

GAO Highlights

Highlights of [GAO-15-432](#), a report to congressional requesters

Why GAO Did This Study

Constrained budgets and increasing energy efficiency goals have led federal agencies to explore innovative ways to fund energy improvements, including ESPCs. An expected increase in the use of ESPCs has raised questions about agencies' ability to ensure that the government's interests are protected. ESPCs can span up to 25 years and be valued at millions of dollars each.

GAO was asked to review federal use of ESPCs since 2005. This report examines the extent to which (1) agencies have used ESPCs and plan to use them; (2) projects have achieved their expected cost and energy savings; and (3) agencies have overseen and evaluated such projects. GAO compiled data on awarded ESPCs; reviewed agency guidance and files for a nongeneralizable sample of 20 ESPC projects that reflected a range of contract award dates, contract values, and other characteristics; and interviewed officials from the seven agencies with the highest energy usage and greatest facility square footage—the Air Force, Army, and Navy within the Department of Defense; the Departments of Energy, Justice, and Veterans Affairs; and the General Services Administration.

What GAO Recommends

GAO is making recommendations to improve oversight of ESPC projects through clearer reporting of savings, improved training, and systematic evaluations of portfolios, among other things. In general, the agencies partially concurred with GAO's recommendations. GAO has modified the report, as appropriate, to address the agencies' comments.

View [GAO-15-432](#). For more information, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

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ENERGY SAVINGS PERFORMANCE CONTRACTS

Additional Actions Needed to Improve Federal Oversight

What GAO Found

The seven selected agencies in GAO's review awarded approximately \$12.1 billion in energy savings performance contracts (ESPC) in fiscal years 1995 through 2014 and plan to continue using them to help meet federal energy directives and initiatives. Under ESPCs, private contractors finance the up-front costs of energy improvements. Agencies then repay contractors from the savings, such as those resulting from lower utility bills. The seven agencies GAO reviewed have used more than 500 ESPCs for projects, such as installing energy-efficient lighting or power generation projects. Agencies' plans to use ESPCs vary, particularly for data center consolidation projects, which could reduce a significant amount of energy.

Cost and energy savings that contractors reported to agencies for most ESPCs met or exceeded expectations, but some of these savings may be overstated. GAO's review of a nongeneralizable sample of 20 projects found that contractors' reports overstated cost and energy savings for 14 projects. Contractors calculate and report savings annually in accordance with plans agreed to in their contracts with agencies. These plans include assumptions about agencies' use of equipment, which may change over the life of the contract. If changes reduce project savings, such as when an agency does not operate or maintain the equipment as agreed, contractors are not required to reduce the amount of savings they report or measure the changes' effects. GAO evaluated the extent to which changes in agency operations or other factors within agencies' control may have reduced energy savings for a nongeneralizable sample of projects. Estimates agencies provided to GAO of savings that were reported but not achieved ranged from negligible to nearly half of a project's reported annual savings. For example, one agency removed equipment for a sewer system upgrade, which resulted in over \$104,000 in annual savings that were reported but not achieved, or about 40 percent of the project's reported savings. Federal guidance states that when reviewing contractor reports, agencies should understand changes in project performance and savings levels, and what actions should be taken to address deficiencies. However, agencies were not always aware of how much savings were not achieved due to agency actions because contractors were not required to report this information. Without clearer reporting of savings that are not achieved, agencies may be unable to determine what, if any, corrective actions should be taken.

The seven agencies in GAO's review have conducted limited oversight and evaluation of their ESPC projects. In GAO's sample of 20 projects, agency representatives did not perform some oversight activities included in guidance because they were unaware of these duties or how to perform them, among other reasons. Without ensuring that training provides officials with the information needed to understand how to perform their oversight responsibilities, agencies may continue to inconsistently perform oversight. Moreover, most of the agencies in GAO's review have not systematically evaluated their ESPC portfolios to determine the effects of changing circumstances—such as facility use—on project performance because they do not have processes to do so. Without such oversight and evaluation, agency officials cannot make fully informed decisions about how best to strategically manage their ESPCs.