

Q&A

Questions and Answers about Energy Service Companies (ESCOs)

What is an Energy Service Company?

An Energy Service Company (usually called an ESCO) is a business that develops, executes and arranges financing for projects that will improve a building's energy efficiency and maintenance costs over a period ranging from two to twenty years.

How could working with an ESCO benefit our co-op?

ESCOs offer a range of services to improve your co-op's energy efficiency and water use. They can

- plan and arrange financing for water- and energy-efficiency projects;
- install and maintain the new equipment or devices you need; and
- measure, confirm and monitor the resulting energy savings.

Best of all, they take responsibility if the project does not save your co-op as much money as expected.

Increasing our energy efficiency sounds good, but our co-op doesn't have a lot of money to spend. How can we pay for the work?

The cost of both the equipment and the ESCO's services are paid for through your future savings from the project. Typically, the ESCO will take a percentage of the expected savings and use that to pay itself back. Working with an ESCO, you can

upgrade your systems without draining your capital replacement reserve.

Can the ESCO predict our level of savings?

The ESCOs have learned to make quite accurate predictions about energy and water savings. They need to be able to do so in order to stay in business. Commitments about savings appear in the performance contract that ESCOs sign with their clients.

Even if the ESCO's services are paid for through future savings, couldn't those services still be expensive?

The Canadian government has used energy-performance contracts (EPC) to upgrade about one-third of its buildings. It has found that using an ESCO costs no more than getting the work done in another way. It can actually save money, because the traditional "piecemeal" process means paying different people to manage the multiple projects. The government has also found that the old-style, one-off approach leads to lower energy savings.

What happens if our co-op doesn't save as much as we were told we would?

Most ESCOs carry performance insurance. If the ESCO isn't able to pay itself back in full from its share of your energy and water savings, as set out in the Energy-Savings Performance Contract

you sign with it, it will turn to its insurance to pay the difference.

If we decide to go ahead with the process, how do we find an ESCO?

The Agency has conducted a Request for Supplier Qualifications (RFSQ) to find ESCOs willing to work with housing co-operatives. Your relationship manager can send you our list of qualified and interested companies. When choosing the ESCO for your co-op, you are welcome to discuss the possible choices with us.

A number of federations are also working with ESCOs and can make recommendations to their members. Whatever your region, your co-op should have access to at least one ESCO that can help improve the efficiency of your buildings.

Is there anything we need before the start of the project?

Your co-op will need an energy audit, which the ESCO will arrange and manage. The energy audit will show how much energy and water you are using now and where savings are possible. It involves an inspection of the property and all components related to water, lighting, heating and, if you have it, cooling. The audit will include information on the cost of upgrades and the likely payback period for each.

The ESCO will either recommend a particular energy auditor or give your co-op a list of independent auditors who work in your area and have a good reputation. The energy-audit cost may be partly covered by a government program in some parts of the country. You can also meet the cost in whole or in part from your capital replacement reserve.

Can the project start right after the energy audit?

Based on the audit, the ESCO will make a number of recommendations about possible upgrades. Your co-op will have to decide how much of this work to go ahead with.

What kinds of project do ESCOs usually recommend?

Because ESCOs prefer bigger project bundles, they encourage clients to undertake a range of retrofits at the same time. Some will have a short payback period. Others will take longer before you see much value. However, it usually makes sense for a co-op to undertake as much work as possible.

How can we decide which recommendations to accept from the ESCO?

You will make a sound decision for your co-op by measuring each recommendation from the ESCO against solid standards. Here are some that we suggest:

1. Set an average payback period for all the recommendations, taken together. It should be about 7.5 years, with no single component still not paid in full after 10 years or so.
2. Identify the work for which a grant or subsidy is available. The ESCO's proposal should tell you this.
3. Make sure the ESCO's proposal starts with the easiest, fastest retrofits, such as replacing lighting fixtures and toilets.
4. Check that the proposal includes some complex big-ticket items with longer paybacks, such as window or boiler replacement.
5. The ESCO's proposal will make assumptions about rising energy costs over time. Consult your relationship manager if you are not sure that these are reliable. You will want to be sure that the ESCO is not being too optimistic.
6. Ask whether the ESCO is proposing to use quality components. A project of this kind is a

precious opportunity to improve your property. Don't waste it with false economy.

Most co-ops will have difficulty testing the ESCO's proposal against these standards. Please consider hiring an independent consultant to advise you before you agree to anything.

Where are we going to find an independent consultant?

Many co-ops already have a relationship with a firm of engineers or building scientists who have the technical expertise you need. You could also ask your relationship manager or federation for a recommendation.

All this sounds very expensive. Shouldn't we be concerned about how much it will cost us?

You will need to make sure that the cost of the whole project is reasonable in relation to the value of your property and the size of your remaining mortgages and any other debts. Your relationship manager can help you with this decision.

Keeping to the payback period we recommended earlier is very important. You should insist that the bundle of projects include some elements that will be paid off within no more than a few years.

However, don't be too conservative about the building components that you agree to improve. Bear in mind that an ESCO-funded project will have to be of a certain size—likely with a minimum cost of \$0.3 million to \$1 million. Otherwise, the company may not want your business.

Do we need permission to go ahead with our project?

In most cases, you do. It is important to keep CMHC and any other lenders informed of your plans. By keeping in touch with the Agency, you can avoid an unexpected delay, or even a refusal. Discuss your plan with your relationship manager before finalizing it.

Once we have permission, can we go ahead and sign a contract with the ESCO?

Before you sign, check with your lawyer and with CMHC or whoever your mortgage lender is to make sure that the terms of the ESCO's standard contract are acceptable.

Does the ESCO choose the trades and suppliers who will do the work?

Yes. The ESCO will have a list of pre-approved suppliers and installers that it has found to be reliable.

Once we've made these decisions, can we just leave the ESCO to get on with the work?

Your co-op shares the responsibility of making sure that the project is a success.

Someone representing the co-op will need to

- see to it that the project moves forward;
- warn the members about any inconvenience the project will cause;
- provide access to the building, member units and secure areas, like the electrical room, and give advance notice of entry, as your by-laws or rules require;
- ensure that proper record keeping takes place to
 - track the work from the start to the end date and
 - record all the work performed.

All this work calls for a reliable person to watch over the project on the co-op's behalf and keep in touch with the members. An individual—possibly your co-op's manager—needs to be the connecting point between the project and the co-op. Whomever the co-op may hire or appoint, the board will need to recognize that the project will demand its time.

Can our members continue to live in the co-op while the work is taking place?

Yes, they can. Depending on the nature of the work, there may be some disruption, but ESCOs have been doing these projects for 25 years. They know that businesses like your co-op need to stay open while the work goes on.

How can we tell if the project is a success?

Your contract with the ESCO should make reference to an international measurement standard called the IMPVP®. This was developed partly to verify savings from energy conservation. The ESCO will set up a solid system using this standard to track energy and water use following completion of the project.

Can we really expect to save money, once we've paid for the work?

Absolutely, based on past experience. If you compare the energy savings from major projects with the return from various financial investments, the energy projects are winners,

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