

OPTIONS FOR FINANCING ENERGY EFFICIENCY BUILDING RETROFITS

Energy Service Companies (ESCOs) and Performance Contracts: ESCOs such as Honeywell and Johnson Controls set up performance contracts with building owners, where the ESCO performs a package of retrofit improvements and guarantees a level of energy savings usually high enough to pay for the retrofits. If savings don't materialize, the ESCO pays the difference. So far, the model has been implemented mostly on MUSH buildings. However, some ESCOs are interested in working in the commercial building market in partnership with a bank or other type of financing entity.

Banks Loans: A number of banks such as PNC, Bank of America, and Citibank, have been financing performance contracts for MUSH building retrofits. Some are also moving into the commercial market. Banks seek retrofit projects on buildings/companies with solid credit and which fit their financing requirement models.

Off-Balance-Sheet Financing: Companies such as Transcend Equity and Siemens have developed financing models called "Off-Balance-Sheet Financing" or "Energy Services Agreements" that require no payments and no debt on the part of the building owner. The building owner pays Transcend or Siemens its monthly utility bills at historical rates. Transcend/Siemens performs energy retrofits and keeps the utility bill savings. After the contract is over, the building owner keeps the equipment and has essentially received a retrofit for free. Transcend has successfully done deals with Drexel University in Philadelphia and some private hospitals, and they are currently working on deals with the Sears Tower in Chicago, GE Real Estate in Chicago, and a mall in Southern California. Siemens' financing arm provides the funding for projects that the Siemens ESCO arm performs.

PACE Commercial Consortium: The Consortium model depends on commercial PACE-enabling legislation, which Minnesota has in place. It is a partnership between Ygrene Energy Fund, Barclays, Lockheed Martin, Energi Insurance, and Hanover Re Reinsurance. Ygrene, the primary partner, will enter into a contract with a city or county to set up its commercial PACE system and identify a portfolio of commercial retrofitting projects. Loans from Barclays Capital pay for the upgrades. Contractors, including ESCOs, implement the projects and guarantee that the energy savings will pay for the cost of the retrofit. Energi Insurance will back up that warranty, which will be reinsured by Hannover Re, one of the world's largest reinsurance companies. Ygrene is starting to implement this model in Sacramento and Miami, cities with functioning commercial PACE programs.

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