

# Shared Savings – What, How and Why

## What

### What is it?

Shared Savings provides loans for energy efficiency projects and facility improvements.

### What does the name mean?

It means that savings created by efficiency improvements are shared by the participants, usually the funder (MGE) and the owner of the project (MGE Customer). How these energy savings are distributed depends on your wishes and the constraints of the loan repayment terms.

### How are savings determined?

MGE uses engineering estimates based on the best available information to forecast savings. Actual savings may vary due to weather, building use, occupancy and other factors. Engineering estimates rely on specifications and data on project equipment and material. These data usually will come from manufacturers. And these data are typically validated by rating agencies or entities that govern uniform product standards. Examples include the American Society of Heating, Ventilating, and Air-Conditioning Engineers (ASHRAE); the Institute of Electrical and Electronics Engineers (IEEE); and the Construction Specifications Institute (CSI) to name a few.

### How are savings shared?

You decide. Choose to allocate all or most of the project energy savings created in the early years toward paying off the loan. Or you might instead choose to pocket a larger portion of the savings up-front; although this may prolong the time needed to repay the loan. Either way, you decide how quickly savings are applied toward loan satisfaction versus other financial choices.

## History?

In the 1990s, many Midwest utilities phased out cash rebate programs designed for energy conservation in an effort to keep utility rates low. Shared Savings or similar programs emerged as substitute mechanisms to promote and facilitate energy conservation. MGE's Shared Savings program has been active since 1993.

### Is Shared Savings a rebate?

No. Shared Savings is not an up-front cash incentive, so there is not the same immediate financial reward for energy conservation projects that rebates provide. Because the Shared Savings loan must be repaid, the financial reward comes from the energy savings in excess of the loan obligation over time.

### Focus on Energy

Wisconsin's Focus on Energy (FOE) is a statewide program that promotes cost-effective energy efficiency and renewable energy projects. MGE's Shared Savings and FOE can be used together. Cash incentives may be available through FOE, which may help boost the economics of your project. FOE staff can help you determine what you qualify for. See more at [www.focusonenergy.com](http://www.focusonenergy.com).

## How

### How does Shared Savings work?

Start by considering a project idea. Compare the up-front project cost with the expected savings benefit. Contractors can provide project cost estimates, and savings estimates can be prepared by MGE, the contractor, consulting firm or others. If the savings appear to constitute an energy-efficient

(Continued on reverse side.)

project<sup>1</sup>, and the project otherwise qualifies, MGE can fund the up-front project costs. You select the contractor(s) that are to perform the work. MGE pays you when the work is complete (you then pay the contractor). And finally, MGE begins billing you for repayment of the project cost. Project energy savings support these repayments, and excess savings are retained by you.

### **How can funds be used?**

Shared Savings dollars can be applied to the direct costs of your qualifying project. This typically includes the equipment, materials and labor for a complete project. Sometimes indirect or soft costs related to the project may qualify to be included in the project scope. Design and engineering costs or ancillary equipment or materials are soft examples.

### **Is Shared Savings available elsewhere?**

Similar financing programs may be available from other utility companies. However, program terms (interest rate, length of loan, etc.) can vary. For example, some programs offer subsidized interest rates where others do not. MGE uses interest rates that are closer to market (bank) rates, which help keep costs to run our program low.

## **Why**

### **Why would I use Shared Savings?**

It can allow you to make energy improvements at low or possibly no additional net cost. Shared Savings financing plus MGE energy expertise is a one-stop-shop of tools and resources to turn your plans into action.

### **Why not borrow money from my bank?**

We encourage you to shop around for the cheapest money to fund your projects, but you may find that MGE offers the best terms. When looking for money, comparing loan terms is not always as simple as comparing interest rates. Why? Because some banks may charge points, closing costs or filing fees, in addition to interest. These add-ons can significantly increase the effective cost of your loan. MGE does not assess application fees, points, closing costs or filing fees. And, Shared Savings may be paid off at any time without penalty or cost. All this means is that Shared Savings may be a better choice in the final analysis.

### **Other reasons to use Shared Savings?**

Aside from direct energy savings, the indirect benefits (environmental, maintenance, comfort, etc.) that also may result from efficient projects can be substantial. Shared Savings also helps preserve your money and credit lines for other uses or needs. And energy-efficient capital improvements may help keep you ahead of the competition, especially if your clients see energy efficiency associated with the products and services that you offer.

MGE can provide ideas on efficient equipment and system choices, and more ambitious improvements that may incorporate sustainability features or other “best practices” in building design. Bottom line is MGE can fit together financing terms to compliment project ideas that help your business prosper.

<sup>1</sup>An energy-efficient project is one that is reasonably and measurably more energy efficient than what is considered by MGE to be the common industry standard, minimum-accepted code requirement or other governing practice at the time a project is undertaken. MGE may elect to establish reasonable improvement standards or hurdle measures for various technologies from time to time as appropriate. However, the standard for reasonable improvement in energy efficiency will more commonly be left for review and discussion on a project-by-project basis, to allow MGE and Shared Savings program applicants to take into account rapidly changing technologies, equipment options, costs and industry practices.