



Retrofit Finance Structures

The ESA-based strategy being pursued by the Partnership will compete primarily with two existing models for retrofit projects: (i) building owners who do the retrofits on their own (“Do it Yourself” or “DIY”); and (ii) energy service companies or “ESCOs” which finance retrofit projects through third party debt¹

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	Traditional		Emerging
	Do it yourself (DIY)	Energy Service Company (ESCO)	Energy Service Agreement (ESA)
Explanation	The building owner manages all aspects of their own energy efficiency project	A third party is contracted to design, build and source financing for all aspects of an energy efficiency project	A third party funds the cost of energy efficiency equipment and then operates the equipment to provide “energy services” to the building
Financing Source	Equity or third party debt	Third party debt	Equity/Debt via third party
Guarantee of Savings	No	Yes, but difficult to enforce. Owners must oversee Measurement & Verification (“M&V”) to ensure they are being paid for savings shortfalls over full term of project.	All risk borne by third party
Upfront Cost to Owner	Full cost of retrofit	Full cost of retrofit, but typically 100% financed from annual savings via third party debt	None
Difficulty of Execution for Building Owner	High	Low	Low
Ability for Tenanted Building Owner to Capture Energy Savings	Possibly ²	Possibly ²	Possibly ²

¹ Another alternative is Property Assessed Clean Energy or “PACE,” which is an emerging structure in the marketplace for financing retrofit and clean energy projects. The Partnership may compete with PACE financing for project opportunities and, in certain cases, may use PACE financing as part of an overall Partnership project. See Appendix F, Note 8 for additional important information regarding PACE financing alternatives. ² This depends on specific lease terms and definitions. In a typical triple net lease, the tenant realizes the energy savings instead of the building owner. New “green lease” and other lease provisions can address this split incentive.