

# An ESCO Approach to 111D

NASEO Conference

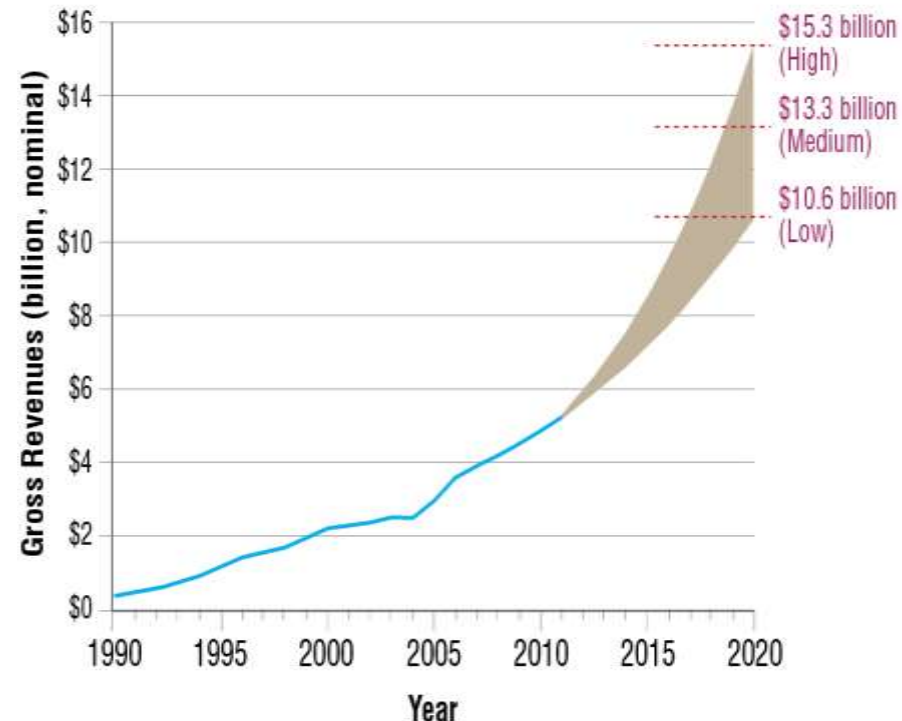
September 9, 2014

# Overview of Presentation

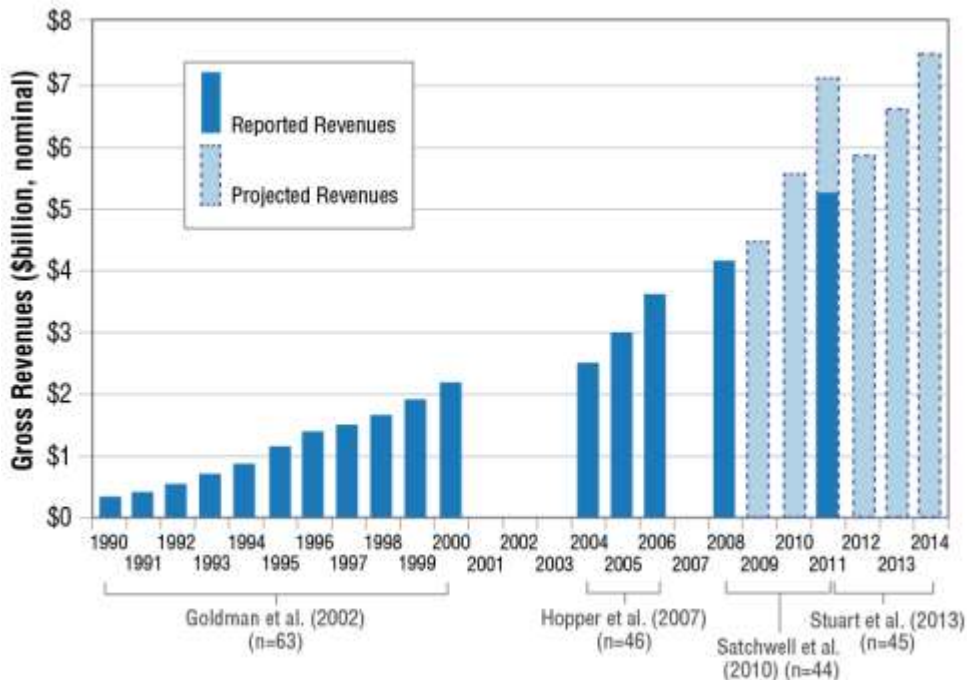
- Overview of the ESCO Market
  - Size and growth from LBNL/NAESCO study
  - ESCO market drivers
- ESCO approach to 111D - show me the money
- Potential benefits of ESPC to states
- Potential costs of 111D for ESCOs
- What ESCOs need from the states

# INDUSTRY SIZE: CURRENT AND PROJECTED

- The ESCO industry continued to grow at a steady pace--despite the onset of a major recession--reporting revenues of approximately \$5.3 billion in 2011.



- We project that the ESCO industry will more than double in size from ~\$6 billion (2013) to \$11-\$15 billion (2020).

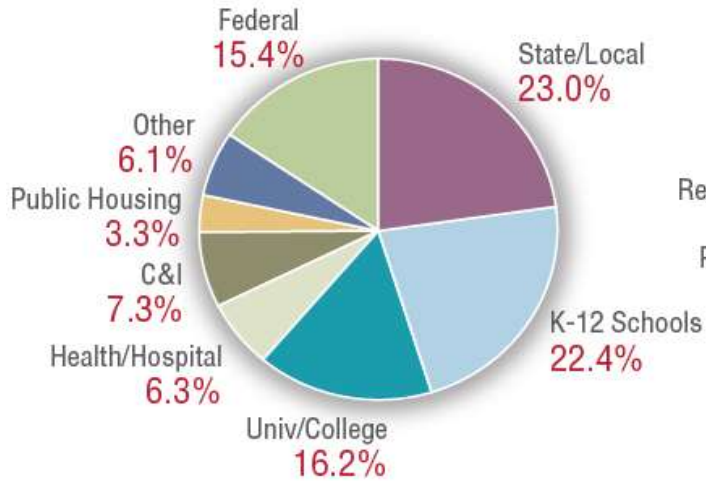


# ESCO Projects – Cumulative Results

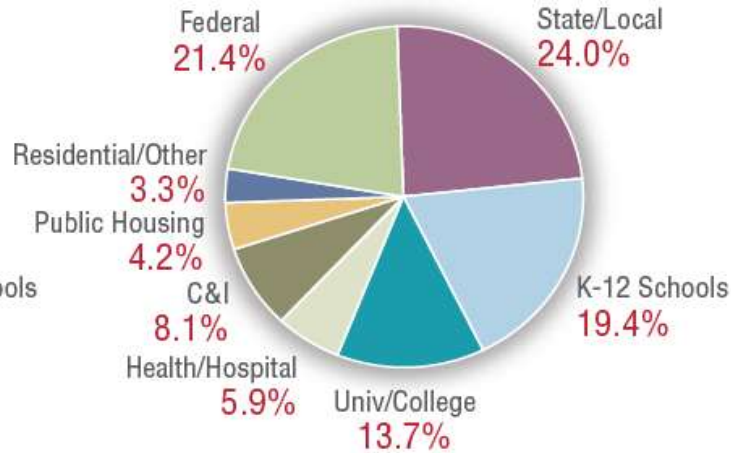
- \$45 billion in projects paid from savings
- \$50 billion in savings – guaranteed and verified
- 400,000 person-years of direct employment
- \$30 billion of improvements in public facilities
- 420 million tons of CO2 savings at no additional cost

# 2008 & 2011 REVENUE SHARES

2008 Revenues (n=29)

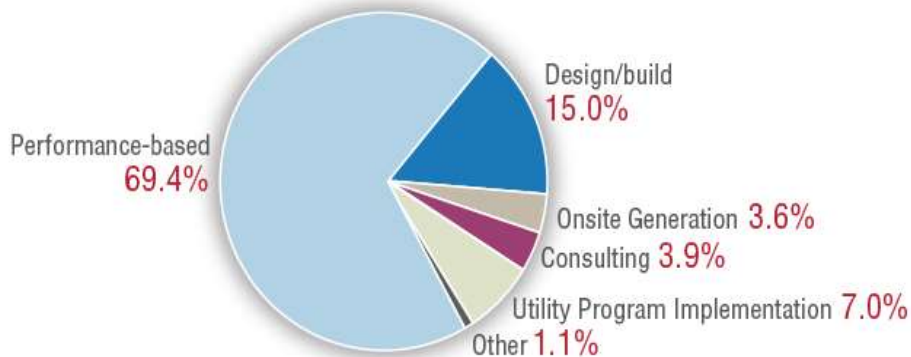


2011 Revenues (n=35)



• ~85% revenue from “MUSH”+ Federal market

2011 Revenues (n=34)



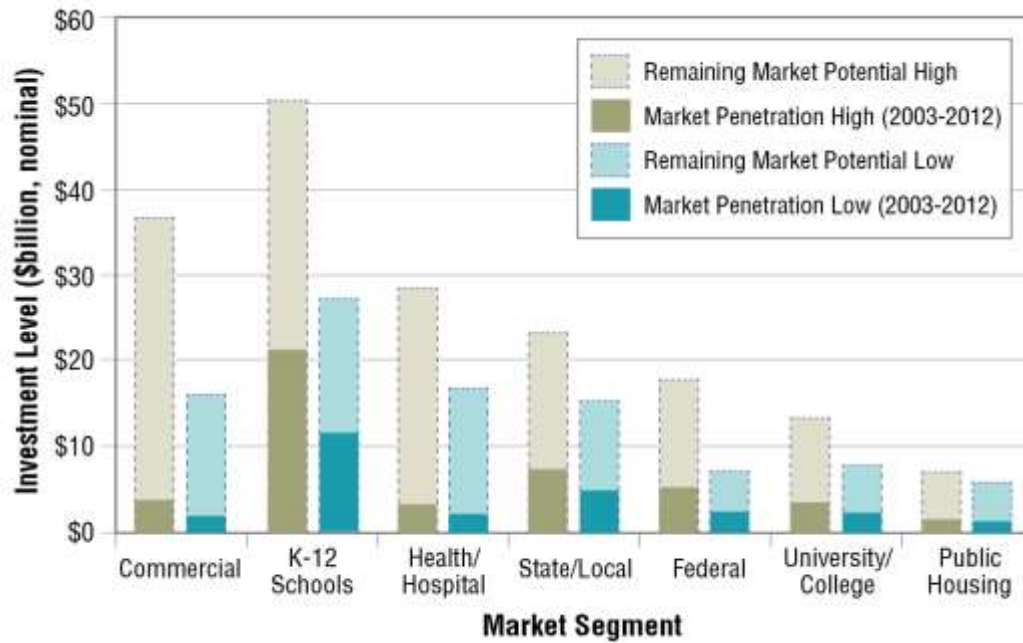
• ~70% of 2011 revenue from performance-based contracts; 15% from design/build.

# MARKET PENETRATION (2003-2012)

- Market penetration of performance contracting is highest in the K-12 schools sector and lowest in the C&I and healthcare sectors...

Market Segment	U.S. Census Region				
	Northeast	Midwest	South	West	U.S.
<b>K-12 Schools</b>	45%	40%	42%	30%	<b>42%</b>
<b>State / Local</b>	39%	30%	30%	45%	<b>30%</b>
<b>Federal</b>	27%	28%	25%	27%	<b>28%</b>
<b>Universities/Colleges</b>	25%	25%	23%	30%	<b>25%</b>
<b>Public Housing</b>	20%	15%	18%	18%	<b>18%</b>
<b>Health/Hospitals</b>	10%	10%	15%	15%	<b>10%</b>
<b>Private Commercial</b>	10%	6%	8%	9%	<b>9%</b>

# REMAINING MARKET POTENTIAL



- Remaining investment potential in facilities typically addressed by this industry ranges from ~\$71 to \$133 billion.

Market Segment	Low Estimate	High Estimate
K-12 Schools	\$15.8	\$29.4
Health/Hospital	\$15.0	\$25.6
Private Commercial	\$14.4	\$33.5
State/Local	\$10.6	\$16.3
Public Housing	\$4.7	\$5.7
Universities/Colleges	\$5.7	\$9.8
Federal	\$4.9	\$12.7
<b>Total</b>	<b>\$71.2</b>	<b>\$133.0</b>

- Questions remain about the economic potential of these markets and the accuracy of this estimate...

# ESCO Market Drivers

- Federal government
  - EE mandates
  - Specific ESPC goals
  - Need for capital improvements (GSA budgets)
- MUSH Market
  - EE mandates
  - Need for capital improvements
  - Convert wasted \$\$ to payment stream



# Potential ESPC Benefits for States

- Keep it simple: efficiency first
- Minimize ratepayer costs
  - ESCOs bear project development costs and risks
- Win-win for the ratepayer/taxpayer
  - Public facility modernization without new taxes
  - NEBs worth more than energy savings?
    - Oak Ridge National Lab study

# Show Me the Money

- 111D only boosts EE if it provides more \$\$
- Biggest risk for ESCOs is project development (12-24 months)
- ESCOs/customers ignore low B/C programs
  - ISO-NE and PJM capacity auctions
  - NOx and SO<sub>2</sub> auctions
  - Some utility incentive programs

# Potential 111D Costs for ESCOs

- Cost of participating in the state proceedings
  - Utilities ready to replace fully amortized coal with new gas
- More detailed M&V?
  - ESCOs have the expertise and the technology
    - Mid-1990s NJ Standard Offer Program
    - What is the cost/benefit?
    - Who reviews and approves?
- Enforceability?
  - ESPC already one step ahead with savings guarantees
  - All we need is an authorized scorekeeper

# What ESCOs Need from the States

- Estimates of the value of GHG reductions
- Streamlined, transparent state rulemakings that separate ratepayer and utility stockholder interests
- National or regional standards on key issues
  - Cost-effective M&V
  - Enforceability

# Questions?

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