Clarifying “As a Service”: A Guide for Customers

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The “as a service” model is gaining traction in the sustainable energy industry, and it shows little evidence of slowing down. According to consulting firm Guidehouse, it could represent a $27 billion market by 2029.

With rapid growth comes confusion—about both the terminology and the product offerings. The lack of clarity poses a problem for customers: how do you move forward with a project if you’re not sure how to compare offerings? When there is confusion, decisions are delayed and greenhouse gas emissions continue unabated. Clarifying the terminology in the market is critical in order for customers to make informed decisions on how to move forward with their projects.

“Energy as a Service” or “Energy Services Agreements” are terms commonly used to refer to projects that incorporate a third party that provides project implementation, financing, ownership, and ongoing services. These projects have typically been complex and can include forms of generation that use fossil fuels.

Sustainable Energy as a Service is a newer concept that includes many of the same structural concepts as “Energy as a Service” but relies on energy efficiency and renewable sources of energy for generating assets. It is a climate-positive investment that’s structured to allow for the cost reductions in energy saved or renewable energy generated to pay for the project.

What does “as a service” mean? Herein lies the biggest point of confusion. As a result of the concept’s growing popularity among customers seeking a more de-risked or off-balance-sheet approach to accelerating greenhouse gas emission reduction, many providers have started offering products that are called “as a service” solutions, from simple lighting retrofit projects to large, multi-site complex efficiency programs with generating assets and deep mechanical components.

Not all “Sustainable Energy as a Service” solutions are the same, however. To be considered a true “as a service” offering, the following features should be present:

- **100% Financing:** The customer should not have to use cash on hand or enter into lease or bond obligations to pay for the project, even if the savings associated with the project would cover the debt service obligation.
- **Pay-For-Performance:** After the project is operational, the customer simply pays for measured savings at an agreed upon cost per unit of energy saved or renewable energy generated. Ongoing measurement &

verification (M&V) is conducted to calculate savings that are specific to a project's scope of work.

- **Third-Party Ownership:** The services provider should own the equipment for the term of the agreement. Similar to the structure of a traditional Power Purchase Agreement, the customer is the beneficiary of the energy efficiency savings and renewable energy output of the system.
- **Ongoing Services:** The provider should arrange and pay for ongoing services, including operation, maintenance, and M&V for the life of the project to ensure that it is working properly.

Now that everyone is on the same page in terms of what "as a service" means, here are some best practices when comparing options:

- **Understand the Financing Structure:** Is the project funded through a mix of debt and equity? Are those sources of funding stable? Does the provider have enough access to capital to fund all of your projects? If large banks are willing to lend project-level debt for their contract structure, it's an indication that the service provider will have enough capacity to complete your projects.
- **SPV:** Is your project going to be isolated from the risk of financial troubles your service provider could have in the future? Is your project going to be commingled with other projects? A Special Purpose Vehicle (SPV) structure is something that can be used to minimize external party risk.
- **Contractor and Equipment Flexibility:** Does the customer have a choice in the project implementation partner, or do they have to use a contractor selected by the "as a service" provider? Is having a say in who will be performing the work important to you? Are you able to have a say in what equipment is installed, or do you have to go with what the provider recommends?
- **Off Balance Sheet:** Review the contract structure with your auditors to determine the accounting treatment for your company. Relevant guidance for private sector and private not-for-profit customers in the United States is FASB's ASC 842; overseas it is IFRS 16. For public sector customers in the U.S. the relevant guidance is GASB 87.
- **Project Monitoring:** Clear M&V protocols that measure savings every year should be part of the contract. The output should allow you to easily map the energy savings of the project to your carbon reduction goals and segment them by scope 1 and 2 to support reporting to SBTi and CDP or

other reporting methodologies that your company uses.

- **Maintenance:** Discuss the scope of ongoing maintenance services on your project. This includes understanding what work will be performed by the services provider, what maintenance routines your facility team are responsible for and what is (or isn't) covered under longer-term warranties. Your service provider should be flexible on this front and explain the costs and benefits of different approaches.
- **Past Project Performance:** Ask about a service provider's track record and how previous projects are performing. In particular, ask how the realized annual savings compare with original estimates. If not, why and how is that dealt with?
- **Customer References:** As with any project, it is important to check references. The best way to find out if a company is reputable is to look at how their past projects have gone. Make sure to call the references provided to get their viewpoint instead of just relying on case studies.
- **Holistic View of Facilities:** Bundle assets together to include the most scope and eliminate the most greenhouse gas emissions. Lighting projects can be simple and provide a quick payback, but if done alone you may lose the opportunity to leverage the associated savings to make further improvements in your facilities. In addition to blending the payback of efficiency measures, the same can be done for sites (e.g. where variable site conditions and utility rates can impact payback). Also, your provider may be able to recommend measures that would be beneficial to include.
- **Educate Yourself:** Most importantly, talk to several providers and ask them about the details of their structures. Review contracts and seek advice from third-party professionals including auditors, financial advisors and industry professionals when making any decision. Additional information about best practices can be found at the Department of Energy's Better Buildings Challenge and NAESCO.

Sustainable Energy as a Service is becoming an increasingly important tool for reducing carbon emissions and upgrading equipment. Once you select a provider, it should be a simple process.