

Supporting ESCOs for Delivery of Industrial Energy Efficiency Projects

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Focus on Profitable Projects

- Many institutional, market failure and awareness barriers block uptake of profitable EE projects
- Need to focus on profitability as one of the greatest strengths of EE projects.
- Focus on “double green” projects, which both improve energy efficiency and make money.

Use of ESCOs to Deliver Profitable Projects (1)

- Use of ESCOs as one type of project delivery mechanism
- ESCOs are third-party project development and implementation companies
- Energy performance contracting (EPC) is a project delivery business. It uses project implementation contracts whereby client payments to the ESCO are dependent on meeting agreed project energy saving levels.
- Models vary on who makes the project investment.

Use of ESCOs to Deliver Profitable Projects (2)

- China is a leader in industrial energy performance contracting. National investment levels in industrial sector EPCs approaching US \$8 billion.
- China's EPC business developed from zero in 1997. Development began with delivery of simple fast-payment projects.
- EPCs are useful for only some types of industrial projects and for some types of clients.

Some Suggestions on Early ESCO Development

- ESCOs require development of three capacities: (1) technical capacity; (2) business entrepreneurship; (3) capacity to assess and manage financial risk
- Keep projects and contracts simple.
- Build on company strengths, steadily address company weaknesses.

Supporting ESCOs

- Support piloting and demonstration of successful project delivery during early stages.
- Government support to help legitimize the use of EPCs in the market place.
- Support for ESCO access to financing for their project investments. Early public support followed by development of commercial financing mechanisms.