



NEWSLETTER

BUILDING & CONSTRUCTION / CLIMATE CHANGE

Energy Performance Contracting

Climate Change. Energy efficiency. Sustainability. This is the context within which builders and developers worldwide increasingly operate and it seems likely that the building industry will need to rise to these environmental challenges whilst seeking to remain profitable. One tool to assist developers or owners in that regard is Energy Performance Contracting (EPC).

What is EPC

EPC is applicable to existing and proposed buildings and facilities. Under an EPC contract the contractor takes on the technical risk of any proposed energy savings and guarantees a minimum threshold for those savings. This is a win-win situation for developers and owners wishing to upgrade or implement energy saving mechanisms. Over time, the energy and associated cost savings will pay for the capital investment (and if the anticipated savings are not met, the contractor is liable to make good these cost savings). Furthermore, EPCs may assist businesses meet any mandated government energy reduction targets, improve a company's public image, and generally enable the corporate world to make a positive contribution to the environmental challenges facing Australia today.

Key differences between a more conventional construction contract and an EPC contract include the provision of a total package of

services from a single company. First, the contractor identifies the energy-savings opportunities of a building or facility. Following this, the parties can agree upon the terms of the EPC. An agreed action plan is then developed. Once the works have been completed, the contractor will have an ongoing role in the maintenance and monitoring of the equipment.

Energy and the commercial sector

Energy costs for buildings and facilities look set to rise. Emissions trading will result in higher energy prices. Additionally, it is likely that further regulatory measures will be implemented by all levels of government in relation to energy usage, and energy efficiency, of buildings and facilities. Some examples of these schemes are:

- The Building Code of Australia requires increased energy efficiency in commercial buildings.

- The Green Star scheme set up by the Green Building Council of Australia rates the energy efficiency of a building with a green star.
- The Australian Greenhouse Rating scheme, which has recently been incorporated in the National Australian Built Environment Rating System, also provides a star rating. This scheme is administered nationally by the NSW Department of Environment and Climate Change.
- BASIX, a NSW Government initiative, sets energy and water reduction targets for houses and units and is one of the strongest sustainable planning measures to be taken in Australia.

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Advantages of an EPC

The potential advantages of an EPC contract include:

- Better facilities that will have lower energy use and greenhouse emissions, higher quality systems, fewer breakdowns and reduced maintenance requirements.
- Increased property values and improve a building or facility's marketability.
- Improvements without sacrifice, allowing owners and managers to take on energy efficiency projects while recovering capital required for the upgrade directly from the energy savings guaranteed by the contractor.
- Cost savings through reduced energy usage and long-term maintenance costs.
- A reduced technical risk as the contractor takes the risk that the project will perform as designed, the project will remain within budget and that the equipment will be maintained or operated properly after installation.

A word of caution

EPC will not suit every project, building or circumstance. Disadvantages of an EPC contract include that it:

- requires very close and detailed monitoring of all building maintenance and building

activities, not just energy, which means higher administration costs and difficulty in proving claims; and

- typically will be a long term contract that is significantly more complex than a traditional construct or design and construct contract.

Another concern is that EPCs may not encourage innovation because a contractor is less likely to take risks when they are guaranteeing the result. Despite these disadvantages, EPCs can be an excellent tool for building owners and managers who are keen to improve the energy efficiency of their buildings and facilities.

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