

GAO Highlights

Highlights of [GAO-17-461](#), a report to congressional committees

Why GAO Did This Study

DOD, the largest energy consumer in the federal government, has been addressing its power needs by diversifying its power resources, reducing demand, and implementing conservation projects. To address its goals for energy projects, DOD also has been using alternative financing from private-sector contracts rather than relying solely on annual federal appropriations to fund projects upfront.

The House and Senate reports accompanying their respective bills for the National Defense Authorization Act for 2017 included provisions that GAO review DOD's alternatively financed energy projects. This report (1) evaluates the military services' use of alternative financing arrangements since 2005 and data collected and provided to DOD on those projects; (2) assesses reported project savings and verification of reported performance, and (3) describes benefits and disadvantages and potential other costs of using alternative financing rather than up-front appropriations. GAO analyzed and reviewed DOD data, relevant guidance, and project documentation; interviewed cognizant officials; and reviewed a nongeneralizable sample of projects.

What GAO Recommends

GAO recommends that the military services collect and provide DOD complete and accurate data on all alternatively financed energy projects and that DOD update its guidance to clarify requirements for verifying UESC savings. DOD concurred with the first recommendation and nonconcurred with the second. GAO continues to believe its recommendation is valid, as discussed in this report.

View [GAO-17-461](#). For more information, contact Brian J. Lepore at (202) 512-4523 or leporeb@gao.gov.

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DEFENSE INFRASTRUCTURE

Additional Data and Guidance Needed for Alternatively Financed Energy Projects

What GAO Found

The military services have used alternative financing arrangements—entering into about 38 private-sector contracts annually from 2005 through 2016—to improve energy efficiency, save money, and meet energy goals. However, the military services have not collected and provided the Department of Defense (DOD) complete and accurate data, such as total contract costs and savings. For example, GAO was unable to identify and the military services could not provide total contract costs for 196 of the 446 alternatively financed energy projects since 2005. Furthermore, some data provided on select projects did not include the level of accuracy needed for planning and budgeting purposes. According to officials, the military services did not always have complete and accurate data because authority for entering into these projects has been decentralized and data have not been consistently maintained. As such, neither the military departments, which include the military services, nor DOD have complete and accurate data on the universe of these projects. Without complete and accurate data on all alternatively financed energy projects, decision makers will not have the information needed for effective project oversight or insight into future budgetary implications of the projects, including impacts on utility budgets.

DOD's alternatively financed energy projects that GAO reviewed reported achieving expected savings. Specifically, GAO's review of 13 operational alternatively financed energy projects found that all 13 projects reported achieving their expected savings. However, the military services have varying approaches for verifying whether projected savings were achieved for all utility energy service contracts (UESC)—an arrangement in which a utility arranges financing to cover the project's costs, which are then repaid by the agency over the contract term. DOD guidance requires the military services to track estimated and verified savings and measurement and verification information for all energy projects, but DOD's guidance is inconsistent with more recent Office of Management and Budget guidance. This inconsistency and DOD's interpretation of Office of Management and Budget guidance have resulted in the military departments developing varying approaches for verifying savings of UESC projects. Without clear guidance from DOD on how the military services should be taking steps to verify savings associated with UESC projects, the military services will continue to interpret guidance differently and are likely to take inconsistent approaches to verifying the savings of UESC projects spanning potentially a 25-year duration.

DOD and military service officials identified benefits and disadvantages, as well as other potential costs, of using alternative arrangements to finance energy projects rather than using up-front appropriations. According to officials, benefits include the ability to fund projects that would not otherwise be funded due to budgetary constraints, to complete projects more quickly, and to have expert personnel available to implement and manage such projects. However, officials also identified disadvantages, including higher costs and the risks associated with long-term financial obligations. In addition, GAO found that some potential costs for these alternatively financed energy projects, such as costs associated with operation and maintenance and repair and replacement of equipment, add to overall project costs and may not be included in the total contract payments.