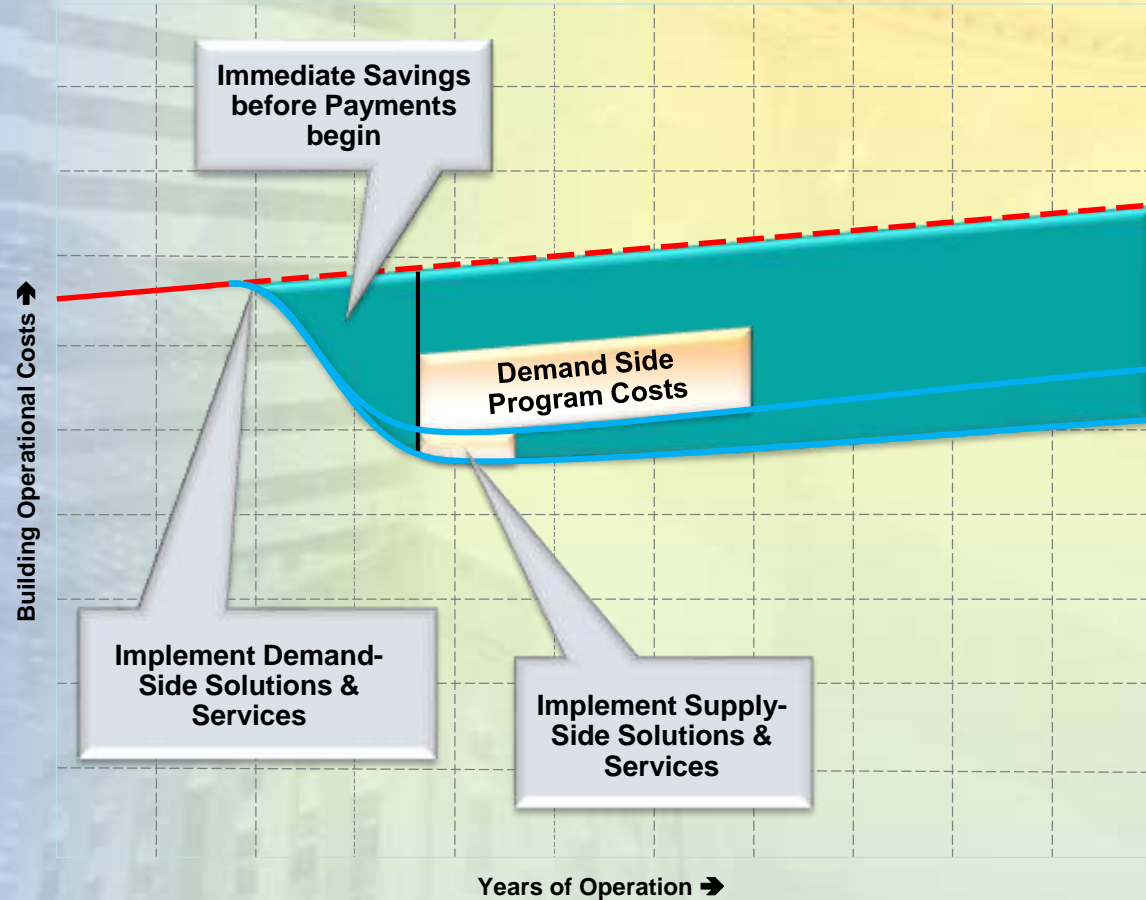



# Understanding the Performance Contract Cash Flow

## Existing Buildings

### Value Proposition

- Operational costs naturally escalate
- Demand-side solutions lower costs
- Supply-side solutions further lower costs
- The costs are less than the value added
- Some Savings are realized before payments are made



One-time Project Fees  On-going Service Fees



Funding for Infrastructure Improvements comes out  
of the Existing Operating Budget

No Tax Increases Necessary

Reallocation of the Operating Budget –

Instead of sending it to the Electric and Gas Utilities,  
Invest it in your Own Facilities





# Partnership

## Benefits of Performance Contracting





# Relationship between Customer and Contractor

- **Plans and Specification**
  - Public Sector customers must select the “lowest, responsive bid”
  - Contractor seeks Change Orders to increase scope and profit margin
  - Focus is on getting the job completed for the lowest first cost
  - Contractor and Customer in adversarial relationship each focused on their own best interest
- **Performance Contracting**
  - Depending on law, customers can select on qualifications or best value
  - No Change Orders
  - Focus is on lowest life cycle cost and long term, positive cash flow
  - ESCO and Customer both focused on getting the best long-term solution



# Customer Relationship with the Energy Services Company

Performance Contracting promotes:

- A partnership
- Common goals
- Long term relationship





# Reduced Risk for the Customer

Benefits of Performance  
Contracting



# Shifting of Risks

Customer

ESCO

Costs During Development

Costs of Change Orders

Performance of the Project

Savings over the Years





# Questions?

**David Snuttjer**

National Sales Manager, Energy Solutions  
Building Technologies Division  
Siemens Industry, Inc.  
Cell: (847) 561-5378

**SIEMENS**

**Norman J. Schramm Jr**

Sr. Account Executive  
Siemens Industry, Inc.  
285-A Cahaba Valley Pkwy. North  
Pelham, Alabama 35124  
Office: (205) 403-8388, x-5481  
Mobile: (205) 461-5154