

## Introduction

The [Efficiency-as-a-Service \(EaaS\)](#) model is a growing financing solution for building owners and operators across the country. The financing solution is characterized by outsourced implementation and management of clean energy technologies. It differs from conventional energy savings performance contracting (ESPC) in that the EaaS provider, not the customer/facility owner, maintains ownership of the installed equipment. This feature, which often means the deals are perceived as “off the books,” is widely seen as the key to their increasing prevalence in the private sector, where conventional ESPCs have not been as popular. As EaaS is not a specific contract type, but rather a general approach, the market has not standardized around a specific contractual definition. Consequently, building owners are frequently confused by the concept of EaaS—including marketing talking points, contract language, and accounting/legal treatment—which is further compounded due to variations of EaaS among different service providers.

This fact sheet provides a detailed description of EaaS contractual elements and the different agreement options building owners may have from project inception to close-out.

## NOMENCLATURE

The EaaS concept is commonly referred to by different titles. You may be familiar with EaaS by one of the following terms, each of which falls under the “as-a-service” umbrella:

- ▶ **Efficiency-as-a-Service:** Customers make service payments based on a decrease in energy use.
- ▶ **Energy-as-a-Service:** Service providers contract to deliver a measurable energy service for customer consumption.
- ▶ **Lumens-as-a-Service:** A subset of energy-as-a-service where service provider guarantees a volume of light output for availability.
- ▶ **Energy Services Agreement (ESA):** A common contract type used to define EaaS services where customers are billed directly for the defined service.
- ▶ **Managed Energy Services Agreement (MESA):** A variation of the typical ESA where the provider assumes the broader energy management of a customer’s facility, including the responsibility for utility bills.
- ▶ **Charging-as-a-Service (CaaS):** A variation of the service contract in which the customer receives electrical vehicle charging infrastructure and operation by the service provider.

## Elements of the as-a-Service Model

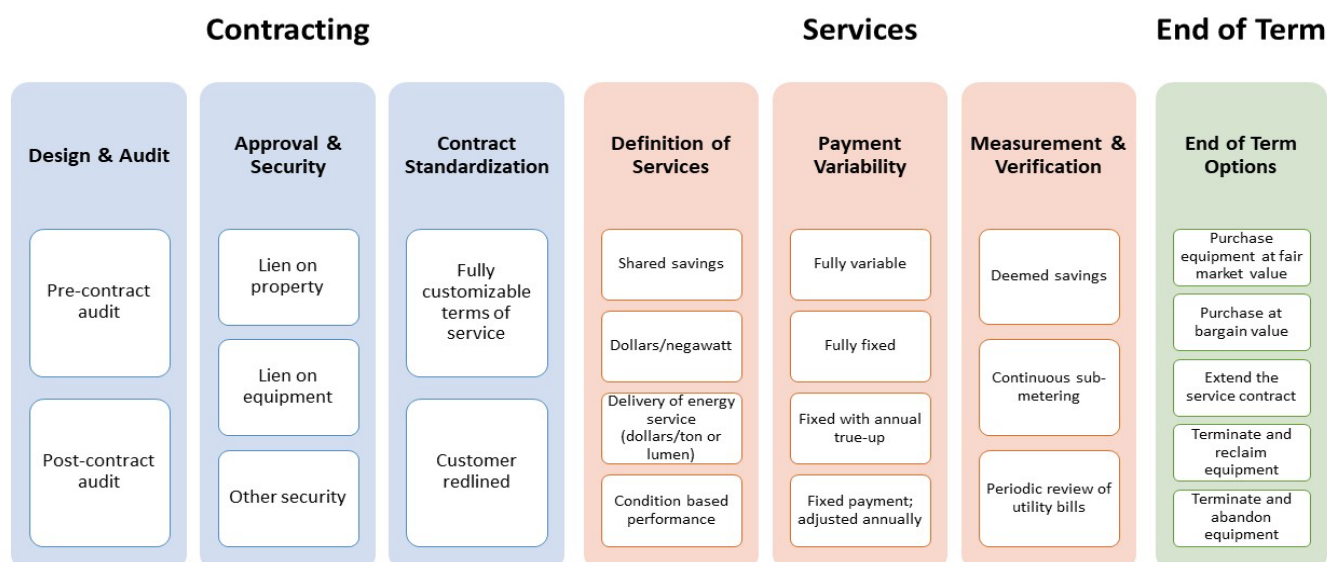
While there are a range of models in the market, typical EaaS agreements have the following elements:

- ▶ **100% financing:** Customers receive energy and water efficiency projects without upfront capital expenditure. Under some models, owners can use internal capital to buy-down the contract length during the agreement.
- ▶ **Third-party ownership:** The EaaS provider typically owns the installed equipment throughout the duration of the contract term. The provider also pays for project development, construction, and maintenance costs.

- ▶ **Pay-for-performance:** Once a project is operational, the customer typically pays the provider a charge per unit of energy saved that is set below its baseline utility price, resulting in immediate reduced operating expenses. The payment can be structured either as a percentage of the customer’s utility rate or as a fixed dollar amount per kilowatt-hour (kWh) saved.
- ▶ **Technology risk:** Customer payments are typically contingent on the continued delivery of services. Thus, the risk that installed technology performs correctly is assumed by the service provider.
- ▶ **Ongoing services:** The provider typically performs ongoing services such as equipment maintenance and measured verification of performance throughout the contract term.

## Taxonomy

The infographic below provides a visual representation of the typical components of EaaS agreements and how each component can differ in nature.



## Design & Audit

The design & audit phase is typically the first major component in an EaaS engagement. In this stage, building owners often have two ways to proceed:

- ▶ **Pre-contract audit:** Provider audits sites to gather necessary data on performance and savings opportunities prior to customer agreeing to any services. This is the most common scenario.
- ▶ **Design during installation (“post-signature”):** Provider performs auditing and program design services after owner agrees to services.

This phase determines key details such as number of project sites, energy and cost savings, and types of technologies to be implemented. EaaS projects can range from simple, single-technology measures (e.g., LED lighting) to multi-measure energy retrofits that drive deeper savings.

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## Approval & Security

Service providers can use a variety of financial security measures to ensure that their investment in the building is not compromised. This security method will be stated in the contract and may impact the customer approval process. For instance, liens on real property may require mortgage lender consent to be valid.

- ▶ **Lien on property:** Legal claim on property if payments are not made.
- ▶ **Lien on equipment:** Legal claim on equipment if payments are not made.
- ▶ **Other security:** Service provider has legal claim to other assets besides real property or equipment.

## Contract Standardization

Depending on project size, complexity, and number of sites, the provider may or may not allow for term negotiation. Some EaaS providers offer an open platform approach and can support customized definitions of services, while other providers may only offer narrow alterations to the service contract.

- ▶ **Fully customizable terms of service:** Customer can negotiate terms of service with the provider.
- ▶ **Customer redlined:** Provider uses a standard contract which typically has minimal room for customer adjustment.

## Definition of Services

At the core of an EaaS contract is the definition of the service to be rendered. Services can be defined with a rate (e.g., \$ per kilowatt reduced or kWh saved) or they may be defined as a binary, with a procedure to determine whether the service is being delivered.

- ▶ **Shared savings:** The customer agrees to pay a pre-determined percentage of project savings with the provider during the contract term.
- ▶ **Dollars/negawatt:** The customer pays a fixed amount per kWh or other unit of energy saved.
- ▶ **Delivery of energy service (dollars/ton or lumen):** The customer pays a fixed amount per unit of energy delivered.
- ▶ **Condition-based performance:** The customer agrees to pay if a baseline condition is being met (a pre-defined, yes/no binary).

## Payment Variability

How a customer pays for the provider's services generally falls under one of these structures:

- ▶ **Fully variable:** Payment amount is adjustable during the contract term.
- ▶ **Fully fixed:** Payment amount is fixed from the onset of the contract term.
- ▶ **Fixed with annual true-up:** Payment amount is fixed with annual correction for over-/under-payment during the year.
- ▶ **Fixed payment; adjusted annually:** Payment amount is fixed and may include an annual adjustment (e.g., for inflation).

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## Measurement & Verification

Providers typically provide ongoing services during the contract term including measurement and verification (M&V) of performance. These services may include:

- ▶ **Deemed savings:** An estimate of predetermined savings values for energy efficiency measures based on a commonly available data source (usually from state or regional bodies).
- ▶ **Continuous submetering:** The equipment is submetered to provide continuous performance measurement.
- ▶ **Periodic review of utility bills:** The provider will periodically review customer utility bills to ensure savings are being realized.

## End of Term Options

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## Conclusion

The Efficiency-as-a-Service approach to outsourcing the financing, implementation, and management of clean energy technologies is an established and increasingly popular choice to achieve energy efficiency goals.

This fact sheet should serve as a reference point for building owners to begin their engagements with EaaS projects. As the approach expands across the decarbonization market, the contract language and component parts will continue to specialize to meet the variety of sector and project-specific needs.