



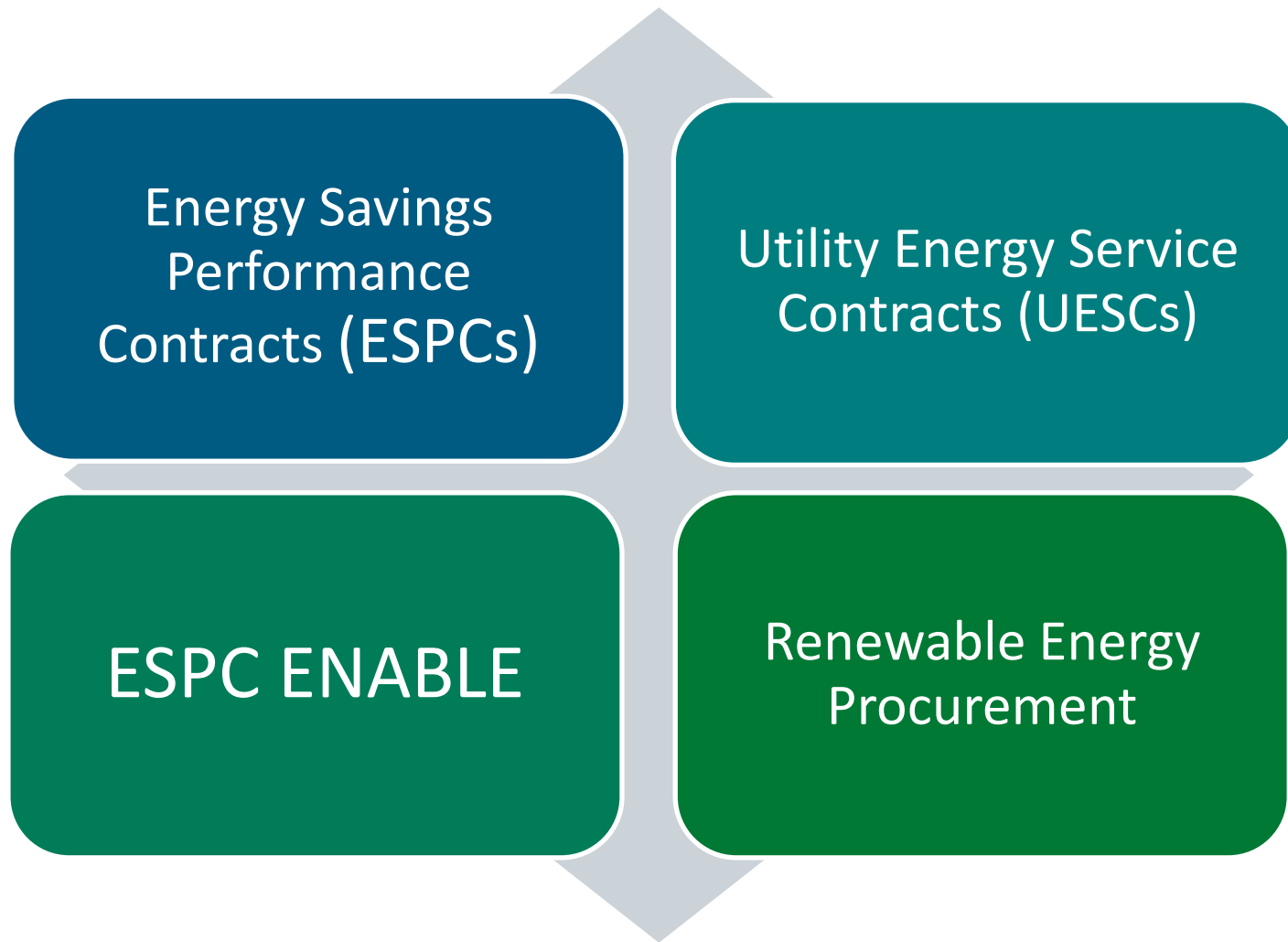
The Future Energy Efficiency Financing in the U.S. Federal Sector

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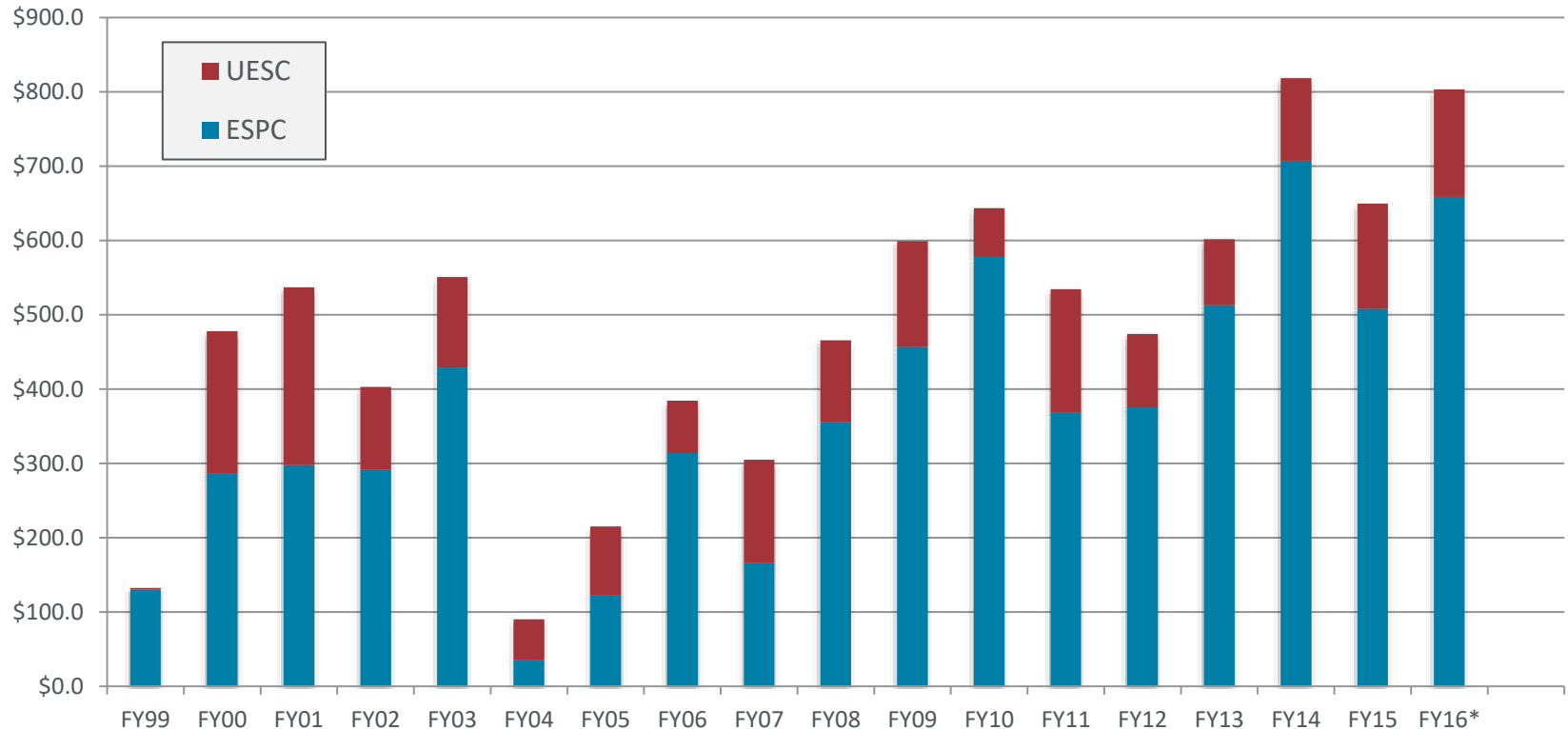
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Methods to Finance Deep Energy Retrofit Projects



History of Performance Contracting in the U.S.

Performance Contracting Awards (FY99 - FY16*)



*As of 8/15/16

\$8.7B in total performance contracting investment since 1999

Performance Contracting Issues

- **Legislative authority:** Long-term government contract obligations
- **Contract/financial:** Mix of appropriations and operations budgets
- **Risk Management:** Relevance of assumptions and conditions to the savings estimated to ensure savings come from the proposed ECMs, including any anomalies or unusual circumstances.
 - *Managing the government’s risk*

Making sure that the project is well designed, based on sound technical and fiscal practices, and that the ESCO fulfills its obligations.
 - *Managing the ESCO’s risk*

The ESCO will build perceived risk into its proposal (savings and costs). Being cognizant of the ESCO’s risks associated with advanced ECMs and deep retrofit projects can enable the government to achieve additional project scope without having to incur a “risk premium.”



How Do We Manage Risk?

Federal performance contracting projects are complex and are subject to numerous regulations and requirements. FEMP provides a comprehensive suite of resources to ensure that ESPC projects are designed, awarded, contracted, financed, and managed fairly, efficiently, and successfully.

FEMP Project Support:

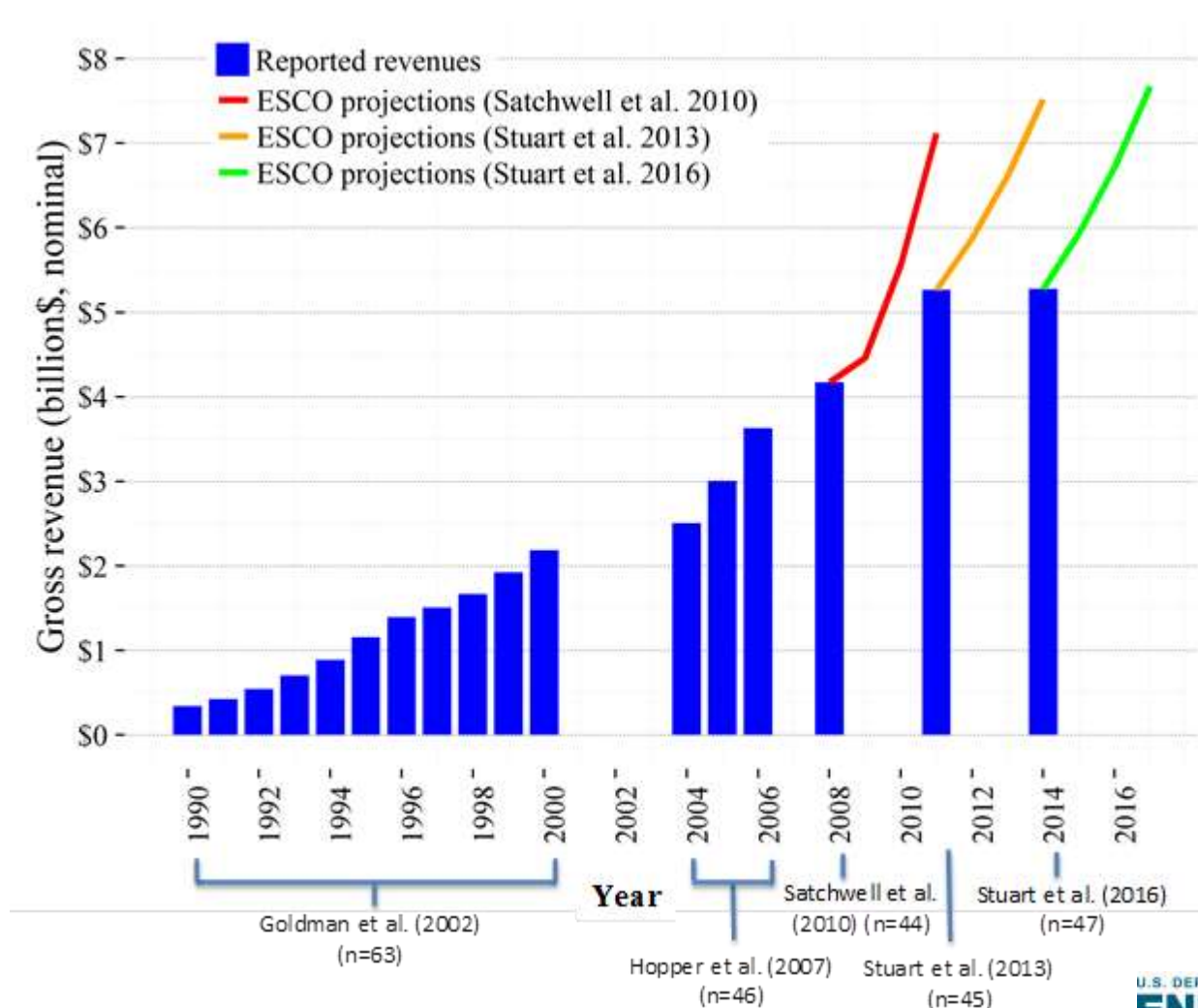
- **Federal Project Executives (FPE):** help agencies launch ESPCs
- **Project Facilitators (PF):** guide agencies through project development and implementation
- **Comprehensive ESPC training:** best practices/guidance for agency staff

FEMP Tools:

- **Qualified ESCO List:** ESCO vetted on technical, financial, and experience merits
- **ESPC Task Order RFP template:** speeds up the procurement process
- **Measurement and Verification (M&V) Guidelines:** ensures proper rigor in assessing and reporting of project performance
- **Investment Grade Audit (IGA) Checklist:** validates project structure/approach
- **Life of Contract (LOC) Services:** helps ensure ongoing project performance

Current and Projected U.S. ESCO Industry Size

Lawrence Berkeley National Lab survey of ESCO executives. Industry size is ~\$5.3 billion; industry executives expect future growth.



Industry Survey Findings Related to Financing

- More than half of the ESCOs surveyed indicated that tax credits were used. More than 85% of the respondent ESCOs in the state/local, K–12 and university/college sectors report using tax credits.
- 100% cash funding is most prevalent in the commercial/industrial sector; projects in the federal, state/local, K–12, university/college and healthcare sectors had a high prevalence of financing 100% of project costs.
- In the state/local market, term loans, leases, and bonds are the most commonly used financing approaches. Most federal projects were financed using term loans. Financed projects in the commercial/industrial sector largely relied on leases or term loans.
- Enabling policies and innovative financing mechanisms may be needed to remove market barriers for completing smaller projects (< \$500,000).

President's Performance Contracting Challenge (PPCC)

President Obama announced federal agencies will further expand their use of performance-based contracts through 2016 to upgrade the energy efficiency of federal buildings to maximize energy and water reductions at no cost to taxpayers.

Goal: \$4B by December 31, 2016

The extension of the PPCC will further drive:

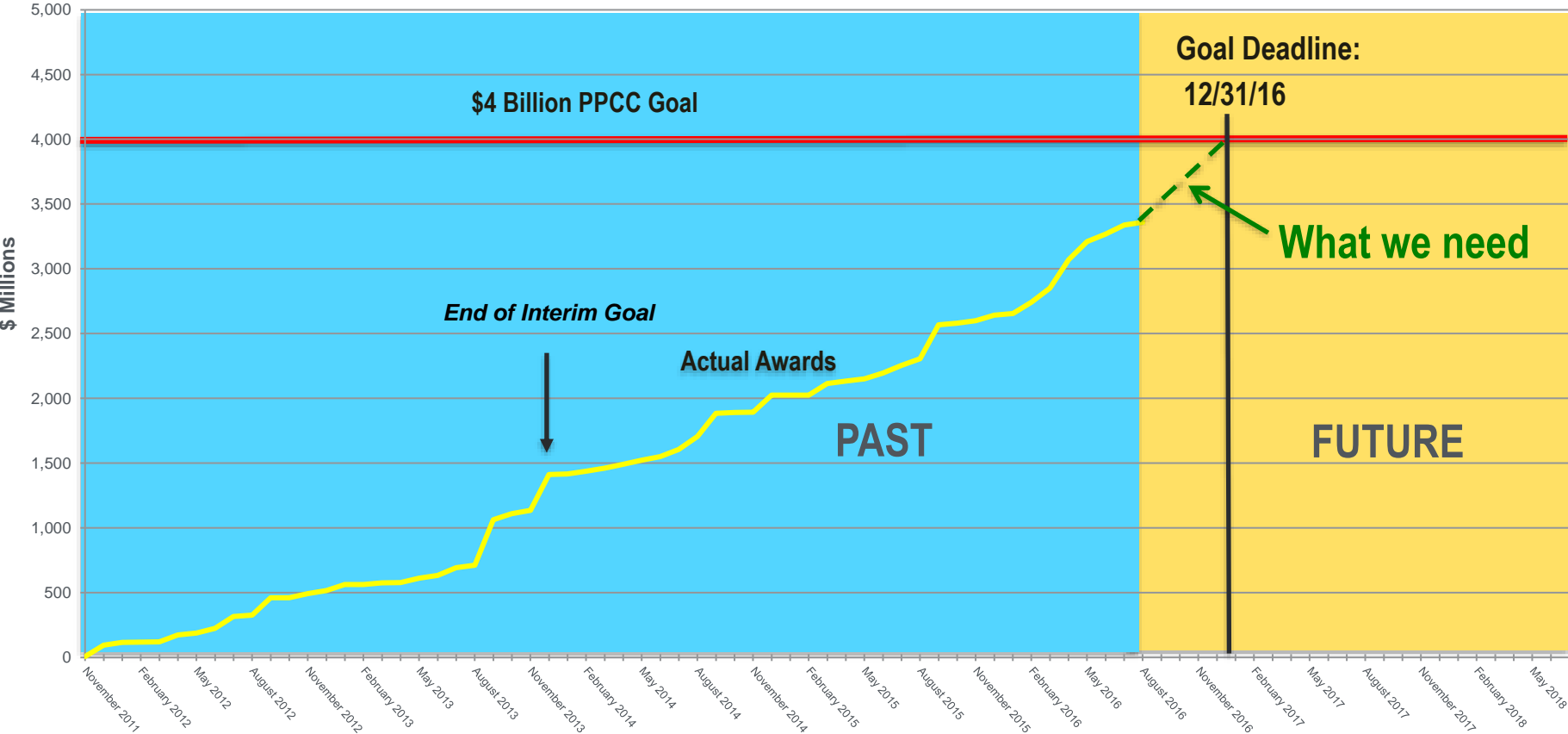
- Federal investment in energy efficiency technologies
- Innovation and partnerships between the federal government and the private sector



Annex 61 is consistent with U.S. goals and strategies – increasing the financial and technical achievements of energy efficiency programs.

Past and Future Investment

Cumulative PPCC Awards
(as of 8/15/16)



Conclusions

- The nation is on track to meet or surpass the President's Performance Contracting challenge.
- To continue U.S. progress in energy efficiency, FEMP will continue to facilitate performance contracting project development and improve contract outcomes, including support of DER projects.
- FEMP offers many resources that improve the speed, yield, risk management and cost-effectiveness of ESPCs.
- Such resources are especially important to address the technical and financial complexity of DER projects.
- Leadership, guidance, and involvement is critical to achieving energy efficiency financing goals.



QUESTIONS?

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