Testimony of Britta MacIntosh, Vice President of Business Development, NORESCO
On behalf of the Federal Performance Contracting Coalition
Before the House Subcommittee on Energy and Power
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Chairman Whitfield and members of the subcommittee, thank you for inviting me to testify today regarding private sector mechanisms and financing available to advance energy efficiency across the Federal government.

I am Britta MacIntosh, Vice President of Business Development, NORESCO, one of the largest energy service companies in the United States utilizing performance-based contracting to deliver energy and maintenance savings and significant infrastructure upgrades to existing facilities. NORESCO is part of UTC Climate, Controls and Security Systems., a unit of United Technologies Corporation, a leading provider to the aerospace and building systems industries worldwide. NORESCO specializes in developing and implementing Energy Savings Performance Contracts for governmental and institutional clients spanning the Federal, state and municipal sectors.

NORESCO is also a member of the Federal Performance Contracting Coalition (FPCC), which is a national industry coalition of energy service companies advocating for increased federal use of Energy Savings Performance Contracts (ESPC). FPCC's members have delivered over 90 percent of Federal ESPCs. This coalition is includes companies such as Ameresco, Chevron Energy Solutions, Constellation Energy, Honeywell, Johnson Controls, Lockheed Martin, NextEra Energy Solutions, NORESCO, Schneider Electric, Siemens Government Technologies, and Trane/Ingersoll Rand.

Energy Savings Performance Contracting (ESPC)

I am here today on behalf of the FPCC to discuss how ESPCs deliver energy and cost savings to the Federal government. Specifically, I will discuss how this private sector financing mechanism provides a critical means towards reducing the energy intensity of Federal government agencies, installations and buildings.

As the nation's single largest energy consumer, the Federal government spends more than $7 billion annually on its facility energy costs. The need for comprehensive energy efficiency across the Federal government is an ongoing critical need. In 2007, the Energy Independence and Security Act required Federal agencies to perform energy audits of their facilities. Today, with only half of the buildings audited, approximately $9 billion worth of energy conservation measures with a ten year payback or less have been identified. Simply put, there exists a vast opportunity for energy efficiency across

the Federal government at a time of reduced discretionary funding to make these types of investments using traditional means.

ESPCs can fill this funding gap. For over 20 years, performance-based contracts for energy savings have provided critical upgrades to Federal buildings including this Congressional building we have gathered in today. Under an ESPC awarded by the Architect of the Capitol, NORESCO installed energy efficiency upgrades throughout the Rayburn, Cannon, Longworth and Ford office buildings

Under an ESPC, a private sector company finances and installs new energy efficient equipment at no upfront cost to the Federal government. Essentially, an ESPC simply converts the money a federal facility currently spends on wasted energy into a payment stream that finances energy-saving capital improvements in the facility. Federal agencies repay this investment over time with funds saved on utility costs. The private sector contractors measure, verify and guarantee these energy savings, and private sector financiers provide the capital, which today is available at historically low interest rates. By law, and on a negotiated basis, the government never pays more than it would have paid for utilities if it had not entered into the ESPC. In addition to generating energy and dollar savings, years of deferred maintenance at Federal facilities are successfully addressed by ESPC projects at no additional cost to the taxpayers. For these reasons, ESPCs have proven to be a highly successful means to implement comprehensive energy efficiency projects.

ESPCs are used in Federal, state and municipal buildings, as well as in schools, hospitals and universities. In 1986, Congress authorized ESPC use in the Federal government and it has been actively used since the mid 1990's. In fact, during the nineties, the Department of Defense used ESPCs to achieve over 70 percent of its energy savings. Over 30 states have authorized state ESPC programs and the Energy Service Company market is estimated to exceed over $5 billion annually.

In the past twenty years, the US ESCOs delivered about:

- $45B in projects paid from savings
- $50B in energy and maintenance savings – guaranteed and verified
- 400,000 person-years of direct employment
- $30 billion of infrastructure improvements in public facilities
- 450 million tons of CO_2 savings at no additional cost

Benefits of ESPCs

ESPCs provide a number of benefits to the facility, which include:

- Guaranteed performance and cost

- Enhanced reliability and energy security
- Carbon footprint and emissions reductions
- Infrastructure improvements and modernization
- Improved indoor working environments

Regional benefits also accrue and include:

- Local job creation of approximately 10 jobs for every $1 million of investment
- Engineering, manufacturing and trade labor engagement
- Small business subcontracting opportunities

To capture these benefits more readily, the Federal government has Indefinite Delivery/Indefinite Quantity ESPC contracts that allow for their agencies to use these master contracts in developing ESPC projects. For the Federal government, both the Department of Energy and the Army Corps of Engineers have such master contracts. According to DOE's Federal Energy Management Program there have been 570 performance contract projects worth $3.9 billion awarded to 25 federal agencies. These projects reduced annual energy consumption by 32.8 trillion Btu, and resulted in energy savings valued at $13.1 billion, of which approximately $10.1 billion went to finance project investments, leaving a net saving of $3 billion to the government.

In 2009, the Department of Energy prequalified 16 Energy Service Companies for Super ESPC IDIQ contracts of $5 billion each. This represents a total potential of $80 billion in private sector financing available to the Federal government to implement ESPC projects. Today, over $78 billion remains available to Federal agencies. A study by Oak Ridge National Laboratory identified that if the entire $80 billion authority under the DOE contract were utilized the government would save an additional $20 billion. In addition, this would result in the Federal government acquiring $30 billion of new energy equipment at no up-front cost.

Most Federal ESPC contracts range from 15 to 18 years and cannot exceed 25 years. This allows for the bundling of multiple energy conservation measures; that is, the ability to pull a comprehensive package of energy saving measures together that maximizes energy and cost savings opportunities for the customer. Individual energy conservation measures (ECMs) which can make up a bundled ESPC project may include lighting, building controls, HVAC, boiler or chiller plant improvements, building envelop modifications, water savings, refrigeration, renewable energy systems, load shifting and others. The ESCO guarantees that savings accrue and is reimbursed for their investment over this period.

Challenges and Opportunities

Despite the associated benefits of utilizing ESPC, including how they provide much needed facility improvements without the need for upfront capital, the mechanism has been underutilized by the Federal government.

The barriers to increased usage are difficult to quantify but revolve mostly around the fact that performance contracting is different from traditional procurement processes. To address this, we need better education of contracting and legal personnel within agencies, in addition to stronger and focused Federal policy. Education is generally accomplished through the Federal Energy Management Program at DOE, which requires continued and stable funding to ensure that agency personnel throughout the government are well educated about ESPCs and have the technical resources that they need to enter into these agreements. The small amount of funding from FEMP leverages the billions of dollars in savings that are being delivered through private sector performance contracting with the federal sector.

In December 2011, the President released a Presidential Memorandum directing Federal agencies, among other management measures, to enter into $2 billion worth of performance-based contracting for energy savings over a two year period. Administration personnel have actively been working towards this goal by assisting Federal agencies in the contracting process. The FPCC is encouraged by this initiative and we have seen the many Notices of Opportunity (NOOs) for new projects being issued by Federal agencies and subsequent selections of ESCOs to move forward. Nearly 60 projects have been awarded representing approximately $500 million, with $1.5 billion anticipated to be selected upon by the conclusion of the performance period established by the President. Should this goal be met fully it would be quite a success, particularly in comparison to the approximately $400 million per year that is generally contracted for ESPC by the Federal government. We believe the momentum established under this initiative should be continued with aggressive ESPC targets on an annual basis just as the federal agency targets for increasing overall energy efficiency have been extended each time they have been achieved during the past two decades.

Last year, both Representatives Cory Gardner and Peter Welch led letters to the President, signed by 70 members of Congress, supporting a performance contracting goal and encouraging all actions to make it a reality. Since that time, the two Congressmen have formed a bipartisan Energy Savings Performance Caucus to further encourage more ESPCS by all levels of government.

Congress, led by this Committee and supported by this newly formed House Caucus, must keep the pressure on for the Federal government to become more energy efficient, even in the face of reduced energy and infrastructure budgets. After all, ESPCs were authorized by Congress in order to make more efficient use of limited dollars to leverage new technology and energy management practices, which is even more

important in this time of fiscal constraint. The FPCC urges the committees of Congress to ask about use of these contracts during oversight hearings for all agencies to ensure that ESPCs are considered before funding is requested for energy efficiency projects. Policy levers are also available to this Committee, which can codify new energy efficiency goals for the federal government, can insist that agencies address the efficiency improvements identified in their audits, can clarify the use of ESPCs for power generation and can expand ESPC use to other areas.

Some of these could trigger a significant scoring event by the Congressional Budget Office. We note, however, that there is disagreement in the scope of the scoring liability that could be attributed to these changes. The Office of Management and Budget, on a bipartisan basis over recent Administrations, has taken a different view on the budgetary treatment of legislation that would set new goals or requirements for Federal use of ESPCs. The FCC is grateful for the support of Chairman Upton in raising the impediments posed by CBO's scoring treatment in his May 2011 letter to the Director of CBO.

In summary, ESPCs are a private sector financing mechanism that allows government to increase their energy efficiency, decrease their energy costs without upfront appropriations and the savings are guaranteed by the contractor. These contracts have delivered more than $7 billion in energy related savings to the Federal government alone and significant additional opportunities abound.

Chairman Whitfield and members of this subcommittee, thank you for the opportunity to appear before you today. I stand ready to answer any questions you might have.