



**PRESENTATION  
TO  
ASIAN DEVELOPMENT BANK**

**ENERGY SAVINGS PERFORMANCE GUARANTEE PROPOSAL**

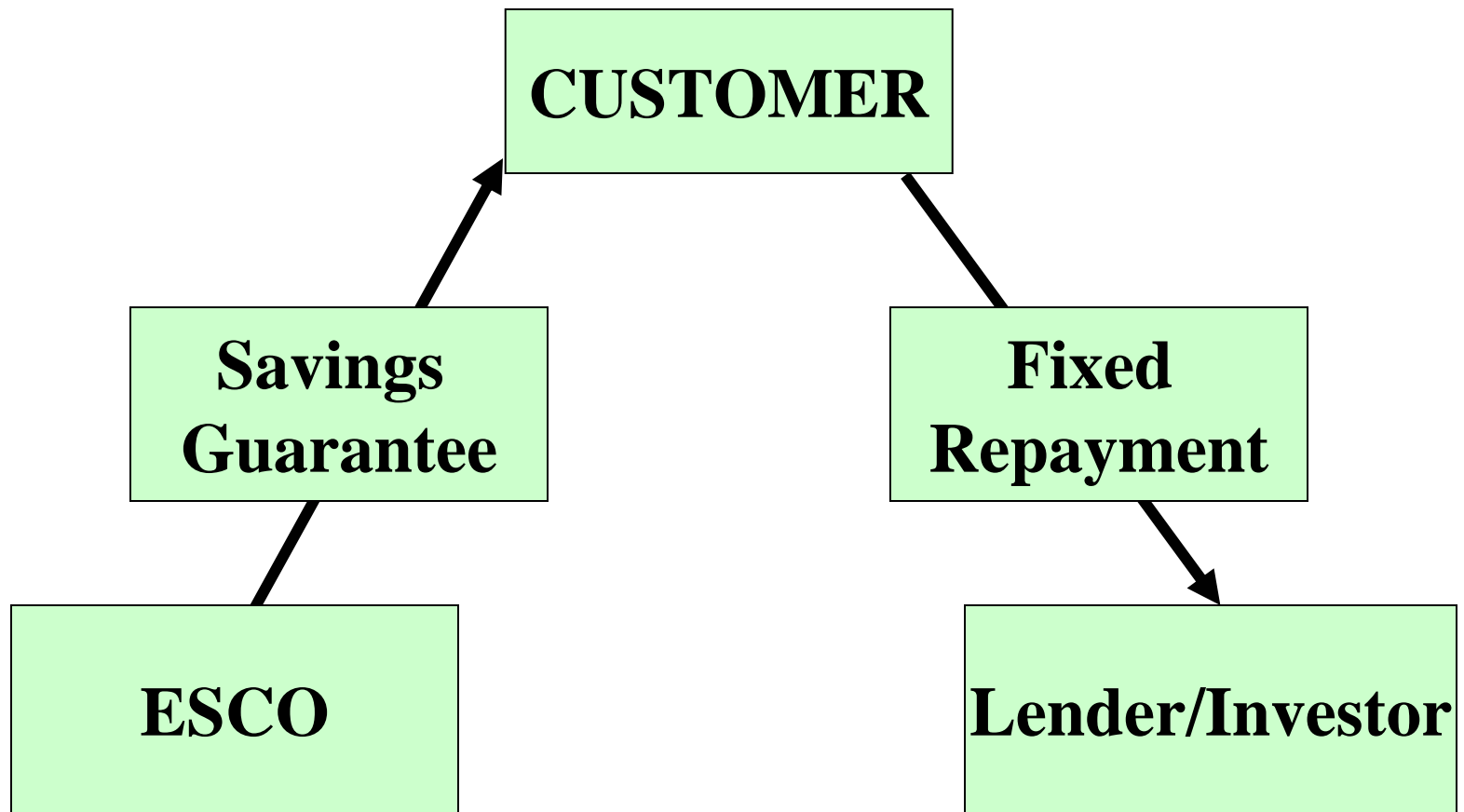
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**MANILA, PHILIPPINES  
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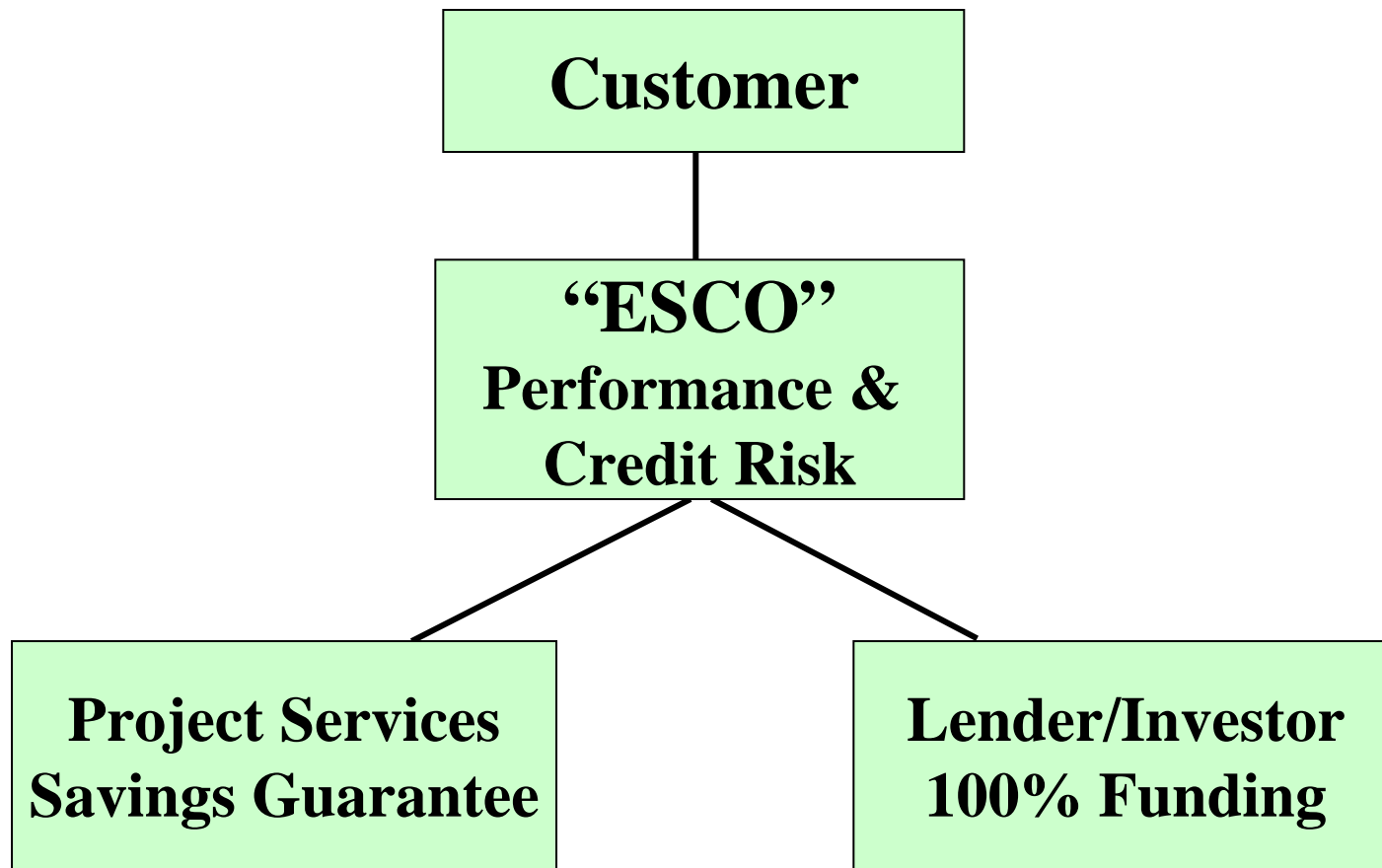
# ESCO Business Model

- **Two Primary Structures**
  - Guaranteed Savings
  - Shared Savings

# Guaranteed Savings



# Shared Savings



## Barriers to Financing EE Projects

- Customers are not confident in ESCO savings guarantee
- Banks not familiar with EE projects or ESCO guarantees
- Banks lend against balance sheet of borrower not savings guarantee
- Most EE projects are too small for bank financing under normal lending practices

## Profile of EE Project Risks

- Every EE project has two elements of risk
- Credit risk – capacity of ESCO or client to repay loan. Evaluation of this risk is core business of commercial banks
- Project risk – capacity of project to achieve guaranteed energy savings. Evaluation of this risk is beyond the capacity or interest of commercial banks

## Partial Credit Risk Guarantee

- Developed by IFC/GEF
- Only covers credit risk
- Low leveraging of GEF funds
- Loan acceleration upon default
- Large claims on guaranteed reserve funds upon default

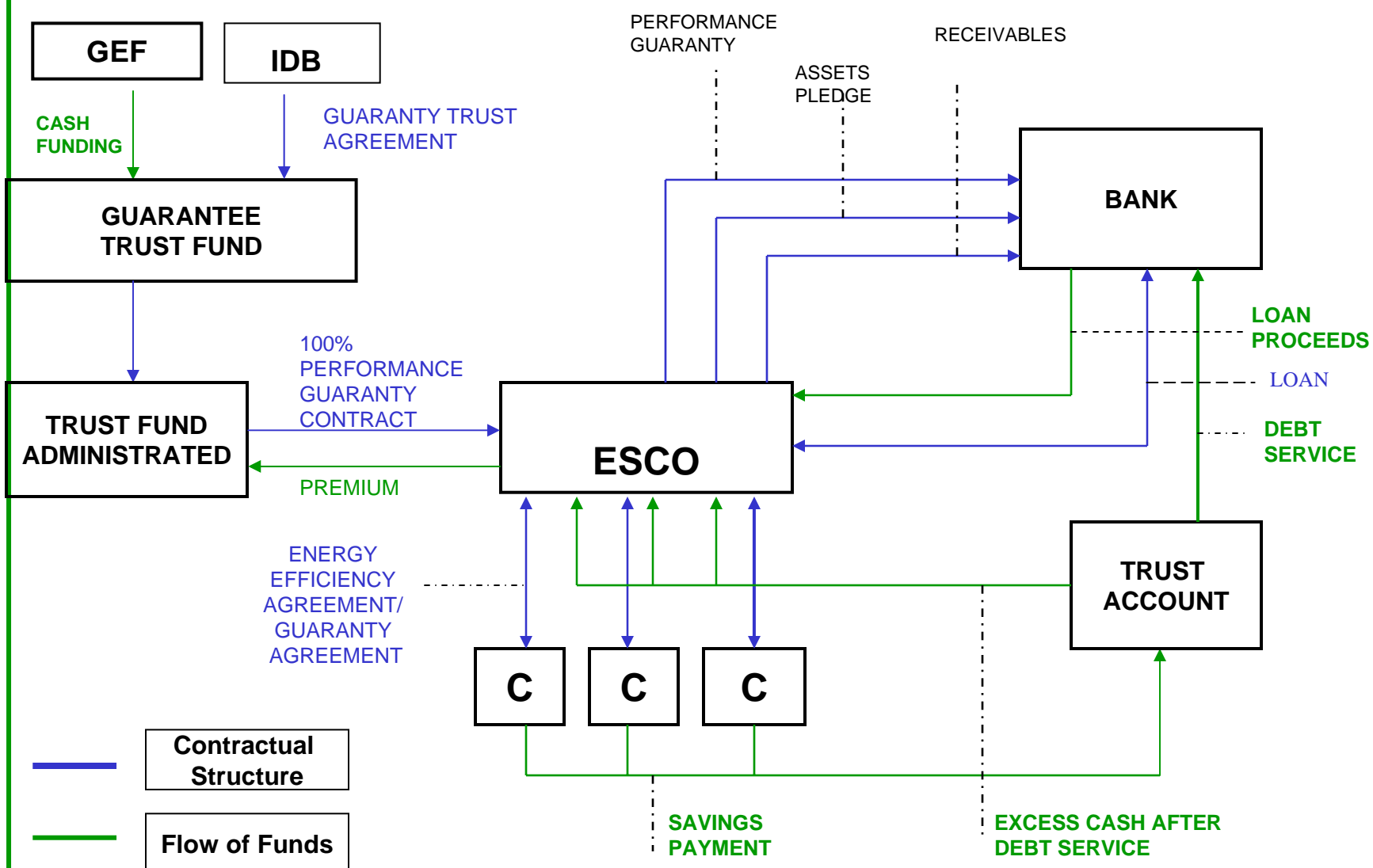
## Performance Risk Guarantee Program “PGM”

- Guarantee debt service payments to local banks for non-payment caused by EE savings shortfall
- Administered by highly trained technical staff
- One year savings reserve permits 5 to 1 leverage maybe higher
- Structure fees as “zero loss” insurance product

## PGM (Cont'd)

- No acceleration of outstanding loan payment
- Remediation responsibilities and strategies
- Reimbursement Agreement

## Flow of Funds and Contractual Agreements 100% Performance Risk Guarantee Program



## PGM Benefits

- **Benefits:**

- Establishes energy savings as collateral to banks
- Removes performance risk of EE Projects as major barrier
- Powerful marketing tool for ESCOs
- Minimum reserves and high leverage potential
- Revolving and sustainable structure

## Issues to Consider

- **Regulatory**
  - Insurance
  - Guarantee
  - Performance Bond
- **Mode of Deployment**
  - Insurance product offered by local insurance companies
  - Performance bond offered by local banks
  - Stand alone entity with credit rating

## Issues to Consider

- **Factors to Consider in Mode of Deployment**
  - Market acceptance
  - Leveraging capacity
  - Administrative costs and responsibilities
  - Marketing strategies

## Issues to Consider

- **Distinction between credit and performance risk**
- **Fee Structure**
- **Market Impact**
  - Existing financing
  - New financing
- **Selection of Administrator – Incentives**
- **Exit Strategy**