

Proposal for the Committee on Deficit Reduction Saving Money and Creating Jobs through Private Sector Financing of Energy Efficiency

Summary

- *The federal government is America's largest energy consumer*
- *The federal government can reduce its energy consumption and spending, create new, private sector jobs, and meet its energy and environmental goals through the use of private sector financing mechanisms such as Energy Savings Performance Contracts (ESPCs).*
- *The federal government can reduce capital expenditures through using ESPCs to replace failing equipment*
- *To qualify to enter into an ESPC with the federal government, an energy service company must meet rigorous requirements set forth by the Department of Energy. ESPCs with the Federal government are vigorously competed by qualified energy service companies (ESCOs).*
- *According to the US Department of Energy, as of March 2010, 550 ESPCs had been awarded by 25 agencies in 49 states. They generated \$11 B in energy cost savings, \$9.6 B of which funded the energy projects and \$1.4 B reduced government spending.*
- *Oak Ridge National Laboratory estimates that utilizing the entire ESPC Contract ceiling for private sector investment and activities in federal facilities will create a net \$21.2 B in energy savings and eliminate the need for an additional \$33.6 B in federal infrastructure spending.*
- *Private sector financing mechanisms such as ESPCs produce more than 11,000 American jobs per \$1B of private sector investment.*
- *By law, and on a negotiated basis, the private sector contractor measures, verifies and **guarantees** energy savings in the first year, and every year over the life of the contract.*
- *Due to an influx of ARRA monies and a change in how CBO scores ESPCs, the use of private sector financing has dropped dramatically in the last few years.*
- *Congress should direct agencies to utilize ESPCs, and should direct CBO to score the savings correctly.*

Background

The Department of Energy has estimated that \$1.4B in annual Federal energy efficiency investments will be required to meet existing sustainability requirements by 2015. DOE has further identified \$80 Billion in energy infrastructure that could be addressed through private sector financing mechanisms.

The government can meet its energy savings goals and requirements, reduce Federal spending, and create new, private-sector jobs by using alternative financing mechanisms. Costs are impacted in several ways:

1. *The agency requires no capital budgets to upgrade and replace energy related infrastructure*
2. *The agency can rely on the expertise of approved private sector energy service companies for energy-related issues, thereby reducing the need for energy experts at each and every federal agency*
3. *ESPC projects reduce government waste in energy spending and contribute to an overall reduced need for energy-related expenditures for years to come. Agencies save money as they save energy.*

In 2007, Congress mandated that Federal energy managers audit 75% of their buildings on an ongoing basis and that they benchmark and use a web based tracking system to keep track and provide transparency. Originally, the language also required Federal Energy managers to undertake the energy efficiency improvements identified in these audits; however, that language was modified (changing “shall” to “may” because of arbitrary Congressional Budget Office scoring of ESPCs).

Scoring Issue

In 2002, the Congressional Budget Office began scoring ESPCs as mandatory expenditure; unfortunately, scoring rules do not provide a means for accounting for the guaranteed savings since these savings are in appropriated dollars (mandatory versus discretionary government funds). This scoring approach does not fit the ESPC model. CBO scores the total obligation upfront and does not offset this with the savings accrued over time. OMB takes a different position and considers the program “budget neutral” and it “saves the government money”. It is clear that although the program “scores” it does not “cost”; in fact, CBO has agreed in meetings and in a July 2011 letter to Chairmen Upton and Bingaman that ESPCs are admittedly different from other IDIQ contracts because of the guarantee of energy savings. However, CBO does not have a means to account for this under their scoring rules. In short, even though ESPC contractually guarantee savings, for every year of the project, CBO fails to give credit to these savings.

Information on ESPCs

Private sector financing mechanisms include Energy Savings Performance Contracts (ESPCs) and Utility Energy Service Contracts (UESC) and both are available to fund energy efficiency, and in some case energy generation upgrades, needed at federal facilities. Under each, the private sector installs new energy efficient equipment in federal facilities at no upfront cost to the government. Federal agencies pay off this investment over time. **In the case of ESPCs, the private sector contractor further guarantees the savings** - by law, and on a negotiated basis, the government never pays more than they would have paid for utilities if it had not entered into the ESPC. ESPCs and UESCs have proven to be a highly successful tool to encourage energy efficiency in federal buildings, without imposing associated costs on the taxpayer. In fact, the federal government has historically used ESPC and UESC for more than 60% of its energy efficiency projects. According to the Office of the Secretary of Defense, in 2003, 70 percent of energy infrastructure improvements were implemented through ESPCs. Almost all of these improvements using private sector funds eliminated the need for up front government capital expenditures to fix or replace failing equipment. In addition to improving efficiency and saving taxpayer dollars, implementing new infrastructure can stave-off years of deferred maintenance at federal facilities, while upgrading mission-related infrastructure. Approximately 11,000 American jobs are created with each \$1 B in ESPC investment.

According to the US Department of Energy, as of March 2010, 550 ESPCs were awarded by 25 agencies in 49 states. They generated \$11 B in energy cost savings, \$9.6 B of which goes to fund the energy projects and \$1.4 B was reduced government spending. Use of ESPCs under the new contract (December 2008) has been sparse with fewer than a half a dozen concluded to date. In part, this reduction in the use of private sector funding and expertise was due to a flood of ARRA funding that could be used for energy improvements.

Example of Savings

Under an ESPC at Luke AFB, an energy service company (ESCO) upgraded 874 military housing units, updated lighting and controls in 260 buildings, updated HVAC systems and a central plant chiller, added 375 kW of Photovoltaic solar roofs and added water treatment services base wide. Before the installation of the ESPC, Luke spent \$7029,419 on utility bills each year and afterwards, bills went down to an \$5,500, 416 per year – a savings of 24%. Additionally, \$479,000 annually was generated in ancillary operations and maintenance savings. Although much of these savings went to pay back the ESCO, the base saved significant dollars yearly – dollars that were otherwise being sent up the smokestack.

Requests

*Modify Section 432(4) (42 USC 8253) so that ‘ not later than 2 years after the completion of each evaluation under paragraph (3), each energy manager **shall** and add the requirement that at least half of those projects be accomplished through private sector financing mechanisms.*

Further direct that CBO score ESPCs in a way that allows accounting of the long term cost savings and clearly reflects the “paid from savings” legal definition of ESPCs.

Qualified Energy Service Organizations (ESCOs) approved to work in Federal facilities under the DOE “Super Contract” are Ameresco, Constellation New Energy, Chevron Energy Services, FPL Energy, Johnson Controls, Noresco (a UTC Company), Schneider-Electric, Lockheed Martin, Honeywell, Siemens Government Services, Inc., Trane/Ingersoll Rand, Pepco Energy Services, McKinstry, Benham, Clark, and ConEd Solutions.