



The Solutions Network

Rochester, New York

Critical Points in Performance-Based Contracts

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Three Critical Points

- ❖ Performance-Based Approaches & Contract Incentives
 - Writing the Statement of Work
 - Selecting the Contractor
 - Service “Owner”
Involvement/Commitment



Public v Private Sectors

❖ Performance-Based Approaches & Contract Incentives

- Comparison on All Three Points
- A Counterintuitive View
- Could it Be that When Buying the “New & Different” Offering the Federal Government is Actually:
 - Better Positioned
 - Further Ahead



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Writing the Statement of Work

- ❖ What's Being Purchased?
- ❖ Frame of Reference Example

Old Way

- Wash Daily
- Wax Weekly
- Apply 2.5 gallons/1000 sq.ft.
- Buff with rotating head device at speeds of 4,800 rpm.

New Way

- ❖ Floors must be clean and shiny



Writing the Statement of Work

- ❖ How Do You Measure Performance?
 - Buying the Same Thing *Differently*?
 - Buying a *Different Thing*?

Old Way

- Luminosity and reflectance factors of XXX when measured from four feet with 125 foot candles of light using a reflectance spectrometer...

New Way

- Occupant complaints on floor appearance



Writing the Statement of Work

- ❖ Before Proceeding on Energy-Related Procurements:
 - What's driving the procurement?
 - What interrelationships exist between energy and other operating expenses?
 - Who is best prepared to manage the individual elements of system/budget performance and risks?



Energy Can Be More Complex

- ❖ Buying mechanical systems O&M with an expectation for energy performance – *or*
- ❖ Buying repair, replacement or retrofit of mechanical systems with an expectation for energy performance – *or*
- ❖ Buying energy management services
 - Procurement of commodities or O&M services specifically targeted to energy efficiency with expectations for what is/is not allowed (impacts on other systems & services)



Writing the Statement of Work

Private Sector

- ❖ Slightly worse at buying “new & different”
- ❖ Impact of E-procurement tools
 - Difficult to assess the “new & different”
 - Tools assume “sameness” in offerings

Public Sector

- ❖ Slightly better but not there on “new & different”
- ❖ Need to learn to write procurement documents to get desired future results



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Selecting the Contractor –The Challenges

- ❖ All the usual, plus:
 - From selection based on 'spec compliance' to selection based on 'service delivery capabilities'
 - Equal Opportunity Procurements?
 - Do current processes accommodate selecting suppliers of "new & different" offerings?



Selecting the Contractor –Private vs Public

Private Sector

- ❖ Relationships
 - No Better or Worse where no current relationships exist
 - Slightly better where relationships currently exist
- ❖ E-Procurement Tools Commentary
 - Enable doing “wrong” things quicker
 - Eliminating the truly “new & different”



Selecting the Contractor –Private vs Public

Public Sector

❖ Key Elements

- Leverage Existing Relationships
- Promote Open Communications
- Ongoing Dialogue (internal/external)

❖ Benefits of Focus - Guard against:

- Doing “wrong” things quicker
- Eliminating the truly “new & different”



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Service “Owner”

Involvement/Commitment

- ❖ From writing the statement of work to ongoing management of the relationship & the contract
- ❖ Vital for truly advancing the “new & different”
- ❖ Helps prevent the morphing effect
 - Backsliding into old/inappropriate metrics
 - Using metrics as an impediment to change



Private Sector vs. Public Sector

Private Sector

- ❖ Better owner involvement in some markets, worse in others
- ❖ Less enterprise-wide knowledge regarding energy issues

Public Sector

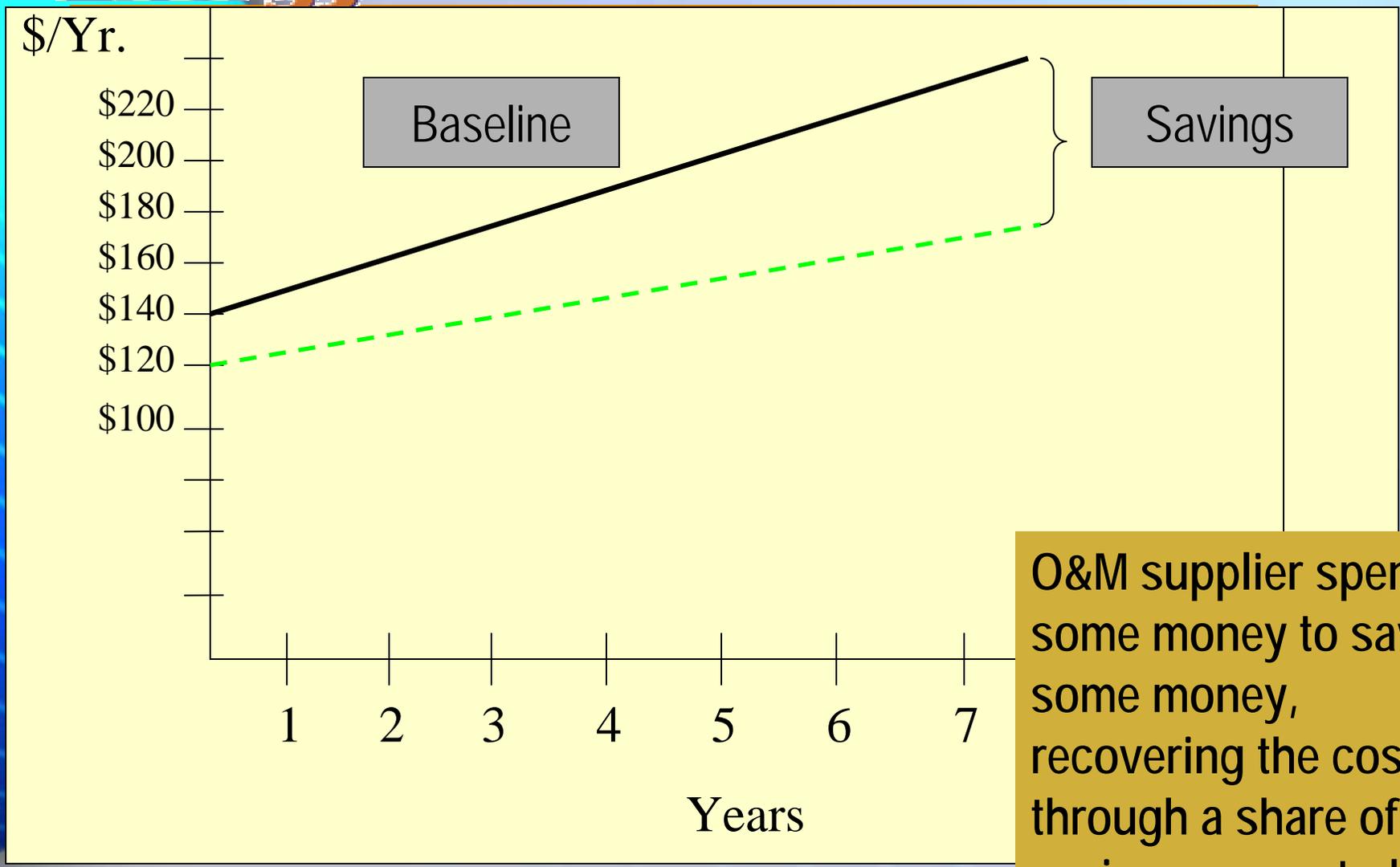
- ❖ Better overall potential for 'owner involvement' across the enterprise
- ❖ Greater knowledge regarding energy issues across the enterprise



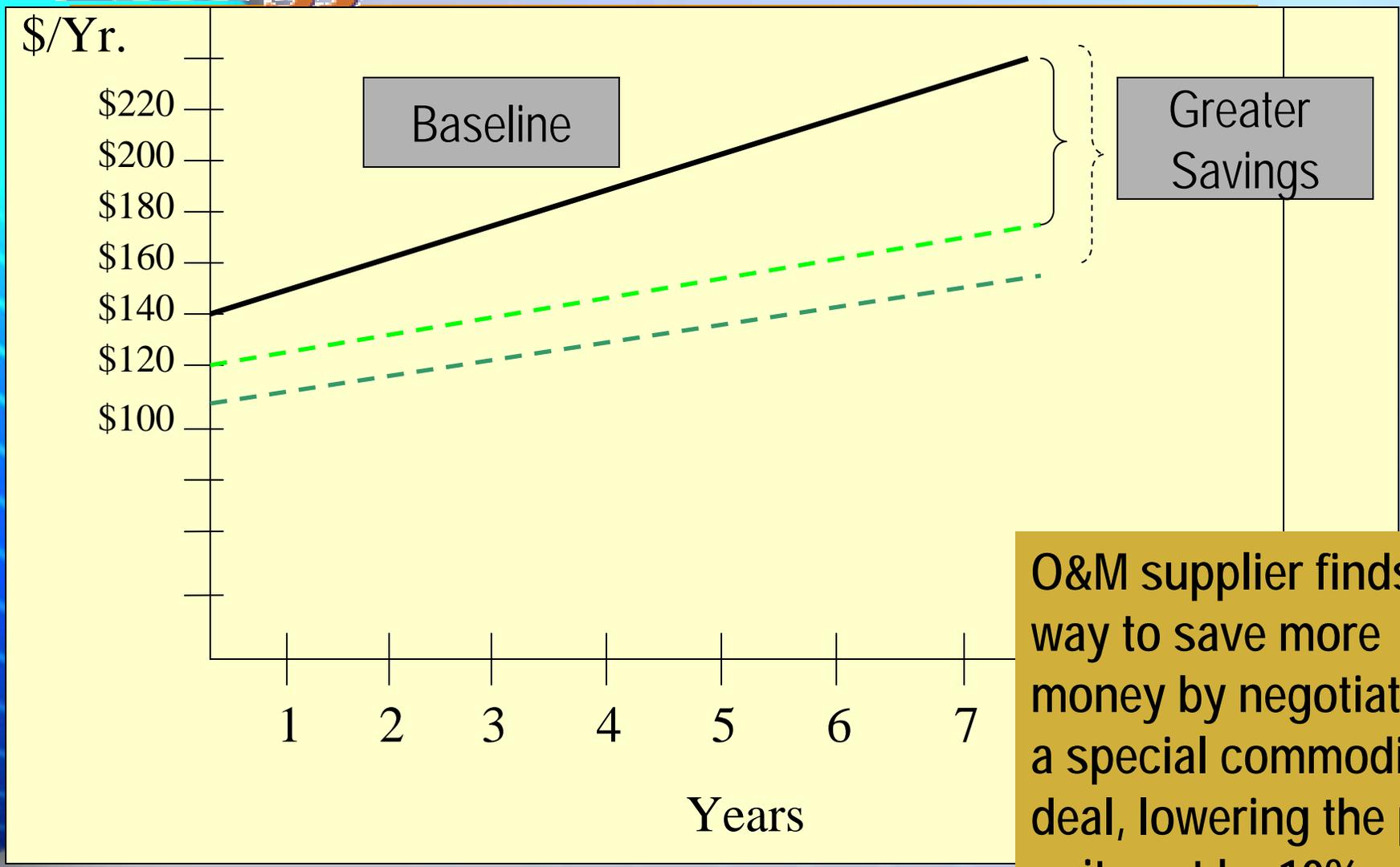
Performance-Based vs. Contract Incentives

- ❖ Performance-based approach
 - More effective in facilitating real change
 - Advances “new & different” approach

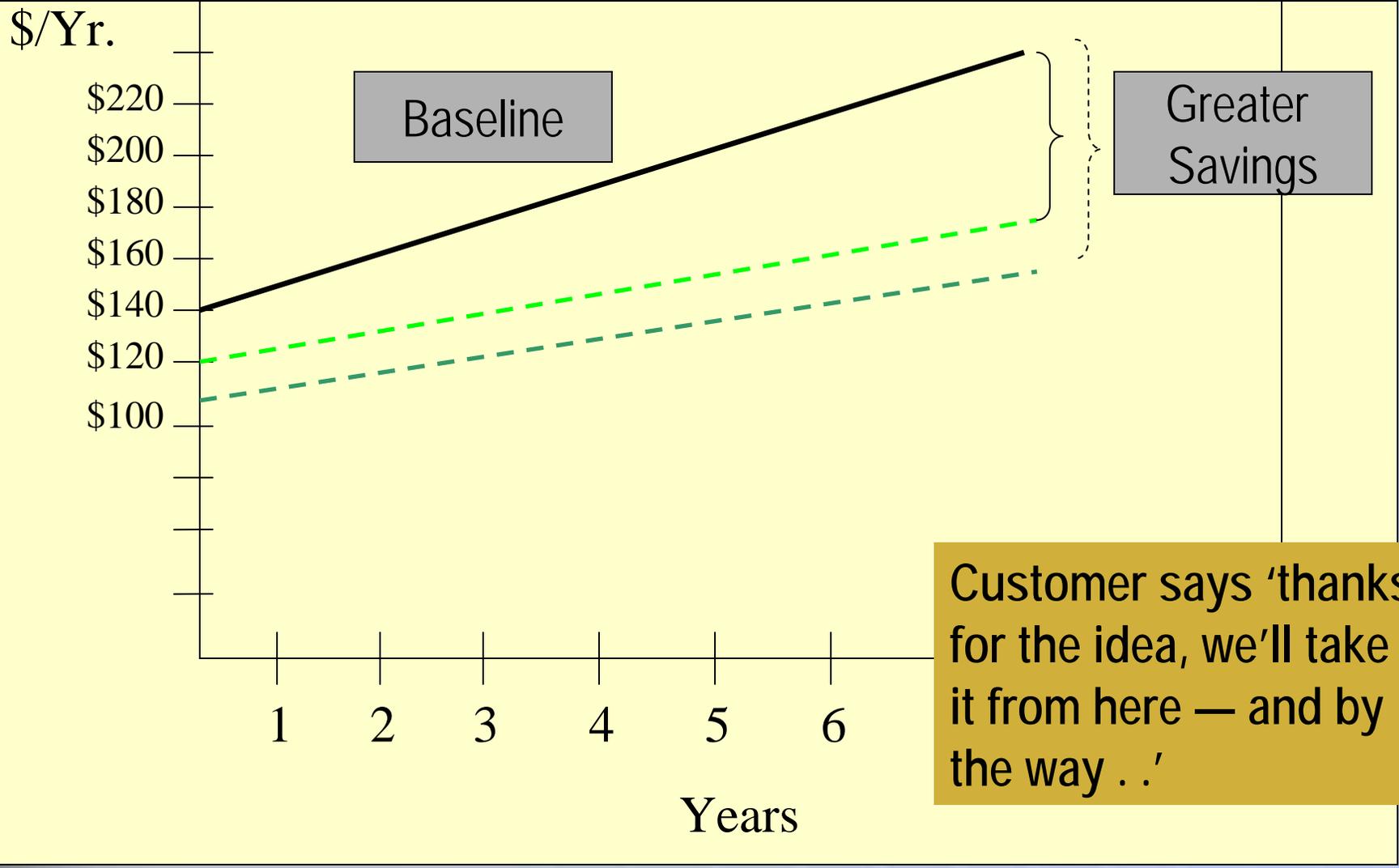
- ❖ Note: Energy-based applications often need a well thought out approach
 - Example: Would a performance contractor bring a lower-priced commodity purchasing opportunity to light if there’s a chance he won’t be chosen to deliver it; or was penalized for suggesting it?



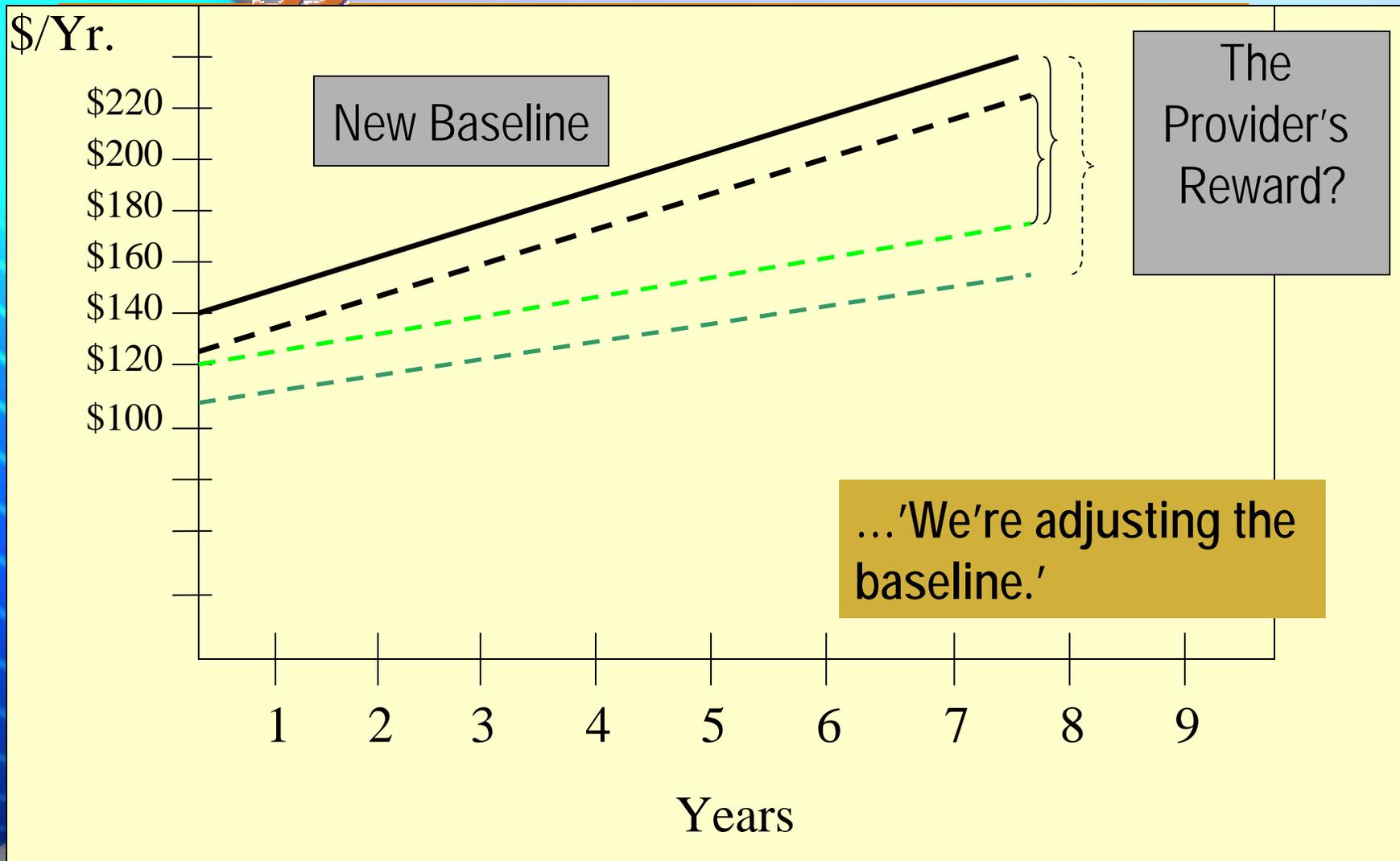
O&M supplier spends some money to save some money, recovering the costs through a share of the savings generated

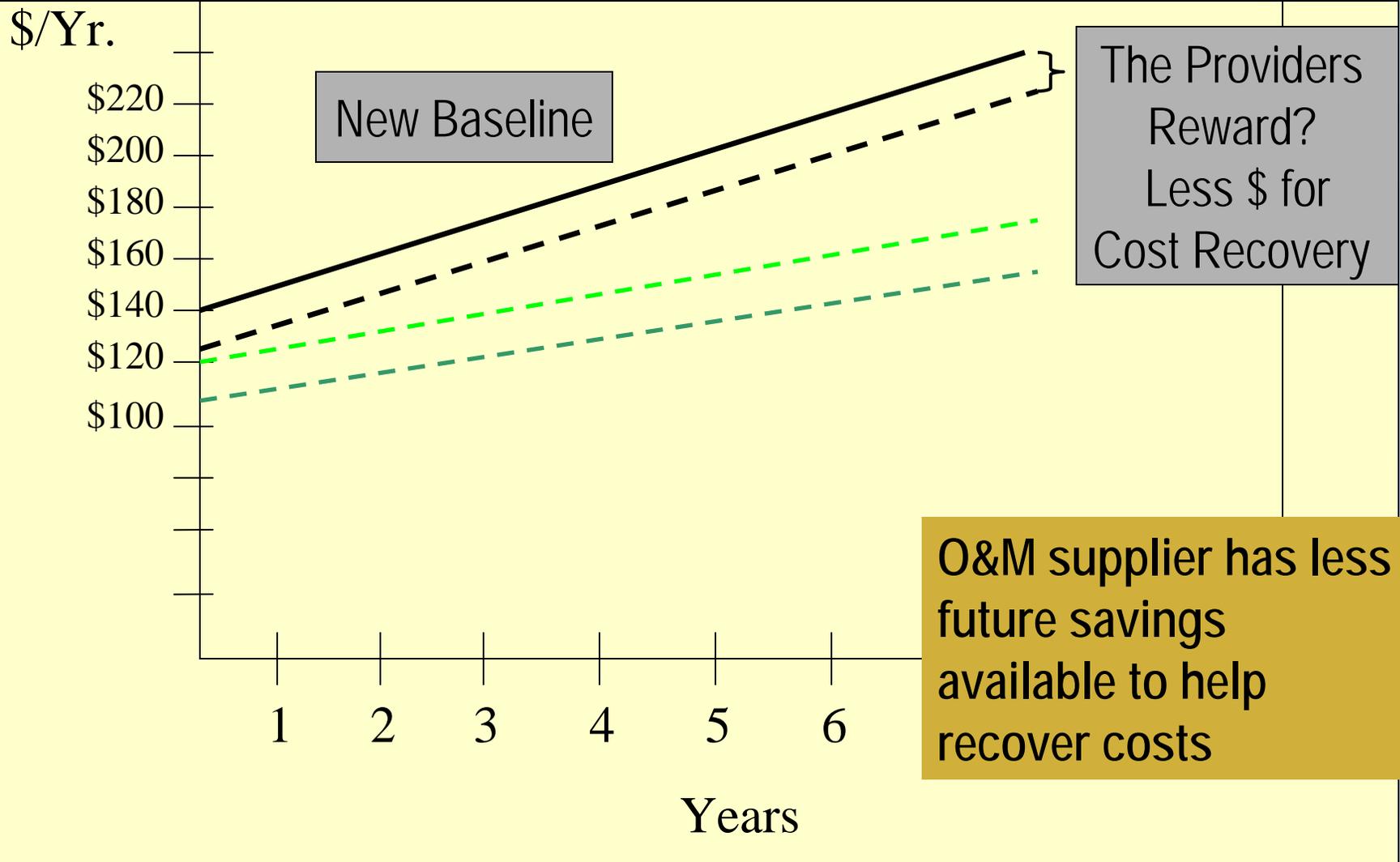


O&M supplier finds a way to save more money by negotiating a special commodity deal, lowering the per unit cost by 10%



Customer says 'thanks for the idea, we'll take it from here — and by the way . . .'





The Providers
Reward?
Less \$ for
Cost Recovery

O&M supplier has less
future savings
available to help
recover costs



You just don't learn
anything the second time
you get kicked in the head
by a mule

-or-

Don't try to suggest other
ways to save money – it will
only hurt you in the end!

August 8-11, 2004

www.energy2004.ee.doe.gov



Some Examples

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Something New!

Service Acquisition Reform Act

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