

Energy Performance Contracting and the role of the EIB in financing energy efficiency

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The European PPP Expertise Centre

- Established in September 2008
- A unique cooperative initiative of the EIB, the European Commission and EU Candidate and Member States
- International team of 18 professionals
- Membership: Initially 20, EPEC now numbers 39 Members
- Excellent engagement from Members with more than 120 participations annually in EPEC working groups



EPEC and Energy Efficiency

Why EPEC?

- Clear public sector need for private sector knowledge and expertise

Why now?

- Energy Efficiency is key part of EU 2020 strategy
- The Energy Efficiency Directive recently approved imposes energy saving obligations on Member States
- The Cohesion Policy proposals for 2014 -2020 allocate a significant amount of funding to Energy Efficiency and Renewable Energy
- ELENA, JESSICA, EEEF to support investment in Energy Efficiency/Renewable Energy



Energy Efficiency (EE) Mandate

Materials: guidance and fact-sheets

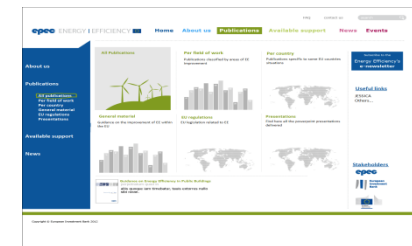
- EE in public buildings
- Street-lighting
- Cohesion Policy 2014 - 2020
- ESCOs and EPC
- Information about ELENA, JESSICA, EEEF

Events

- Workshops
- Round tables
- Seminars
- Conferences

Knowledge-sharing

- Dedicated website
- www.eib.org/epec/ee
- Case-study database
- Stakeholder cooperation



Energy Performance Contracting (EPC) Campaign

- Launched by DG ENER in October 2012
- Awareness of EPC at national, regional and local levels
- Series of practical workshops to increase knowledge, build confidence and share experience
- Three pillars working to complement each other: EPEC, ManagEnergy and the Covenant of Mayors



Energy Performance Contracts

An Energy Performance Contract is a contractual arrangement between the public partner and an Energy Service Company (ESCO) where **payments for the Energy Efficiency services are based on a guaranteed level of savings.**

Potential benefits:

- Transfer of technical risk from the partner to the ESCO
- Increased building and renovation activity than it would normally be possible through traditional contracting methods
- A complete offer of energy services, including marketing, design, installation, financing, maintenance, monitoring and verification
- No upfront costs through third party financing



EIB Involvement in Energy Efficiency

Direct loans

- Large-scale projects (more than 25m)

Intermediated loans

- Small and medium-scale projects (particularly to SMEs) via national and regional intermediary banks
- Lending decision remains with the financial intermediary

Financial Instruments

- ELENA
- JESSICA
- EEEF

ELENA at a glance

Structure

ELENA stands for European Local Energy Assistance

Grant facility managed by the EIB and funded by the EU budget under CIP/Intelligent Energy Europe (IEE) in operation since January 2010

Role

To assist in the transition from preparing action plans to making investments

To support through TA local/regional authorities to reach EU 20-20-20 targets

Applicable to Energy Efficiency, local renewables and clean transport

Budget

For 2009 - 2012: €71m (allocations can be made until end 2014)

Envisaged budget in 2013: €22m

Track record

21 projects signed/approved for a total of € 38m

Supported investment programs around € 2.4bn

Further projects in the pipeline for EC approval

Eligibility – entities and activities

Eligible entities

- Local and regional authorities or other public entities, or groupings of such entities, including those subscribing to the Covenant of Mayors
- All or part of the investment programme may be implemented by bodies other than the abovementioned entities, including private firms

Eligible activities – ELENA covers at most 90% of the cost of TA

- Cost of additional technical staff/personnel hired by beneficiary
- Additional feasibility studies, technical studies, energy audits and market surveys
- **Preparation of public calls for procurement/ tendering (i.e. ESCO projects)**
- Other TA, excluding physical investments (hardware)
- Financial structuring

Conditions for the investment programmes

- Above € 50m (smaller projects eligible when integrated into larger programmes)
- Must be implemented within a 3-year timeframe
- Minimum investment leverage factor of 20
- 4% of the investment volume as cap for technical assistance (TA)

JESSICA at a glance

JESSICA: Joint European Support for Sustainable Investment in City Areas

Objective: invest Structural Funds in a revolving way to urban projects, including EE

- Initiative of the EC (DG REGIO) launched in 2006 together with EIB and CEB to establish a **common approach for financing urban development and strengthening the urban dimension** in cohesion policy through **repayable assistance**
- Investments in **sustainable urban transformation** (brownfields/city regeneration, renewable energy, energy efficiency, clusters' development, transport, tourism/public service infrastructure)

Overall JESSICA objectives

- **To increase Structural Funds' efficiency and productivity** → Use of innovative financial instruments allowing for the reutilization of resources invested in the urban sector
- **To increase leverage** → Mobilize public/private resources for investments in projects being part of an integrated urban development scheme
- **To exploit new partnerships and synergies** → Use of managerial, financial and implementation competencies of the private sector and IFIs such as EIB

JESSICA energy projects: Possible types and added value

Renewable Energy

- Solar, biomass, wind

Clean Transport

- Electric vehicles, including automobiles, motorcycles and bicycles
- Fleet management (improvement of energy efficiency)

Energy Efficiency, Co-generation and Energy Management

- Renovation or extension of existing district heating or cooling networks; high-efficiency combined heat and power
- Energy savings/energy efficiency in buildings

JESSICA has:

- **Financial resources** and **products, structure** and **experience** in working with urban/city areas to provide energy solutions for sustainable urban development
- **Network** to share information and best practice experiences
- **Close relationship** with other EIB initiatives, e.g. ELENA and JASPERS



European Energy Efficiency Fund

- Dedicated to **mitigating climate change** and support all EU Member States to achieve EU climate targets (20/20/20) through market-based financing
- **How:** Financing Energy Efficiency (EE) and Renewable Energy (RE) projects in the public sector at the local level
- **Beneficiaries:** Municipalities, local or regional authorities; public and private entities acting on their behalf (i.e. utilities, public transportation providers, social housing associations)
- Innovative financing according to needs: junior and tailor-made senior loans, convertible debt, equity participation, (longer duration or grace periods), forfeiting.
- EEEF can act as sole investor
- Technical Assistance (TA): EUR 20 M in total grant for project development phase, up to 90% of eligible costs. Linked with EEEF funding. Based on ELENA model
- Fast & flexible procedures : no more than 6 months from pre-screening to financing

Eligibility Criteria

- Public authorities should have **concrete objectives to mitigate climate change**
- **At least 20 % primary energy savings for EE projects** (higher for buildings, increase of 2 categories)
- **Min. 20 % reduction of CO2 equiv. for RE and transport**
- **Compliance with EU legislation** (RE directive, CHP...)
- **Only proven technologies** (and specific criteria for technology may apply)
- **Size: 5-25 M€**, case-by-case basis
- **Strong support for ESCOs** providing guaranteed energy savings (financing in the form of loans, guarantees, forfeiting schemes)
- **Eligibility check available on EEEF website** <http://eeef.eu/eligibility-check.html>



Policy issues – public sector lead

Enable public sector knowledge and capacity

- Strong leadership role from the centre
- Support individual projects/ pilots
- Make use of national or regional “public knowledge centers” to ease information access
- Develop model standard contracts

Reform budgeting and public procurement rules

- Streamline budgeting and EU grant rules to boost EE investment (i.e. multi-annual budgeting)
- Incorporate lifecycle costs/EE criteria into decision-making process
- Design public tender procedures compatible with EPC/ESCO model

Develop a conducive legislative framework

- Adapt legislation to remove key obstacles to EE, i.e. minimize split incentives/ enable energy savings recovery from tenants
- Streamline ownership rules and homeowners associations that can engage more easily in binding decisions

Policy issues

Actively promote EPCs and market development at national level

- Awareness/educational campaigns and events, pilot projects
- Transparent and engaged ESCO associations
- 3rd party organizations as market/ project facilitators; public ESCOs

Encourage harmonized procedures/ Monitoring & Verification protocols + baseline data

- Facilitate and streamline energy audits
- Standardize M&V protocols, i.e. via wide-spread usage of the International Performance Measurement and Verification Protocol (IPMVP)

Ease the access to financing

- Ease the access to financing for ESCOs and availability of financial instruments (revolving and guarantee funds, low-interest loans etc.)
- Address small project-size and high transaction costs (i.e. bundle)
- Mainstream EE lending into commercial bank operations

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