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Business

A BASIC APPROACH

Ameresco prospers by saving clients money with a straightforward view of efficiency, focused on lighting, heating, cooling, and other simple fixes



By Jay Fitzgerald
GLOBE CORRESPONDENT

When George P. Sakellaris started in the energy efficiency business in the late 1970s, he often encountered skepticism when he told potential clients that he could save them enough money on utility bills to cover the costs of brand new furnaces, air conditioners, and electric systems.

They were even more skeptical when he insisted that no upfront payments were

necessary. His company would take care of financing and installing the equipment, and money from energy savings would pay the loans and Sakellaris's fees.

"Most people didn't think energy efficiency could save that much money," recalled Sakellaris. "They just didn't believe it was possible."

They're believers today.

While flashy alternative energy companies with gee-whiz technologies have foundered in recent years, Sakellaris's company,

Pipe fitter Jerry Williams worked on new gas boilers being installed by Ameresco Inc. for the Boston Housing Authority.

Ameresco Inc. of Framingham, has grown, prospered, and significantly reduced carbon footprints by doing boring things, such as changing lighting and replacing water heaters. Even as Marlborough solar panel maker Evergreen Solar Inc. went bankrupt, and advanced battery maker A123 Systems

DAVID L. RYAN/GLOBE STAFF

of Waltham has burned through cash, Ameresco's revenues have nearly doubled and its profits more than tripled over the past five years.

"Ameresco isn't sexy," said Zach Larkin, an analyst at Stephens Inc., an investment bank in Little Rock, Ark. "Ameresco and others like it are more about blocking and tackling their way to energy reduction. It's not glamorous, but it's simple and very effective."

Founded in 2000, Ameresco now commands a more than \$700 million slice of the \$6 billion energy services industry. The majority of its revenues come from its energy efficiency unit, which uses a simple business model.

Ameresco audits a potential customer's overall energy consumption, suggests ways to cut energy use, and secures loans from a third-party lender to finance upgrades. It then arranges for the customer to pay back the loan over a number of years from savings achieved through new lighting, insulation, furnaces, air conditioners, windows, roofs, electric systems, and water and sewer piping.

Ameresco oversees systems upgrades much like a contractor at a construction site. It makes a profit by getting a percentage of a project's overall cost, but does not get paid until a new energy audit is conducted to verify that clients are achieving the promised energy savings.

"It's a wonderful business model," said Dale Pfau, an analyst at Cantor Fitzgerald LLP, a New York financial services and bond trading firm. "The projects are self-funding. Cash-strapped institutions don't have to come up with upfront capital to make expensive improvements."

Sakellaris got started in the energy efficiency business in 1979 when he helped launched energy services business Noresco for the old New England Electric System, which later was acquired by National Grid. Sakellaris bought the unit from New England Electric in 1990, and later sold it in 1997 to Equitable Resources Inc. of Pittsburgh. Noresco is now a unit of Hartford-based United Technologies Corp.

Sakellaris founded

Ameresco three years after he sold Noresco. Today, Ameresco employs more than 900 across North America, including about 100 in Massachusetts.

In recent years, Ameresco has pushed into renewable energy, providing customers with its own solar, biomass, and wind turbine technologies it acquired through acquisitions. Ameresco offers its renewable products to customers who want alternative sources as part of their overall energy strategy. The renewable energy business accounts for about 25 percent of Ameresco's overall revenues, Sakellaris said.

But Ameresco's primary focus remains energy efficiency. The majority of that business comes from government agencies and nonprofit institutions, such as universities and hospitals, which can't always afford the upfront costs of multimillion-dollar projects.

One customer is the Boston Housing Authority, which in 2010 signed a \$63 million agreement with Ameresco to upgrade energy systems at 13 of its sites across the city. In one case, a heating

SOME OF AMERESCO'S AREA PROJECTS

RENEWABLE ENERGY

TOWN OF NATICK

■ FACILITY:

Photovoltaic system covering 417,000 sq. ft. of roofs

■ PROJECT SIZE:

\$6.1 million: 1.1 megawatts

■ SUMMARY: The town and Ameresco entered a power purchase agreement to install a system to provide electricity below utility rates. Ameresco financed and owns and maintains the systems. The 20-year agreement guarantees a set rate for the town and reduced exposure to increases in energy prices.

ENERGY EFFICIENCY

CHILDREN'S HOSPITAL OF BOSTON

■ FACILITY: 15 buildings

■ PROJECT SIZE:

\$4.9 million

■ ANNUAL SAVINGS: \$950,000

■ SUMMARY: In 2011, Children's Hospital and Ameresco entered the fifth phase of an energy efficiency agreement. Through efficiency and other initiatives, Ameresco has helped Children's solidify its position as an environmental and energy efficiency leader.

ENERGY PERFORMANCE

WORCESTER HOUSING AUTHORITY

■ FACILITY: 2,110 units; 15 sites

■ PROJECT SIZE: \$10 million

■ ANNUAL SAVINGS: \$1 million

■ SUMMARY: The housing authority and Ameresco implemented an energy performance contract in October 2008, to upgrade aging energy and water systems. The project included 236 thermostat replacements, 2,000 water saving toilets, 4,864 new lighting fixtures, and 6,000 water saving showerheads and faucet aerators.

GUARANTEED ENERGY SAVINGS

CITY OF LOWELL

■ FACILITY: 47 buildings

■ PROJECT SIZE:

\$21.1 million

■ ANNUAL SAVINGS: \$1.5 million

■ SUMMARY: The city entered into energy efficiency and power purchase agreements to upgrade equipment and weatherize buildings, installing nearly two dozen energy conservation measures. In addition to new lighting, boilers, and air conditioning, the project included the installation of solar energy systems on five roofs.

REVENUE

2007

\$378.4 million



SOURCE: Ameresco Inc.

2011

\$728.2 million



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Ameresco's Steve Turner next to an exhaust outlet at a Boston Housing Authority site. Ameresco has been outfitting BHA apartments with new lighting and water systems.

system at a BHA facility was more than 70 years old, said Dan Helmes, the housing authority's energy manager.

Besides installing new heating systems, Ameresco is retrofitting BHA facilities, including 4,500 apartments, with new energy efficient lighting, roofs, and water-and-sewer systems, including low-flow toilets and showers, he said.

The estimated annual savings on the BHA's utility bills: \$5 million. Electric consumption is expected to fall by about 5 percent,

natural gas usage by 36 percent, and water consumption by 37 percent, said Helmes, who estimated the project should be completed by the end of this year.

"It's been fabulous," said Helmes. "We're tackling all the stuff that we really needed to get done."

Similar energy efficiency projects can save companies and institutions about 20 percent or more on their utility bills, according to industry analysts, although Sakellaris said his firm averages energy savings of about 35 percent per project.

Analysts are optimistic about Ameresco's future, but it has not always been a smooth ride. Last month, Ameresco reported a nearly 1 percent decline in second-quarter revenue, compared to the same period last year, a setback Ameresco attributed to delays in finalizing and processing customer contracts.

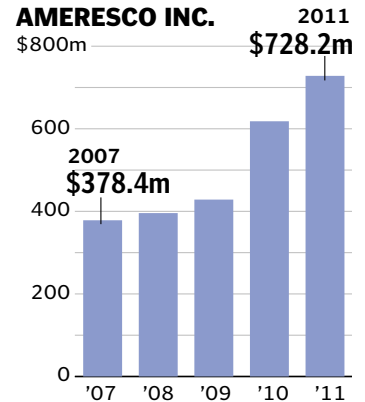
The company's stock was trading earlier this week at about \$12, down from its 52-week high of \$14.73 but up from its low of \$8.60.

Ameresco also faces stiff competition. Among the company's rivals are Honeywell International Inc. of New Jersey and Johnson Controls Inc. of Wisconsin, analysts said. In Massachusetts, EnerNOC Inc. of Boston and World Energy Solutions Inc. of Worcester are also in the energy efficiency sector, although their main services and fields of expertise do not always compete directly with Ameresco's.

Phil Adams, the chief executive of World Energy Solutions, said his company's main focus has been organizing firms so they can jointly buy energy supplies together at lower prices. But the company, which posted \$21 million in revenue in 2011, entered the energy efficiency sector last year by acquiring Northeast Energy Solutions LLC of Connecticut. "We see a pretty darn big market there," said Adams.

Sakellaris said he welcomes new rivals. "I feel good about the future," said Sakellaris. "Competition sharpens your mind."

REVENUES OF AMERESCO INC.



SOURCE: Ameresco Inc.

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