Financing Energy Performance Contracts

Alabama ESC Workshop
March 2, 2016

Notice to Recipient

Market Dynamics
For Pursuing Energy Efficiency and Renewable Energy Projects

Positive Market Conditions

- Demand for energy independence
- Pursuing energy efficiencies for local economic development
- Societal support for renewable/clean energy
- Need to reduce demand on the grid

Legislative Support

- State programs and requirements
- Energy Policy Act of 2005
- The American Recovery and Reinvestment Act of 2009
- Executive Order 13514

Financial Incentives

- Financing subsidies
- Grant programs
- Solar tax credits
- Renewable energy credits

Deterrents

- Fiscal budgets
- Energy prices
- Political priorities
- Federal sequestration benefit reductions

Energy Performance Contracting

Fundamentals

- Contracting method by which an entity procures energy savings and deferred maintenance facility improvements typically under a Guaranteed Savings Energy Performance Contract or similar agreement (an EPC) from an Energy Services Company (ESCO)
- Utility or cost avoidance savings generated from the project are typically guaranteed by the ESCO
- Savings may be measured or stipulated (agreed to between the customer and the ESCO upfront)
- Savings are generally used to cover the financing of the improvements
- Most states have passed performance contracting statutes to facilitate but also standardize EPC terms and requirements for public entities within the state
- Contract tenors and EPC requirements vary by state

Common Energy Conservation Measures

- Energy efficient indoor lighting
- Building control systems and occupancy sensors
- Boilers, chillers, HVAC and mechanical systems
- Central plants
- Outdoor lighting, parking lights, street lights
- LED traffic signals
- Water meters, electric meters and automated meter reading systems
- Water flow conservation fixtures
- Energy recovery systems
- Roof replacements, insulation and windows

Alabama Guaranteed Energy Cost Savings Act

Section 41-16-140 Code of Laws of Alabama - Highlights

- Governmental Unit includes: public school districts, counties, municipalities, colleges and universities, etc.
- Framework for entering into a Guaranteed Energy Savings Performance Contract
- May enter into an installment purchase or lease/purchase to finance the project
- Term not to exceed the lesser of 20 years or the average useful life of the equipment from acceptance / project completion

Qualified Energy Conservation Obligations (QECBs)

QECBs

- - $3.2BN Program
- - Capital expenditures for:
  - Reducing energy use in public buildings by at least 20%
  - Implementing green community programs
  - Rural development involving production of electricity from renewable energy resources and research facility expenditures for certain technologies
  - Renewable energy
- Allocated to the States in proportion to US population , with sub-allocations to large local governments (LLGs) with a population > 100,000, and the reminder allocated at the discretion of the State
- No expiration date for allocations (will this change?)
- Sub-allocations may be waived by LLG
- No more than 30% of the allocation may be used for non-governmental purposes
- 2% costs of issuance limitations
- Can be used for Lease/Purchase transactions
- Davis-Bacon Applies
- Only 70% of the posted tax credit may be utilized, and an additional sequestration discount currently exists (currently a 6.8% reduction)
- Direct Pay Option Permitted via Hiring Incentives to Restore Employment Act of 2010 – “Jobs Act”

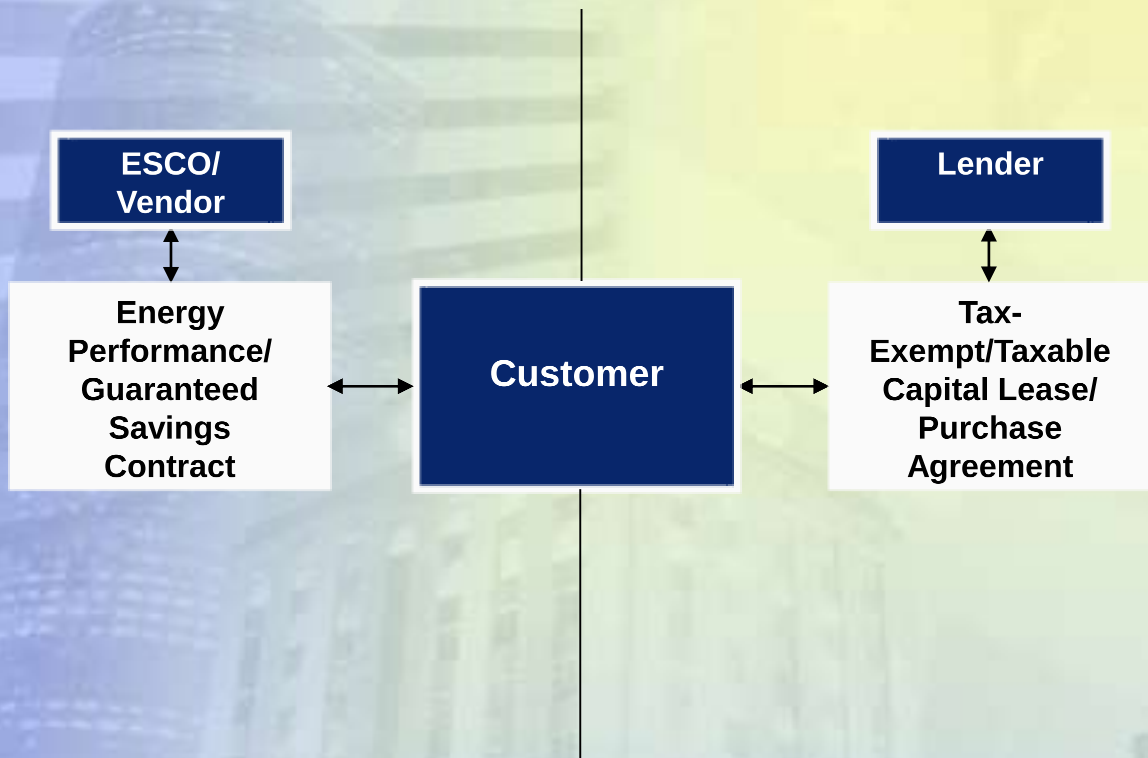
QECB Allocation By State (sample list)

AL	**$ 48,364,000**
DE	$ 9,058,000
FL	$190,146,000
GA	$100,484,000
IL	$133,846,000
KY	$ 44,291,000
LA	$ 45,759,000
MI	$103,780,000
MO	$ 61,329,000
NJ	$ 90,078,000
NC	$ 95,677,000
PA	$ 129,144,000
SC	$ 46,475,000
TN	$ 64,476,000
TX	$252,378,000
VA	$ 80,600,000

Energy Performance Contracting Diagram

Financing Example Using a Lease/Purchase Agreement

The issuer's obligations under the Lease/Purchase Agreement are independent of the vendor's obligations under the Energy Performance Contracting Agreement.



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