

U.S. Tapping Companies to Cover Costs of Green Projects

U.S. government agencies are tapping companies and private investors to cover the upfront costs of efforts to increase environmental sustainability and other projects.

The Army last week said there are 20 net-zero construction projects to be financed by savings generated from reduced energy and water consumption. These projects, including wastewater reuse and solar panel installation to generate electricity, are intended to use only as much energy as they generate by 2020.

Squeezed by reduced funding, government agencies are looking more to companies and investors to take a greater stake in financing contract costs.

Energy efficiency and building retrofits are rising in prominence, and one of the best ways to finance them is through an energy savings performance contract, said Ted Hesser, a Bloomberg New Energy Finance analyst in New York.

Funding isn't coming from the government, Hesser said. It's financed by the energy service company and an investor.

Companies and investors, rather than the Army, will provide up-front funding for the projects under a set of energy conservation contracts awarded by the Energy Department and open to all agencies.

Sixteen vendors are eligible to bid for work on the Energy Department contracts. About \$4 billion has been paid under the contracts, 5 percent of the \$80 billion maximum value, since they were awarded in 2008.

Certainly in the tight budget environment, agencies are going to be looking for ways to save money and this clearly is one of them, Steve Kelman, former administrator of the Office of Federal Procurement Policy, said of shared-savings contracts.

In Denver, investors led by Irving, Texas-based Fluor Corp. announced last month with the Denver Regional Transportation District the first U.S. transit project to use private financing: construction of a \$2.19 billion, 23-mile commuter rail line from the city's Union Station to Denver International Airport.

U.S. Space LLC of Dulles, Virginia, is helping the Air Force adopt a satellite services acquisition model in which the government can defer costs until the satellite proves to be operating properly. The model gets the program started much quicker, Craig Weston, the company's chief executive officer, said in a phone interview.

The Energy Department's 16 vendors are paid from the recurring savings against a baseline agreed to by the agencies and vendors using the energy savings contracts, according to

the department's Federal Energy Management Program, which administers the energy savings performance contracts.

The baseline generally is the amount the agency would pay without the efficiency improvements installed by the energy savings contractor.

Savings can come from reduced energy and water consumption or waste treatment, or from energy-related savings, including lower operations and maintenance costs and replacement of energy-consuming equipment.

The agency is not required to have appropriated funds available to cover the total contract amount at the time it is awarded. Contractor payments must be made from accounts that held money for the work defined by baseline costs.

Tim Unruh, the Energy Department's federal energy management program director, estimates the government will spend as much as \$10 billion during the next two to five years to achieve government-wide energy reduction goals.

Federal agencies must reduce their petroleum and water consumption by 2020 under an executive order issued in October 2009 by President Barack Obama. By 2020, they must cut petroleum use by 30 percent from 2005 levels and reduce water consumption by 26 percent from 2006 levels. Beginning in 2020, all new federal buildings are to achieve zero-net-energy use by 2030.

Unruh's office administers the energy savings contract the Army is using. It is one of two such contracts in use since 1998, with 266 awarded projects to date valued at \$6.4 billion, according to Energy Department data.

The contract the Army is using was awarded in 2008 for five years, with two options for three-year renewals. The Army's net-zero work will be completed in 10 states, Germany and Puerto Rico.

Reducing energy consumption is a major Army goal, said Major General Dana Petard, a senior commander at Fort Bliss in Texas, one of the net-zero sites. We still have use of potable water for watering lawns, which is criminal, in our minds, he said on a call with reporters last week.

There is no guarantee that a contractor will win a task order simply by being on the Energy Department contract. Companies must also assume the cost of preparing detailed bids that include efficiency improvements and savings estimates when agencies issue task orders.

Energy service companies are willing to risk the project development cost in hope of winning the contract, said Donald Gilligan, president

of the National Association of Energy Service Companies, a Washington-based trade group.

Developing a bid for an energy savings task order can cost as much as \$250,000, Gilligan estimated. Because the projects can be worth more than \$10 million, the expenditure is worthwhile, he said.

Company proposals include the cost of making efficiency improvements, the resulting savings potential and the time it will take the company to recoup its investment, Gilligan said.

Government and industry energy-savings partnerships are win-win for the military, environment and private entity investor, with guaranteed savings streams to the government, Katherine Hammack, the Army's assistant secretary for installations, energy and environment, said last week on a call with reporters.

Since 2008, Ameresco Inc. of Framingham, Massachusetts, has earned the most from task orders on the Energy Department contract — \$1.26 billion — followed by Honeywell International Inc. of Morris Township, New Jersey, which won \$1.11 billion during the same period, according to Energy Department data.

These contracts finance energy improvement projects that the government otherwise wouldn't be able to do, said Jeremy Eaton, vice president for global energy at Honeywell's building solutions division, in a phone interview. They just don't have the money.

Keith Derrington, a spokesman for Ameresco, didn't respond to a call.

Milwaukee-based Johnson Controls Inc., won \$583 million through the contract since 2008, and is definitely interested in pursuing the opportunities that will result from this Army initiative, Andrew Morton, a company spokesman, said in a phone interview.

Greg Caplan, a senior manager for the federal energy management program at Bethesda, Maryland-based Lockheed Martin Corp., expects to see more spending through the energy savings contract as funds from the 2009 American Recovery and Reinvestment Act largely have been expended.

Lockheed, the largest U.S. defense contractor, is among five companies on the energy savings contract that haven't yet won any task orders.

The Recovery Act fueled many projects that would otherwise have used the Energy Department contract, he said in a phone interview.

Now, an increasingly larger piece of that investment is going to have to be private capital provided through the energy savings contracts, he said.

By Sophia Yan and Michelle Jamrisko

Posted from Bloomberg.com, April 27, 2011, copyright by Bloomberg L.P. with all rights reserved.

This eprint implies no endorsement, either tacit or expressed, of any company, product, service or investment opportunity.
#1-28789225 Managed by The YGS Group, 717.505.9701. For more information visit www.theYGSgroup.com/reprints.