

r. 4-27-15

**Review of ESPC Financing**

**Best Practices and Regulations**

The FAR (Federal Acquisition Regulations) state that among techniques for determining price reasonableness, the preferred method is price competition. In ESPCs, fair opportunity given to multiple potential financiers is usually sufficient to establish fair & reasonable pricing.

Furthermore, the DOE master ESPC contracts require competition in ESPC financing. Section **H.7.2 specifies the requirement and states that “…**Once this process is completed and a selection is made, the contractor shall prepare a Selection Memorandum describing the selection process including the number of offers solicited and received, the rationale for selecting the financier, and the reasons why the selection is the best value for the Government. This process may be subject to audit by the agency.”

If competition in financing offers cannot be obtained, then financing should be shown to be reasonable compared to rates obtained in the past for ESPC projects. Comparisons should consider:

* whether compared rates were based on competition,
* premiums added to the index interest rate,
* timing and rates in recent history (financiers and ESCOs have no control over prevailing interest rates, as represented by the federal Treasury security rates or other reliable indexes), and
* similar term and conditions in the financing offers.

**References**

Please see *Determining Price Reasonableness in Federal ESPCs* at

<http://energy.gov/sites/prod/files/2013/10/f3/5_5_pricereasonableness.pdf> ,

and FAR 15.404-1 (15.4 Contract Pricing; 15.404 Proposal Analysis Techniques).

**Answer the following to document reviews of ESPC financing cost.**

1. Request received from:
2. Date request received:
3. FEMP Project Number:
4. Date of Offer:
5. Project Investment:
6. One-time pre-performance period payment:
7. Post-acceptance performance period:
8. Offered project interest rate (show index rate and premium):
9. Calculated like-term Treasury rate:
10. Based on yield curve of:
11. Calculated premium:
12. Current rolling average premium:
13. Premium and total interest rates of projects awarded during the past three months
14. Was adequate competition obtained?

Were multiple competitive financing offers received?

How did ESCO select who would receive an *Investor's Deal Summary (IDIQ Attachment J-11)* and invitation to respond/compete?

Who didn’t respond and why?

Were financiers given sufficient time to prepare responses?

Is there a spreadsheet comparing total interest expense for all offerors? (Not mandatory but helpful.)

Was financier with lowest total expense selected? If not, what is the justification?

Is there a rate lock? Is it appropriate?

1. Recommendations: (State the basis for recommendations. For example, is there evidence of adequate competition? Was total financing expense (combined index/base rate, premium, and other) compared to recently received rates, and current rates?
2. Prepared by:
3. Date submitted: (What is the basis for recommendations?

Attach Schedule TO-3.