

To: Jeff Westhoven and Ron Spangler, OFCC
From: Donald Gilligan, NAESCO
Re: Follow-up to January 29 ESPC Meeting
Date: February 14, 2014

Thank you for a very productive meeting on January 29. The NAESCO member ESCOs that attended the meeting and I look forward to a very productive working relationship with the OFCC that will streamline and accelerate the use of ESPC in Ohio public facilities.

During the meeting, Jeff put a number of issues on the table for collaborative work by OFCC and the ESCOs. We see the following issues as priorities:

- 1) Acceleration of the State Buildings Program:** During the time that Ohio has implemented about \$41 million in state facility ESPC projects, the neighboring Commonwealth of Pennsylvania has implemented more than \$500 million of projects. We think that there are a number of best practices from the Pennsylvania program that OFCC could consider to enable the state buildings ESPC program to deliver its full potential to reduce energy waste, modernize state facilities, create hundreds of good jobs, and produce substantial environmental emissions reductions at no additional cost.
- 2) Competition for K-12 Schools Projects:** We urge the OFCC to make a rigorous pre-qualification process for ESCOs the first step in structuring any system of competition for these projects. Pre-qualification is used in the federal ESPC program and in an increasing number of state government ESPC programs, because it assures public sector customers that any ESCO competing for their projects is technically qualified to implement the projects and financially to stand behind the savings guarantees.
- 3) Reforming the Project M&V Protocols:** We fully support the OFCC in its efforts to reform project M&V protocols to match the cost and complexity of the M&V to the financial and technical risks of projects. As you may be aware, NAESCO, ASHRAE and the US Department of Energy collaborated to develop the IPMVP in the mid-1990s to standardize project savings calculation and verification to assure both customers and project financiers that the project savings are real and sufficient to enable the customer to repay the project cost from the savings. We therefore want to be very careful about altering the process, with full input from all stakeholders include the financiers. The current system has raised more than \$1 billion of private financing for public building improvements, and none of us want to jeopardize that funding stream for the next \$1 billion of projects.
- 4) Escalation of Energy Prices in Project Cash Flow Analyses:** The current policy of not allowing any energy cost escalations in project cash flow analyses unnecessarily limits the scope of projects and prevents the state from realizing the full value of ESPC. The federal ESPC program is also wrestling with this issue. The attached paper from the Lawrence Berkeley National Laboratory, which consults with the Federal Energy Management Program (FEMP) on the management of the federal ESPC program, frames

the issue well and urges that all federal projects use the energy cost escalation calculator developed by the federal Energy Information Administration.

5) O&M Savings: A related issue is the arbitrary limitation of O&M savings, which again limits project scope. The attached report from the Oak Ridge National Laboratory, which also supports the FEMP in its administration of the federal ESPC program, attempts to quantify the true value of O&M savings and concludes that the actual savings from federal ESPC projects is nearly double the guaranteed savings in the project contracts.

6) Reporting Project Results: At the meeting, you said that OFCC would like to reform the project savings reporting protocol to be more useful to all stakeholders. As you consider how to do this, you may want to investigate a new ESPC project database system that is being developed by the Lawrence Berkeley National Laboratory under contract to the Federal Energy Management Program (FEMP). The FEMP system is an expansion of the existing LBNL/NAESCO database that now houses information on about 4,500 ESCO projects. It is designed to streamline the collection of the kind of data that OFCC wants through a secure website that would also offer analysis and reporting tools for the Ohio project data. LBNL is very interested in talking with organizations like OFCC to guide the refinement of the system. NAESCO can facilitate the conversation if you are interested.

We hope that you agree with us that these issues are priorities, and we look forward to working with you to improve the Ohio ESPC programs for the benefit of all Ohioans.