

Service Level Agreements: One Approach to Managing the Energy Agency's Activities:

This Management Resource Tool looks at one possible approach to managing some core activities of local and regional energy agencies – that of Service Level Agreements (SLAs).

This resource tool is part of a Series of Good Practices and Resource Tools published by ManagEnergy, as part of the programme's ongoing work to help Local Energy Agencies and actors to learn from effective management innovations and good practice implemented across the network of 400 local and regional energy agencies in Europe.

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1. ABOUT THIS MANAGEMENT PROFILE

In this resource tool we look at the development of the Zoetermeer-Delf Local Energy Agency, Eerste Regionale Energie Agentschap (EREA). In particular, we look at the agency's initial development experience, and some of the challenges that it faced, as well as how EREA has created a stronger work and income basis through agreeing a series of multi-annual Service Level Agreement (SLA) with key agency partners and clients. We also

consider how SLAs may represent an interesting option for some energy agencies to explore as an approach to managing some of their activities.

In summary, this resource tool looks at:

- Some of the initial challenges faced by EREA
- The agency's development and implementation of SLAs
- Some of the key benefits of SLAs.

The resource tool also contains a **short checklist of some of the key points to bear in mind regarding SLAs**, should your energy agency wish to explore using SLAs as an activity management approach.

2. INITIAL DEVELOPMENT

EREA was founded in 1999 in the town of Zoetermeer. The creation of the agency came from a political desire at that time to establish an organisation to oversee some of the energy issues that the town was facing. While some uncertainty and scepticism also existed regarding the eventual role and effectiveness of a local energy agency, a new energy agency was set up with co-financing from the EC SAVE programme. After speaking to other city representatives that already had energy agencies, Managing Director of the Zoetermeer LEA, Harry Meerwijk, decided

that there was an enormous amount to be gained for his town by creating its own energy agency.

The city asked Harry Meerwijk to set up a board for the new agency and he set about creating a list of local industry and civilian players who he felt could have something worthwhile to contribute. Harry Meerwijk put together a list of key issues that he considered pertinent, and then invited representatives from local housing associations, the chamber of commerce, industry (e.g. Siemens), and the deputy mayor of Zoetermeer to offer their insights.

3. CHALLENGES OF THE EARLY YEARS.

The new agency was launched with a staff of three employees - a secretary, a person in an advisory capacity and Harry Meerwijk as manager. This was the total staff number that the initial financial plan for the agency would allow.

The early years were challenging for Harry Meerwijk and the rest of the agency team. Despite the challenges, Harry Meerwijk and his team managed to develop the agency by supplementing the EU subsidies with national subsidies offered to municipalities for initiatives aimed at improving energy efficiency. However, there was a growing sense of impatience

among the LEA team that it was not growing at the pace Harry Meerwijk felt was possible but rather that a kind of status quo was being maintained.

Harry Meerwijk was determined that the Zoetermeer LEA would not meet the same fate as other Local Energy Agencies in neighbouring towns in the Netherlands, where agencies ceased activity after the three-year SAVE co-financed project ended. For Harry Meerwijk, these failures stemmed in part from not sufficiently thinking through how to create a sustainable future beyond the SAVE project. In contrast, Zoetermeer did think about the sustainability of their agency and set their sights firmly on securing the agency's long term viability.

A problem also arose from the fact that the agency did not have the same status as a private company and as such it was not allowed to develop private consulting activities. It still needed money to survive but its hands were tied thus creating what Harry Meerwijk describes as "*a real conundrum*".

Part of the reflection process on how to develop a sustainable energy agency had involved ongoing discussions with the local energy agency in the neighbouring town of Delft. Discussing their respective challenges led both agencies to realise that one of the common challenges they faced was that both agencies were too

small and were operating sub-optimally as organisations as a result. These discussions culminated in 2008 with the merger of the Zoetermeer and Delft energy agencies to create the new Eerste Regionale Energie Agentschap (EREA), of First Regional Energy Agency.

Key benefits of the merger have been a stronger organisational basis and a reinforced team, as well as increased visibility, which have contributed to the development of a more sustainable energy agency.


For Harry Meerwijk, **another key factor in the agency's success has been the establishment of partnerships with stakeholders through the creation of Service Level Agreements or SLAs.**

4. PUTTING IN PLACE SERVICE LEVEL AGREEMENT

A service level agreement is essentially a document which defines the relationship between two parties: the service provider and the recipient of the service. It is a part of a service contract where the level of service is formally defined, and thus the SLA is a negotiated agreement between two parties where one is the

customer and the other is the service provider.

Some of the main benefits of an SLA are highlighted in the box below:



Benefits of an SLA?

The benefits of Service Level Agreements can be numerous. A Service Level Agreement can allow an organisation to:

- Identify and define the client’s needs
- Provide a framework for understanding
- Simplify complex issues
- Reduce potential areas of conflict
- Encourage dialogue in the event of disputes
- Reduce or eliminate or unrealistic expectations.

According to Harry Meerwijk, the idea to engage in Service Level Agreements stemmed from the necessity to make the relationship between the stakeholders that co-finance the agency and the agency itself clearer. Through the SLA route, both parties know what their rights are as well as their obligations and hence there is no ambiguity in terms of their respective responsibilities.

The agreement helps develop a common understanding between provider and recipient about services, priorities, guarantees and warranties with each area of the service scope having the level of service defined. To the best of the Managing Director’s knowledge EREA is the only agency that works with SLA’s, however these forms of agreements are quite common in the IT sector.

Each year in November the stakeholders that have SLAs negotiate and agree with EREA about the work program for the next year. However, says Harry Meerwijk, efforts are being made to get more stakeholders to sign an SLA for a period of 4 years. All target organisations were already working with the agency; municipalities, energy suppliers, and then housing associations were approached to engage in the project. Harry Meerwijk notes that the issue of SLAs tended to arise at the same time as the discussion about the merger between Zoetermeer and Delft.

Harry Meerwijk points out that the SLA development and agreement process did not happen over night but rather it took about six months, during which the agency regularly sought out professional legal advice. EREA has put in place Service Level Agreements for a period of 4 years, involving a fixed number of hours but with a flexible working programme that can be adapted each year.

The box below illustrates some of the considerations that should be in place from the offset (both for the service provider and for the service beneficiary) before entering into an SLA.



***Interested in the SLA Route?
Some Tips from EREA***

- A clear understanding between both parties needs to be established as to precisely what service will be provided
- Both provider and client are advised to formulate a performance measurement mechanism that can be used to ensure that targets are met and promises are kept.
- There should be a troubleshooting element to the agreement that would help mitigate against problems further down the line and ideally help to avoid them before they surface
- As the provider is bound to certain responsibilities in terms of service provision so too must the customer be in order to make the SLA function efficiently.
- Conditions under which the SLA can be terminated must be clearly defined and agreed upon by both parties before its inception.

“Overall, the experience to-date with SLAs has been good”, notes Harry Meerwijk, “with one reason being that implementing these SLAs has not required too much change in how the agency goes about its work”. The partner organisations in the SLAs have benefited from a structural agreement with a reliable partner for a large number of hours each year as well as flexibility in carrying out climate policy. Similarly, the agency itself has benefited from a substantial part of the SLA-related income.

Agreements have now been put in place with five housing associations, the local energy company Eneco, as well as two municipalities. These SLAs provide the new agency with a total funding of €200,000 per year for the next four years. The total annual revenue represented by these SLAs represents some 50% of the new agency’s total annual income, and provides a solid financial basis and enhanced stability from which the agency can further develop. The SLA period also coincides with the municipal election cycle, as well as with the period of national governments subsidies for municipalities for energy efficiency, subsidies which help consolidate the LEA’s funding for the year.

Today the services offered by EREA include project management, an advisory service on energy efficiency and renewable

energy, energy audits for small and medium enterprises, as well as energy labelling for private houses. In offering these services, the agency always strives to be a transparent actor in the local market.

As for any other agencies considering SLAs, Harry Meerwijk advice is to try to fix a work programme for 4 years which is flexible and adaptable each year. *“Energy Agencies should integrate a price index”,* notes Harry Meerwijk, *“and should try to keep the agreement short and clear. A detailed yearly report should also be issued to close the past year for both SLA parties”.*

However, the work is by no means complete once the SLA has been agreed upon and in order to make an SLA work certain checks and balances need to be considered. The checklist at the end of this resource tool provides some advice and tips for energy agencies interested in looking further into Service Level Agreements.

5. KEY BENEFITS OF SLAs

For the municipalities and the other stakeholders involved, Service Level Agreements can represent an interest approach to managing some recurrent agency activities with core agency partners and customers.

For EREA municipal counterparts, the Service Level Agreements guarantee a quality service from a trusted and reputable partner at a reasonable price with no procurement procedures being necessary for each new project. The projects are carried out efficiently and smoothly thanks to the Agency’s experience and network of help and advice.

For EREA itself, the Service Level Agreements put in place have been vital to its continued growth and, along with income raised from European, regional and local projects have been a key factor in EREA’s successful development. The SLAs have provided the Agency with a solid base of financing for a period for 4 years allowing it to plan well into the future and enjoy a certain amount of financial security.

The agreements have also contributed to the continued development of the agency’s relationships with the municipalities and other stakeholders, and this has led to the launch of new projects that contribute to the sustainability of the Agency. The SLAs have also provided a platform for valuable knowledge sharing and a deeper understanding of each of the stakeholders’ policy, network and organisation structure.

6. THE AGENCY'S SPECIAL PUBLIC/PRIVATE STATUS

Harry Meerwijk maintains that another major factor in the agency's success has been its unique status, a status which straddles both the private and the public sectors. This is also evident in the way that the board of directors of the agency is built up (3 municipalities, Eneco, 5 housing associations, Siemens, Rabobank, Chamber of Commerce, and the Technical University). This group of stakeholders are not only present on the board of the agency, but also represent a forum that has the reduction of the emission of CO2 as a common interest (see for example the BELIEF project).

Harry Meerwijk believes that it is far better that public and private partners work together. *"Profit-driven private companies would not necessarily be attracted to invest in socially important areas such as schools",* he comments, *"some consulting companies tackle this area but for 80% of SMEs it comes as a very low priority"*.

From its modest beginnings in 1999 with a staff of just three full time employees, EREA has expanded and grown to be a viable energy agency that offers worthwhile value added services. The Managing Director of the company attributes part of this turnaround to the combined effects of Service Level

Agreements, as well as a status that allows it to reap the benefits of being a fusion of both private and public entities.

7. FORMING A SERVICE LEVEL AGREEMENT - KEY POINTS TO CONSIDER

The table below summarises a checklist of steps to be taken and considerations to be made before during and after entering into an SLA, which have been illustrated in this resource tool.

For energy agencies seeking comprehensive step by step explanations of the various legal stages involved in engaging in such an agreement, numerous online resources exist. Online resources providing some advice on SLAs or SLA templates and toolkits can be identified with a simple webs search, and include for example www.service-level-agreement.net, www.glandigolaw.com¹. It is also important for any energy agency considering SLAs to seek competent professional advice locally, to ensure that they are fully aware of their own national legislation.

Before entering into a Service Level Agreement an energy agency should ask themselves a certain number of questions

¹ Please note that we are giving examples of online resource here, and not recommending any particular source.

to ensure firstly that and SLA is the right option to pursue and secondly, if appropriate measures and a contingency plan are in place to maximise prospects for success. The table below 'Towards Sustained Success' provides a short checklist of some of the key considerations that should be made before entering into a Service Level Agreement.

**SLA Summary Checklist:
Key Questions for Your Agency to
Consider if exploring SLAs as an
Activity Management Tool**

- Is there a clear definition of services?
- Is there an established performance measurement?
- Is there a management contingency plan?
- Is there a clear definition of customer responsibilities?
- Are there clear conditions set out for an eventual termination of agreement?
- Is the agreement short and concise?
- Is the agreement flexible and adaptable?
- Is there regular communication between both parties?



KEY POINTS TO REMEMBER:

The following bullet points are by no means an exhaustive research on the many and nuanced layers involved in forming an SLA, but are instead intended to serve as a brief overview of some of the issues that should be borne in mind both before an SLA is developed as well as after an SLA has been put in place.

1. **Be comprehensive!** The quality of the agreement is important. It **must be complete, comprehensive and accurate** in its coverage. Importantly, both parties must fully understand the contents and their obligations as described within such an agreement.
2. **Be clear!** From the service provider's perspective the onus is on them to **clearly define precisely what service will be provided** and at what cost to the end user. A clear understanding between both parties needs to be established as to exactly what the agreement entails and what the responsibilities of each party are.
3. **Put some performance measurement indicators in place:** When negotiating an agreement, both the energy agency and its customer are advised to **formulate a performance measurement**

mechanism that can be used to ensure that targets are met and promises are kept. This will help to foster trust and ensure high standards or service provision.

4. **Identify possible problems from the outset, and how best to resolve them:** Before the agreement's inception considerable thought should be given to **mitigating against potential problems further down the line** and ideally set in place a system that would help to avoid them before they arise.
5. **Identify clearly the responsibilities of the service beneficiary:** Just as the service provider is bound to certain responsibilities in terms of service provision **so too must the customer be**, in order to make the SLA function efficiently. A firm agreement must be made as to the quantity of service required and this figure must be adhered to in order to make the agreement work for both parties.
6. **Include a contract termination procedure:** Preliminary SLA negotiations should also **state clearly the conditions under which the agreement can be terminated.**

7. **Build flexibility into the SLA's implementation:** Once the agreement is up and running the parties concerned should **be flexible in their approach to the time period for which an SLA has been agreed.** It should be adapted as necessary on a year to year basis, allowing for unforeseen changes (for example an economic downturn or fall in energy prices).
8. **Keep the SLA manageable:** Efforts should be made throughout to **keep the agreement as uncomplicated as reasonably possible.** Although a complex legal agreement, there is no need to make the SLA unnecessarily bureaucratic or onerous.
9. **Have regular reporting milestones:** Finally, all parties should be kept abreast of developments and progress made through **regular reporting** in order to foster an environment of trust and also as a means to gaining valuable input from all stakeholders to make it a participatory contractual agreement.

FOR MORE INFORMATION

For information on EREA and its experiences with SLAs you can access the Agency's website at <http://www.stichtingerea.nl/> or to get in contact with someone at the Agency call +31 079-3468785

8. ACKNOWLEDGEMENTS

The ManagEnergy Support Team would like to thank Mr. Harry Meerwijk for the time he has taken to collaborate with us on this good practice management innovation profile and contribute his valuable insights and experience.

A special thanks to Mr. Meerwijk for agreeing to present EREA's experience at the management innovation and good practices workshop at the EU Sustainable Energy Week during February 2009.