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MANAGED ENERGY SERVICE AGREEMENTS (MESAs)

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A Managed Energy Service Agreement (MESA) is a variation of an Energy Service Agreement (ESA). In an ESA, the provider develops, finances, owns, operates, and maintains all energy efficiency measures and equipment installed during the term of the project. A MESA differs from an ESA because the provider also assumes the broader energy management of a client's facility, including the responsibility for utility bills, in exchange for a series of payments based on the customer's historic energy use.

MESAs offer promise for retail energy retrofits when the customer is financially stable, but lacks the expertise or time to undertake the energy efficiency retrofit.

Why should you use it?

- Your company wants to pursue portfolio wide installations or retrofits, but does not have cash for additional capital investments.
- Your company is risk adverse and wants a third-party to take on underperformance risk and provide project management.
- Your company is interested in having a third-party manage your facility to ensure that it is operating as efficiently as possible during the contract term.

Who has used it in the past?

Although MESA is a relatively new market tool that retailers are just beginning to explore, there has been initial uptake in the commercial and higher education sectors.

In 2006, Corporate Office Properties Trust, a REIT based in Maryland, used a MESA to upgrade five buildings. In year one, they averaged over 26% energy savings and by year five, they averaged over 30% energy savings annually.

Drexel University used a MESA to reduce energy consumption by more than 25% in 430,000 square feet of building space. Conservation measures included demand controlled ventilation systems, replacement of the central air chiller, variable air volume units, cooling towers, and lighting controls.

Companies like SCIenergy and Metrus Energy offer MESAs and they report working with BAE Systems, Hyatt Hotels, and other Fortune 500 companies.

What are the advantages?

- **Avoided Capital Outlay** – MESA provider pays for all upfront project costs, enabling customers to conserve capital funds for investment in their core business.
- **MESA Payments Treated as an Operating Expense** – The MESA is designed to be an off-balance sheet financing solution.
- **Enhanced Reliability of Operations** – MESA providers pay for periodic maintenance services to ensure long-term reliability and performance of the project equipment. Customer has a single point of contact and a single payment for all utility expenses and the MESA provider actively manages energy consumption at the facility.
- **Energy Savings Pay for Projects** – The MESA enables customers to redirect a portion of their

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This resource was completed with support from the Department of Energy's Office of Energy Efficiency and Renewable Energy and the Better Buildings Initiative to highlight innovative proven energy solutions from market leaders in the Retail sector. Find more ideas at the Better Buildings Solution Center at betterbuildingssolutioncenter.energy.gov

current utility spending to pay for efficiency improvements; MESA payments are based on realized energy and operational savings.

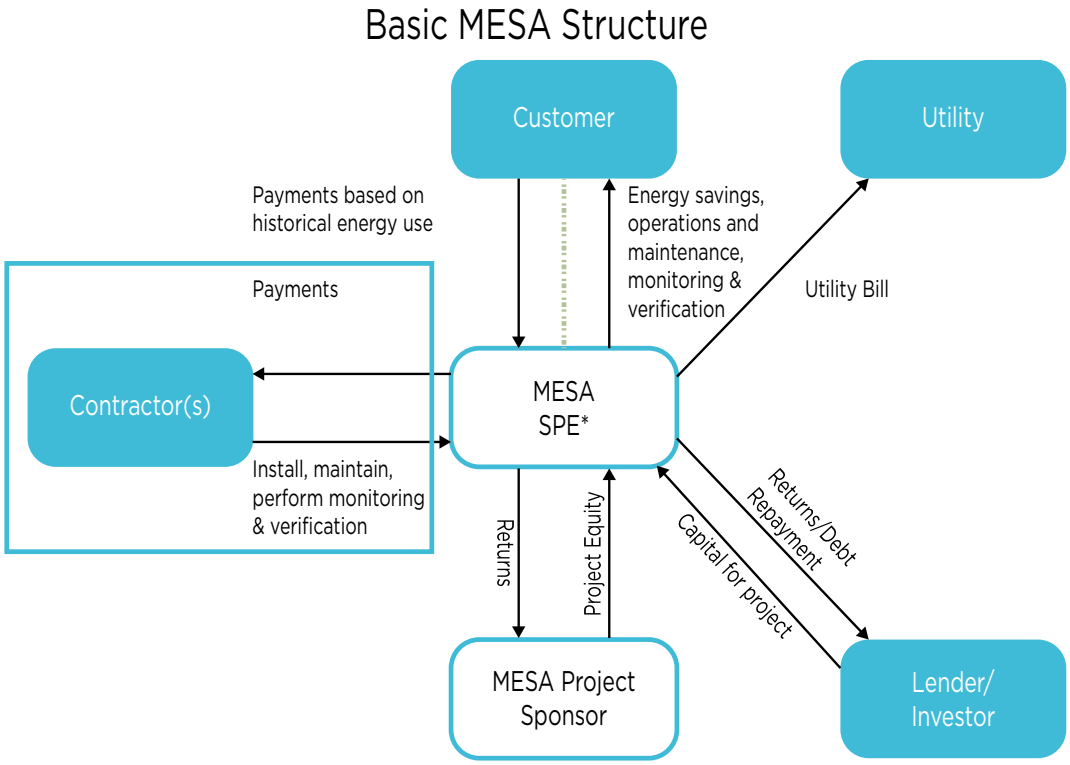
- **Flexible & Scalable Financing –** Under a MESA, as new opportunities for savings are identified they can be funded as they emerge, and rolled out to additional buildings across facilities. MESA providers can bundle together multiple sites that have smaller sized project opportunities ($500,000 or less) into a single MESA financing package (e.g., bundle 10 sites with $500,000 projects into a single $5 million MESA).

What are the downsides?

- MESAs are typically reserved for larger projects ($500,000 and above).
- MESAs are only viable in leased space when the contract term matches the lease term.
- Transaction costs can be high if each deal is heavily negotiated; typical deals have a negotiation period of 9-24 months.

Who should you talk to next?

- Talk to your internal finance team to learn about the company's history and comfort working with energy service providers.
- Reach out to energy service providers like SClenergy and Metrus Energy to learn more about how a MESA can help you meet your project goals.



Source: Wilson Sonsini Goodrich & Rosati, Innovations and Opportunities in Energy Efficiency Finance, Third Edition, May 2013
**SPE stands for Special Purpose Entity, which is typically the established entity that owns the installed equipment.*

MESAs IN THE MARKET

Managed Energy Service Agreements (MESAs) are contracts under which a third-party energy efficiency contractor assumes the energy management of a client's facility, including the installation of energy efficiency upgrades and responsibility for utility bills, in exchange for a series of payments based on the customer's historic energy use. MESAs offer a turn-key energy retrofit and financing approach that limits upfront costs and management burden.

The MESA contract in effect caps the customer's utility payments, while the contractor reaps all or part of the energy savings over the contract term. A MESA customer enjoys lower utility bills throughout the contract term, but does not own installed equipment unless they buy out the contract or purchase the equipment at fair market value at the end of the MESA contract.

More recently, the commercial sector has taken notice of the benefits that MESA provides and several deals have been executed. Corporate Offices Property Trust, a public REIT, utilized SClenergy's MESA Capital product to retrofit five of its buildings in 2006. High efficiency lighting and HVAC systems coupled with digital controls on various systems, accounted for the majority of energy savings. In total, 479,420 square feet of space was made more efficient and by 2010, the energy savings were greater than the annual projected average of 30.8%.

Drexel University also worked with SClenergy to fund $6.5 million worth of improvements in several facilities on campus. The overall reduction in energy consumption is expected to be more than 25% and will account for over 430,000 square feet of building space. The project includes installation of new control systems in 62 laboratories in three different buildings, which will save over 46% of the energy used to operate the lab spaces. Mechanical upgrades in another building include a new chiller, among other things, that will reduce the HVAC load by 35% resulting in $200,000 of savings per year.

While MESAs typically have long negotiation periods, they afford retailers flexibility with regard to site location, building type, and scalability. A MESA can be executed regardless of whether space is leased or owned, provided that the customer pays for their own utility consumption. In addition to improving the energy efficiency of retail stores, MESAs can also address the needs of warehouses, distribution centers, and corporate offices. A single MESA contract can be structured to span multiple locations, cover numerous facility types, and be executed in phases, allowing a customer to pilot a project before scaling it across their portfolio. Although the retail sector has not yet tested MESA as a viable external financing option, its spread into commercial real estate lays the foundation for uptake by retailers.

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