Supporting ESCOs for Delivery of Industrial Energy Efficiency Projects

Bob Taylor
Senior Advisor, Institute for Industrial Productivity
CEI Conference, Seoul, Korea
March 27, 2014
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.