
VA's Approach to Financing Energy Investments

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August 2006



VA's Approach to Financing Energy Investments



Behind the
Wheel:
Management
Focus

■ Contents

- Identifying potential investments
- Selecting projects
- Funding and procurement vehicles
 - Enhanced use leasing
 - Performance contracting
- What's Next?



Behind the
Wheel:
Management
Focus

- Identifying potential investments
 - Independent energy assessment (contractor cannot bid on project implementation)
 - Conducted for facilities within a region (21 regions)
 - Includes energy and water, commodity purchasing and billing/tariff review
 - Preliminary cost & savings estimates



Behind the
Wheel:
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- Selecting projects
 - Region prioritizes facility measures
 - Bundles measures into package meeting internal requirements
 - Allows longer-term payback, harder-to-justify measures to be combined with measures that pay back more quickly



■ Funding & procurement vehicles

- Direct funding is first choice
 - No specific line item in Congressional budget
 - "Major," "minor," non-recurring maintenance projects
- If direct funding not available:
 - Enhanced use leasing (EUL)
 - Performance contracting (UESC, ESPC)



- What is Enhanced Use Leasing?
 - EUL is a program based on a law unique to VA that allows VA to lease property/facilities to other entities for up to 75 years
 - Enhanced-Use Leases of Real Property, Title 38 U.S.C., Sections 8161 - 8169
 - Originally authorized in 1991, now in effect through 2011
 - DOD, NASA have a similar authority



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- How does EUL work?
 - VA makes cooperative arrangements with public or private partner
 - VA executes long term out-lease of land and/or buildings (up to 75 years)
 - In return, VA receives consideration, in whole or in part through revenue and/or in-kind consideration in the form of facilities, space, or provision of goods or services
 - Lessee owns the property/facilities for the term of the lease
 - Congress must approve the deal



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- Using EUL for energy projects
 - VA leases central boiler/chiller plant, other necessary property to ESCO
 - ESCO designs, builds, owns and operates (cogeneration) energy center
 - Supplies steam, electricity, chilled water to VA medical center, other customers
 - Maintains, repairs and replaces all central plant equipment and systems through life of the lease



- Using EUL for energy projects *cont'd*
 - Can include ESCO installation & maintenance of energy conservation measures
 - Install agreed-upon ECMs up-front, and/or
 - Define and negotiate in the future ("energy savings initiatives")
 - Can structure as an ESPC
 - Agreement can allow for ECMs at other than the EUL site



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**Behind the Wheel:
Management Focus**

EUL Energy Project Example: N.Chicago Energy Center





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- **N. Chicago Energy Center**
 - Developer constructed, owns, operates and maintains state-of-the-art cogeneration energy center
 - VA buys electric and thermal energy via 2-year agreements
 - Energy services initiative (ESI) agreement signed 11/05 for 7 ECMs in 5 facilities



- ESI Agreement
 - \$9.9 million investment
 - 100% financed
 - Interest rate 150 basis points above 11/30/05 10-year Treasury Note
 - Guaranteed cost savings
 - \$ 1.63 million in year 1
 - \$16.69 million over period of contract (10 years)



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■ ESI Agreement

cont'd

- All risk of non-performance is assumed by contractor and/or its lender
- VA keeps equipment if contractor does not perform and lender cannot find a suitable replacement
- No termination for convenience ("T for C") clause
- No "hell or high water" clause



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■ ESI Agreement

cont'd

- Reconciliation at each year-end
- 3rd party oversight and monitoring during design and construction phase
 - Continues to in-depth review of annual reconciliation of estimated vs. measured/verified savings



■ ESPC & UESC

- Pilots in 2 regions to solicit ECM implementation from GSA schedule(s)
 - ESI agreement a template for VA ESPC
- Ongoing discussions with DOE/FEMP re use of DOE Super ESPC under government-identified project approach
- New National Energy Business Center in Cleveland established to provide all energy contracting services to VA



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- What's Next?
 - Near term:
 - Full deployment of Business Center
 - Solicitations for ECM installation via performance contract in 2 pilot regions
 - Solicitations for energy assessments
 - Potential energy center solicitations for facilities in CA
 - Longer term:
 - Potential additional ESI agreements



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