ESPC in the U.S. Government: What’s worked and what hasn’t

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Overview

• ESPC has been big success in U.S. Gov’t.
  – ~ 500 projects and ~ $3.8 B invested

• Key contributors to success:
  – strong legislative and executive backing
  – umbrella contracts/simplified procurement
  – dedicated support organization/project facilitation

• But full potential clearly not being reached
  – financing through ESCOs is too expensive
  – split project O&M responsibility sometimes fails

• And new competition requirements may hamper future success
U.S. Gov’t. Energy Picture

• $18 B/yr. energy bill
  – $6.5 B/yr. alone for portfolio of 500,000 buildings

• Federal Energy Management Program (FEMP)
  – Government’s in-house energy consultant
  – No money to hand out but $20+ M/yr. budget, staff of 25-30, and national lab and contractor support
  – Programs for building audits, alternative finance, new construction, EE products, fleets, etc.

• Impressive savings results
  – Over 30% energy savings per floor area since 1985
ESPC Investment – US Gov’t.
What’s Worked (I)

• Consistently supportive legislation
  – Energy Policy Act of 1992 – required ESCOs to guarantee savings and provide annual measurement & verification (M&V)

• Executive branch support, too
  – DOE Final Rule (1995) – set procedures for ESPCs, including allowing unsolicited proposals
  – Numerous executive orders – set ambitious savings goals and encouraged use of “alternative finance” such as ESPC
    • E.g., E.O. 13423 instructions directed agencies to reserve their appropriations for measures that wouldn’t pay for themselves
What’s Worked (II)

• Umbrella indefinite quantity contracts (IQCs)
  – Standardization very valuable to harried, conservative federal employees attempting ESPC
  – Time to create ESPC project from scratch was way too long before; volume skyrocketed with IQCs

• Simplified procurement
  –ESCOs could be selected based on unsolicited proposal or limited process (e.g., short interviews) b/c full competition had taken place for IQC
  – Protests not permitted
What’s Worked (III)

• FEMP’s support
  – Account managers for each region of country
  – National Lab ESPC technical expert for each region
  – Programmatic research, training courses, etc.

• Dedicated project facilitators
  – Expert to educate advocate for agency from project inception through first year of performance
  – Required and partially funded by FEMP; agency generally pays $40-50K
What Hasn’t (I)

• Financing is arranged by ESCOs
  – ESCOs borrow money from 3rd-party financiers
  – This was part of 1992 authorization to make ESPC palatable to legislators – no risk to government

• But corporate loans much more expensive than government’s own borrowing rate
  – At best, premium was ~ 1.25%; now 2.5-3.5%
  – This lengthens project term, raises interest costs, and curtails project scope
  – Revolving loan fund would be nice solution
• O&M for installed measures is negotiable
  – Ultimate responsibility with ESCOs, but day-to-day execution usually by agency
  – ESCO responsible for training and alerting agency to any shortcomings through annual M&V report

• But system breaks down sometimes
  – EX: one audited facility was still paying for measures on building that had been torn down
  – Responsible agency personnel often uninitiated
  – FEMP “life of contract” support has been lacking
New Threat

• “Enhanced competition” now required for gov’t. IQC task orders over $5M
  – Result of contracting shenanigans in Middle East (e.g., large no-bid contracts)
  – Eliminates simplified procurement and introduces possibility for ESCO protests
  – DOE has offered little guidance for ESCO selection under new rules

• Fears:
  – Some ESCOs won’t pursue jobs
  – Scope restrictions from initial to final proposals – to avoid protests – will lead to smaller, “dumbed down” projects