Siemens Government Services, Inc.
RE: Cost of Financing for ESPC Projects and Preliminary Assessment Process

September 2, 2009

At the August 26, 2009 FEMP ESCO meeting DOE requested suggestions regarding how to lower the cost of financing an ESPC project, how to include direct price-based competition and lowering project development timelines for DOE projects.

Cost of Financing

On July 22, 2009, the DOE Golden Field office outlined its desire to reduce the cost of financing. This was reiterated in the August 26th ESCO meeting. Siemens applauds that the DOE is focusing on cost of financing. The cost of financing is a large cost component of an ESPC project, therefore, we believe that this important cost element must be considered in the solicitation stage of ESPC procurement instead of waiting until after ESCO selection. Requiring four financing bids after ESCO selection is not sufficient to lower the costs of financing to the Government.

The financing cost (or the interest rate) is determined by a banks/financial institutions based a variety of factors:

- Finance Term
- Government credit rating
- ESCO credit rating
- ESCO performance on past guaranteed savings projects
- Technology risk

Finance Term – the longer the term the higher the interest rate (example - 15 vs. 30 year mortgage) and the more risk that the ESCO will be unable or unavailable to meet its obligation over the contract term.

Government credit – no issue

ESCO credit rating - The interest rate charged by a bank for an ESPC project includes a credit interest spread element that is based on the ESCO financial stability or credit rating. The credit interest spread is lower for ESCO with high credit ratings (good financial positions) and increases for companies with lower credit ratings (poorer financial positions). The ESCO industry is comprised of companies with differing financial positions and credit ratings. As a result, ESCOs have different financing costs. Just a 50 basis point difference results in significant cost savings - $480,000 for a $10,000,000 project over a 15 yr term. 50 basis points is the difference between a credit rating of BBB and a credit rating of A+.

ESCO performance – a good history managing and achieving energy savings provides a small level of risk mitigation that financial institutions can apply in their credit analysis. Under the new contract, industry may witness a rise in interest rates associated with ESCOs' performance as energy savings are measured and verified verses stipulated and as

ESCOs take full responsibility for operations and maintenance. These contract provisions bring an ESCO's credit rating into play because the ESCO's current financial stability and business viability are used by a bank in determining the likelihood that the ESCO is able to maintain consistency over the term of the delivery order

- Stipulated savings - When savings are contracted as stipulated, the risk of failure is eliminated. This means that banks do not have worry about the ESOC's ongoing performance and can rely solely on the sound credit rating of the Government to support the credit analysis. Under the new contract all ECM savings must be measured and verified which places more financial risk on the ESCO's ability to perform which, in turn, leads banks to consider the ESCO's long term financial stability and business longevity over the term of its performance.
- Operations and maintenance - The new DOE ESPC contract requires ESCOs to assume total responsibility for O&M over the term of the deliver order. Again, this means that banks must consider the ESCO's financial stability and business longevity over the term of its performance.

Technology Risk – interest rates tend to increase as the technology risk increases

In summary, the importance can scale of financing costs should be considered upfront in ESCO selection. Requiring four financing bids after ESCO election will not lead to the lowering of financing cost the Government desires especially if the selected ESCO has a poor financial condition.

Price-Based Competition

One of the DOE ESPC reform objectives is "Increasing the amount of direct price-based competition between ESCOs to improve taxpayer value". If the DOE determines to engage ESCO in competition at the Preliminary Proposal level to reach this objective, we suggest that financial costs or ESCO financial rating should be included in the evaluation of the direct price prior to ESCO selection. Otherwise as the example shows a $10 million project could increase by $480,000 or 4.8% in the IGA phase.

Meeting Fair Opportunity and Competitive Requirements

The DOE requested suggestions to meet the ESPC Reform Goals for DOE projects. Siemens believes a solicitation process that allows for the selection of a single ESCO to join the government team prior to the Preliminary Assessment offers the DOE the greatest advantage to procure a quality ESPC project in the shortest project development cycle time. We suggest that a Request for Information satisfies NDAA requirements and DOE's Reform Objectives. Below is a summary of issues DOE presented at the August 26th meeting that can be addressed in a RFI response.

Issues	**Request for Information** (as a minimum)
Suitability	Specific facility and ECM experience
Direct pricing	Propose overhead and profit percentages

Direct pricing	Financing capability inclusive of credit rating, letters of interest from banks or financial institutions to provide funding offers for project and risk mitigation strategy
Direct pricing and Potential delays	Management approach to deliver the specific project
Direct pricing and Potential delays	Resource capacity and capability inclusive of the number of support resources, delivery resources and performance period resources available as well as location of such resources. This allows the Government to assess the potential of resourcing delays.
Potential delays	Facility clearance status to accept and manage sensitive material. Speeds up timing to clear and badge personnel for site work.

As the DOE stressed in the August 26 meeting, to achieve a quality project the project team must invest early in the design stages. In an ESPC project the ESCO is a key team member or stakeholder. The preliminary assessment forms the foundation and framework for project design/scope which leads to the ultimate quality and success, therefore, it is logical to form the team prior to the preliminary assessment. Shifting the ESCO team entry to after the Preliminary Assessment is contrary to DOE's objectives and industry practices perfected over the last 30 years. ESCO selection for the preliminary assessment supports your objectives and is in compliance with regulatory requirements.