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Re: Performance contracting – good deal or rip-off?

Dear Potential Performance Contractor Customer:

Performance contracting has been around since energy cost first started increasing in the early 1970s. The major control companies and federal bureaucrats designed performance contracting, talk about a winning combination with your best interest at heart. No competitive proposals were required if the local utility company did the work for a federal agency, such as the Post Office, what a surprise. Many states thought this was such a “good idea” they dropped the competitive requirement too, if state bureaucrats were involved in the process, again what a surprise.

Performance contracting starts with the state or federal agency recommending one or several “approved” performance contractors. To gain state approval performance contractors must agree to pay a portion of each job to the state agency. The state bureaucrat usually brings in the approved performance contractors for the initial presentation. The presentations are done using a “broad brush” approach with nothing specific and lots of vague promises, this is commonly called a “Dog and Pony Show”.

Based on the most entertaining Dog and Pony Show and the advise of the bureaucrat, the customer selects one of the performance contractors. The customer buys an energy audit from the performance contractor. Many times the state or federal agency pays part of the energy audit. However, when this occurs the cost of the energy audit may be inflated in anticipation of the additional funding. The energy audit uses a slightly smaller brush. The energy audit presents a range of projected project cost and savings, none of which are guaranteed, a slightly more specific Dog and Pony Show.

When the customer agrees to the items in the energy audit, the performance contractor brings back a proposal. The proposal is for specific projects, at a specific cost and a savings agreed to by the customer. Very few performance contractors can drive a nail straight, yet alone do construction work. Therefore, subcontractors do the work. You think you are only paying 20% markup to a performance contractor, but you are actually paying much more. Although the performance contractor stated their 20% published markup, they will not disclose the amount they paid to others. Sometime their services appear the same cost as conventional contracting. However, the products provided are of much lower quality than your engineer would have specified. HUMMMM wonder why they do that.

The reason that such large companies “push” performance contracting is that it is extremely profitable compared to conventional construction. This is why the large companies in performance contracting included players such as ENRON. What is in it for the state and federal bureaucrats? Many bureaucrats were scheduled to be laid off because of the loss of large energy grants. However, many states allowed these bureaucrats to form agencies that would assist citizens and others, as long as their reorganized agency was funded by the new fees they would charge.

In some states there are funding or statutory considerations that require performance contracting. However, these are few and far between. If you must use performance contracting, we can help. All cost, payments to subcontractors and fees are disclosed up front. We can get rid of the overcharging and inappropriate equipment provided by many performance contractors. We do not pay kickbacks to the governmental agencies that are passed on to you. If you meet our qualifications, our charges are substantially less. If you own our CTC system our charge is only 1.5% above our subcontractor cost. Many times your CTC system is paid for by the savings in performance contract fees.

Good luck in your quest to reduce energy cost and improve your buildings – we can help.

B. H. Trout President