Third-Party Energy Efficiency Finance:

Which Financing Vehicle Gets You On the Road to Efficiency?

ACEEE EE Finance Forum, Chicago 2013

OVERVIEW OF EE FINANCING VEHICLES *Bob Hinkle – Metrus Energy*

Vehicles, Savings, and Services



Energy Savings

Traditional Service and Energy Savings

SELF-FUND: Pay up-front with cash or credit

TAX EXEMPT BOND: Borrow for large-scale retrofits at public sector facilities

LEASE: Rentto-own for a fixed price

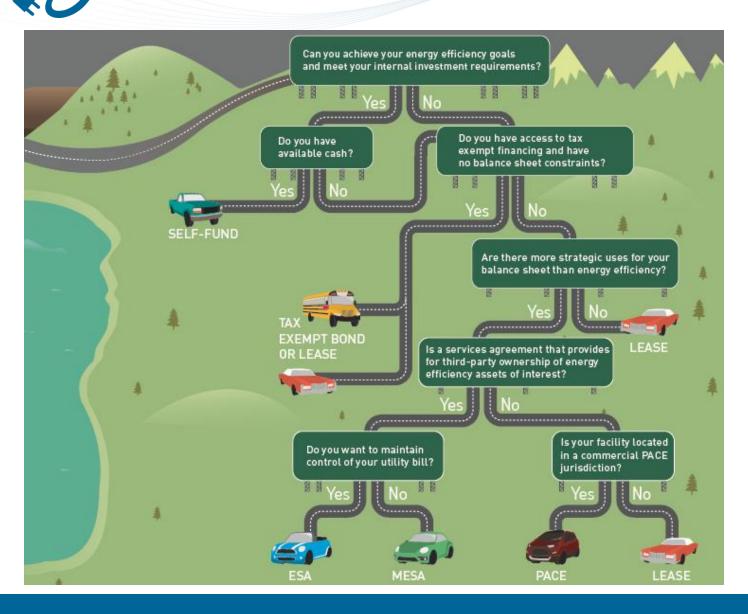
Full Service and Higher Energy Savings

PACE (Property Assessed Clean Energy): Pay-toown using a priority property tax lien

MESA (Managed Energy Services Agreement): Payto-own using a fixed service charge set equal to historical costs by giving control of your utility bill to the MESA provider

ESA (Efficiency Services Agreement): Pay-toown using a service charge set below historical utility costs that reduces operating expenses and mitigates performance risk

Financing Influences Project Scope



Is the chosen financing a capital investment or an operating cost?

Balance sheet = CAPEX Income statement = OPEX

 <u>CAPEX</u>: What is the total cost, the on-going savings, and the simple payback (SPB)?

<u>**RESULT</u>** = project composed of energy efficiency measures (EEM) with SPB <3 years</u>

• **OPEX:** Which EEM's optimize building performance and save you money on an operating basis?

<u>**RESULT</u>** = project composed of integrated EEMs with SPB <7 years and *immediately lowered* operating costs</u>

What is Under the Hood?

SELF-FUND

Pay for a project out of internal capital budget or by taking out corporate debt

On-balance sheet

SELF-FUND

Customer retains all savings but assumes project performance risk

Capital budget constraints often lead to single measure, short-term projects that limit savings and don't optimize total building performance

TAX EXEMPT BOND

Up to 100% financing for 15 to 20-year terms

On-balance sheet

Low cost of capital (i.e., tax exempt financing rates)

Limited to public sector customers with large-scale projects due to the high cost of bond issuance

LEASES

Up to 180% financing via a capital or operating lease

5 to 10 year lease terms Conger terms, up to 15 years, are possible for tax exempt customers)

On-balance sheet (upcoming accounting charges will likely eliminate the use of operating leases)

Relatively flexible on credit quality

Best for big ticket equipment

Customer owns project performance risk due to fixed lease payments

COMMERCIAL PACE

Up to 180% financing for 15 to 29 year terms

Obligation is secured by priority lien on real property

Customer payments are fixed

PACE repayment is tied to property, not present owner

Requires mortgage holder consent, which may be time consuming and tough to get

Although 35+ states have PACE, many do not have active programs

Emphasis on commercial real estate

MESA

199% Financing

Off-balance sheet

Can fund long (5-10 year) payback period projects

Cash flow neutral pricing, payments set equal to historical utility costs

Providers manage projects and costs, assume performance risk and give advice

MESA provider takes control over customer-utility relationship (MESA provider pays customer utility bills)

Strong customer credit profile, emphasis on commercial real estate

ESA

188% financing

Off-balance sheet

Can fund long (5-10 year) payback period projects

Cash flow positive pricing, payments set below current historical utility costs and based on per unit energy savings (i.e., a "negawatt" charge)

Providers manage projects and costs, assume performance risk and give advice

Ability to fund multi-facility projects

Strong customer credit profile, emphasis on owner-occupied facilities



SAVED IS EARNED

Bob Hinkle

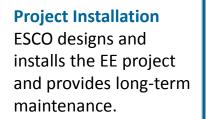
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EE PROJECT DEVELOPMENT AND FINANCE *Bob Anderson – Green Campus Partners*

EFFICIENCY SERVICES AGREEMENTS Erik Birkerts – Clean Energy Trust (Metrus Energy Advisor)







Broad Public Relations Platform As part of the DOE & White House Better Buildings Challenge, Customer will enjoy a prominent platform to advertise projects.

Efficiency Services Agreement

Metrus covers 100% of project cost. Customer repayment based on avoided energy use and reduced operating expense.

ESCO/Contractor



Efficiency Services Performance Contract (ESPC) Agreement Metrus and ESCO/Contractor enter into a turnkey project installation and maintenance contract, backed by a performance guarantee.

COMMERCIAL PACE Katrina Managan – Johnson Controls

