

# Maximizing ESPC in Public Buildings

ACEEE  
MT Conference  
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# Introduction to NAESCO

- National Association of Energy Service Companies
- 75 members involved in the design, manufacture, financing, and installation of energy efficiency equipment and the provision of energy efficiency services in the private and public sectors
- Will deliver about \$6 billion of projects in 2009  
≈ All US utility EE programs combined



# Overview of Presentation

- What is ESPC?
- State/Local Government ESPC
- Who Finances ESPC?
- Changes in the Financing Market
- Using ARRA \$\$ to Accelerate ESPC



# What is ESPC?

- Type of Design/Build Project
- Turnkey service
  - Audit + engineering + construction + financing + commissioning + O&M + long-term M&V
- Delivers all EE, RE and DG/CHP technologies
- Serves all market segments
- Self-financing projects (paid from savings)
- Capital from third parties





# How Does ESPC Work?

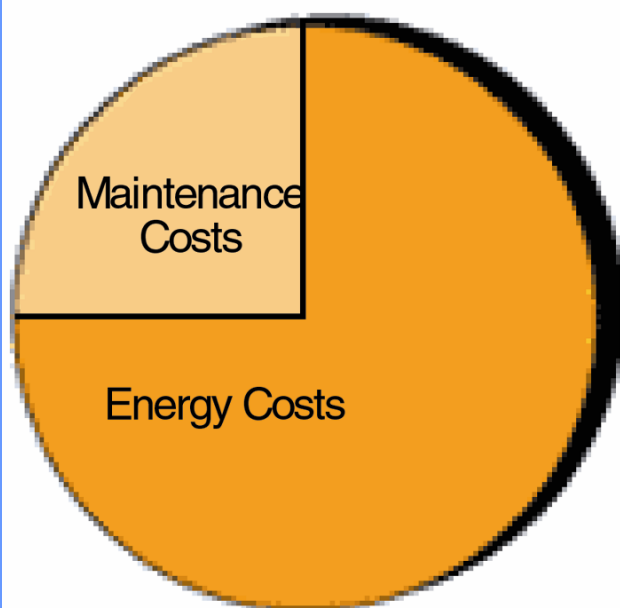
- ESCO identifies energy saving opportunities.
- ESCO implements improvements paid from savings.
- ESCO arranges financing from all available sources.
- ESCO guarantees that savings will meet or exceed annual debt service payments to cover project costs.
- ESCO pays any savings shortfalls.



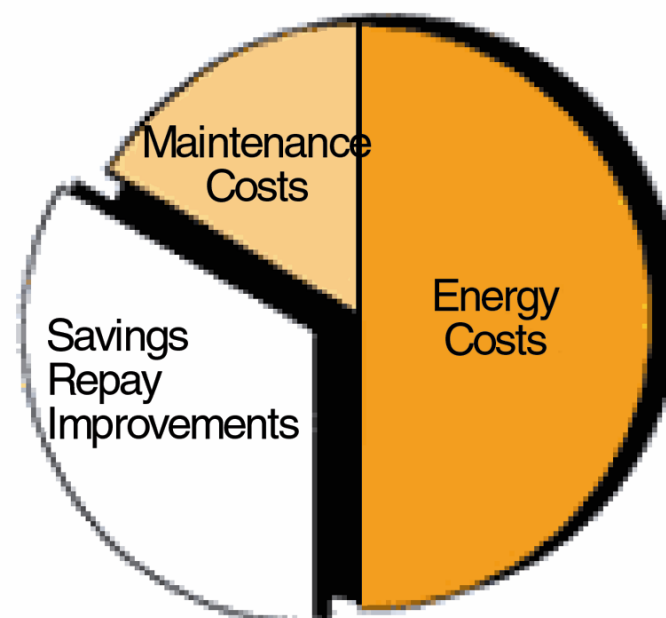


# How Does ESPC Work?

Before Improvements



After Improvements

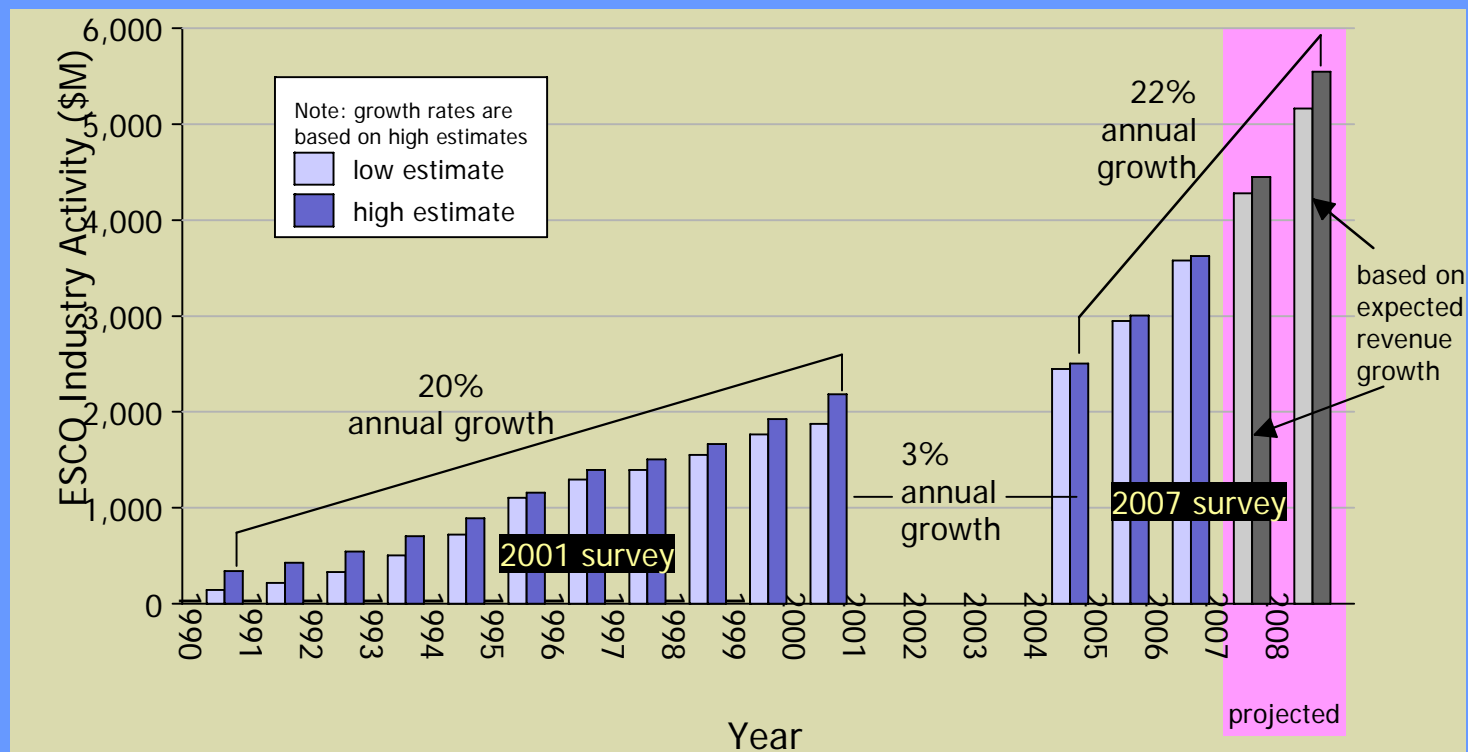


# Public Buildings ESPC Delivery System in Place

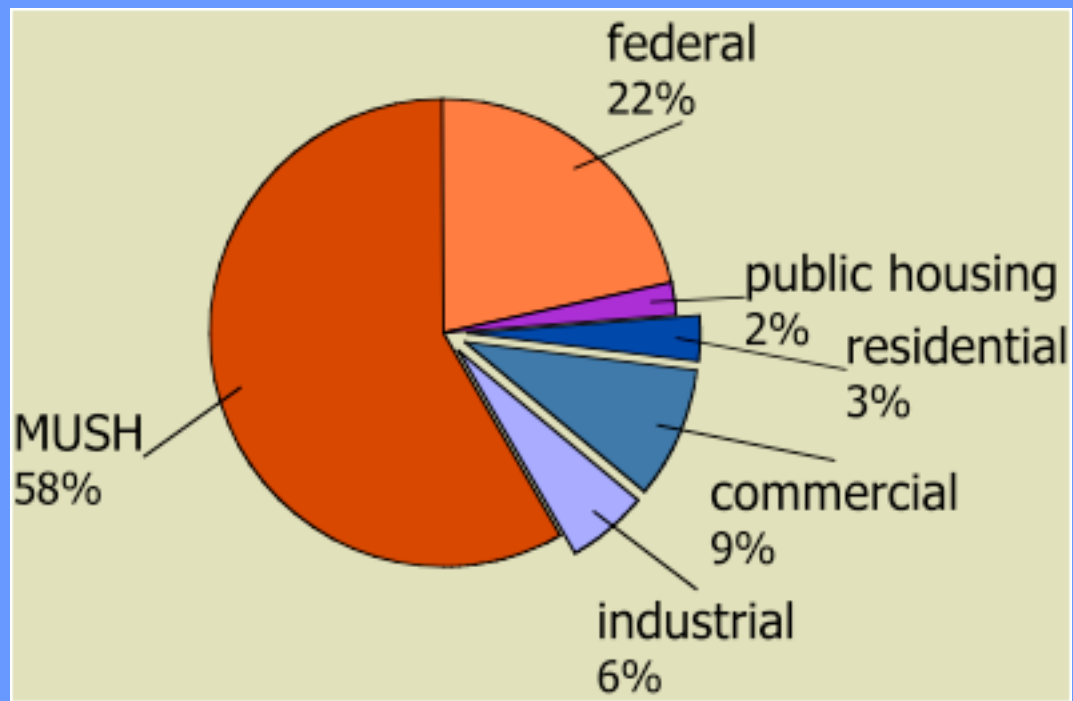
- Energy Savings Performance Contracting
- \$3.5B of state/local projects in 2008
- \$3-6B in state/local project pipeline
- Delivered by Energy Service Companies
- ESCO infrastructure in place in every state



# ESCO Industry Size

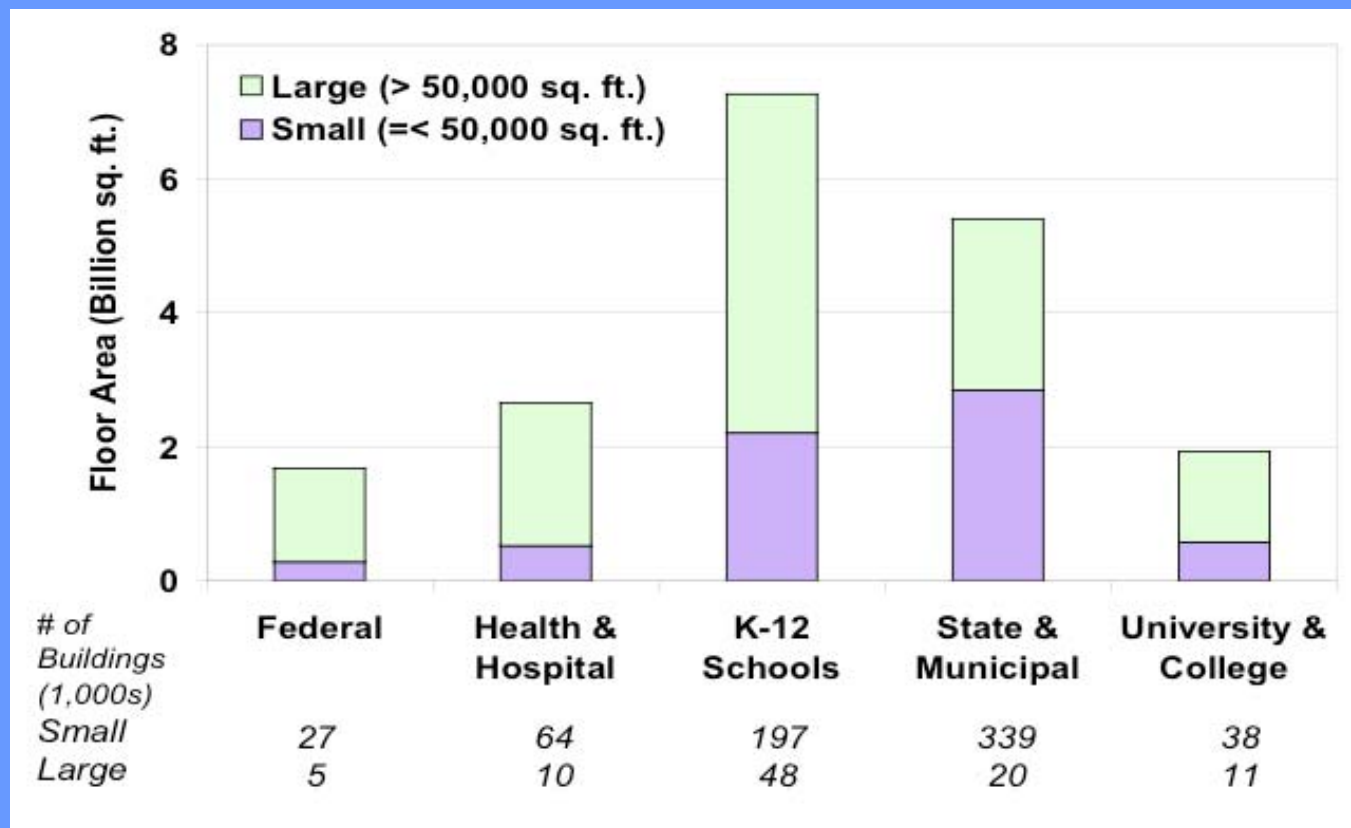


# State/Local ESPC Market



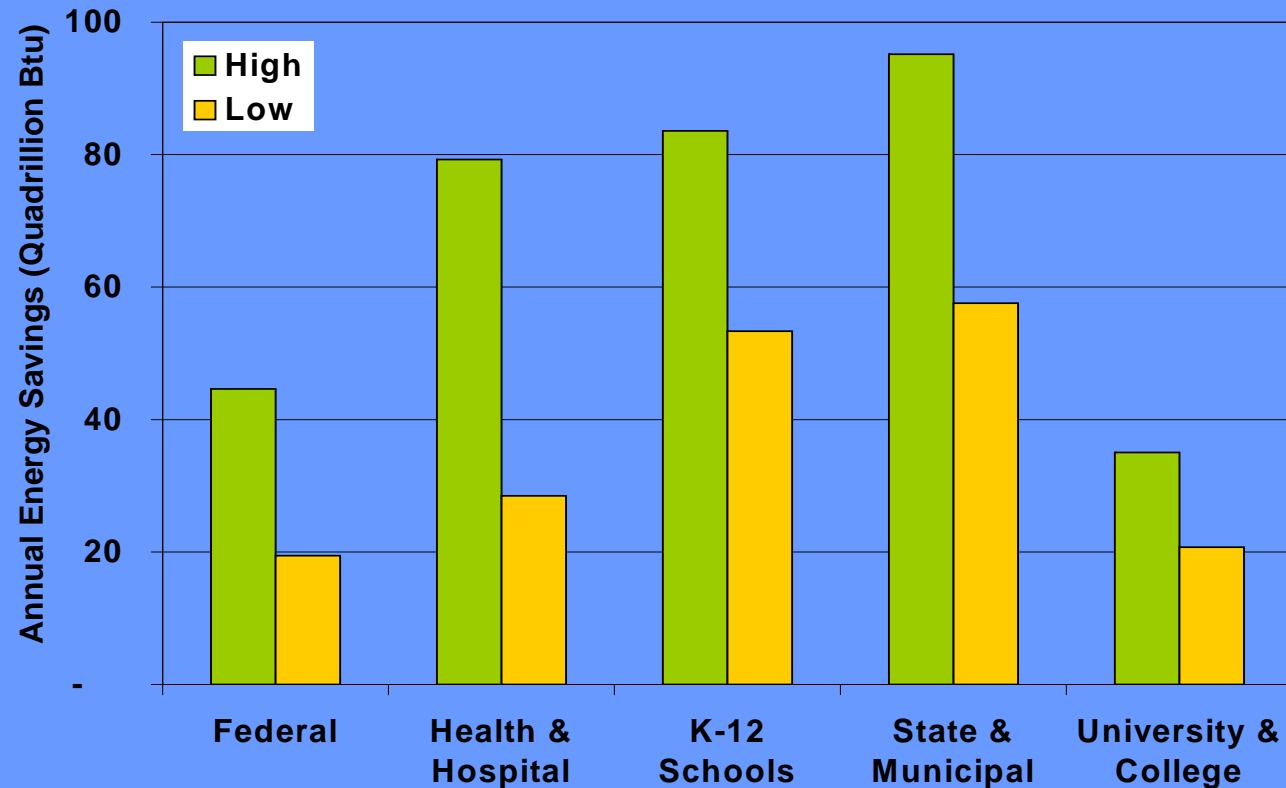


# Public Buildings Large Target Market



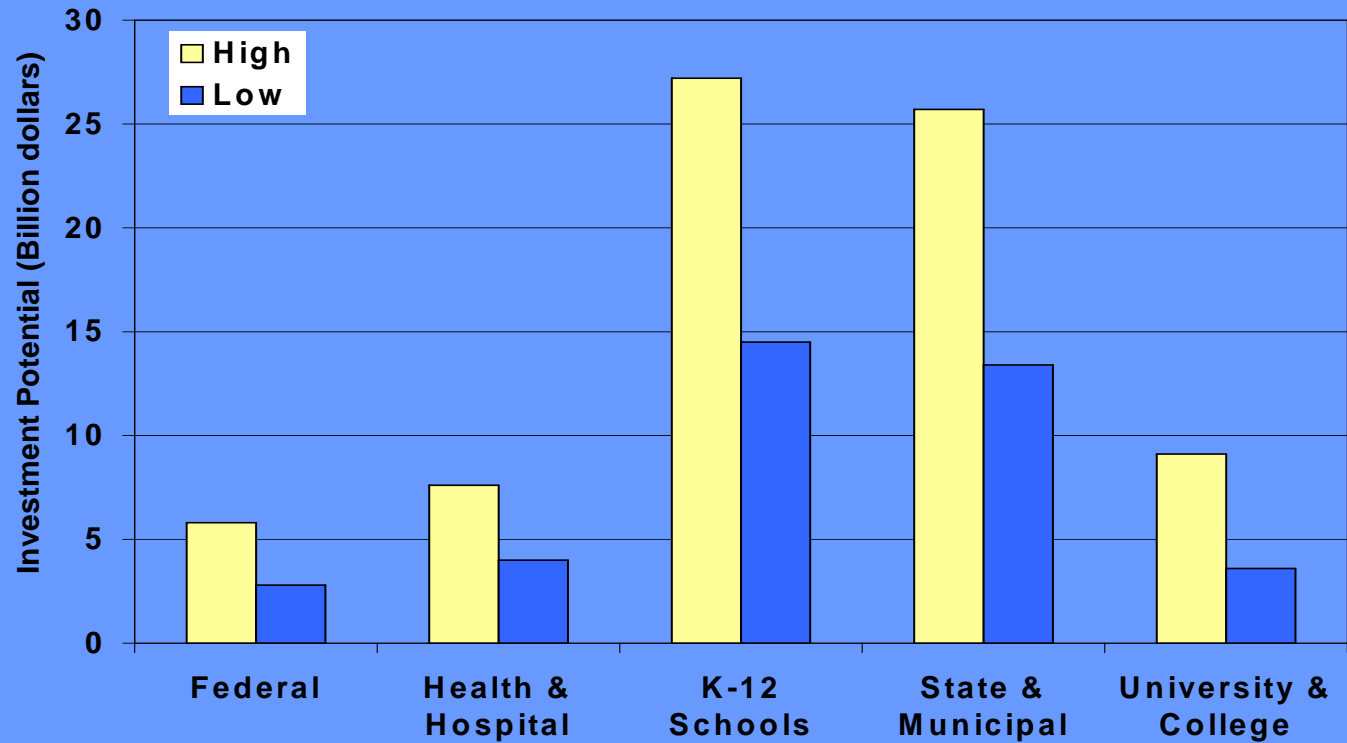


# Public Buildings Available Energy Savings





# Public Buildings EE Investment Needs



# ESPC Project Financing

- All financing done by third parties
  - Major banks and financial companies
  - Specialized energy project financiers
- Most projects are 100% debt
- Most public building financing is tax-exempt
  - Bonds
  - Municipal leases, master leases, COPs
  - Revolving loan funds
  - Bank loans



# ESPC Finance Market Changes

- Major banks exit the business
- Small projects hard to finance
- Tax equity dries up
- Rates up 150-250 basis points (1.5-2.5%)
- Loan terms down – 15 years max
- Commitment times down to 30-60 days
- Feds (USAF) refinancing some projects



# *Déjà Vu All Over Again?*

- Lenders uncertain
- Problem is not validity of energy savings
- Problem is viability of customers
  - Will states and local governments go bankrupt?
- Lenders want additional security
  - Loan guarantees
  - Project equity



# ARRA: Tidal Wave of Money

- State Energy Program (SEP)
  - \$50M in 2008 to \$3.1B in 2009/2010
- EE & Conservation Block Grants (EECBG)
  - \$0 in 2008 to \$3.2B in 2009/2010
- Administration and Congress looking for immediate results



# ARRA: Tidal Wave of Money

- Use it or lose it
  - 50% in 2009 – distributed by SEP formula
  - 50% in 2010 – performance-based
- SEP Guidance -- ARRA must produce
  - Jobs
  - Energy Savings
  - Renewable Generation
  - GHG Reductions



# ESPC Poised to Deliver

- \$3-6 B pipeline of state/local ESPC projects
- ESPC can leverage ARRA funds
  - 3:1 leverage = 4x jobs, energy savings, etc.
- Need to reinforce project financing
- Need to package solutions for state/local government



# Use ARRA \$\$ to Reinforce Financing

- Loan guarantees
- Credit enhancements
- Leveraged revolving loans funds



# Conclusion

- ESPC  $\approx$  \$3.5B of state/local projects in 2009
- ESPC is a key component of ARRA
  - Delivery infrastructure in place in every state
  - \$3-6B project pipeline
- ESPC financing still functioning
- ARRA \$\$ can reinforce financing and accelerate state/local ESPC



# More Information and Questions

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