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For Immediate Release
September 25, 2013
Washington, DC

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Lawrence Berkeley National Lab Report Finds U.S. Energy Service Companies Experienced Steady Growth Despite Recession

ESCO Industry could more than double in size from ~$5 billion in 2013 to $11-$15 billion by 2020

Aggregate revenue growth rates for U.S. energy service companies (ESCOs) significantly outpaced U.S. GDP growth during the three-year period 2009 to 2011, according to a new report by researchers at Lawrence Berkeley National Laboratory (LBNL). The report concluded that current market penetration was highest in the K-12 schools market (42 percent penetration) and lowest in the private commercial buildings sector, where about 9 percent of eligible building space was estimated to have received retrofits since 2003. “If ESCOs were able to retrofit the remaining floor space, the investment potential in facilities typically addressed by the ESCO industry ranges from about $71 to $133 billion,” said co-author Charles Goldman, Department Head at NLBL. “The private commercial sector, K-12 schools and healthcare facilities are the markets with the largest remaining investment potential.”

ESCOs primarily use performance-based contracts to provide energy efficiency, renewable and other energy-related services while guaranteeing that installed equipment, controls and other measures will deliver a specified amount of cost and resource savings to the end user ESCO customer. Performance-based contracts enable customers to reduce their operating costs and reap significant energy, water, and other savings using little or no upfront cash. Customers pay back the capital and financing costs of the efficiency improvements over time, out of the stream of savings generated by the project.

Terry E. Singer, Executive Director of the National Association of Energy Service Companies, (NAESCO) said “ESCOs are tremendously successful at delivering substantial improvements in energy efficiency for end users in both the public and private sectors. Enhanced energy, water and other operating savings, and an overall reduction in the aggregate carbon footprint of energy consumers are all benefits of the performance-based contract business model used by ESCOs. ” Ms. Singer said that “ESCOs also are an economic development agent creating good high paying jobs in communities nationwide.” The research team analyzed the size of the U.S. ESCO industry by market segment, developed industry growth projections, and identified key market trends.

Researchers collected information from thirty-five ESCOs, publicly-available data on ESCO financial performance, and industry experts. “The ESCO industry has experienced fairly steady growth since the 1990s, and despite the recession, continued to grow about 9 percent per year from 2009 to 2011,” said Elizabeth Stuart, a researcher in Berkeley Lab’s Electricity Markets and Policy (EMP) Group in the Environmental Energy Technologies Division (EETD) and lead author of the report.

“We anticipate that U.S. ESCO industry revenues could double in size between today and 2020,” said co-author Peter Larsen, an economist at Berkeley Lab. “Based on historical trends, it is possible that the industry could grow 8 to12 percent annually depending on a number of scenarios−potentially achieving revenues of more than $15 billion in 2020. There are a number of factors that could impact future revenue, including clean energy and infrastructure modernization policies as well as expansion of ESCO services that take advantage of emerging opportunities.”

“There is still a significant market for ESCOs working in the government and university market segments,” said report co-author Donald Gilligan, President of the National Association of Energy Service Companies. “ESCOs have a strong track record working in these markets – federal, state and local – and we expect clean energy policies to continue to drive demand for the broad range of services that ESCOs offer these customers.”

Other key findings from the report:

- Performance-based contracts made up about 70 percent of ESCOs’ business in 2011, while 15 percent of revenue came from non-performance-based projects, 7 percent from administering energy efficiency programs for utilities, and just under four percent each for consulting and renewable power purchase agreements.
- Public and institutional markets (federal, state and local governments, K-12 schools, healthcare/hospital facilities, and colleges and universities), continue to be ESCOs’ primary customers, accounting for about 84 percent of 2011 industry revenue. About 8 percent of 2011 revenues came from private commercial customers.
- ESCOs reported a significant decline in revenue from renewable generation projects since 2008, both in terms of percent of total revenues (from about 15 percent in 2008 to 6 percent in 2011) and absolute dollar amounts (from about $560 million in 2008 to $250 million in 2011).
- The U.S. ESCO industry is similar in size to industries in Germany and France (about $4 to $5 billion), and China (about $4 to $7 billion in 2012), though definitions of ESCOs and revenue reporting practices vary across countries.

The full report, **“Current Size and Remaining Market Potential of the U.S. Energy Service Company Industry”** is available for download here. The work was funded by the Department of Energy’s Office of Weatherization and Intergovernmental Programs (OWIP) within the Office of Energy Efficiency and Renewable Energy (EERE).

Lawrence Berkeley National Laboratory addresses the world’s most urgent scientific challenges by advancing sustainable energy, protecting human health, creating new materials, and revealing the origin and fate of the universe. Founded in 1931,LBNL’s scientific expertise has been recognized with 13 Nobel prizes. The University of California manages LBNLfor the U.S. Department of Energy’s Office of Science.

ABOUT NAESCO

The National Association of Energy Service Companies is a national trade association promoting the benefits of the widespread use of energy efficiency for more than 30 years. NAESCO's current membership of about 85 organizations includes firms involved in the design, manufacture, financing and installation of energy efficiency and renewable energy equipment and the provision of energy efficiency and renewable energy services in the private and public sectors. NAESCO members will deliver about $5 billion of energy efficiency, renewable energy and distributed generation projects this year.

Click here to learn more about the National Association of Energy Service Companies (NAESCO)