CA EED

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ENERGY PERFORMANCE CONTRACTS IN THE PUBLIC SECTOR

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EIB support to EPC market

Lending – Blending - Advising

- **Creating awareness** on the benefits of EPC and its financing:
  - Awareness sessions on Eurostat rules;
  - Information on combination of grants and EPC;

- **Technical support** to EPC programmes:
  - Support for preparing model contracts taking Eurostat rules into account;
  - Advice on public procurement and State aid;

- **Sustainable financing** of EPC projects:
  - Providing lending to banks or ESCOs;
  - Developing dedicated financial instrument or investment platforms using resources from Structural Funds and EFSI.

EPC market in Europe

Obstacles and Potential

The potential of the EPC in the public sector is currently not exploited due to :

- Lack of awareness, trust and track record of the public authorities.
- Project development capacity needed and complex procurement processes.
- **Statistical treatment of EPC which implies additional public debt and deficit.**
- Access to finance for the ESCOs which is generally an underdeveloped market as a result.
- Dependency on investment grants, no synergies with private financing.

As a consequence the current EPC market activity is quite limited (source JRC report 2017)

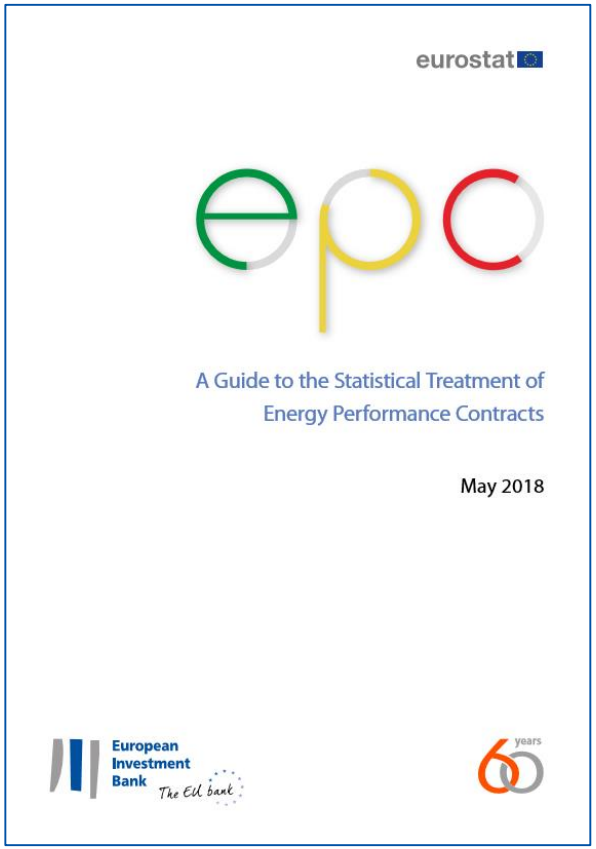
What do Eurostat's rules imply?

- Based on existing rules (European System of Accounts - ESA10, Manual on Government Deficit and Debt, 2017 Guidance Note on EPC) it clarifies how they apply
- Explains Eurostat's interpretation and application of the rules and approach to assessing the statistical treatment
- Official Eurostat guidance and the reference point for Eurostat advice and decision on EPCs
- Can be used to assess future EPCs and/or reassess signed EPCs

What do Eurostat's rules imply?

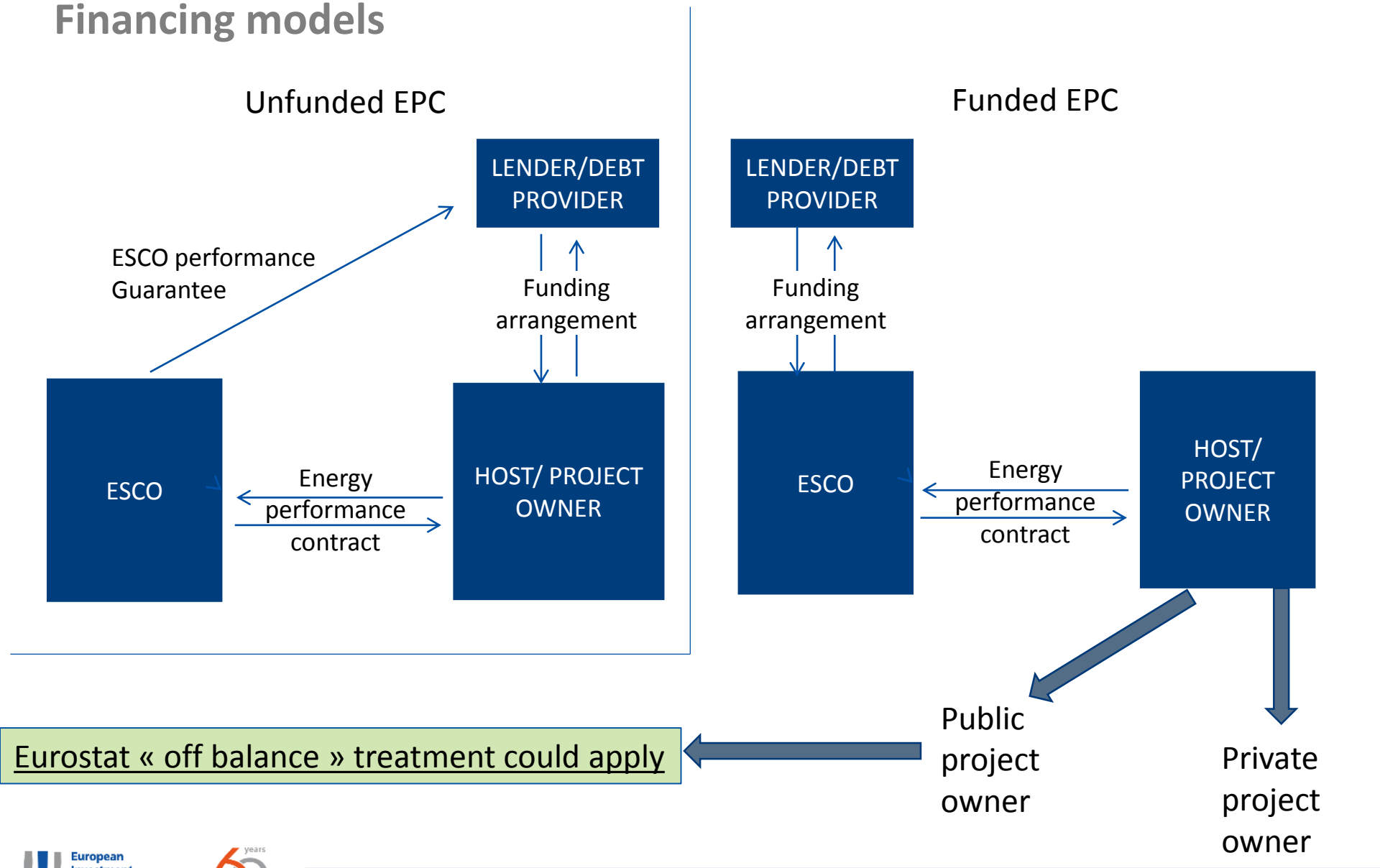
Challenges and Opportunities of off-balance sheet treatment

- Main concept: ESCO is "economic owner of EPC asset" and takes the of risks and rewards;
- Government only makes regular payments to ESCO if saving are achieved;
- ESCO to provide technical and financing solution;
- Minimum contract length 8 years;
- EPC arrangement to comply with specific standard provisions to ensure off balance sheet treatment in government accounts;
- EPC can include movable and non movable assets;
- EPC may include renewable energy generation and CHP;
- ESCO may sell future receivables from EPC, if risk allocation is not changed.



Energy Performance Contracts

Financing models



The Guide on statistical treatment of EPC

Themes covered by the Guide

Theme 1: Legal ownership and access rights

Theme 2: Specification, design, construction and installation of the EPC assets

Theme 3: Maintenance and operation of the EPC assets

Theme 4: The Guaranteed Savings

Theme 5: The payment mechanism

Theme 6: Compensation, relief and force majeure events

Theme 7: Changes to the EPC

Theme 8: Changes in law

Theme 9: Insurance

Theme 10: Warranties and indemnities

Theme 11: Early termination of the EPC

Theme 12: Compensation on early termination of the EPC

Theme 13: Expiry of the EPC

Theme 14: Financing arrangements

Theme 15: Government influence

Theme 16: Miscellaneous provisions

EPC Guide Approach

EPC provisions and assessement

Eurostat's comment (chapter 3):

- does not influence the statistical treatment
- does influence the statistical treatment and is:
  - **MODERATE**
  - **HIGH**
  - **VERY HIGH**
  - **ON BALANCE SHEET FOR GOVERNMENT**

Concluding the assessment (chapter 4):

- **STEP 1**: identify issues that have an influence on the statistical treatment
  - No influential issues – OFF BALANCE SHEET
  - Influential (ON BALANCE SHEET) issues – ON BALANCE SHEET
  - Influential (VERY HIGH/HIGH/MODERATE) issues – MOVE TO STEP 2
- **STEP 2**: analyse the significance of the issues identified
  - Project specific analysis
- **STEP 3**: reaching a conclusion
  - Summing up number and weighting of issues

Selected themes
Snapshot

Guaranteed savings

- Guaranteed savings must exceed Operational Payments and Government grants
- Savings must be derived from a reduction in energy consumption (other energy related savings and revenues can also count)

Payment mechanism

- Principle of proportionality (% payment relates to % savings achieved)
- No cap on EPC provider's liability for savings shortfalls
- Authority can take up to 1/3 of excess savings

Selected themes
Snapshot

Government and EU financing

- Government financing in form of grants or financial instruments (guarantees, loans)
  - ≥50% → ON BALANCE SHEET
  - <50% → impact on balance sheet treatment
- EU financing (grants/FI's) does not impact on-off balance sheet treatment
- ESIF support needs to be divided between EU financing and government financing
- Is there are forfeiting arrangement in place? Does it shift risk back to the government?
- Annex 2 provides examples to illustrate impact of government and EU financing

European Local Energy Assistance

ELENA in short

- Technical Assistance facility: managed by EIB on behalf of EU. Funded by EU budget (HORIZON 2020 programme);
- Makes available project development support for energy efficiency, local renewables and clean urban transport;
- Market replication focus (min. investment amount EUR 30m);
- Investment leverage required* (ratio investment implemented/grant, with claw back possibility):
  - 20 sustainable energy projects;
  - 10 clean urban transport projects;
  - 10 residential sector projects;
- 90% funding rate (grant);
- ELENA budget: still available, per year EUR 30m sustainable energy, EUR 5m clean urban transport and ~ EUR 15m residential sector;
- First come, first served rule. No cut-off date.

* claw back possibility

ELENA
Eligibilities

Public sector & Private Sector

- Local, regional or national authorities
- Other public bodies (e.g. energy agencies)
- Groupings of such authorities or bodies
- Local energy facilities that support EE/RE (e.g. smart grids)

- Private entities planning to develop eligible investments
- ELENA TA should not have purpose or effect of producing a profit

Energy efficiency & Urban transport and mobility

- EE renovations of public and private buildings
- Street and traffic lighting
- Integration of RES into the buildings
- District heating/ cooling networks
- Local energy facilities that support EE/RE (e.g. smart grids)

- Investments to support the use and the integration of innovative solutions going beyond the current state of art for alternative fuels in urban mobility
- Vehicles, recharging infrastructure, energy-efficient measures and systems

Technical assistance provided by a public or private organization

Investment programmes implemented by the final beneficiary or by a third party

ELENA

EPC Implementation
ELENA support examples

- EPC in buildings:
  - Milano: supporting small municipalities by Province in preparation of “genuine” EPC
  - RE:FIT: Greater London Authority for EPC approach public buildings of London boroughs
  - City of Ljubljana
  - Municipal Energy Performance Initiative, Baden-Württemberg (KEA)

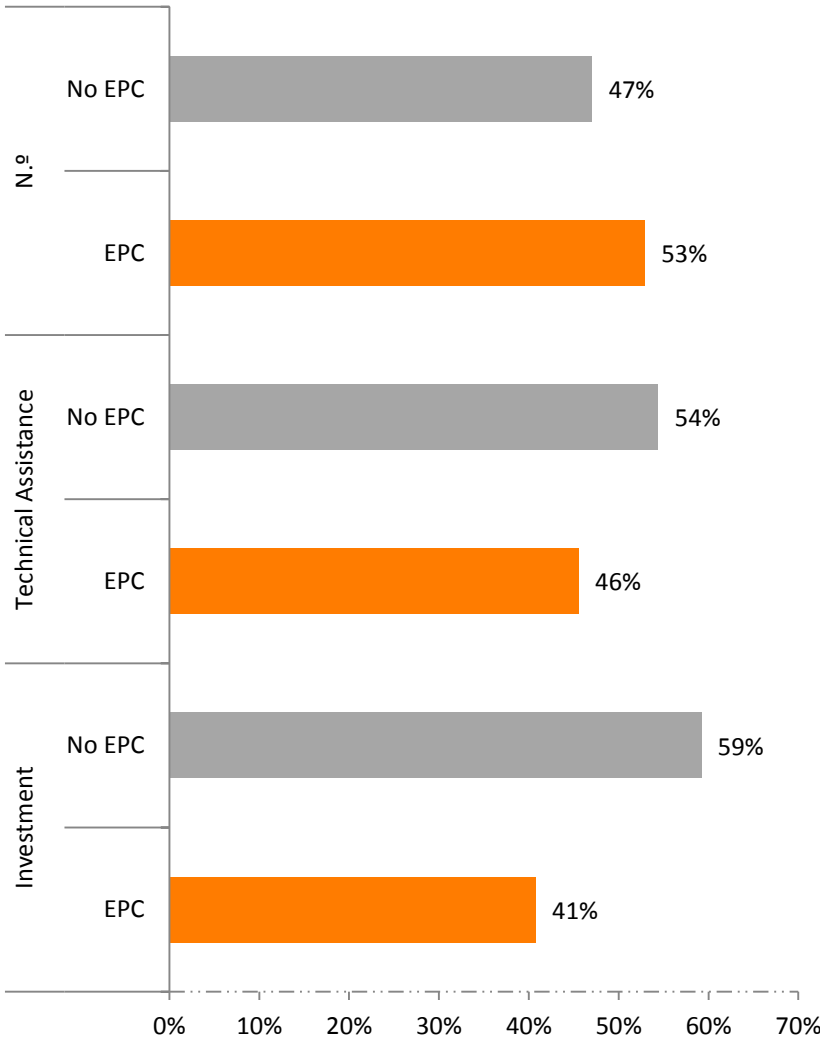
- EPC in Street lighting
  - Several projects in Italy
  - Counties around City of Zagreb, managed by REGEA
  - City of Zagreb

- EPC Intracting
  - Berlin Energy Management Company

ELENA EPC related supported projects

Main figures

- Total of 74 projects supported:
  - 26 projects completed
  - 49 ongoing projects
- 38 projects include ESCO/EPCs (public sector)
- Total expected investment: EUR 4.9bn
- Total expected Technical Assistance: EUR 139m



ESCO/EPC Financing
Examples

- **ESCO Energy Efficiency Spain FL**: Framework loan to finance energy efficiency and renewable energy projects to be carried out by selected energy services companies, in the public and private sector, including public buildings, street lighting and hospitals.

- **Energy Efficiency Italy FL**: Framework loan targeting energy efficiency schemes in the public, industrial and residential sectors throughout Italy, to be carried out mainly by selected energy services companies or other private and public entities. Most of the project schemes would include public sector programs, notably public buildings, street lighting, schools and hospitals, also structured with Technical Assistance co-financed by the ELENA facility.

- Belfius Energy Efficiency Package (PF4EE): Under this initiative, EDF Luminus Solutions (ESCO) signed a contract with Foyer Anderlechtois (social housing company) in order to improve energy efficiency in social housing, based on EPC approach.

Portuguese EPC market
History

- First EPC approach in the early 1990s, with Econoler Portugal, a subsidiary of EDP, and other minority shareholders focused in CHP projects;
- In the late 2000s were developed some studies to assess the potential of public buildings for EPC
- RCM n.º 2/2011: Creates the Eco.AP Program, focused in Public Buildings;
- Decree-Law n.º 29/2011: Establish the legal framework for energy performance contracts in the public sector, in accordance with the public procurement rules;
- Normative Order n.º 15/2012: Creates ESCOs pre-qualification system;
- RCM n.º 67/2012: Ministry of Energy coordinates all EPC processes within the Central Government;
- Ordinance n.º 60/2013: Publish the contract model to used by the public sector for EPCs;
- DL 68-A/2015, April 30th: Extends EPCs framework to regional and local government.

Portuguese EPC market

History

- Development of the Eco.AP Program was delegated by the Directorate General for Energy and Geology (DGEG) to ADENE (National Energy Agency) with the necessary financing ensured by DGEG;
- ADENE developed (with external consultants) the tender documents to be used for EPCs in public buildings;
- Development of a training program for public buildings energy managers;
- A pilot project was launched and technical assistance was provided (financed by the Portuguese Energy Efficiency Fund) to develop energy audits and prepare tender documents;
- The Innovation Support Fund launched a pilot project to use the EPC model in the private sector;
- A technical assistance contract was signed with the EIB to support the implementation of Eco.AP in the Lisbon Region.

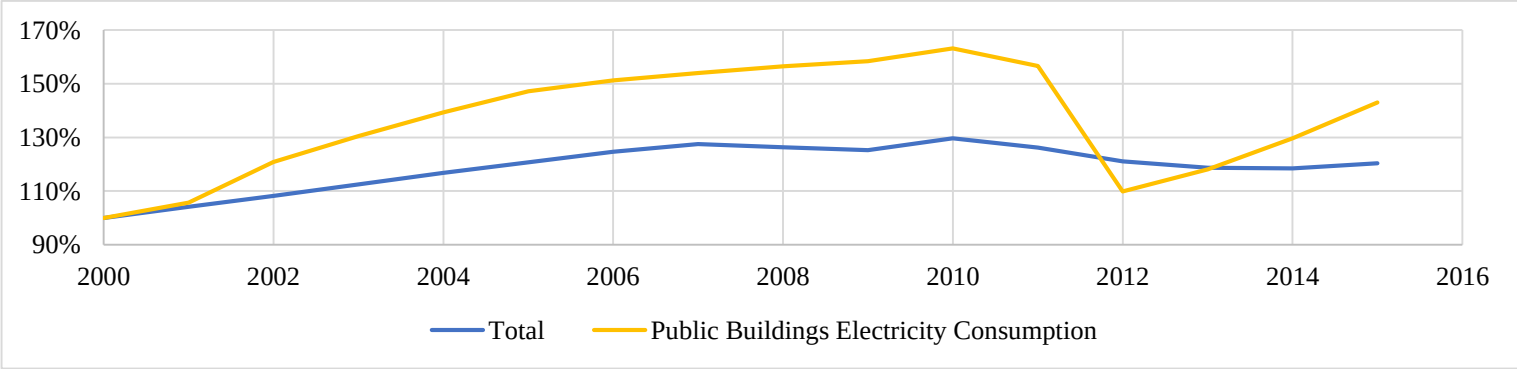
Portuguese EPC market
Main facts

Promoter	Price	Sector	Notes
Municipality of Montalegre	EUR 3.1m	Street lighting	Contract available
Municipality of Vila Nova de Poiares	EUR 1.2m	Street lighting	Contract available
Municipality of Sabugal	EUR 3.2m	Street lighting	Contract available
Municipality of Vila Nova de Gaia	EUR 0.4m	Street lighting	Contract available
Municipality of Valongo	EUR 6.2m	Street lighting	Contract available
Municipality of Belmonte	EUR 3.0m	Street lighting	Contract available
Municipality of Vouzela	EUR 1.5m	Street lighting	Contract available
Municipality of Peniche	EUR 2.1m	Street lighting	Contract available

Other EPCs in: Lisbon (traffic lighting), Oeste (SL), Alentejo Central (SL). Other 7 projects being procured/implemented in street lighting. So far, any EPC related to public buildings is known.

Portuguese EPC market
Main facts

- Lack of reliable data base on public buildings (both physical and energy related data);
- Limited technical expertise available to implement energy efficiency projects;
- Budgetary constrains (both at design and investment stage);
- Complexity of the EPC model;
- Low energy intensity of the majority of public buildings;



- Competition between different programs (EPC vs ESIF);
- Bad reputation on PPPs and difficulties to manage a proper risk allocation.

THANK YOU !

More information at:

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