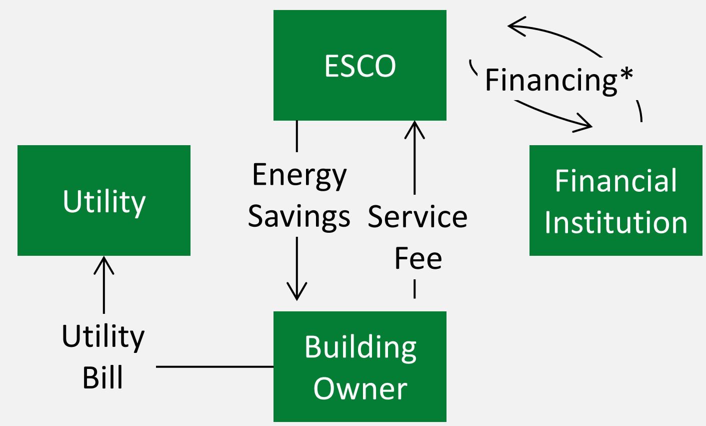
ESCO Financing

An energy savings performance contract (ESPC) is a model where an Energy Services Company (ESCO) achieves energy savings at a property or portfolio of properties as a service. This model guarantees savings for a set period of time in exchange for payment from the energy cost savings.

An ESCO will assess the efficiency opportunity, purchase equipment necessary to improve performance, and install the equipment. Most ESCOs will provide a financing option for these services as well, but depending on the ESCO, the building owner may be required to seek outside financing.



*Some ESCOs may offer off balance sheet financing

What is the ESCO Financing Model?

- An ESCO charges the building owner a fee to deliver energy savings on the owner's utility payments.
- Savings are often guaranteed over a set period of time.

Benefits

- There are few upper limitations on project size for some of the larger ESCOs, which are multinational corporations with third-party capital funding their activities
- There is little upfront cost for the owner
- Generally, ESCO takes on performance risk: if no energy is saved, ESCO does not profit

Challenges

- Methodologies used to verify savings must be carefully negotiated up-front to assure all parties have confidence in how savings will be calculated
- Larger projects with complicated documentation may take months to put in place
- This model may not be a good fit for small buildings. Often, to cover the upfront and administration costs, the projects need to be large to be worthwhile
- ESCOs have historically focused on the "MUSH" market: municipal, university, schools and hospitals – building types that tend to have single, long-term owners
- Some more advanced efficiency measures may be perceived as more risky; this may result in projects that stick to the 'low hanging fruit'

Resources

- ENERGY STAR Introduction to Performance Contracting
- BOMA Energy Performance Contracting Model
- National Association of Energy Services Companies

EERE Information Center
1-877-EERE-INFO (1-877-337-3463)
www.eere.energy.gov/informationcenter

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