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# Advanced Alternative Financing

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# Session Objective

Explore the possibilities and discover the complexities of alternative financing projects—an immediate need, due to dwindling federal funds.

# Session Objectives

- Alternative Financing is necessary due to shrinking budgets and provides many possibilities but also involves many complexities. This session will cover:
  - Tools
  - Risk Discussion
  - Complexities
  - Importance of Teamwork and Cohesion
  - Myths

# Tools for Alternative Financing

- Any alternatively financed project is more complex and carries more risk than traditional MILCON or similar type construction projects
- Alternative Financing is just ONE of the tools in the toolbox, it will not get you all the way...

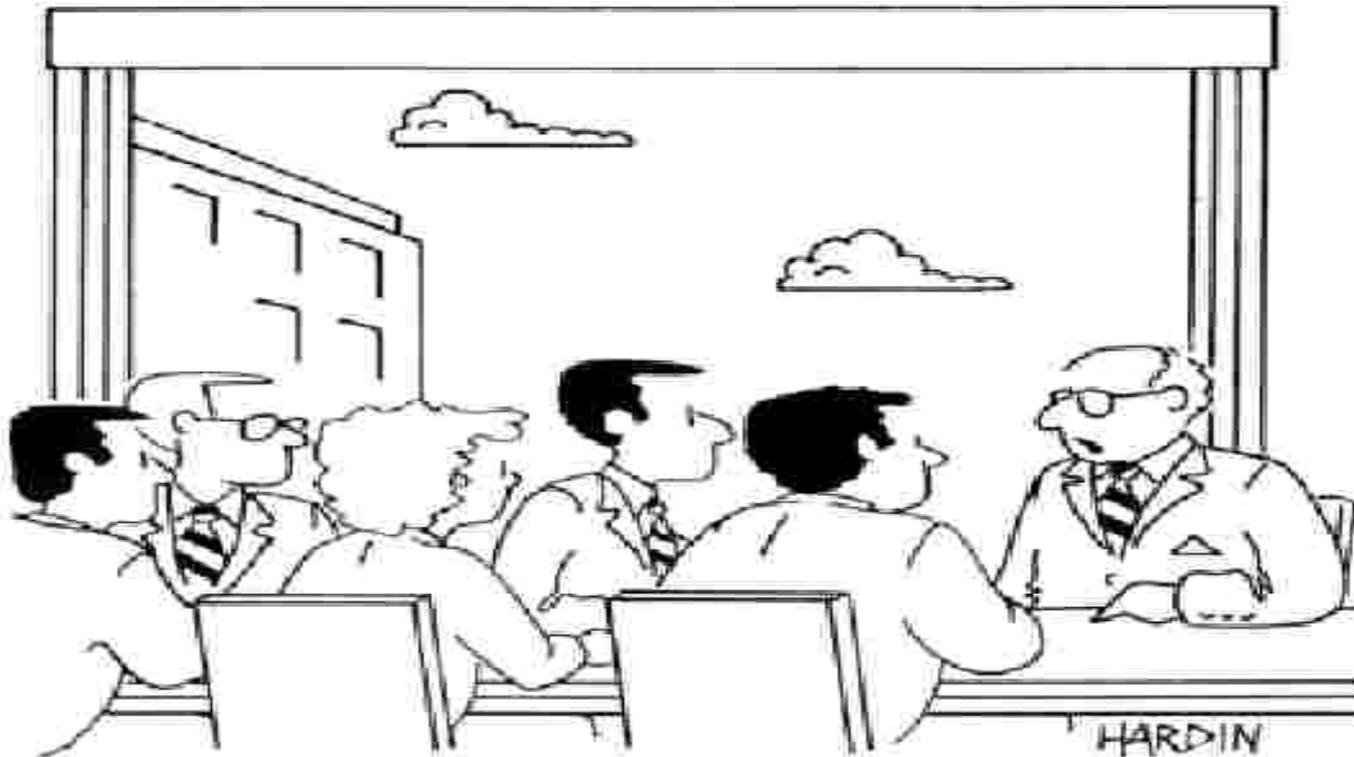
# Tools for Alternative Financing

- No one tool will get you to your goal
  - Utilize a mixture of ESPC/UESC, MILCON, SRM Projects, Low/No Cost Projects, and Utility Rate Analysis
  - Use both a high level, overarching view as well as a microscopic, single project level view

# Tool's for Alternative Financing

- Contracting Mechanisms:
  - Energy Savings Performance Contracts (ESPC)
    - USACE - Huntsville Center ESPC IDIQ Contract
    - DOE Super ESPC Contract
  - Utility Energy Services Contracts (UESC)
    - Can be done through a BOA or GSA contract
    - Contract can be let through the local DOC or going through another agency line DLA-Energy or USACE–Huntsville Center

# Risk



"We've considered every potential risk except the risks of avoiding all risks."

# Risk

- Alternative financed projects are risky
  - For the Contractor
    - Working at their risk in development up through Task Order award
    - Guaranteeing savings for up to 25 years
  - For the Government
    - Mission Changes
    - Government staff familiarity with “alternative” concepts
    - Personnel turnover

# Complexity

Normal Construction Project



Apple iMac

Alternatively Financed Project



Dell XPS 410

# Complexities

- Alternatively Financed Projects are more complex than traditional construction projects
  - Government review/approval/process delays add complexity
  - Long development phase
    - Requires detailed communication
    - Patience
  - At many sites the project begins with “free range” on all buildings
    - Leads to many ideas floating, requires a clear plan to be developed early on
  - Input from multiple site personnel is required
    - Energy Office, Master Planning, Base Ops, DPW, Garrison Level Staff, Resource Management, etc...

# Complexities

- Alternatively Financed Projects are more complex than traditional construction projects (cont'd)
  - Multiple Contractors working in the same space
    - Base Ops Contractor
      - May see ESCO as a threat to jobs
    - Government Maintenance Staff
      - May see ESCO as a threat to jobs
      - May treat ESCO as a “second class citizen”
    - Other Contractors doing similar work
      - If you have a controls contractor who is different from the ESCO
      - If you've had past work done that is in your new scope there may be resentment

# Complexities

- ESPC/UESC Approval Processes
  - Add significant time to the schedule
    - Notice of Intent to Pursue (staffed at the Site Survey Phase)
      - Initial notification document
    - Notice of Intent to Award (staffed at the feasibility/proposal phase)
      - Garrison → IMCOM Region → HQIMCOM
      - Depending on Project Size and Complexity, 2 potential additions:
        - » OACSIM (project > \$10M) → DASA(IE&E)
      - DASA level depends on renewable aspects and real estate transactions

# Teamwork



**TEAMWORK**

Share Victory. Share Defeat.

# Teamwork and Cohesion

- Alternatively Financed Projects require a significant amount of teamwork to be successful
- In many cases you are entering into a 25 year “Marriage”
  - Must not take the approach of Contractor and Government
  - Must take the approach of “Project Team” that includes all parties functioning as a cohesive unit

# Teamwork and Cohesion

- 99% of issues that arise are due to a lack of communication and teamwork
  - Example:
    - Garrison X and Contractor Y entered into an ESPC. Project was installed and going well until there was a breakdown in communication lines, the team stopped functioning as one unit, and it became a “I’m the government, you’re the contractor” relationship. This went on for several years until the relationship eventually broke down and there had to be a termination for convenience. The relationship had deteriorated past the point of repair.
  - Communication
    - Communication is the key for a solid team
      - Regular team meetings
      - Notification of any potential changes as early as possible
      - Identify impacts of Government directed changes on project savings

# Myths

- “Blank Check” to the contractor...
  - *False:* there is close coordination between the government, contracting agency, and ESCO/Utility on ALL aspects of the project: Scope, Development, Construction, M&V, Change Orders, etc...
- No recourse if the project doesn't save...
  - *False:* Yearly M&V reports are conducted using a FEMP approved M&V plan. The Government & ESCO work together during this process and the M&V reports are reviewed and verified by the Government.

# Myths

- ESPC/UESC is simply a infrastructure improvement tool, not an energy reduction tool...
  - *False:* while ESPC/UESC projects do provide a means to upgrade infrastructure, energy reduction (demand side & generation side) is the backbone. If we don't save MMBTU's, we won't save the \$\$'s to pay for the ESPC.
- I will pay for my projects through MILCON, SRM, ECIP, etc...
  - The government can't afford to fund all projects through appropriated dollars. The money simply isn't there. Use ALL the tools in your toolbox.

# New Ideas in Alternative Financing

- Energy Services Agreements within ESPC
  - Financier Owned, ESCO Operated & Maintained
  - Must be owned by a tax paying entity
  - Certain level of Renewable Power is guaranteed by contract, you don't pay per KW, you pay for "x" amount of power per year, verified through M&V – *Key difference from a PPA, the power is guaranteed just like the savings from new lights or new controls*
  - Provides opportunity for Renewable Power generation larger than a traditional ESPC can support due to tax incentives

# Questions?

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