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ESPC and UESC:
Energy Projects without Appropriations

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Outline

- What are these things, anyway?
- Why can't I just do the projects from appropriations?
- How do they work?
- What's the difference?
- Why's it so hot here?
- Which one should I go with?

What are these things?

ESPCs ("Energy Savings Performance Contracts") and UESCs ("Utility Energy Service Contracts") are 3rd-party financing vehicles that permit private sector companies to install energy-saving projects at federal government facilities for no up-front cost. The investment costs of the projects are then paid from the energy (and energy-related) savings generated by the energy conservation measures (ECMs) over the project term, which usually ranges from 10 to 20 years.

Why can't I just do this stuff with appropriations?

- Because Congress doesn't provide appropriations for "this stuff"
  – Small exceptions, but funding is minuscule compared to need … and very competitive
  – When delays (1-5 yrs.) are norm, "opportunity cost" – i.e., of lost savings – has to be considered
- Where appropriations are devoted to energy infrastructure (e.g., replacement of end-of-life chillers and boilers), they are often inadequate for procuring high-efficiency models

How do they work?

- Step 1 is a simple ("walk through") energy audit, conducted by the contractor at your invitation
  - From this comes an initial project proposal
  - All of this is done at contractor's risk
- Step 2, IF both parties are still interested, is a more detailed "investment grade" audit
  - Government signs commitment before this audit that commits it to paying for costs incurred by contractor
- Step 3 is negotiation – over ECMs, price, financing terms, etc.

How do they work (cont.)?

- Step 4 is construction
  - Not really any different than a typical agency construction project
- Step 5 is "performance period"
  - Agency makes payments to contractor/financier
  - If O&M is part of deal, this is conducted by contractor
  - If measurement and verification ("M&V") is part of deal (always in ESPC, sometimes in UESC), this is conducted (usually by contractor)

What’s the difference?

- ESPCs usually done under a template IDIQ contract (Army and DOE both have IDIQs)
- Army and DOE IDIQs have competitively selected contractors per regions of the country

- ESPCs require contractor to guarantee savings
- B/c of guarantee, M&V of savings also mandatory

- UESCs do not have IDIQ contracts, but FEMP provides model agreement to agencies
- UESCs are executed by your local electric and gas utilities, usually under an “Area Wide Agreement” with GSA
- UESCs don’t require savings guarantee
- M&V not mandatory in UESCs, but can be (and often is) negotiated

What's the difference (cont.)?

Bottom line: Not that much

Which one should I go with? (point-counterpoint)

- ESPCs give you a competitively selected contractor
- DOE's Super ESPC assures you an experienced project facilitator provided by FEMP
- ESPCs allow bundling of small sites (within an agency) across a broad geographic region
- ESPCs require ESCO to guarantee – and provide measurement and verification (M&V) of – savings

- UESCs let you work with a known partner: your utility
- Yes, but you have to pay for him/her, and you can get one via FEMP for a UESC too
- But utilities are usually willing to do UESCs for smaller jobs (< $1M), where ESPC ESCOs generally won't go that low
- Yes, but guarantee costs money (since it raises financier's risk, and thus interest cost) and so does M&V … and sometimes you can get these with UESC too

No, really – how should I decide?

- Do you like and trust your utility?
- Does your utility have an “Area-Wide Agreement” or other means (e.g., BOA) to do UESCs?
- Does your utility have a track record doing UESCs?
- Are guaranteed savings important to you?
  – Or is just getting the infrastructure the main driver?
- Is having an existing contract important to you?

Conclusions

- Both ESPCs and UESCs provide energy-saving projects with no up-front cost to site or agency
- Both use 3rd-party financing to implement projects
- Both require agency to pay off project investment costs over project term (with interest)
- Both are structured so that savings equal or exceed payments
- ***Which*** is less important than ***that*** – indecision and inaction costs money!

Would you like to know more about this session?

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- Don't forget to fill out and drop off your session evaluations.