

Seattle's Energy Efficiency as a Service Pilot Program Promises Major Benefits for Building Owners, Utilities, and Conservation



Based on the success of the [Metered Energy Efficiency Transaction Structure \(MEETS\)](#) developed at Seattle's [Bullitt Center](#), the Seattle City Council last year adopted an [ordinance](#) directing [Seattle City Light](#) to enter into pilot projects in up to thirty buildings using "Energy Efficiency as a Service" (EEaS) contracts modeled on MEETS. After a lengthy administrative process to develop the pilot program, City Light is now ready to roll out the EEaS pilot program. City Light is requesting interested parties to fill out a non-binding [Expression of Interest](#) by June 30. The utility expects to release a more formal project solicitation later this summer. This innovative approach to energy efficiency financing promises to unlock deeper levels of energy conservation than have been possible under standard utility incentive programs while creating a profit center for building owners and eliminating the disincentives utilities face under traditional conservation programs.

MEETS/EEaS Background

MEETS was originally conceived of as a means of overcoming the "split incentive" problem. Under traditional approaches to energy conservation, building owners must pay for conservation measures but tenants receive the benefits of those measures in the form of lower utility bills and more comfortable space, thus splitting the benefits of conservation from the costs. Because commercial building tenants on average stay in a given space for only about two years, this split incentive problem, in turn, limits conservation investments to those that pay off in a very short time frame – approximately eighteen months.

June 19, 2019

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MEETS re-envision the landlord/tenant equation by applying the principle, long recognized by utility planners, that a megawatt of energy conservation (often referred to as a “negawatt”) is the equivalent of a megawatt of the new generation. If tenant needs are met with a combination of negawatts and megawatts, as opposed to megawatts only, they are kept whole and should be indifferent to the source of supply. However, by treating the acquisition of energy efficiency “negawatts” as the equivalent of acquiring new generation megawatts, a revenue stream is created that can be harnessed to finance retrofits that pay off over a much longer time-frame than is possible under traditional approaches, which means much greater energy savings. At the same time, the revenue stream becomes a profit center for the building owner, who sells energy efficiency resources in much the same way that a farmer would sell, say, the wind or solar energy resources on his land. The utility benefits because it is paid for both the negawatts and megawatts, whereas traditional conservation programs cause a loss of revenues for the utility. Finally, the revenue stream allows financing institutions to invest systematically in energy efficiency resources in much the same way they invest in generation resources, creating the potential for much greater investment in energy efficiency than has been possible under traditional programs.

How MEETS/EEaS Works

The MEETS/EEaS transaction structure is built on the foundation of actual metered energy savings, which is achieved by using a meter that calculates energy savings against a baseline established from a building’s historical energy usage (or, for new buildings, a baseline calculated based on constructing the building to code), without conservation measures, and adjusted for weather, occupancy, and other factors that affect a building’s energy usage. This is a significant advance over many energy conservation programs, which use “deemed” savings from specific conservation measures rather than actual, measured efficiency gains.

The utility purchases the metered energy efficiency negawatts under a long-term (generally a 15- or 20-year) Power Purchase Agreement (PPA). In Seattle City Light's case, they intend to pay about 8 cents per kilowatt hour. This creates a long-term revenue stream that can be used to finance deep energy retrofits. Those retrofits are installed by an energy efficiency contractor with financing that is repaid over the course of the long-term PPA. The building owner is also paid “rent” by the energy efficiency investor for allowing the harvesting of efficiency resources of his or her building. The rent payment is generally in the form of a royalty that is much like the royalty that would be paid to a farmer for wind or solar energy resources on his or her land.

The tenants pay for both the actual energy and the energy efficiency resources used to serve them, although the bill is the equivalent of what the tenant would have paid if no energy efficiency measures had been installed on the building. (Under the Seattle program, the portion of the bill attributable to energy efficiency resources is called an “energy efficiency service fee”). This means that the utility continues to receive the same amount of revenue as it would have received had no efficiency measures been installed. Thus, the utility does not suffer the loss of revenues that would occur in most traditional energy efficiency programs. The tenants receive the benefits of a better building for free.

The MEETS Accelerator Coalition has issued [several helpful videos](#) explaining MEETS from the perspective of the various transaction participants. City Light has issued a [helpful summary](#) of the EEaS program.

Seattle City Light may consider other types of buildings for EEaS, but it would prefer customers whose buildings have specific characteristics.

Who Is Eligible to Participate?

Although Seattle City Light may consider other types of buildings for participation in EEaS, it would prefer City Light customers whose buildings have the following characteristics for participation in the pilot program:

1. A commercial building with 50,000 square feet or more of space in City Light's electric service territory.
2. The building faces a split incentive problem, likely arising from a landlord/tenant arrangement for leasing building space.
3. The owner/investor plans to invest in deep energy efficiency improvements that will achieve at least a 25% savings in energy consumption over the baseline defined by the current building code (either Energy Code Target Performance Path C401.3 or Total Building Performance C407).
4. The building is likely to maintain at least 75% occupancy for the duration of the program.
5. If new construction, the owner plans to use electricity exclusively and plans on using the building for retail, medical office, or office space.

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