Tonight I'm going to briefly touch on:

- The North American energy efficiency market and how this compares to the UK
- Financing energy efficiency and the drivers for UK businesses to outsource this activity
- The key impediments and how policy can help overcome these

Firstly let me briefly tell you about Breathe Energy which I hope will give you some insight into how we have approached growth in this sector in the UK. Breathe is a 50/50 JV between the management team and MCW, a Canadian based Energy Performance Contract specialist (more about this later). MCW have 350 staff in Canada, generate revenue of C$80m and have the enviable position of an order book in the region of C$200m. The Breathe management team have operated in the North American market and realised that the only way we would truly succeed in the UK was to partner with a company such as MCW whom have both the deep talent pool of technical engineering resource and an enviable track record in delivering this type of energy efficiency project.

Energy and carbon management outsourcing is still seen as a low priority in the UK right now, I see this as an opportunity, and here is why:

In the US, this market started 30 years ago when a dearth of funding in public schools, coupled with a huge need to replace critical energy using equipment, caused the energy department to form a new contract, the energy performance contract to release cash in the form of energy savings

- An Energy Performance contract is a contract where the client is actually purchasing a guaranteed energy saving, rather that the technical equipment to deliver that saving, which is the norm in the UK today
- The project upgrades to energy infrastructure releases cash in the form of energy cost savings (a receivable) from the pre-existing utility bills – this receivable can be attractive to 3rd party investors to finance the initial project cost to deliver those savings
- Financial Institutions will only lend against receivables generated from projects located in a financially sound Host Clients premises and implemented by Energy Services Providers or guarantors on the basis of a clear energy engineering and delivery track record
- 30 years on, billions of dollars of externally financed projects have been deployed into energy management upgrades through this form of contract – a clear example where for once, the public sector has shown private sector the way forward. The North American financiers are no longer concerned about the intangibility of the assets and see this sector as a huge growth opportunity

- North American tenants place pressure on landlords to prove the buildings they occupy operate efficiently – its not a green issue, it's a cost issue for them

2 examples of contract types and sizes that we are undertaking in Canada right now are (all fully financed from private sector funds with guaranteed energy savings):

- Schools and social housing – C$40m project with a C$5m energy saving reduction
- University – a C$42m project designed to achieve C$6m in energy savings plus a huge ageing asset replacement programme.

I would make the case projects like these are needed in the UK to really shift the dial on energy management. I would also propose that the scale of these projects create a clear business opportunity for third party entities to deliver and finance these projects as it highly unlikely that any UK entity (public or private sector) would have the internal resource capable of delivering them.

In terms of financing structure, we have delivered all types of simple to complicated structures in our North American business and guess what – simple works, complicated doesn't. So here's the one we like best:

- The client contracts with us to deliver an energy efficiency project from concept through to post project monitoring and verification of energy savings
- We deliver the project under a fixed price contract and draw down capital from the financier based on achieving key milestones. We usually do this on an open book basis with pre agreed margins
- We have a performance guarantee with the client to deliver the energy savings over the life of the project (usually 5 to 7 years in terms of simple payback for commercial clients, 10 to 15 years for public sector). If we don't deliver the savings over the term, we pay the shortfall. We have never had a shortfall!!
- The client has a tri-party financing agreement with us and the financier. The Client agrees to continue to pay the financing charges, in all circumstances in return for title to and the use of all of the energy improvement assets. We then have a separate direct agreement with the Client in respect of the savings guarantee. (I can hear the off balance sheet specialists groaning in their graves already- well the jury is still out on the balance sheet interpretation of this structure in light of the new IFRS rules, but what we can tell you is that this structure has been repeatedly deemed to be balance sheet neutral!!!
- The name of our form of Contract is "First Out" If we deliver higher than expected savings, the client keeps them for use as they see fit.

- And at this point I always get asked why don't you keep a share of these savings
- And the answer is experience has taught us that if you derive payment from increased savings, human nature dictates that you will be more conservative in your assessment of the initial savings, especially when you are guaranteeing them knowing you can always increase your earnings by taking a share of the upside
- Our model means we always want to build the biggest project up front as our usual method of assessing financial viability is payback hence the larger the savings we guarantee to deliver, the larger the project we will build and hence the larger the financing requirement. Given most clients only do one of these projects on a facility every 15 years, you only get one shot at getting it right
- When we over perform on our guaranteed savings, all savings are the Clients to either reinvest in additional energy savings measures or use to 'repay' the initial capital balance hence the name First Out. An early payout secures for the Client earlier access to the savings cash flow which they can apply as they see fit in their ongoing operations. This form of agreement ensures mutual alignment in the goals of the project.

In the UK, where we now see similar fiscal conditions as existed in the US 30 years ago, and I would argue a much more proactive regulatory regime, we are just starting to see the evolution of this type of contract

1. With the London Development Authority ReFit programme – a framework agreement which exposes a huge number of public sector bodies to a simplified tender process to allow 3rd parties to bid to provide guaranteed energy savings. This framework is supported by the £100m London Green Fund which has been created in conjunction with the European Investment Bank.
2. With the NHS whom have launched tenders for over £400m of EPC since the start of 2011 and whom have put in place a £100m Energy and Carbon Performance Fund with the sole intent of delivering financing to EPCs in the NHS
    a. I'm pleased to say we have won our first EPC in the NHS against some stiff competition from the bigger established players, a clear case where innovative thinking, solutions based proposals rather than a product based offering, and a clear delivery record prevailed over the sheer size of a balance sheet.
3. The overall energy services market in the UK is predicted to grow at a CAGR of 17% between now and 2020, resulting in a market size of some £6.5bn per annum. Put another way, to shift the non domestic building stock in the UK up to an Energy

Performance Certificate rating of C (average), would require £15bn of investment yielding an estimated 3 year payback in terms of energy savings generated. We do not think that the financiers and insurers have geared up to deliver against the sheer magnitude of the opportunity yet.

An example of where a performance contract can translate into real money is in the property sector. We have worked for property purchasers involved in the due diligence process prior to a property acquisition. This allows the ESCO to assess the energy saving potential and guarantee it prior to acquiring the building, the property purchaser then uses this information to factor into the purchase price of the building based on increased yield post project completion

I'm not going to dwell too much on policy but what are some of the key policy enablers driving this market:

1. Carbon Reduction Commitment (CRC), especially the latest change to the CRC legislation will increase appetite for doing something. At today's prices this equates to a 6.6% tax on electricity prices and approximately 10% on gas, that's enough for the finance director to get very interested today in saving energy

2. Energy Performance Certificates ratings are a tool to drive change – but only if it backed up with a financial incentive or penalty. EPCs on their own are not enough to change behaviour

So are there any money types in the room? I know you like to call the shots and this is in no way undermining the critical need for finance to enter this space, but the key impediment to growth in this market is a lack of skilled UK technical energy engineering resource. For example we bring all our senior energy engineers from North America, its simple, if I'm putting my guarantee behind a project, I want someone who has a track record.

From a policy perspective I consider this to be one of the huge gaps in the current government thinking in this space - as an industry we need to develop graduate programmes in conjunction with the universities to train and develop our brightest engineers into this area.

My first key message, the 3 things you absolutely need to win in this space are

1. Skilled resource
2. A track record in delivery
3. Access to project financing with realistic expectations on rate of return and payback

The advances in technology and increasing energy costs are making the business cases much more compelling, here's the thing though, we need to get our heads round that putting a new boiler, an energy efficient light or control system in a building isn't as sexy as solar or wind power, but it is a lot more cost effective and doesn't require a huge subsidy from the government. My second message is not don't do solar or wind, quite the opposite as there is no single solution to this challenge, it's simply don't ignore the truly rewarding stuff under your nose in preference for the sexy stuff. NOTHING SAVES SO MUCH AS SOMETHING THAT IS TURNED OFF!

Thank you