



**European
Investment
Bank**

The EU bank



**EUROPEAN
INVESTMENT
FUND**

Working Group 6.2 : EPC as a catalyst for renovation of public sector buildings

Financing EPC

Robert Pernetta, Financial Instrument Advisory

EIB's new ambition for the critical decade

THE EUROPEAN INVESTMENT BANK IS EUROPE'S CLIMATE BANK

€1 trillion for climate action and the environment unlocked by 2030

50% of total financing to climate action and the environment by 2025 (current level: 30%)

2020 Fully aligned with the Paris agreement by the end of the year



Climate action investments: € 19.3 billion in 2019



CLIMATE CHANGE ADAPTATION

€ 0.8 billion



RENEWABLE ENERGY

€ 3.9 billion



RESEARCH, DEVELOPMENT AND INNOVATION

€ 1.0 billion



ENERGY EFFICIENCY

€ 4.6 billion



LOWER CARBON TRANSPORT

€ 7.6 billion



OTHER CLIMATE CHANGE MITIGATION

€ 1.4 billion

EPC financing in the public sector

Basics



Energy Performance Contracting

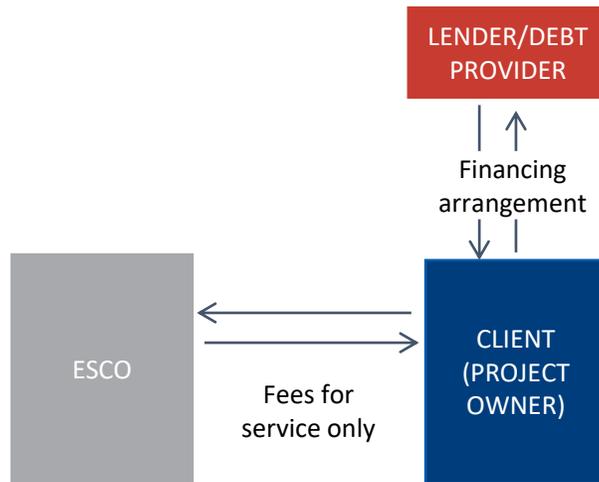
Why to do EPC?

- **Payment for guaranteed energy savings** and not for measures
 - **One partner** for designing, installation, energy management and maintenance
 - **Additional savings measures** and increase of achieved savings during contract
 - **Energy efficiency investments financed** directly from cost savings
 - EPC providers takes on the **performance risks** of works and technology
 - Third-party financed EPC **shifts expenditure form investment budget to operational budget**
 - Financing of investment **may not count as public debt** (depending on Eurostat/national rules)

Financing EPC

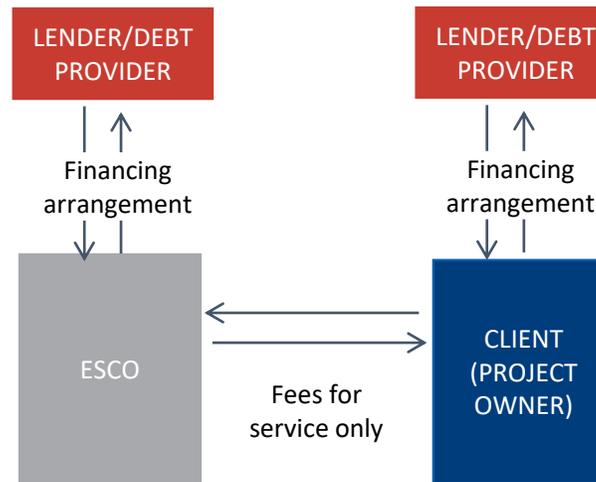
Who finances the EPC?

Client financed EPC



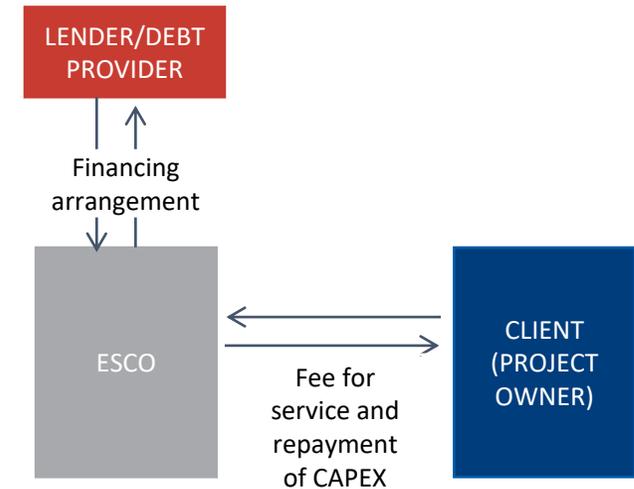
Assets and debt are on the EPC clients balance sheet

Hybrid EPC with mixed financing



Asset and debt classification on a case by case basis

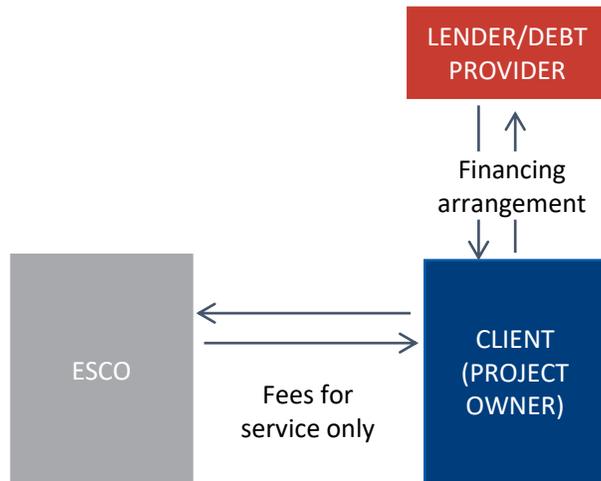
ESCO financed EPC



Assets and debt can be under specific conditions on the ESCOs balance sheet

Financing EPC

Client financed EPC



Assets and debt are on the EPC clients balance sheet

- ESCO installs measures through a works contract + provides energy management services
- Fee for service depends on performance
- + low public sector cost of financing
- + easy to provide capital grants, e.g. from EU to building owner
- + applicable to shallow and deep retrofitting
- counts in investment budget
- counts in public debt and deficit

Examples:

- Wallonie RenoWatt – hospitals, schools, swimming pools, sports halls, social housing, barracks, ...
- Czech Republic – for central government entities
- City of Dublin – swimming pools

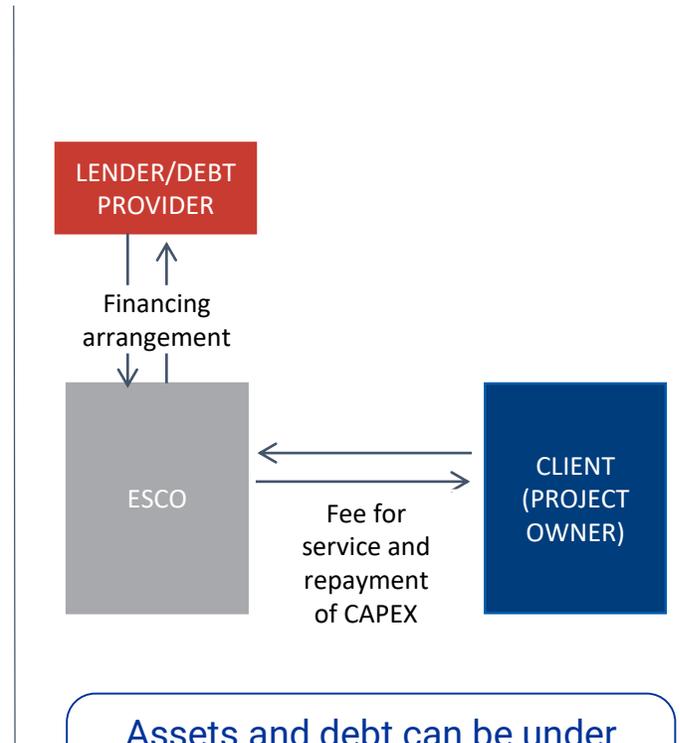
Financing EPC

ESCO financed EPC

- ESCO installs measures and provides energy management services covered by EPC contract
- Fee for service depends on performance
- + counts in operational budget
- + may not count in public debt and deficit
- Difficult to undertake deep retrofitting (long contract periods)
- private sector has high cost of financing
- Difficult to provide capital grants to ESCO, e.g. from EU

Examples:

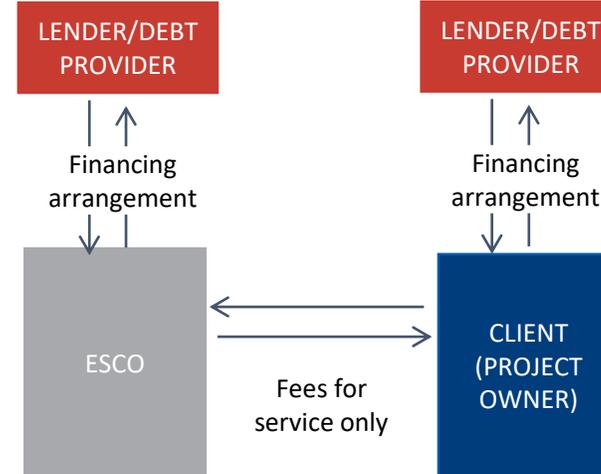
- Austria – federal buildings
- Germany – Hessen (standard)
- Catalonia police school (off-balance sheet)
- Flanders – ‘deSingel’ culture centre



Financing EPC

Hybrid EPC with mixed financing

- ESCO installs measures and provides energy management services covered by EPC contract
- Client provides upfront payment for part of investment
- Can be realised with two contracts (works + services) or one hybrid contract
- Fee for service depends on performance
- + counts partly in investment and partly in operational budget
- + For deep retrofiting
- Fairly easy to provide capital grants to ESCO, e.g. from EU
- Complex procurement procedure



Asset and debt classification on a case by case basis

Examples:

- Slovenia – EPC programme
- Czech Republic – local governments, hospitals and universities
- Hessen – for comprehensive renovation
- Flanders – in preparation

EPC - Balance sheet treatment



Balance sheet treatment of EPC

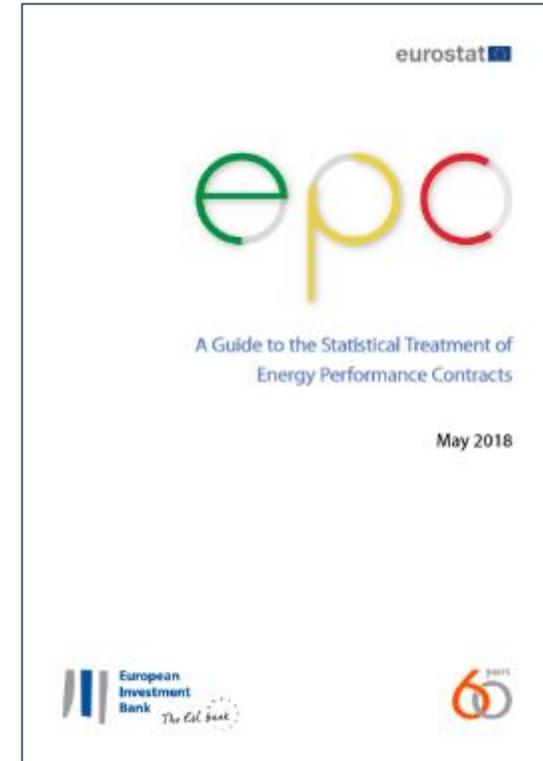
To be or not to be ... on the balance sheet

Eurostat accepts that EPC are accounted as off-balance sheet (“**Maastricht neutral**”) under certain conditions, e.g.:

- Full payments to ESCO only if guaranteed energy savings are achieved
- Guaranteed savings \geq payment by government to ESCO
- Guaranteed energy savings for at least 8 years
- ESCO has to receive at last 2/3 of additional savings
- EPC asset may include equipment for energy generation (e.g. renewable energy)
- Government financing has to be less than 50% - EU financing is neutral

State of play in implementing “Maastricht neutral” contracts

- Eurostat has approved model contracts in Slovakia, Scotland and Latvia
- Slovakia has published first “Maastricht neutral” EPC tender
- Catalonia has awarded first “Maastricht neutral” EPC contract (national statistical office approved contract)



ESCO financing



ESCO financing

Private sector perspective

EPC projects have two distinct phases of financing with different risk profiles:

Implementation and ramp-up period:

- **High risk** (technical design, implementation and technical performance risk)
- No or unreliable revenue
- Duration max. 1 year

Guarantee period:

- **Low risk** (technical performance risk and credit risk of client)
- Stable revenue
- Duration up to 20 years

ESCOs can address different financing needs through

- Bridge financing with short term debt bank debt
- Sales of future receivables – used to repay bridge financing
- Financial capacity to undertake new projects

ESCO financing

Public sector perspective

Why public support for private sector financing?

- Reducing cost of financing
- Longer contract duration
- Overcoming balance sheet limitations of ESCOs

Resulting in more competition, lower fees and higher energy savings

Type of financial instruments depends on

- clients,
- type of projects,
- ESCOs financing needs
- and financial intermediaries

→ **Need for market analysis and market testing**



ESCO financing

There is no one-size fit-all

Examples:

- Marche, Italy – Loans to ESCOs and grants to public health sector entities*
- Biznesmax, Poland – Guarantees for energy efficiency investment, incl. investments by ESCOs*
- Czech Republic - Guarantees for forfaiting, allowing “Maastricht neutral” long-term financing*
- Austria – Guarantee for Contracting – available volume EUR 1 billion from government budget
- Belgium, Belfius – Guarantee and loan to bank for forfaiting**
- EIF and EIB financing of ESCOs in form of equity and debt, financing for dedicated EPC funds and banks, direct lending to EPC clients

* financed by ERDF, ** financed from PF4EE



EIB can help



Technical and financial advisory

- Development of practitioner's guide with Eurostat
- Developing guidance on the use of ESIF for EPC with European Commission - DG REGIO
- Review of the Slovak and Latvian EPC model contracts regarding balance sheet treatment
- Support to public real estate manager in developing an EPC based building renovation scheme in Latvia
- Financial analysis of street lighting project in Vilnius
- Market assessment and development a forfeiting guarantee scheme in the Czech Republic
- Project development assistance from ELENA for City of Ljubljana, City of Bratislava, Flanders, ...



UPSTREAM

- Policy & programme advice
- Preliminary project assessment

PREPARATION

- Technical advice to promoters prior to appraisal (demand studies, business plan, CBA)
- Advice on financial structuring (PPPs, investment platforms & 'innovative' projects)
- Selection (ToR) & supervision of consultants for technical and financial studies to support project preparation

IMPLEMENTATION

- Advice on project implementation
- Enhanced monitoring in delayed projects

CAPACITY BUILDING RELATED TO PROJECTS

Capacity building on technical issues – Cooperation centres of expertise - Dissemination best practices & case studies – Needs Assessment for project advisory support



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European Investment Advisory Hub

<https://eiah.eib.org/index>

fi-compass

<https://www.fi-compass.eu/>

ELENA

<https://www.eib.org/en/products/advising/elena/index.htm>

Thank you!

Additional information

Guidance and programmes/projects

Guidance

- Eurostat/EIB: A guide to the statistical treatment of Energy Performance Contracts
https://eiah.eib.org/publications/attachments/guide_to_statistical_treatment_of_epcs_en.pdf
- Webinar to the EPC practitioner's guide:
https://eiah.eib.org/publications/webinar/WEBINAR_a_Practitioners_Guide_on_the_Statistical_Treatment_of_Energy_Performance_Contracts
- *fi-compass*: ESIF and EPC <https://www.fi-compass.eu/publication/factsheets/european-structural-and-investment-funds-esif-and-energy-performance>

Projects/Programmes

- RENOWATT (in French) <https://renowatt.be/fr/>
- CodemaDublin (video) <https://youtu.be/kWF0ywtEvhY>
- Austria Bundescontracting (in German):
<https://www.bmdw.gv.at/Themen/KulturellesErbe/EnergieeffizienzimBundesbereich/Taetigkeiten-der-Energieberater-des-Bundes/Bundescontracting.html>
- Hessen Energiespar-Contracting (in German) <https://www.energieland.hessen.de/energiespar-contracting>

Additional information

Financing of EPC

Project/programme preparation:

- Slovakia Preparation of „Maastricht neutral model contract“
<https://www.mfsr.sk/en/finance/public-private-partnership-ppp/energy-performance-contracts/>
- Czech Republic - Energy, Business and Advisory Platform ČMZRБ :
<https://www.eib.org/attachments/documents/108-project-factsheet-eb-a-platform-cmzrb.pdf>
- Flanders Flemish Energy Saving Programme Initiative (FLESPI)
<https://www.eib.org/attachments/documents/flespi-factsheet-en.pdf>
- European Energy Efficiency Fund (EEEF)
https://www.eib.org/attachments/documents/eeef_project_factsheet_en.pdf

Financing EPC-Case studies

- Slovenia EPC programme, London Energy Efficiency Fund, Marche Energy and Mobility Fund
https://www.fi-compass.eu/sites/default/files/publications/Robert-Pernetta-Laurent-Bender-EPC-case-studies_0.pdf

Additional information

Financing of EPC

EIB Group operations related to EPC (not a complete list)

- BELFIUS – PF4EE https://pf4ee.eib.org/sites/default/files/2019-06/PF4EE-ESF_MAR2019_Interview%20Belfius%20ESCO%20Financing.pdf
- EIF https://www.eif.org/what_we_do/equity/news/2019/efsi-resalta-blackpeak-capital.htm?lang=en
- EIB loan to Resalta (Slovenia) https://ec.europa.eu/commission/news/investment-plan-europe-towards-energy-efficient-europe-eif-backs-slovenian-resalta-eu6-million-2019-apr-02_en
- European Energy Efficiency Fund <https://www.eeef.eu/home.html>