

ESPCs to fund DCC: Great idea, what's the problem?

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Energy savings performance contracts (ESPCs) appear to be a logical way to fund federal data center consolidation projects without the upfront costs to the agency. However, Department of Energy (DOE) efforts to use an ESPC to fund data center consolidation have floundered for over two years.

ESPCs allow federal agencies to accomplish energy savings projects without up-front capital costs by partnering with an energy service company (ESCO). The ESCO provides the upfront funding and guarantees that the improvements will generate energy cost savings over the life of the contract. The ESCO receives payments generated from the cost savings over time. Currently, sixteen contractors hold umbrella ESPC IDIQ contracts with DOE for use by all federal agencies.

ESPCs have been used for years by federal agencies to fund projects to improve facility energy efficiency and reduce operation and maintenance costs. In an innovative move in July 2011, DOE chose Lockheed Martin to consolidate their data centers under a \$70 million ESPC. A [recent Federal Times article](#) stated that DOE is still reviewing the contract, but that OMB appears to be stalling the project.

An anonymous industry source told the Federal Times that "OMB is holding up the project because too much of the projected savings – about 70% – comes from operations and maintenance as opposed to energy savings."

Several congressmen are supporting the use of ESPCs for funding data center consolidation and expressed their concerns about the delay of the DOE contract in a July letter to the DOE Secretary and OMB Budget Director, according to the same Federal Times article. In a [December 2011 memo](#) to the heads of all executive departments and agencies, the administration also encouraged the implementation of energy savings projects to make federal facilities more energy efficient.

Meanwhile, Lockheed Martin has invested millions in upfront funding at its own risk on the DOE project to optimize a New Mexico and Maryland data center. The project is predicted to generate \$6 million in annual cost savings and achieve a 70% reduction in energy consumption.

Other agencies considering using an ESPC for data center consolidation initiatives include DOT, Interior, GSA, NASA, Navy and Air Force. All are anxiously awaiting a resolution of the maiden Lockheed/DOE ESPC which will set the stage for future use of ESPCs for consolidation efforts.

Given the current budget environment, the inability to use ESPCs to avoid upfront investments for data center consolidation, optimization and improved data center energy efficiency, could likely stall further federal data center consolidation progress.