

Kyle Saltsman:

Hello, and welcome to the 2020-2021 Better Buildings Webinar Series. In this series, we're profiling the best practices of Better Buildings Challenge and Alliance partners and other organizations working to improve energy efficiency in buildings.

My name is Kyle Saltsman, and I'll be your moderator today. I'm a Senior Consultant at RE Tech Advisors, where I support the financial allies participating in the Better Buildings Challenge as an Account Manager. Prior to joining RE Tech, I spent five years working as an Operations and Product Manager at Sparkfund, a technology subscription company based in D.C. and an active financial ally.

Today, we will be exploring the nuances of two successful energy efficiency projects—one large and one comparatively small, with the financial allies involved in each project. After a short, context setting presentation from both companies, we'll proceed with a conversational interview focused on the phases of each project. This will include how the projects were originated and the stakeholders involved on each project were won over, the structuring process, including how the contractual arrangements for each implementation were decided, the installation fees, and finally, the outcomes and learnings from the successful implementation of these projects.

We've reserved some time to take questions from the audience, and we'll be discussing how to submit questions in just a moment. After the audience Q&A, we'll wrap things up by discussing upcoming Better Buildings events, including this year's Summit.

We're excited to announce that today, we will be using an interactive platform called Slido for Q&A. At this time, I invite you to go to [Slido.com](https://www.slido.com) using your mobile device or by opening a new window in your Internet browser. Today's event code is #DOE. If you would like to ask our panelists any questions, please submit them any time through the presentation. We will be answering your questions near the end of the session. You can select the thumbs up icon for questions that you like, which will result in the most popular questions moving to the top of the queue.

We're gonna start things off with a poll so that we can learn more about you, our audience. Please join us over at Slido to respond to the next two polls.

First, we'd like to know what sectors people are joining us from today. Once you've logged into Slido, please select the relevant option that best describes your current sector. Interesting. So, it looks like, with initial responses, we have a lot of people joining from various government sectors. A lot of service providers—that's good to know, too. And yeah, it looks like we have a—it look like we have a good mix. I see the leading categories changing over time. So, thank you, all, for responding. This is really helpful for us to frame our responses during this conversation to the audience.

With that done, I'd like to move on to the next question. So, we have a second poll, too, to further dig into your familiarity with using energy efficiency third party finance, especially for building energy projects. Can you select the answer that best describes your current experience level? Excellent. I'm really excited to see there's a lot of people here who haven't had a chance to use energy efficiency third party financing before, so that we can introduce these concepts to you for the first time. Cool. It's looking like these ratios are starting to stabilize, so I think we're about ready to go back to the presentation. But again, thank you so much for your time answering those polls. Again, you can use Slido to submit any questions during this presentation and we've reserved some time after the interview section to make sure that we address all the questions that you ask.

So, I'd like to talk today about today's presenters. We have a wonderful panel of presenters for today. Leading today's discussion will be—is Joe Indvik, who helps lead the Financial Allies sectors with me. I'll let Joe introduce himself and take it away from here. Joe?

Joe Indvik:

Alright. Hey, folks. Good to be with everybody today. So, I lead the Clean Energy Finance and Carbon Solutions practice at RE Tech Advisors, which is a consulting firm here in the D.C. area that's focused on the intersection of sustainability and commercial real estate. And, as Kyle said, along with Kyle, I lead the Financing Sector for the Department of Energy's Better Buildings Challenge. Which means, among other things, I get to work with cool folks like Anastasia and Jay to help accelerate access to capital for energy efficiency and renewable energy projects.

And we're gonna try something a little bit new with this webinar today. So, you know, we get lots of questions from building owners and other operators of facilities about where to start when it comes to energy efficiency or renewable energy project

financing. Questions like, you know, who should we talk to, where do we start, how long does it take to close on financing? What are some of the pitfalls that we should look to avoid in structuring a deal with a potential vendor? And we spend a lot of time helping folks work through those questions at a high level, we put out a lot of resources to try to solve those problems. But sometimes I think there's no better substitute than just diving into the details of a couple transactions and understanding how these things have worked in practice, how barriers were overcome, and ultimately how value was delivered to the building owner through the pretty unique products that Metrus and NYCEEC offer.

So, we're fortunate to have two of the folks who were closely involved in those transactions walk us through two specific examples from both of their companies today, but our hope is that you're gonna walk away from this with a better understanding of how to access financing for energy projects in facilities that you either serve if you're a service provider or operate if you're a building owner or operator. And I think also, it's important to come away from this, understanding that one size truly doesn't fit all when it comes to third party finance for efficiency. There really are a plethora of different financing structures, options, and vendors out there, so chances are that no matter what your particular barriers are or challenges you might be facing, there's probably a financing solution out there that's gonna solve your problems. Maybe it's even one offered by two of our speakers today.

So, by way of background, I'm gonna briefly introduce these folks and then I'll give them a chance to introduce themselves as well. But we have Metrus Energy, which develops finances and manages large scale, sustainable energy projects through a service agreement model—so, if you've heard of Efficiency as a Service or Energy as a Service, these guys fall into that category. Anastasia is the Senior Vice President of Business Development at Metrus, which means that she oversees their Business Development team, obviously, as well as customer acquisition and channel partner recruitment. And then we have NYCEEC, which is self-described as the country's first local green bank, and they provide loans for energy efficiency and clean energy projects in the New York City area, which is in the name, but also the Northeast and the Mid-Atlantic regions, generally speaking. And Jay Merves is the Director of Business Development, also, as well as the Director of Finance at NYCEEC, where he's responsible for leading BD activities, sourcing, negotiating, closing transactions, and generally managing relationships with customers and counterparties.

So, I'm gonna get into the discussion here in a moment, but just a quick reminder that at any point during our conversation, you can enter questions in the Slido and we'll get to those at the end, so you don't have to wait 'til the Q&A portion to enter your questions. And this will mostly just be a discussion, kind of a fireside chat as we walk through each of the stages of these projects, how they went down, and what building owners can learn from them. But so that we have a little bit of context setting background here, I'm gonna have each of the speakers spend a couple minutes walking through more background on who they are and give you some of the basic details of the projects before we get into the discussion.

So, with that, I will hand it over to you, Anastasia.

Anastasia Beckett:

Great. Thanks, Joe. As Joe mentioned, I'm Anastasia Beckett, Senior Vice President at Metrus Energy. We're a financier and asset owner. So, the project that we're talking about today is a project that we did for a large Fortune 100 customer that has a focus on technology and logistics for consumers. They're a little finicky about us using their name in certain applications, so we'll all have to guess as to who it is that they are a good reference if you actually do want to talk to them specifically.

The project had multiple tranches and it was for their distribution and warehouse centers across the United States. It focused mainly on LED lighting and some BMS features as well, and the players on the project were, you know, Metrus as the financier and asset owner. We worked also closely with their property management company, which is another large global company, and also our ESCO partner, who was Centrica. And the project is financed through, as Joe mentioned, a Sustainable as a Service structure, specifically using our Sustainable Energy Services Agreement.

I'll hit the next point there in the conversation, so you can go ahead to the next slide.

Just very high level on the structure, there are two main agreements. One is with Metrus and the customer; it looks a lot like a power purchase agreement, the difference being that the customer is, instead of paying for units of energy generated, they're paying for units of energy saved over time. And then we have an additional contract that is with the ESCO partner and Metrus to actually design and construct the project as well as provide ongoing services for it, like operations and maintenance and measurement and verification that happens annually. Next slide.

So, the project totaled just under \$75,000,000.00. It was over 56 sites in 23 states, and had annual savings of about \$17,000,000.00, and the contract term was five years for all of them. So, that's just a high level overview of the project, and we'll get into more detail later.

Joe Indvik: Alright—short and sweet. Thank you. I'll kick it over to Jay now or an intro. Jay, I think you're on mute. There you go.

Jay Merves: I'm on mute. That's the line I think we were trying to eliminate from our 2021 vocabulary, "You're on mute" and keep it in 2020, but I failed on that one, so sorry.

Anyway, thanks, Joe. I'm Jay Merves, as Joe mentioned, heading up Business Development at NYCEEC. We do operate and do transactions basically through the I-95 corridor, if you will, the Washington, Maryland area up through New England through into Massachusetts. The project I'm gonna speak to you about actually is not located in the New York City area. So, New York City is our base and most of our projects are there, but I know this is a national audience, and if you've got projects that you're interested in discussing further and they're not in the New York City area, you can still reach out to me and I'm happy to speak to you about that. Next slide, please.

Okay, so, our project is a single building project, and obviously, that's what we're trying to do, compare and contrast. This is a medical office building. It was originally built in 1920, at least the first building; subsequent buildings were added on over the years. It's a repositioning of a property. It had some other uses in the past, but the owners took this property over, multi-tenant, a mid-rise property—pretty typical property is what you can see. This is five floors and it was fueled by natural gas. So, I think there's many, many, many buildings [*Laughter*] throughout the Northeast and throughout the country that is similar to here, so hopefully, some of the things that we'll learn today will apply to your buildings and even if they're obviously not, you know, like this, it'll apply as well. Next slide, please.

Okay. So, before I get into the measures, I just wanna point out—I chose for these two slides two of the most mundane pictures that I could find. And, you know, obviously, being on this webinar, people are interested in clean energy and energy efficiency and the quintessential pictures are big solar farms and offshore wind, and those are what we see again and again and again as the clean

energy future. And in fact—while those things are very important—so much of what can be done to get us to the goals that we can get are just existing technology, the sports analogy, the blocking and tackling. And that’s what a lot of this project really was—air handling, chillers, boilers, you know, your HVAC. Bringing in some technology, yes, in terms of the building automation systems and monitoring. Critical.

You know, the O&M, we’ll talk a little bit more about that later, but the O&M, the monitoring, the ability to jump on a problem as soon as it occurs, which I think is even more critical in a multi-tenant situation, you know, versus an owner occupied situation. We’re all willing to tolerate a little bit more in terms of just comfort and maybe things not being just so when we sorta own the property versus when we’re a tenant and we call the landlord and say, “This is wrong, that’s wrong.”

So, you know, having these kinda things not only increases your energy efficiency, saves you money, but also just creates a higher level of tenant comfort and a better situation for everyone involved.

So, this is a multi-measure product. It was done under the Energy Services Agreement. NYCEEC also finances basically direct loans to buildings, if you want to do a project directly yourself as a building owner, but obviously today, we’re gonna talk about an Energy Services Agreement, and that’ll directly contrast to the larger Metrus project. Thanks.

Joe Indvik:

Great. Thank you, both. So, it’s interesting that, you know, in a lot of ways, these two projects couldn’t really be any different. You’ve got one that’s a single building, multi-measure project that did tons—just about every HVAC measure they could come up with. You’ve got another, it was multi-building across 56 sites that primarily focused on LEDs and building automation systems with Metrus. You’ve got different building types, different technology upgrades like I said, and you’ve got differently structured financing mechanisms being applied to both and yet both generated significant value and savings for the building owner, ultimately.

So, one of the things we wanna do in this conversation is kind of illustrate how many different ways you can get to a similar result with working with these guys or any number other financing providers that are out there.

So, the bulk of this is gonna just be a fireside chat, so we'll get rid of the slides. And my first question when we kinda focus on winning over stakeholders, how did you make the case for this project? We wanna understand how you went from—where the building owner in particular went from not knowing where to start to working with you guys and seeing the value proposition for the project.

So, as my first question—and maybe we can with Anastasia on this one—is kind of how did you get involved in the project initially?

Anastasia Beckett: Sure. So, the way that we got involved in this project was actually through their property management company, who did have some familiarity with Energy as a Service or Efficiency as a Service. And so, they brought us in to discuss the project and what the customer was planning to do to see if we would be able to do something that was the scope as large as this.

So, that's really how we got in initially was through the property management company. And then also kinda interesting, the customer had put together an internal white paper to get at least this initial leveled buy-in from some of the stakeholders in their own organization to be able to proceed with talking to different vendors, you know, getting more information and having a more focused effort on it.

So, we were, you know, one of a few different companies that they spoke to and eventually, of course, we wound up doing the work for them, but it was really the property management company. And I think for a lot of these larger companies, that's, you know—if it's not coming from the property management company, the property management company will be involved in, you know, all levels. So, that's how we were kind of introduced.

Joe Indvik: Got it, that's great. And Jay, how about you guys?

Jay Merves: We entered the transaction through working with the contractor, and I think you see that a lot more in smaller transactions. So, we had a very good relationship with the LEED contractor, the ESA provider. This, I think, was either our third or our fourth transaction that we had done with them. That is, you know, a big benefit, because you know, we understood how they come at things in terms of costing out the projects, estimating the benefits of the project, and also very important—time frames. Time is money, and you know, when you're working with a contractor who has a reliable track record and has a track record of getting projects

done on time or reasonably on time, that is a big confidence builder when you're looking at a project. So, I would—any building owner, any financing party, I saw there were, you know, a couple of different in that poll types. Anybody thinking about that, thinking about the track record in terms of delivering on time is a huge issue, here.

Joe Indvik: Great, yeah, and I think you're starting to see that trend—broader trend in the market of greater integration between financing parties and service providers and contractors, right? The idea of offering a sort of turnkey, full service solution seems to be picking up speed in the market, so—interesting.

So, moving on to how you actually sold the customer on this deal, what were some of the questions that the building owners and/or property managers asked when you first started the conversation? And we can go in a random order from here on out—whoever would like to go first would be fine.

Jay Merves: [Laughter]

Anastasia Beckett: [Laughter]

Joe Indvik: I don't wanna make it too structured.

Anastasia Beckett: Alright.

Jay Merves: Go ahead, Anastasia, you start this one, I'll do the next one.

Anastasia Beckett: Okay. So, the customer actually had a few key things that they were looking for in a provider, and so, they had actually already selected their installer, the ESCO, and it was SmartWatt, who was subsequently bought by Centrica, and they wanted to know if we could work with them. And that is something that we do, we will work with a customer chosen contractor, so that provided the added value to the customer, because they had worked with SmartWatt on numerous projects before and liked them.

And so, we did diligence, then, to make sure that we felt that they were a suitable partner for us, because we have pretty high standards in our partners especially, because we actually own the projects, and we only get paid if they work. And so, we're not gonna work with kinda anybody, but we do work with most of the leading, you know, ESCOs out there, and you know, some other large contractors as well. So, that was key to them.

They also wanted a master terms and conditions style contract where you kinda negotiate the main points over the contract once and then you add site specific conditions for all of the different projects that come in online over time to help expedite that. And so, we did modify our contract to provide that.

And then they also leased all of their sites, and so it was important to work with a financier who could work on projects where they were not the owner of the building, so they wanted to know about our experience doing that and with working with landlords and coordinating that effort. And then they also wanted to be able to blend site economics, because their main driver was greenhouse gas emission reduction targets. And so, they wanted to do this across the board regardless—well, not regardless of budgetary savings, but they really wanted us to be able to take a high performing site in a high cost of power state like California, pair that with a project in a state that had a low cost of power and the savings weren't as much, bundle it together so that all of the sites worked. So, we were able to do that for them, as well.

Joe Indvik:

Actually, a quick follow up on that—when you say they were asking questions, I'm curious, who was that, exactly? Like, who was your primary point of contact with the company, and sort of a corollary to that is, how—where did you ultimately have to get approval from? I imagine with a large multi-site upgrade like this, it probably had to make it up to fairly high levels of management, so, can you talk a little bit about that journey?

Anastasia Beckett:

Yeah. Yeah, so, it was actually driven out of the real estate group, which is also fairly typical of large, you know, multi-phase projects, because they have the best pulse on how long they're gonna be in different sites, especially right now, because you know, as we all know, commercial real estate has become quite dynamic in the last year.

So, it was driven by that group and we also had to have interaction and agreement from, you know, of course their Legal department, Purchasing, also their Accounting Department and External Accounting. We didn't interface with their external accountants, but they needed to make sure that their external accountants agreed that this was an off balance sheet approach. So, it was kinda all of those groups. It was—you know, a group effort but our champion was in the Real Estate Department.

Joe Indvik: Awesome, thank you. And, you know, Jay—curious to hear what sorts of questions your customer asked up front and then ultimately kind of how the approvals process worked as well.

Jay Merves: What they asked and what should be asked—you know, a couple of things. In an Energy Services Agreement structure, one of the first questions you want to ask is what capital, what up front capital is required from the building owner. Now, that should be a very small number. It could even be, you know, quote-unquote zero. It's never gonna be really zero, because, you know, what kinda prep works, you know? Are you good to go from the ESA provider, or are there certain prep works to be done? But that should be a pretty, pretty low number. So, you want to understand what your upfront capital commitment is.

Second of all, you want to understand both an estimation, obviously, of what savings are gonna be generated from the programs and then see, you know, are any or all of those savings guaranteed? And is the ESA provider willing to stand behind those things? That's obviously gonna de-risk you quite a bit.

And the other thing that's important is, you know, what level of disruption? And, again, whether you're owner occupied or whether you're multi-tenant like we are, you want to understand, you know, the levels of disruption. Can certain things be done at night when people aren't there? You know, whatever the case may be. Do people have to get in? Do workers have to get in to tenant spaces and those sorts of things.

This obviously is a real estate driven transaction, this is a real estate company, so you know, this decision is made at a fairly high level for what is ultimately a smaller organization in the grand scheme of things.

Joe Indvik: Speaking of disruption and given that it was a medical office building, did you have any sort of sensitive operations that you had to be aware of or plan around in that facility, or was it kinda smooth sailing?

Jay Merves: It was smooth. This was part of a larger—the energy part was part of a larger project at the building in terms of repositioning or having an upgrading. So, it was good that it was able to pocket into that.

Joe Indvik: Got ya. Great. And Anastasia, before I move on, any questions that should've been asked early on in the process?

Anastasia Beckett: Yes. [Laughter] Yeah, or just kind of best practice questions and, you know, I'll just focus on kind of the larger projects. So, I think that something that people do is they'll kinda ask for customer references for similar projects, but then they don't call them. I would encourage people to actually call the references, because the vendor might have a different impression of how things went than the actual end customer. So, that's just a bit of a best practices.

I'd also ask for a history of expected versus actual performance on the projects, and then also, one thing that's a little nuanced, but wanting to know if—for large projects, if their contract structure is bankable. And what I mean by that is, will—you know, is there a wide audience of banks that will finance the project? If they're using 100 percent equity, you might run into a situation where they can do the first half of your project, but not the rest, because there's a finite amount of fund available, where if you have a bankable contract that's kinda widely accepted, then you're more able to, you know, fund the larger projects.

So, those would just be some things to look for, but really, just kinda doing some homework and, you know, checking in on references, that sort of thing. And of course, there's a lot of due diligence that goes into just looking at both the financial and construction capabilities. So, wanting to understand what the diligence around the construction and the ESCO partner is, is important as well. I think people are more familiar with vetting that part of the project, though.

Joe Indvik: Yeah. Great, thank you. And—

Jay Merves: Yeah, and even to follow on with that, what we do is, we also—you know, the key agreement, the Energy Services Agreement is between the service provider and the building, obviously. But we also have a smaller agreement, we call it a Direct Agreement or what have you, but a three-way agreement. So, the building owner knows that the project's being banked and that we have responsibilities, the Energy Services Agreement provider has responsibilities, and the building owner has some responsibilities. So, it's really nice to get that laid out, and that takes away the funding question that, Anastasia, you had brought up for the building owner in that context.

I would also add, in terms of what should be asked, is a recognition of the process for sort of signing off on work progress during the construction period. You, the building owner, don't own the

project and, you know, as Metrus said, “We own the property”—yes, but it’s still in my building. So, everyone has to be satisfied that such and such an electrician or plumber or general contractor, mechanical contractor, you know, did the work to satisfaction and they can get paid in full with the progress payment or whatever the case may be. Don’t delegate that—don’t you, as a building owner, delegate that to the ESA provider 100 percent. You’ve gotta be involved in that.

Joe Indvik: Got it. So, yeah, make sure—

Anastasia Beckett: Yeah, everybody—

Joe Indvik: - go ahead, Anastasia.

Anastasia Beckett: - yeah, we’re always, you know, everybody should be involved in that and there should be some retention at the end of the construction process and have the customer, you know, sign off to their satisfaction before that’s released.

Joe Indvik: Okay, got it. Yeah, so define substantial completion as something other than a bunch of LEDs sitting in a box in a corner, somewhere.

Jay Merves: [Laughter]

Anastasia Beckett: [Laughter] Yeah.

Joe Indvik: Got it. Best practices. So, final question on this before we move on to structuring is—what was the one thing that most effectively sold the customer on partnering with you guys and on the deal in particular?

Anastasia Beckett: Um, I think—

Jay Merves: Well, I—go ahead.

Anastasia Beckett: Do you wanna go, Jay? You go ahead.

Jay Merves: Yeah, I was just gonna say, I mean, you know, it’s a triparty agreement, here. So, we had a strong relationship with the ESA provider, so they knew that they could rely on us on the funding, we could rely on them to do a good job, and the building owner had confidence, you know, in the ESA provider to deliver, and to deliver the cost savings that were estimated. That’s really the critical, critical point in our transaction.

Anastasia Beckett: Yeah, and I think for us, you know, we were able to kind of do all of the things that they had initial questions about, you know, to come up with the master terms and conditions, structure, work with their ESCO partner and all of that. So, everything was satisfactory to them there.

And then also, the ability to, I think, bundle the project economics, you know, across state lines. That was something that, you know, was fairly unique that I think that they appreciated and they wanted to move forward with us because of that.

Joe Indvik: Great. Alright. Well, that's really helpful on the building buy-in phase. I've seen a lot of good questions coming in already, so folks, keep asking questions. We'll get to the ones—make sure you're actually up voting questions that you like as well and we'll be sure to ask the most popular ones.

So, moving on to the structuring, let's get into the nitty-gritties of the actual financial structuring a little bit, here. You guys both alluded to this at the beginning, but can you talk in a little bit more detail about exactly how these transactions were structured and kind of where the risks lied in particular? The risk of performance, the risk of default, et cetera—maybe, Anastasia, we could start with you.

Anastasia Beckett: Sure. So, all of our projects are structured the same way. They are all structured under, you know, the Sustainable Energy Services Agreement. And this structure allows for energy efficiency work, solar PV, battery storage, and EV charging, and you can have that all under one contract. For this particular project, it was simply the energy efficiency work. But the way that it's structured is, Metrus truly does pay for everything up front, 100 percent. We pay for all the construction costs, everything associated with the project, and then the customer pays us a portion of savings over time. And we also do have a contract directly with the ESCO partner or the installer of the project.

And we do project manage that to make sure that it's going okay, particularly when you have multiple site, multiple tranche projects, you know? We work with companies that, on the ESCO side, that have a good project management group so that the projects go well. We ensure that that's the case. We set up regular communication.

But in terms of the financial structure, we also do receive a 90 percent performance guarantee from the ESCO partner. But we at Metrus underwrite at 100 percent of expected savings. So, we take the risk on the first 10 percent of any project fluctuation, which is typically where you see it. If it's going down to 90 percent, there's probably an issue, it's, you know, a warranty issue or something like that that we'll remedy. But the fluctuation that you would see is really in that first 10 percent.

So, we take 100 percent of the risk there, and the reason for this or the structure that allows that is that, for us, there is no debt that the customer takes out. They are not taking out a loan, they are not—it is not a lease structure, it is purely a services agreement. And so, the customer's repayment mechanism is 100 percent based on performance. And so, if a project is not performing the way that it was intended to, they'd simply pay us less. And we do measurement verification every year to determine the next year's payment. So, there is some fluctuation there. That's one of the things that helps it be off balance sheet, as well.

And so, that's something that I think does set it apart, where it's not a reimbursement system the way that it would be in a normal performance contract, let's say, where you take out a lease or some kind of loan, you have to make those payments no matter what, and then you get reimbursed by a performance guarantee if it doesn't work the way that it's supposed to. The structure is different, there is no lease or loan. So, that gives the customer a very high level of protection regarding performance.

Joe Indvik: Got it. So, in the event of underperformance, say you had a set of LEDs that was performing at 5 percent below expectations—in that case, Metrus would simply, the customer would pay 5 percent less than the contract says based on the M&V and Metrus would take the hit. If it performed like 15 percent worse, Metrus would cover 10 percent of that and then the ESCO would then be bound to cover the remaining 5 percent because of that 10 percent threshold. Is that a fair characterization?

Anastasia Beckett: A hundred percent accurate.

Joe Indvik: Okay, interesting.

Anastasia Beckett: Yeah.

Joe Indvik: Jay, how about your project?

Jay Merves: Okay, so, the—gain, it's a three-party, two-party project. So, in the first instance, you know, we're agreeing with the contractor. So, we're having progress payments during the construction period, and you know, aligning with the amount of work that is done. And then we're only charging interest, it's interest only payments during that period, and then full repayment in the period after construction. So, when the cash flow and the contractor starts earning cash flows from the project, that's when they start paying us back both P&I. So, that works in measuring cash flows.

From the building owner perspective, they're making a—again, no upfront payments, which is good, and then once the project reaches operational status, they are making fixed periodic payments, and then the results are reviewed periodically and then either there's, if the results weren't up to the minimum guaranteed, then there's a rebate back to the building owner. If the results were better than expected, then those gains if you will, those added savings then are shared between the ESA provider and the building. So, that all works out.

But you know, from an overall perspective, this is a very low risk transaction from the building owner's perspective.

Joe Indvik: Got it. And you both mentioned the idea of bankability being important in these contract structures. Jay, can you talk a little bit more about what makes a contract of that type bankable? Like, what are some of the things—the provisions to make sure are in there and the way that those are structured?

Jay Merves: Okay. Well, I mean, obviously, you want to make sure that the ESA is tight, if you will. The underlying building owner, the counterpart to the ESA has to be a viable counterpart. That's probably the number one issue for bankability, because we're talking 7, 10, 12 year obligations. So, you want to make sure you've got a viable counterparty, and then you want to make sure that you've got energy efficiency measures. You know, we have engineering people on staff, there's in-house engineering people, you can use third party engineering people, but you want to make sure that the measures are bankable and that they're gonna deliver the savings that are expected with an appropriate underwriting cushion.

Joe Indvik: Okay, great. I think that sheds a lot of light on the structuring piece—thank you.

Let's move on to actual installation phase, here. Can you talk a little bit about how the process actually went down on installation?

How long did it take, who coordinated the process, and kinda walk us through how that worked—maybe, Jay, we could start with you.

Jay Merves:

Sure, sure. So, in our case, the ESA provider coordinated with—they did a lot of the work themselves, with in-house people, especially Design and some of the installation work. They coordinated with all the subcontractors.

We had a schedule built in in place. Again, you want modest, upfront down payment type payments—20 percent or so, that sort of thing. I mean, you know, from—I know there's a lot of contractors on this call, but a contractor will want to get as much of the payment up front. So, that's that dance you've gotta do, you know, initially.

So, yeah, you'd love to give nothing up front, but that's not feasible. So, a reliable down payment amount, progress payments according to the way, and make sure there's one entity who's truly in charge. In our case, it was the ESA provider; other cases, it might be a general contractor. But if you've just got all different trades involved and nobody's really in charge, you're just gonna get a lot—I think people can see me on the screen—just the classic finger pointing and you're not gonna get anywhere as soon as something goes wrong.

Joe Indvik:

And Anastasia, I imagine in your case, given the size and complexity of the project at hand, I imagine installation was sort of a non-trivial thing to coordinate for you all.

Anastasia Beckett:

Right. *[Laughter]* Yeah, it was—there was a lot of coordination there. But Jay's right, in terms of the communication needing to be there and being clear, you know, who is in charge and roles and responsibilities—accountability, basically, being the main issue.

And so, what we do is, we have a few different interested parties. Of course, the customer, right, but even at the customer, we have our main point of contact that's in real estate, but we have, also, representatives from every single site. You know, they're the ones that are there, they need to coordinate the actual construction activity, whether it's letting people on site or saying, “Hey, we can only do this on, you know, at night” or the different, you know, requirements that they might have, given the type of facilities that it is.

So, we set up meetings with them and then also the property malignant company, because a lot of times, the property

management company will actually have employees at every single site, as well. And so, it's kind of a coordinated effort amongst them and then our staff at Metrus, we are also making the milestone payments to the installer's contractor and ensuring that things go well.

But what we do is, we set up site level meetings that are weekly during construction and prior to construction, and then we also set up a meeting that's a weekly meeting that rolls all of the sites up into kind of a more high level, larger meeting where if there is an issue that arises at any particular site or something like that, then we can discuss it at the stakeholder level as well to make sure that a remedy is put in place for whatever that may be.

Joe Indvik:

Great. And speaking of potential hiccups, totally understood if you don't want to go into any particular hiccups on these individual projects, but curious to hear in the kind of installation and—deal close and installation phase, what are the most common roadblocks or hiccups that you see in the process?

Jay Merves:

I think—again, I'm speaking generically across projects. Understand the interaction between the project and the utility, if any. Do you need connections? Do you need expanded gas? Or whatever it is in the thing, understand what that is, what the timing is, what the sort of inspection or re-inspection process is, get an estimate of timing and then, you know, double it or whatever. *[Laughter]* Double it or triple it in your worst case scenario. I think that's something that can often be overlooked.

Anastasia Beckett:

I agree with that. Sometimes the timeline for utilities can be a little bit longer than you would expect, so it's good to know what those are ahead of time.

And then, also, I think it's just—and I'm speaking generically here, too, because there weren't really, I can't think of the particular issue that came up on this project that was really a hiccup. But I would say making sure there is good communication at the site, because sometimes there can be friction between people who work at the corporate level and people who work at the site level. So, understanding that, or at least being open to the fact that they might be not as excited to do a project or want to have a lot of say in when the project is going to occur, and of course, we need to coordinate multiple sites together at the same time in order to close the financing on time.

So, just understanding that dynamic, I think, is really important, and making sure that the communication is there. And then also, one other thing to note for large projects is like, you have to make sure the installer can do projects simultaneously across the country. It's important to pick the right installer for that type of a project, you know, where they should have expertise working on national rollout types of projects.

Joe Indvik: Awesome. And in our final five minutes before we get to the audience Q&A here, I wanna talk a little bit about outcomes and results from these projects. And we saw a little bit of this from your slides, Anastasia, but I'm curious, maybe starting with you—what were the ultimate results and perhaps more specifically, what do you consider to be the top two or three metrics for success for a SESA deal, if that's how you pronounce it, you say SESA?

Anastasia Beckett: Right. We go with S-E-S-A.

Joe Indvik: Okay.

Anastasia Beckett: But SESA is fine. *[Laughter]* So, yeah, so, I would—so, for this project, I can't give specific results, because the customer is private. But for our projects overall that we own in our portfolio, which are quite a few, so I'm not giving out any specific information about any one customer, but overall, our projects perform at 103 percent of expected. And that is why I wanted to encourage customers to ask that question. Because therein lies the answer, right? It's like, you know, is what people are telling me about the savings—is that gonna materialize or not? And the best way to see that is by looking at previous projects and seeing if that occurred or not. And sometimes there could be a good reason why it doesn't, but you wanna know what that reason is and determine for yourself if you think that's a good reason.

And so, that, I think, is key, but overall, you know, energy efficiency in particular is an extremely steady asset. It's a really good investment for investors, and it's a really good project to do that has a lot of certainty around it for customers to hit their greenhouse gas emissions reductions targets, you know, more so than kinda the fancier things that people like a lot like, you know, solar or battery storage that seemed kind of cool. It's like, we should all be just looking at what we actually have and thinking about how we can make this better, you know? It's like, use less, then figure out how to do these other things—or do them in a combined effort so you're not getting a solar PV system that winds up being too big because you never did energy efficiency to begin

with, you know? Looking at this in a holistic way, I think, is important.

Joe Indvik: Great. And Jay, how about metrics for your project—in general and for this one in particular?

Jay Merves: Yeah, this project in particular realized at 105 percent of expected, so that was great on an energy basis. On a dollar basis, it was just below 100 percent, so obviously, you're projecting out commodity costs and costs of power. So, it's working really well, and the customer for a single building is saving in the neighborhood of \$500,000.00 a year, so you know, it's quite impactful for them.

And I wanted to give a full disclosure, here—this data is all pre-COVID, because obviously, we're gonna figure out how to deal with COVID data as restrictions were put in all over the place and economic activity went down and those sorts of things. But, you know, we did have a fair amount of data leading up to, I think it was February of '20, and that's the results there.

Joe Indvik: Great. Yeah, I feel like there's a collective heart attack being had by benchmarking professionals across the country due to COVID.

Jay Merves: Yeah.

Joe Indvik: Obviously not the worst of our problems to have in an otherwise tragic scenario, but certainly one that messes with models like you all's that very much hinge on the actual energy savings achieved as opposed to deemed savings. So, yeah, that's a great point.

Before we get into Q&A, any final thoughts or things that any folks listening should be aware of if they're starting to explore these types of financing solutions?

Jay Merves: I would just reiterate, you know, be diligent in terms of the people that you're working with and make sure that they're experienced, well capitalized experienced people with good track records.

Anastasia Beckett: Right, yeah. I agree, and I think also something to just point out is, I think we've been talking more about private companies or I certainly have with this example, just because it has what you wanted to look at, which is a big national rollout. But this project, I mean, the structure can work for all different types of customers, including public sector, which I think is often overlooked. And so, you know, I wanna just make sure that people become aware of that, especially as budgets in the public sector are being hit

particularly hard, it's gonna be more difficult to issue tax exempt debt to pay for projects like this. So, that, I think, is an area that the industry kinda neglects that I just wanna bring up.

Joe Indvik:

Okay, great. Well, thank you, both, that was a great discussion. I do have some—like, a ton of questions from the audience here, which is great. So, we're gonna start the Q&A portion now, we're gonna through as many of these as we can in 10 minutes. As a reminder, please go to Slido.com and enter the #DOE as your code and enter any further questions you have that aren't already on there or up vote anyone's that are already asked that you like.

So, first question, and you both covered this a little bit, but folks were curious to hear more about the project portfolios of Metrus and NYCEEC. Do most of your projects follow a similar model, like in Metrus' case, are all of your projects SESA, or do you have other alternative models available? And with NYCEEC, if you can talk a little bit about your broader portfolio, I think folks would be curious to hear what's happening.

Anastasia Beckett:

Right. So, all of our projects at this point are the SESA structure. Given that we're an asset owner, that is the structure that is what we like to offer. You know, you could get a lease or something through us, also, but we don't think it's as efficient. So, all of our projects have been done this exact same way, and they run from large multi-site projects like this down to a single site or a campus is more accurate, probably like a hospital or a private college or something like that. So, there's a wide array of types of customers, too.

Jay Merves:

Yeah, and we have a very diverse portfolio of products offerings. I mean, we talked about the Energy Services Agreement here, as obviously, its sister project, the Power Purchase Agreement, you know, which we'll see in solar or perhaps co-generation, we do that as well. We also make—we've probably done this the most, making direct loans straight to building owners. So, if you wanna own and operate and do your own project, then, you know, we're happy to lend that money straight to you.

Excitingly, over the past couple years, we've really developed what we call a pre-development loan. So, this would be a loan prior to getting a construction loan where, to do all of the analysis and architectural work and those sort of things, obviously, if you're interested in that, it's gotta be a green project, so we would expect it to be, the project to be built to a high performance standard.

Anastasia Beckett: Yeah.

Jay Merves: So, yeah, I mean, please contact us. Any kind of a green project, contact us. If we can help you, great. If we can't, hopefully, we can put you onto somebody who can help you.

Anastasia Beckett: Right. And I think one other thing I don't think I made clear enough is that the SESA has the efficiency component, which is the Efficiency Services Agreement structure. We also do provide a power purchase agreement for solar under the SESA, so it's like, you've got your SESA, you've got your ESA that is a subset of that PPA and then we will do reasoning depending on what the use case is for battery storage. So, all of those things fit.

Joe Indvik: Okay, great. Well, the currently top voted question is wanting more detail about how you actually meter savings. I know you both use some sort of measurement verification approach, but if you could talk more about exactly what that looks like in practice, that would be great.

Jay Merves: Anastasia, you wanna start, or?

Anastasia Beckett: Sure, yeah, I'll go. Yeah, so, we do M&V on all of our projects. That is the basis of repayment and how we get paid, so we definitely do that on every project. We work with customers on it, so, sometimes customers wanna see real time metering and we'd build to that. Sometimes, they do not wanna do that, they feel like it's kind of a lot of cost for a project they have, especially if it's really simple and they just offer, you know, option A type of M&V.

And so, it kinda runs the gamut and is really in coordination with the customer. What we require is that it is to national standards and that it does occur, at least on an annual basis.

Jay Merves: Right. And then, so we require—in the ESA context that we're talking about here, we require that the contractors that we work with have a monitoring system, and that could be through metering and utility bills or it could be through various sensors and things. But they need to have an automated monitoring system. Ideally, we have access to that system; that's not a hard and fast requirement, but that's often the case. And, you know, we've seen grade systems now where it goes right to your smartphone if there's any kind of a hiccup in usage.

And, you know, really the key to savings is the O&M and having enough sensors so that as soon as anything's out of whack, the O&M provider can jump right on it.

Joe Indvik:

Great. And we have a few different questions here on the theme of pricing and I'm not, obviously, gonna ask you guys to disclose your pricing methodology. But I'm curious, folks are pointing out that, given that there is a savings guarantee, it sounds kind of expensive. So, how do you think about, to the extent it does add a price premium to the transaction over what a traditional loan or a lease would—first of all, is that true? And secondly, how do you think about that in the context of making the case to the building owner that your model is sort of worth it?

Anastasia Beckett:

I mean, I don't know that I agree that it adds additional costs, honestly. I think that they are structured such that the installer thinks that they will never have to pay on it. It's structured like an insurance product, right? So, they're not thinking, "Oh, I'm gonna have to pay a certain amount of these." That's why we underwrite it 100 percent, because we expect that the actual results will be above what that 90 percent guarantee level is at.

And so, no, I don't think it adds cost at all. And I think actually having a viable, bankable partner—part of the diligence around the ESCO's ability to provide a performance guarantee is because we're looking at their credit, also. And so, having a credit-worthy counterparty on the construction side actually helps you get lower rates from the financier.

Jay Merves:

And, you know, on our side—so, if you're interested in getting a loan from us, we put our rates in ranges on our website; you can go to NYCEEC.com and check the latest interest rates there. I would say, you know, in terms of thinking about, if this is a building owner, it's, if you go with the Energy Services Agreement structure, you are de-risking your side of the transaction quite a bit. But you also have to recognize that a third party is putting capital into this transaction and they've gotta earn a return on that capital.

So, if you wanna do it yourself, you know, you're gonna earn that return in theory, but are you gonna be as efficient, are you gonna be as on it, if you will, as that third party provider? Or are you gonna be distracted with all the other things that you're doing running your building, running your business, whatever the case may be? So, I always try to look at both and weigh it out.

Anastasia Beckett: Yeah. And I think having a partner that is willing to show you all this stuff and is a very open book is important as well. And being able to differentiate the construction costs from the financing costs is important, also. So, you'd wanna—if you're comparing vendors, you'd wanna deal with, yeah, both of those things.

Joe Indvik: Okay, great. Well, that's all we have time for regarding questions. So, I'm sure these folks, though, would be happy to follow up with any more specific questions you had for them. We're gonna have their e-mails at the end, but thank you so much, Anastasia and Jay. This was a really good conversation and super informative for me, and I think for others, as well.

I'm gonna briefly pass it back to Kyle for a couple wrap up items, and then we're good.

Kyle Saltsman: Yeah, thank you, both for joining us for that insightful conversation and Joe for guiding us through it.

We will be posting today's presentation to the Better Buildings Solutions Center. When you visit, we encourage you to check out the financing navigator, which you can use to learn more about the financing products that were discussed today.

The next Better Buildings Better Plants Summit will take place this May 17th through 20th. This will be a virtual, no cost event featuring engaging and interactive sessions as well as opportunities for attendees to network with their fellow industry peers and experts. Registration is coming soon, so visit the Better Buildings Solutions Center to learn more.

And just a couple other programmatic updates and slides, here. As mentioned, this webinar is part of the 2020-2021 webinar series. We have a great lineup of presentations through April and you can visit the Better Buildings Solution Center to register today. We hope you'll join us on February 2nd for our next webinar, titled "Risk Assessments: Evaluating Building Sites for Portfolio Resilience." This webinar will explore a variety of strategies to address climate related risks and identify cost effective strategies and improvements to protect occupants and assets from short and long-term risk.

We also encourage you all to visit the new Work Force Development World. Take the next step towards a career in energy efficiency and get resources, information, training, education, and job opportunities.

To watch recordings from the Better Buildings Virtual Summit, the 2020 Summer Webinar Series, or technical presentations from our national labs, you can visit the On Demand Webinars library, where all previously recorded presentations are gonna be archived.

With that, I'd like to thank our panelists again for taking the time to be with us today. Feel free to contact our presenters directly with additional questions or if we couldn't get to your question during the Q&A period. I'd encourage you to follow the Better Buildings Initiative on Twitter for all the latest news. You'll receive an e-mail notice when the archive of this session is available on the Better Buildings Solutions Center.

Thank you, all, again for joining us, and I hope you have a great day.

Joe Indvik: Thanks again, everybody. Cheers.

[End of Audio]