Overview of Presentation

- Introduction to NAESCO
- NAESCO/LBNL ESCO Market Survey
- Energy Savings Performance Contracts (ESPC)
- How ESCO Customers Pay for Projects
- Types of Financing
- Problems and Issues
Introduction to NAESCO

- National Association of Energy Service Companies
- About 70 companies
- Aggregate annual revenues about $6 billion

History of the ESCO Industry
- $45 billion in projects paid from savings
- $50 billion in savings – guaranteed and verified
- 400,000 person-years of direct employment
- $30 billion of infrastructure improvements in public facilities
- 450 million tons of CO2 savings at no additional cost
NAESCO/LBNL ESCO Market Survey

- Performed every three years
- Survey all companies that meet LBNL ESCO Definition
  - A company that provides energy efficiency-related and other value-added services and for which performance contracting is a core part of its energy-efficiency services business.
- Last survey – 2015 – Gathered Data from 2014 Performance
  - 91% response
  - Report out this summer
Revenue Share by Market Segment

![Revenue Share by Market Segment Chart]

- **Market segment**:
  - Commercial/Industrial
  - Federal Govt.
  - Healthcare
  - Housing/Other
  - K-12 Schools
  - State/Local Govt.
  - Univ./Colleges

- **Revenue by market segment (billion $, nominal)**:
  - 2008
  - 2011
  - 2014
Revenue Share by Contract Type

Gross revenue (in million, nominal)

Market segment

Contract Type: Consulting, Design-build, Other, Performance-based, PPA-onsite

NAESCO - National Association of Energy Service Companies
How Do ESCO Customers Pay for Projects?

Mode of project finance:
- Only financed
- Mostly cash
- Mostly financed
- Only cash
- Balanced

Number of ESCOs with performance based projects that use project finance

Market segment:
- Commercial
- Industrial
- Federal Govt.
- Healthcare
- Housing
- Other
- K-12 Schools
- State Local Govt.
- Univ. Colleges

Graph showing the distribution of ESCOs across different market segments based on their project finance mode.
Energy Savings Performance Contracts Use Guaranteed Savings Financing

- Customer finances project & assumes **debt obligation** on balance sheet
- ESCO assumes **project performance risk** & guarantees that savings will be sufficient to cover customer’s annual debt obligation
- Lender assumes **credit risk**

Diagram:
- Financier
- ESCO
- Customer
- Lease agreement
- Guaranteed savings contract
Type of Financing Used

- Financial method usage level:
  - Low (0 to 33% of projects)
  - Medium (33% to 66% of projects)
  - High (above 66% of projects)

- Market segment:
  - Commercial Industrial
  - Federal Govt.
  - Healthcare
  - Housing Other
  - K-12 Schools
  - State Local Govt.
  - Univ. Colleges

- Financial methods:
  - Bonds
  - Lease
  - Other
  - Term Loan

- Diagram shows the number of ESCOs using financial methods for each market segment.
Financing Problems and Issues

- Difficult to Finance Small Projects (<$500k)
  - Large ESCOs can’t implement economically
  - Lenders don’t want to underwrite customers and ESCOs

- New SEC rules limit the ESCO role
  - Can’t “arrange financing” unless registered with SEC
  - Dependent on customers’ attorneys and financial advisers to understand and package loans, leases, rebates, tax credits, etc.

- New accounting rules eliminate operating leases
  - Liability has to be on customer or ESCO balance sheet
  - Extend federal Special Purpose Entity structure to MUSH market
Questions?

Donald Gilligan
NAESCO
(978) 498-4456
dgilligan@naesco.org