

New Eurostat rules on EPC

CA EED study visit

Energy Performance Contracting in Slovenia

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Content

- ▶ Rational of new Eurostat guideline
- ▶ Eurostat new statistical rules: key impacts
- ▶ Financing “Maastricht neutral” EPC
- ▶ EIB advisory products and services supporting EPC market

EPC market in Europe

Obstacles and Potential

Potential of EPC market in the public sector is not exploited due to:

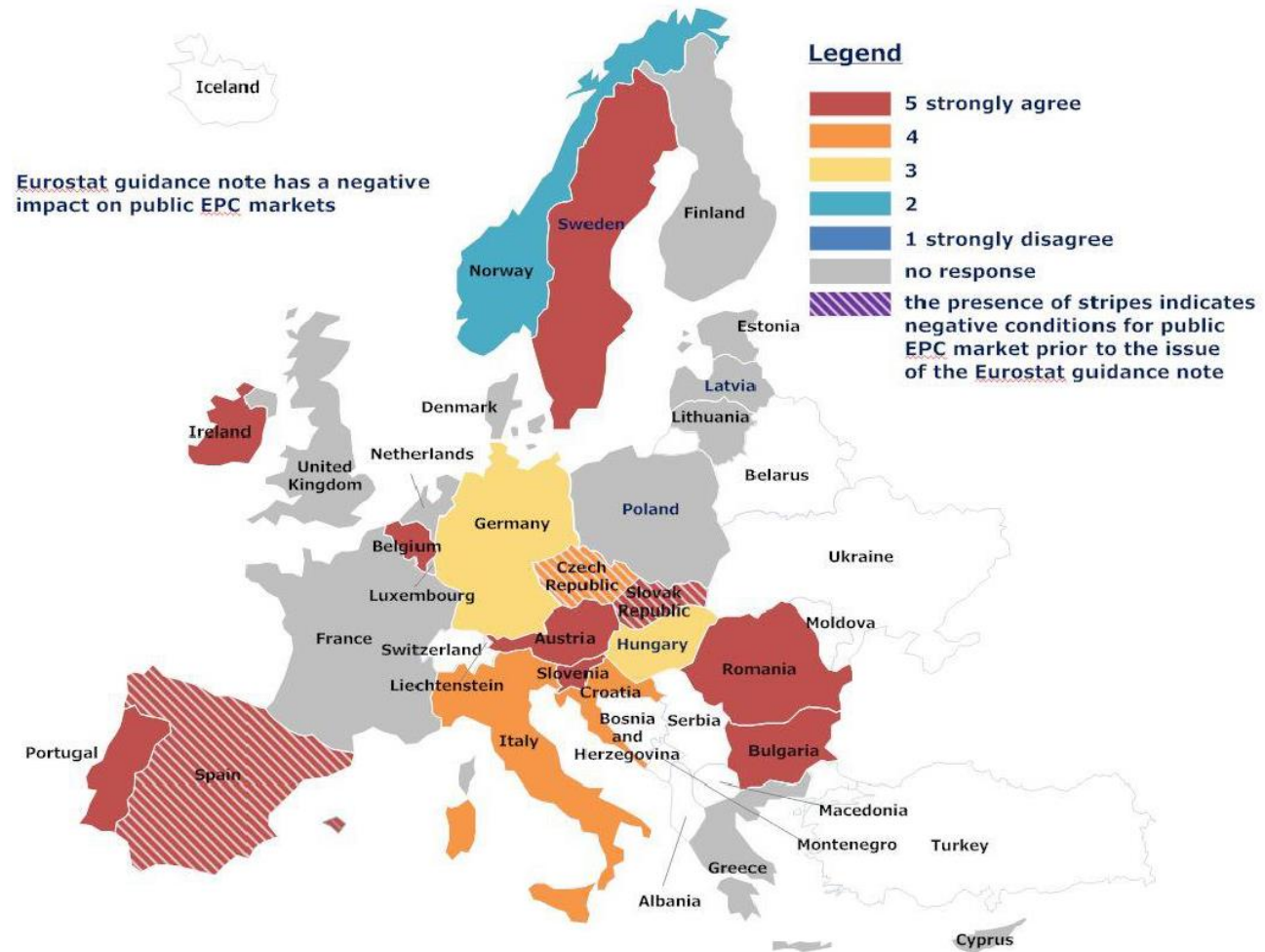
- Lack of information and awareness
- Lack of trust and track record
- Project development capacity of project promoters
- Procurement process
- **Statistical treatment of EPC**
- Access to finance for EPC providers
- Competition with investment grants

Why a statistical guide on EPC?

Market perspective on Eurostat rules before 2017

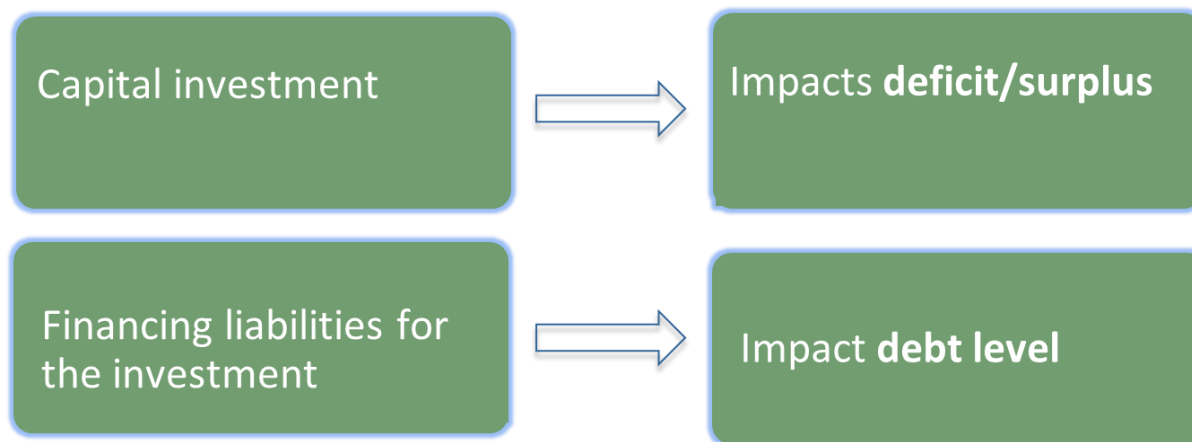
Previous ruling on statistical treatment was considered to have **negative impact** on EPC market

(according to 2017 JRC report 'Energy Service Companies in the EU')



What do Eurostat's rules imply?

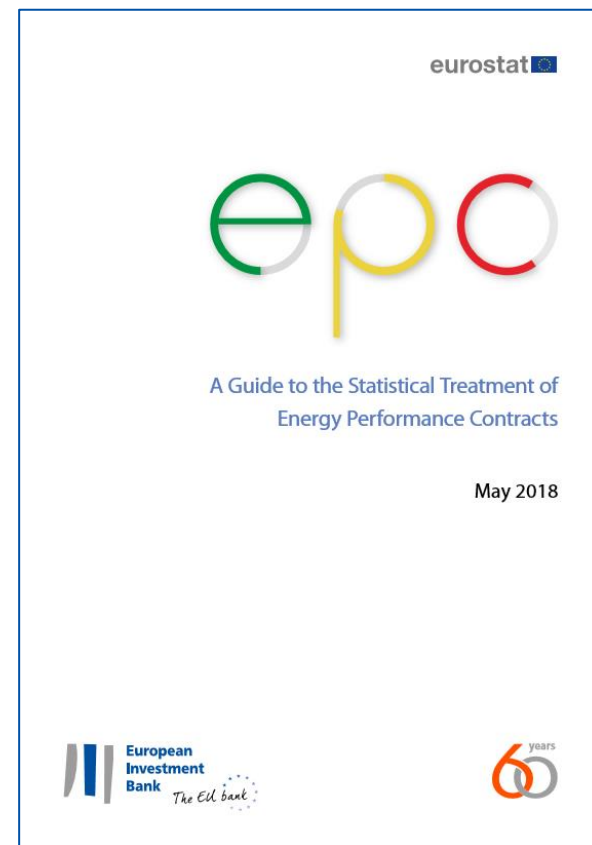
- If an asset is “on balance sheet” for government:



- If an asset is “off balance sheet” for government:
government only records regular payments for services

What does the Guide do?

- Translates general statistical rules and principles of “economic ownership” into contractual terms and concepts
- Endorsed as official Eurostat guidance and the reference point for Eurostat advice and decisions on EPCs
- Eurostat rules relate to statistical treatment in government accounts - not with accounting rules/practices and budgeting
- Does not address value for money or bankability considerations



When does the Guide apply?

- **Who is contracting?**
 - ✓ A “government” host and “non-government” EPC provider
- **What is the investment?**
 - ✓ Assets reduce energy consumption (can include some renewable energy supply)
- **How long is the contract for?**
 - ✓ Minimum contract duration 8 years
- **Are services included?**
 - ✓ Assets are maintained by the EPC provider
- **How is the investment financed?**
 - ✓ Private finance from the EPC provider

The Guide on statistical treatment of EPC

Themes covered by 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

Selected Themes from the Guide

Theme 4 Guaranteed savings

- Guaranteed savings must exceed all government payments
- Savings must be derived from a reduction in energy consumption (other energy related savings and revenues can also count)

Theme 5 Payment mechanism

- Proportionality between payment and savings
- EPC provider fully liable for savings shortfalls
- Excess savings can be shared (up to 1/3 for government)

Selected Themes from the Guide

Theme 14 Financing arrangements

- Government financing (grants, loans, guarantees) has an impact on balance sheet treatment:
 - ≥ 50% → ON BALANCE SHEET
 - < 50% → MODERATE, HIGH OR VERY HIGH impact
- EU financing is neutral in assessing balance sheet assessment
- Is there are **forfeiting** arrangement in place?

Example of an EPC project

An example project

Energy efficiency measures



- Building envelope insulation
- Window replacement
- Fuel switch to wood pellets
- Heating substations
- Thermostatic valves
- Heat pumps
- New cooling system
- Indoor lighting upgrade

Key figures



Total investment cost
EUR 5 million



Grant
EUR 1.5 million



Guaranteed energy savings
40% compared to baseline



Annual energy cost savings
EUR 400,000



Annual payments
EUR 320,000



Contract duration
10 years

Total payments > savings ⇒ EPC is **on-balance sheet** for the government sector

Hypothetical example: Hospital

Test against Eurostat guide

- Measures: measures are related to energy efficiency ✓
- Contract length: 10 years ✓
- Government financing: grant 20% ✓ High importance
- Guaranteed savings vs payments to ESCO*:
Energy savings: $10 * \text{EUR } 400,000 = \text{EUR } 4\text{m}$
Payments: $\text{EUR } 1.5\text{m} + 10 * \text{EUR } 320,000 = \text{EUR } 4.7\text{m}$
Operational payments > savings

x

⇒ The asset is on-balance sheet for the government sector

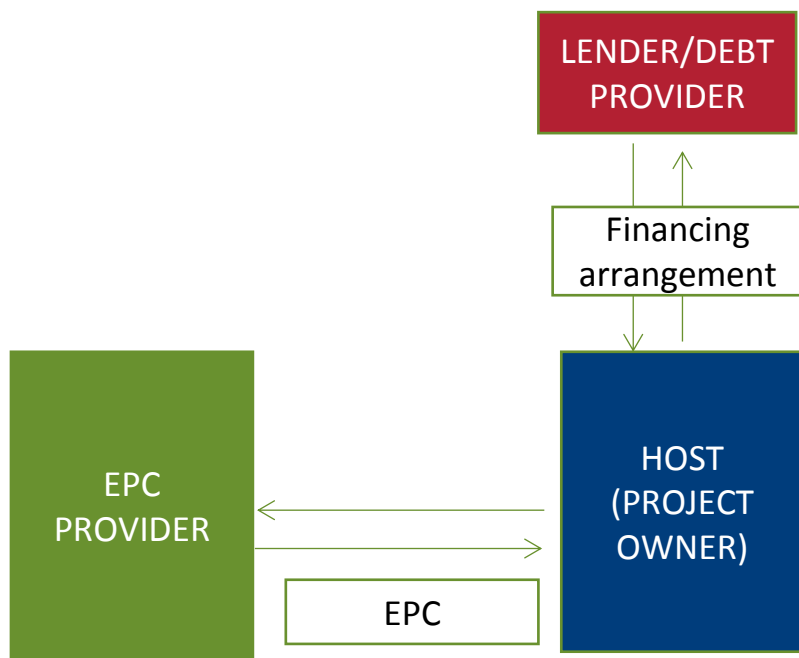
**For simplification reasons the payments and savings are not calculated as net-present value (NPV)*

Other contract provision may also influence the balance sheet treatment, these are not analysed in this case study

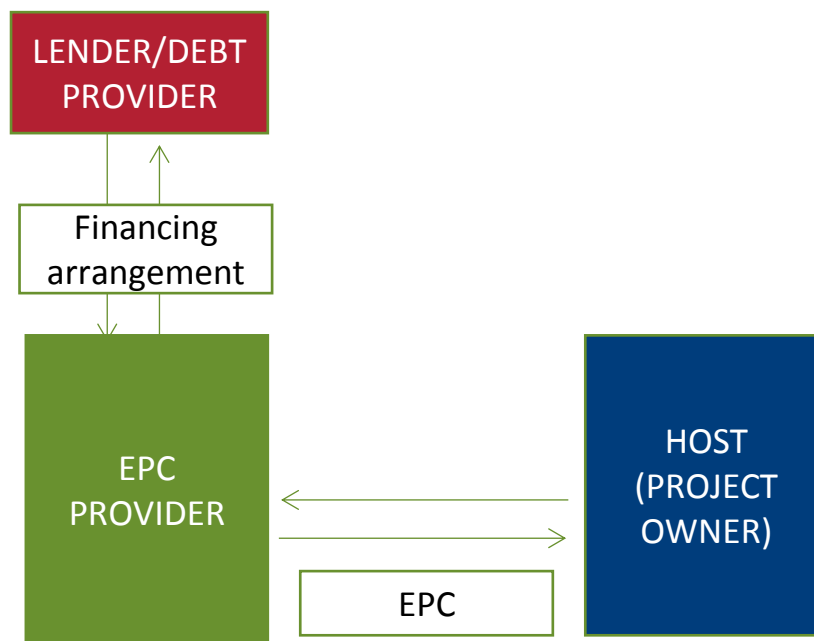
Financing “Maastricht neutral” EPCs

EPC Financing

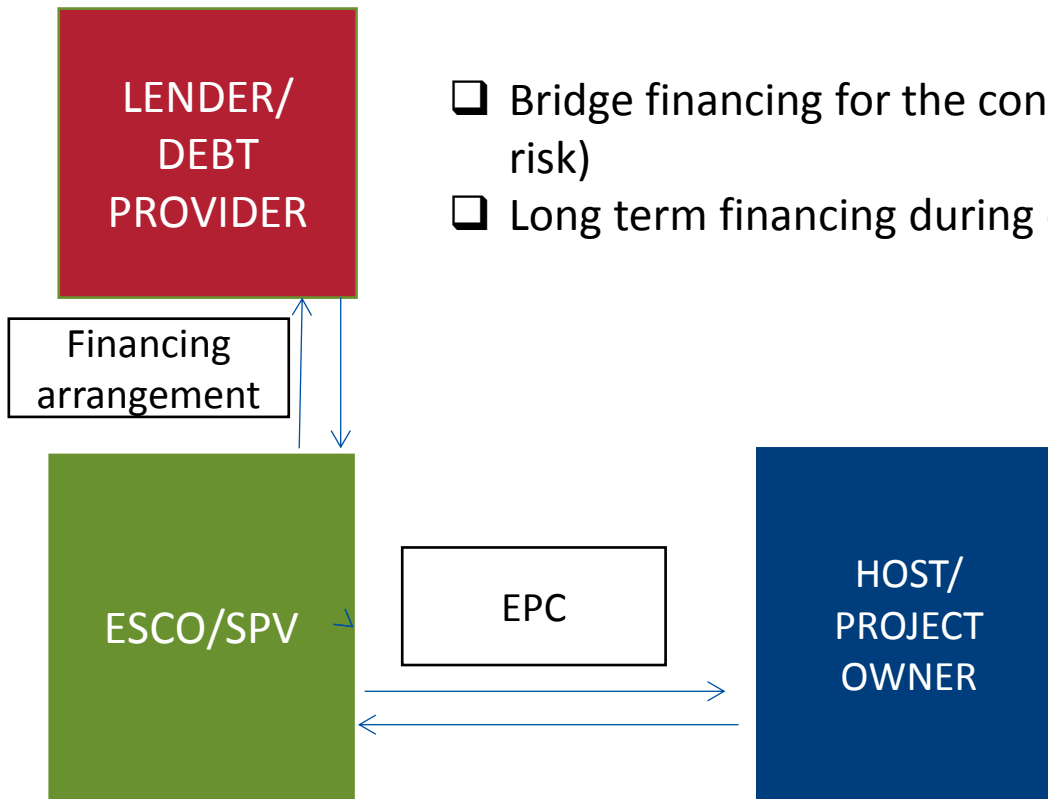
Host financing



EPC Provider financing



Funded EPC : The financial challenges



- ❑ Bridge financing for the construction and ramp-up period (high risk)
- ❑ Long term financing during contract period (low risk)

Challenge of financing “Maastricht neutral” EPCs

- More risk shifted to ESCOs
- Longer contract duration
- Limits to using government financing or guarantees

Possible solutions

- ESIF financial instruments in form of loans, guarantees or forfaiting (selling future receivables)

- ❑ Combining financing and technical solution
- ❑ ESCO has limited borrowing capacity due to equity/debt ratio

EIB support to implement EPC projects

EIB support to EPC market

Awareness raising on the benefits of EPC and its financing

- Awareness sessions on Eurostat rules
- Information on combination of EU grants and EPC

Technical support for EPC projects

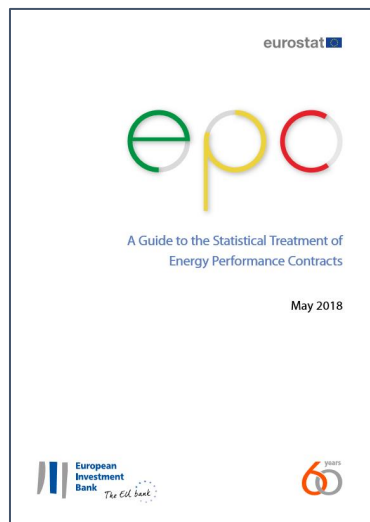
- Support for preparing model contracts
- Market demand analysis
- Technical assistance through **ELENA** facility

Sustainable financing of EPC projects

- Lending to banks to on-lend to ESCOs, e.g. **Private Finance for Energy Efficiency (PF4EE)** <http://www.eib.org/en/products/blending/pf4ee/index.htm>
- Dedicated financial instrument or investment platforms using resources from Structural Funds and EFSI

Supported under the Investment Plan for Europe: European Fund for Strategic Investments and the European Investment Advisory Hub (EIAH) <http://eiah.eib.org/>

Thank you for your attention



<http://www.eib.org/infocentre/publications/all/guide-to-statistical-treatment-of-epc.htm>

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Additional slides



EIB support to EPC - Advising

Case: EPC programme of City of Ljubljana



EIB support to EPC - Advising

Case: EPC programme of City of Ljubljana



- **Objective:** implement a large investment programme improving energy performance of public buildings through EPC
- Several tenders have been prepared and contracts signed for EE improvements in similar buildings and using same EE technologies
- ELENA grant budget: EUR 1.35m
- Investment amount prepared : EUR 49m

ELENA Technical Assistance support provided for:

- ✓ Set up of an internal Project Implementation Unit and grouping buildings
- ✓ Preparation of energy audits, checking the energy baseline for the selected buildings, tender documentation preparation, design of the EPC contracts, tender evaluation
- ✓ External legal and financial advice to establish the required legal basis for the EPC approach