MEMORANDUM FOR AGENCY SENIOR SUSTAINABILITY OFFICERS

FROM: Nancy Sutley, Chair, Council on Environmental Quality

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DATE: August 16, 2011

SUBJECT: Supporting Energy and Sustainability Goal Achievement Through Efficiency and Deployment of Clean Energy Technology

The Administration is committed to making the Federal government a leader in energy efficiency and sustainability, including making the Federal Government itself cleaner, greener, and more efficient. That is why we want to make it clear that the Obama Administration continues to support implementation of OMB Memorandum M-98-13, *Federal Use of Energy Savings Performance Contracting*, issued on July 25, 1998, to increase Federal use of Energy Savings and Performance Contracts (ESPCs).

Executive agencies have been asked to lead by example to increase energy efficiency, reduce greenhouse gas emissions, and promote sustainability, consistent with Executive Order 13514, "Federal Leadership in Environmental, Energy, and Economic Performance," issued on October 5, 2009. Upgrading the energy performance of Federal buildings can be one of the fastest and most cost-effective ways to reduce energy costs, combat pollution, and create local jobs.

To meet our stated goals, Executive agencies should prioritize building upgrades with the highest return on investment, and responsibly fund capital improvements and services that will yield future savings and sustainability performance improvements. While the best return on these investments is often a result of carefully planned projects funded directly with agency dollars, effective and responsible use of available statutory authorities and contracting tools can leverage private investment. ESPCs and Utility Energy Services Contracts (UESCs) are important tools to help meet identified energy management goals while deploying clean energy technology. These contracts use qualified private sector firms and utilities to design and construct energy upgrade projects, which are financed based on the energy and water and other cost savings they will generate. OMB Memorandum M-98-13 provides guidance for developing and entering into these contracts. That guidance remains in effect, and agencies are encouraged to consider the responsible use of performance-based contracts that offer private-sector investment in energy and water conservation and renewable energy projects as part of their portfolio of tools to implement their Strategic Sustainability Performance Plans.

The Federal Government is the world's largest single consumer of energy, incurring approximately $20 billion in energy costs in FY 2010 alone. Of that, $7 billion was for energy consumption in Federal buildings. As directed in Executive Order 13514, Executive agencies should lead in employing strategies to improve energy management.

Effective management and coordination is necessary to ensure that the various tools for energy performance improvements are employed effectively and deliver on long-term energy cost savings to the benefit of the American taxpayer. ESPCs can incorporate purchase of on-site renewable energy, if the result is lower energy consumption and costs to the Government, but the complexity of power purchase agreements (PPAs) deserve special consideration. Agencies should therefore submit to OMB for review all proposals for PPAs entered into under ESPC authority, or that would otherwise require review as a non-routine financing proposal under OMB Circular A-11, Appendix B. OMB will review existing practices for PPAs and consider whether additional guidance is necessary to ensure maximum efficiency in the use of Federal funds.

To increase transparency and accountability, OMB is asking the Department of Energy's Federal Energy Management Program (FEMP) to report annually on Government-wide use of ESPCs and UESCs, including aggregate energy performance improvement, increased renewable energy production at Federal facilities, and cost savings achieved through the use of these tools. These tools have already been proven effective in many circumstances. Since 2003, almost half of Federal facility investment in energy efficiency has been made through ESPC and UESC use, covering projects in 49 States and US facilities overseas, and representing every Federal agency that owns and operates buildings. In their sustainability plans, agencies are encouraged to explore leading-edge technologies in order to leverage this opportunity to drive American innovation, support entrepreneurship, and demonstrate the benefits of these new practices and technologies. Agencies should consider consulting with FEMP at the planning stages of their projects to both take advantage of FEMP expertise and to reduce the burden of meeting the reporting requirements.