

EPC financing options – experience from other countries

Bucharest, 7th November

Workshop – Financing ESCO projects through EPC

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EPC market in Europe

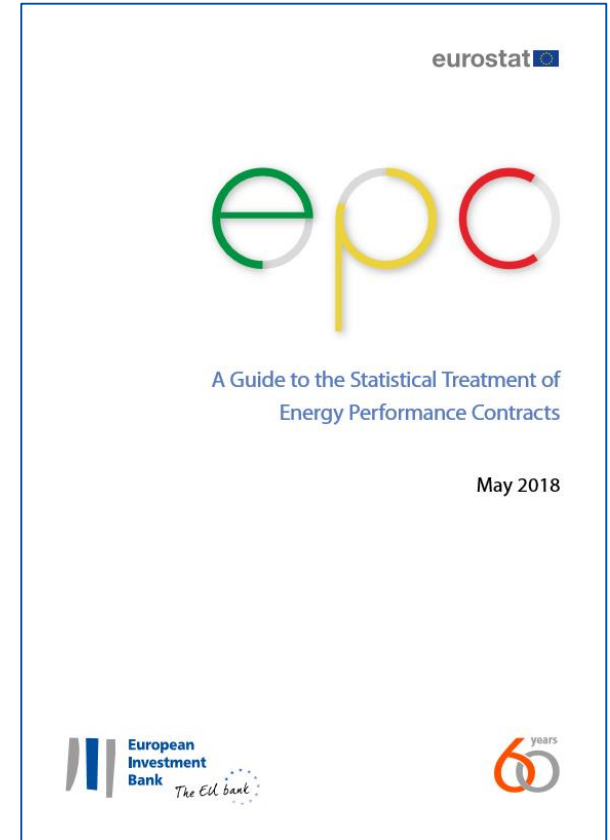
Obstacles and Potential

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

Application of EPC guide

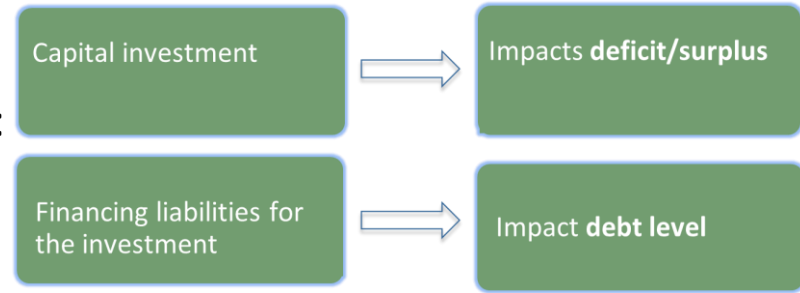
- Translates general statistical rules and principles of “economic ownership” into **contractual terms and concepts**
- Endorsed as **official Eurostat guidance** and the reference point for Eurostat advice and decisions on EPCs
- Eurostat rules relate to **statistical treatment in government accounts**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



What does the Eurostat guide imply?

Challenges and opportunities

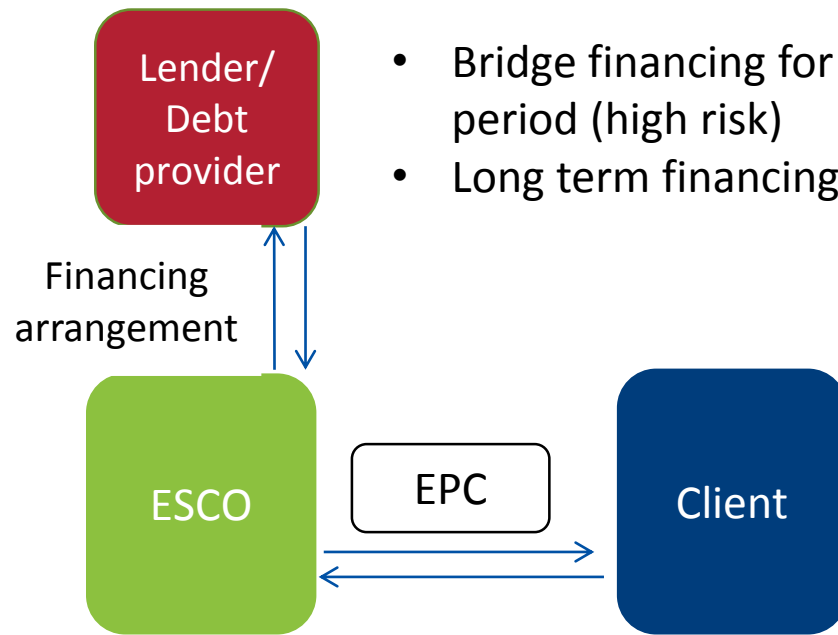
- ▶ If an asset is **“on balance sheet”** for government:



- ▶ If an asset is **“off balance sheet”** or **“Maastricht neutral”**, government only records any regular payments for services over the long-term
- ▶ **Challenges:**
 - ❖ Government **makes regular payments to the ESCO only if the energy savings are achieved**, otherwise proportional cut of payments
 - ❖ **Energy savings must exceed total amount of payment** of government to ESCO
 - ❖ ESCO provides the technical and **financing solution** to the public body
 - ❖ Minimum contract duration is **8 years**
- ▶ **Opportunities:**
 - ❑ **EU funds are neutral** in accounting treatment
 - ❑ Revenues from **renewable energy generation** are considered energy savings
 - ❑ **Additional savings go 2/3 to the ESCO**

Financing EPC

ESCO financed EPC: The financial challenges



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

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

Challenge of financing “Maastricht neutral” EPCs

- More risk shifted to private sector
- Contract duration longer than 8 years
- Performance based EPC fees
- Limits to using government financing or guarantees

Possible solutions

- Standardised templates
- Best practises
- ESIF financial instruments, e.g. guarantees or forfeiting

Comprehensive renovation via EPC – combining ESIF grants and financial instruments

- Comprehensive renovation has repayment time of +20 years
- To make project EPC-able partial client funding is necessary
- ESIF as capital grant to shorten repayment time
 - Client applies for grant and after approval tenders ESCO
 - Client is beneficiary of grant and pays ESCO a capital grant - *like in standards works contracts*
- ESIF financial instrument to provide affordable financing
 - ESCO secures affordable financing through an ESIF financial instrument, e.g. guarantee or forfaiting
 - State aid rules require that benefit is passed on to Client

Alternative sources of EPC financing

Beside ESIF there are other sources available to finance EPC projects

- ▶ National carbon allowances
- ▶ Modernisation Fund (available from 2021)
- ▶ National Energy Efficiency Fund (EED Art. 7a)
- ▶ EFSI (until 2020) or InvestEU (from 2021)

Depending on the instrument following needs to be checked:

- ▶ *Eligibility of projects*
- ▶ *Type of financing to be provided*
- ▶ *State aid*
- ▶ *Statistical treatment in government accounts*
- ▶ *Possibility to co-finance ESI Funds*

Case I: Slovenia – National EPC programme supported by ESIF grants

Slovenia – EPC Programme

- 2014-2020 1.8million m² public building stock to be renovated
- Estimated investment volume EUR 415m
- Available resources from OP EUR 171.7m
 - of which grants EUR 146.7m
 - of which financial instrument EUR 25m
- Establishment of strategic development project:
 - Set up of project office, inventory of buildings,
 - Preparation of project documentation with ELENA technical assistance
 - Establishment of EPC model contract approved by Ministry of Finance and Eurostat
- Set-up of financial instrument in order to increase competition among ESCOs

Slovenia: CŠOD Bohinj

Pilot case

Training centre for school children in Triglav National Park

Renovating building to Zero Net Energy Building (NZEB) standard

- ▶ Investment volume EUR 714,000 (2.105m²)
- ▶ 50% financed by ESCO, 50% financed via EU grants and client own resources

Measures

- ▶ reconstruction of the boiler room, retrofitting central heating system, lighting retrofit, installation of ventilation system, advanced building management system, building envelope & joinery
- ▶ Switch to biomass fuel and heat pump
- ▶ Total energy savings 247 MWh/a (ca. EUR 44,000 p.a.)

Slovenia: Decision making process

- ▶ Potential beneficiaries apply for ESIF support for energy efficiency measures
- ▶ EPC test
 - ▶ If CBA shows that building is “EPC-able”, grant is conditional to implementation via EPC (up to 40% of CAPEX)
 - ▶ if not EPC-able, normal public procurement
- ▶ Client undertakes energy audit and analysis
- ▶ Project office supports in public procurement (competitive dialogue)

A dedicated ESIF loan fund to support ESCOs and EPC clients is in consideration by SID Banka

Slovenia: Results of calls 2016-2020

	Total	EPC		Public procurement***	
Number of projects	65	28	43%	37	57%
Total net floor area (m2)	≈600.000	≈456.000	76%	≈144.000	24%
Eligible costs of projects (MEUR)	≈100	≈69	69%	≈31	31%
Average savings Qf/Anet floor area (kWh/m2a)**	75	86	115%	68	91%
Eligible costs/Anet floor area (€/m2)	167	≈151*	90%	≈215*	129%

Case II: Czech Republic – EPC Investment Platform

Dedicated Investment Platform unlocking EE investments in EPC

Market Barriers

Complexity of the access to EE grants schemes

lack of trust in the ESCO/EPC market

Fragmented ESCO and users market

ESCO combining technical EE solution with long term funding .

budgetary constraints

lack of public EPC initiatives.

Investment Platform mitigation

One stop shop for ESCOs and public promoters

Best practices rules applied by ESCO

Standardised templates and processes

0% rate for EE receivable financing

Assignee's payment default guarantee

Access to secured long term financing

Reporting of EE and Co2 savings

Maastricht neutral EPC model.

Pilot public EPC supported by GVT

Visibility, communication, show cases.

Supporting the new EPC funded market

Role of National Promotional Bank?

RISK
MITIGATION
PROVIDER

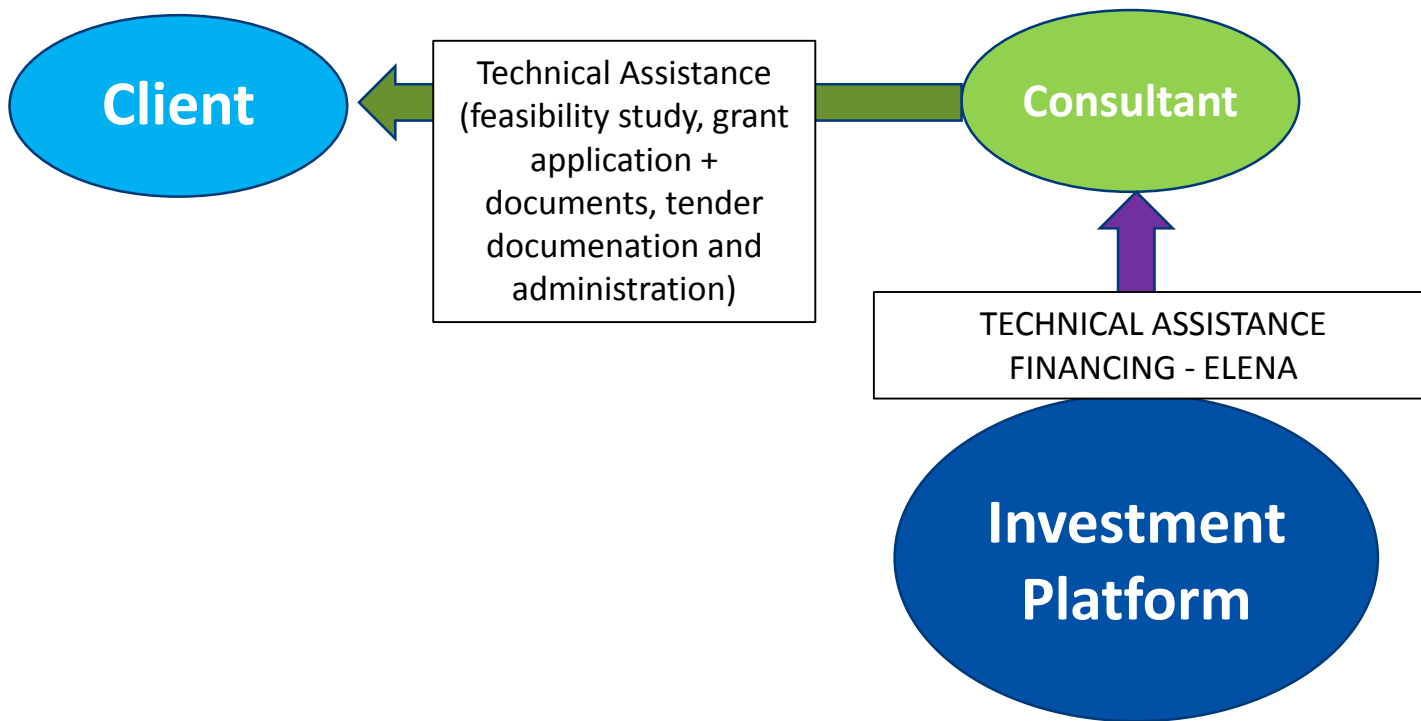
LONG TERM
FUNDING
PROVIDER

TECHNICAL
ASSISTANCE/
AWARENESS

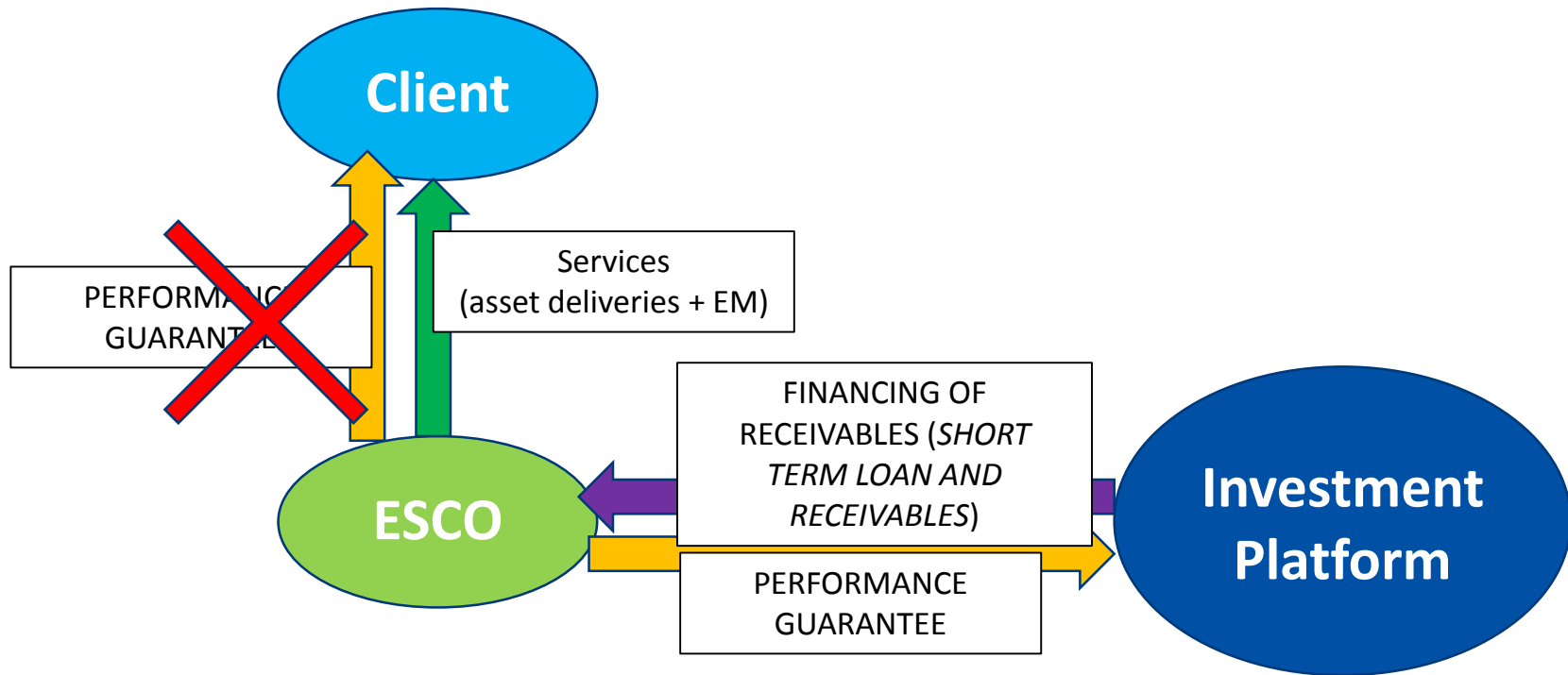
- ❑ Creating awareness, stimulating EE investments
 - ❑ One stop shop, securing saving performance and access to long term finance, awareness session about Eurostat new rules.
- ❑ Ensuring sustainable financing of funded EPC projects
 - ❑ Developing dedicated financial instrument or investment platform
 - ❑ Bundling small scale EPC.
 - ❑ Supporting the standardization of EPC legal models.
 - ❑ combining public resources, structural funds with private investors
- ❑ Mobilising EU technical support schemes in favour of EPC promoter, commercial banks and/or ESCO.

Czech Republic: Financing of Technical Assistance

Finacing of Technical Assistance



Czech Republic: Financing of Investment



Cases of EPC financing mechanisms

Case III: EPC in the health care sector in Marche Region, Italy

Marche, Italy

EPC in health sector

- ▶ From 2014-2017 Region of Marche developed an energy efficiency scheme for health sector (MARTE) supported by Intelligent Energy Europe grant
- ▶ Objective: Using EPC for comprehensive renovation including renewable energy sources using EU Funds
- ▶ Outcome of project: Combining ESIF grants, ESIF FI for and ESCO own resources for project
- ▶ Contracts with 15 years duration signed with ESCOs end of 2017
- ▶ Implementation started end of 2018

Marche, Italy

EPC in health sector

Healthcare facilities	Investment in € (VAT 22% included)	CO2 savings		Energy savings		RES production
		tCO2/year	in %	toe/year	in %	toe/year
San Benedetto del Tronto Hospital	5.409.220,87	771,2	76	340	77	
Urbino Hospital	3.257.589,48	813,8	67	488	77	
Pergola Hospital	2.530.438,25	314,9	75	138	79	3,6
Sant'Elpidio a Mare Policlinic with Nursing Home	325.990,22	120,3	39	32	39	7,4
Petricoli Policlinic with Nursing Home	400.132,53	128,2	46	43	46	2,6
TOTAL	11.923.371,34	2.148		1.041		13,6

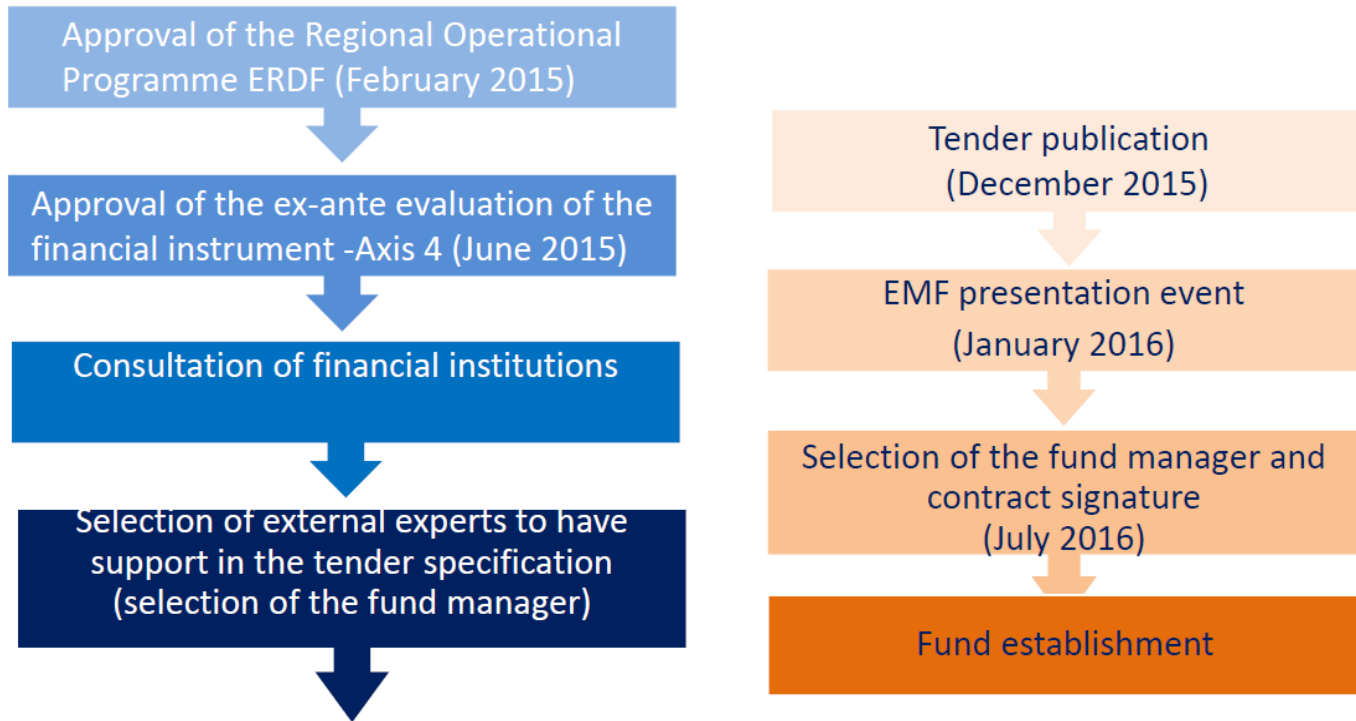
Financing of Marche health sector EPC

Financing to project:

- ▶ OP grant (max 40%) paid to the beneficiary that will pass it on to ESCO;
- ▶ OP interest-free loan (max 35% of the investment) for 15 years by to ESCOs directly;
- ▶ ESCOs provide remaining amount form own resources;

The experience from the health sector project inspired the set up of a regional Energy and Mobility Fund (EMF)

Establishment of EMF



Marche: Lessons learned

- ▶ Need for proper project preparation, such as a solid energy audit
- ▶ Return of investment of energy efficiency measures determine contract length
- ▶ ESIF funding is important to reconcile contract length and economic payback time of measures
- ▶ Need for affordable financing for projects
- ▶ Capacity building on EPC
- ▶ Interdisciplinary working group to manage call for tender
- ▶ Commitment of additional staff with specialised skills duration of contract (15 years)

Case IV: Financing facility for EPC in Latvia

H2020 Energy Efficiency Finance PDA – Example

SUNSHINE

Save your bUildiNg by SavINg Energy



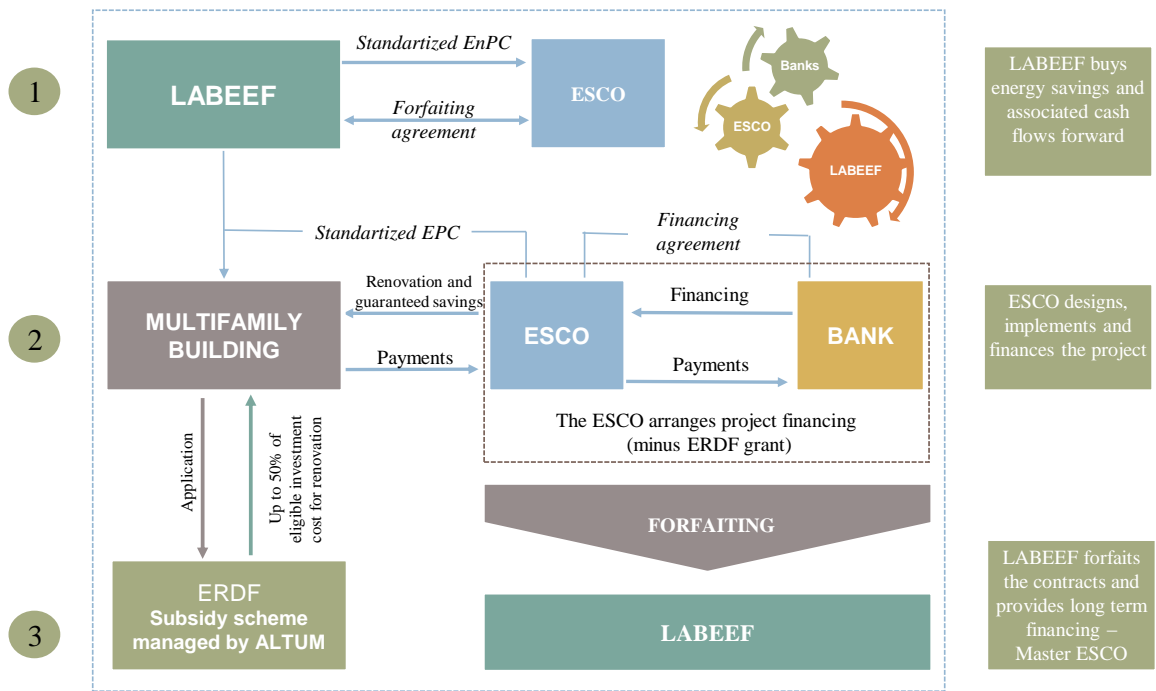
- Finance and execute deep energy renovations of Multifamily buildings (MFB) through energy performance contracting
 - deeply retrofit at least 200.000 m² of MFB (ca. 80 buildings) in Latvia
 - Approximately €30m in investments
 - long term Energy Performance Contracting (EPC)
 - an online Sharing Platform to foster the ESCO market in Latvia
 - Refinancing of ESCO's short-term loans and working capitals by forfeiting receivables from executed EPC
- More information: www.sharex.lv



[SUNSHINE](#) and [Accelerate SUNSHINE](#)
are Horizon 2020 PDA projects in Latvia

LABEEF ENERGY EFFICIENCY FINANCING SCHEME

Including the use of ERDF



LABEEF buys energy savings and associated cash flows forward

ESCO designs, implements and finances the project

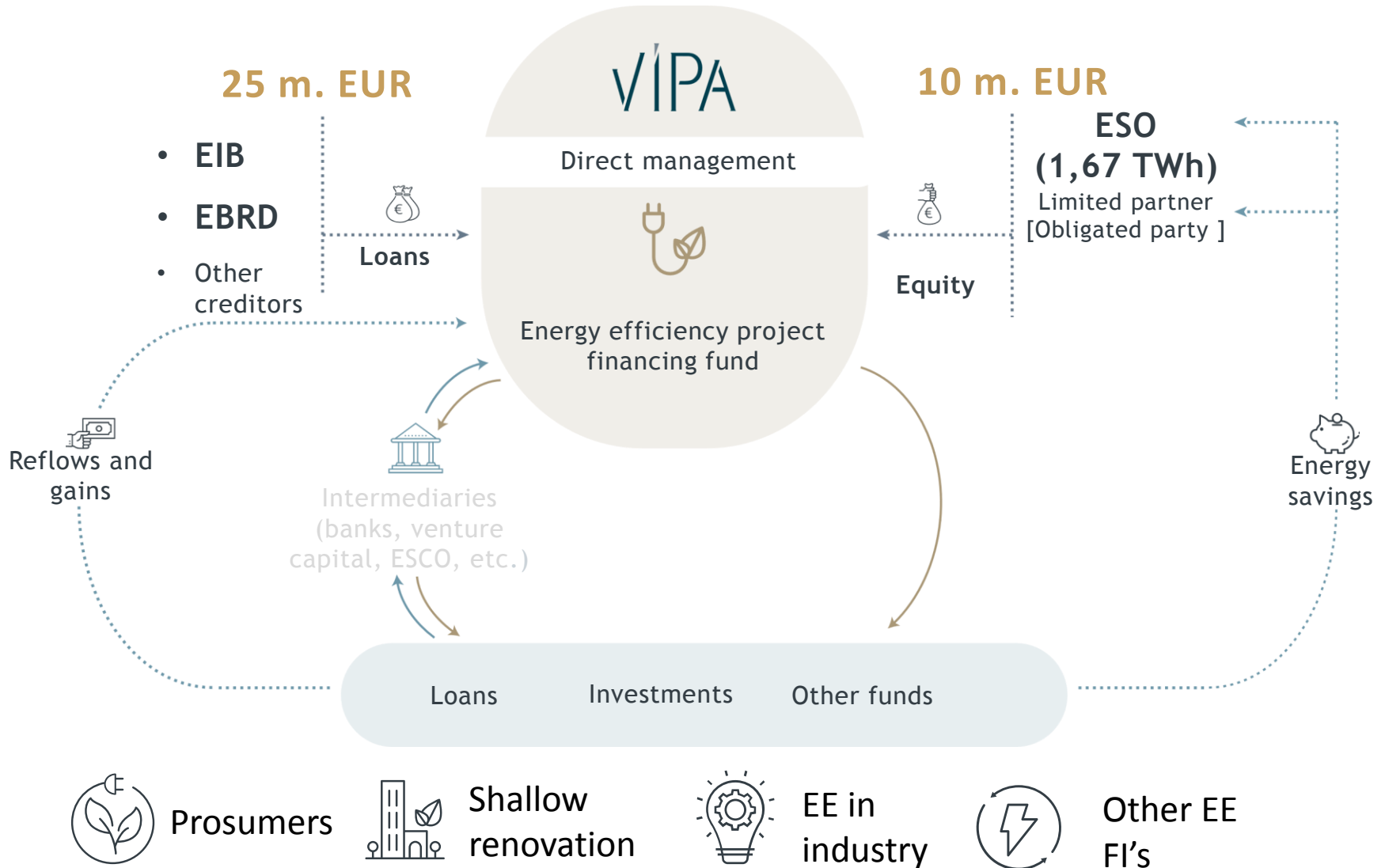
LABEEF forfaits the contracts and provides long term financing – Master ESCO



The selection of construction and installation companies must be tendered by ESCOs and approved by ALTUM to ensure competitive selection of contractors and to avoid conflict of interest.

Case V: National energy efficiency fund (EED Art. 7a) in Lithuania

Energy efficiency project financing fund



Main financial products

EEFP

2018-07-12

10 m Eur. (ESO)+12,5 m. Eur. (EIB)+12,5 m. Eur. (EBRD)

Total = 35 m. Eur.



Prosumers

- Launched
- Financing through SMEs implementing energy efficiency measures at prosumers
- Minimum loan - 50.000 eur.
- Only PV prosumer projects are financed (pooled)
- Up to 80 % of investments to be financed (risk sharing)
- Only projects generating 1kWh energy savings per year, per 0,8 euro to be financed



EE in industry

- Launched
- Targeted at SMEs
- Energy audit recommendation implementation and solar PV
- Up to 80 % of investment to be financed and energy saving requirement



Shallow renovation

- **To be launched - 2019 - 2020**
- Financing through MAB administrators - Project administrator
- Multi apartment building heating system renovation (and other energy saving measures)
- Possible government subsidy
- Up to 80 % of investment to be financed and energy saving requirement



European Investment *Advisory Hub*
Europe's gateway to investment support

The Advisory Hub: a gateway to a comprehensive advisory offer

Desislava Krалеva

European Investment Advisory Hub

07.11.2019



European Investment Advisory Hub

Investment Plan for Europe

Create an investment-friendly environment

through improvements of the European regulatory environment

Support investment in the real economy

through the
European Investment Advisory Hub
and the European Investment Project Portal

Mobilise EUR 500bn of additional financing

through the European Fund for Strategic Investments (EFSI)



European
Investment
Bank

A joint initiative

Advisory Hub

EIAH in the project cycle



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

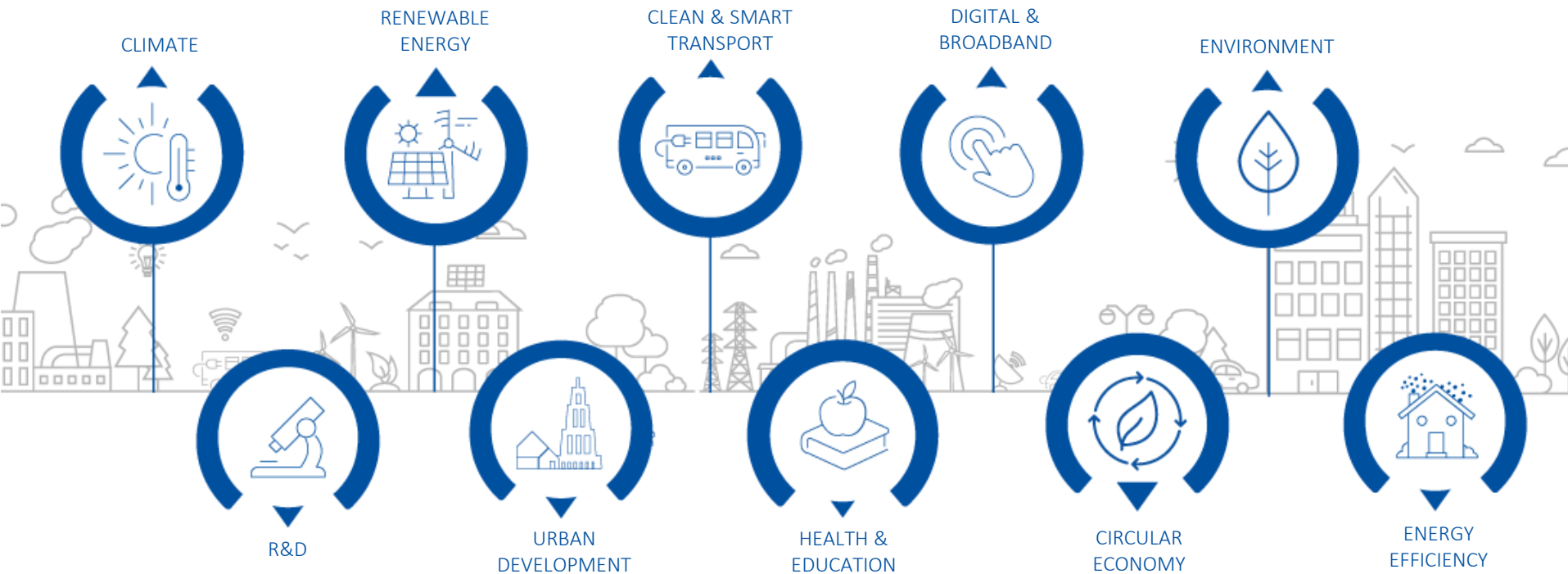
IMPLEMENTATION

- 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

Advisory interventions in key sectors



Who can contact the Advisory Hub for support?

Managing Authorities

Private companies

Public companies

Member States

Municipalities

Public authorities

National Promotional
Banks & Institutions

Financial
Intermediaries

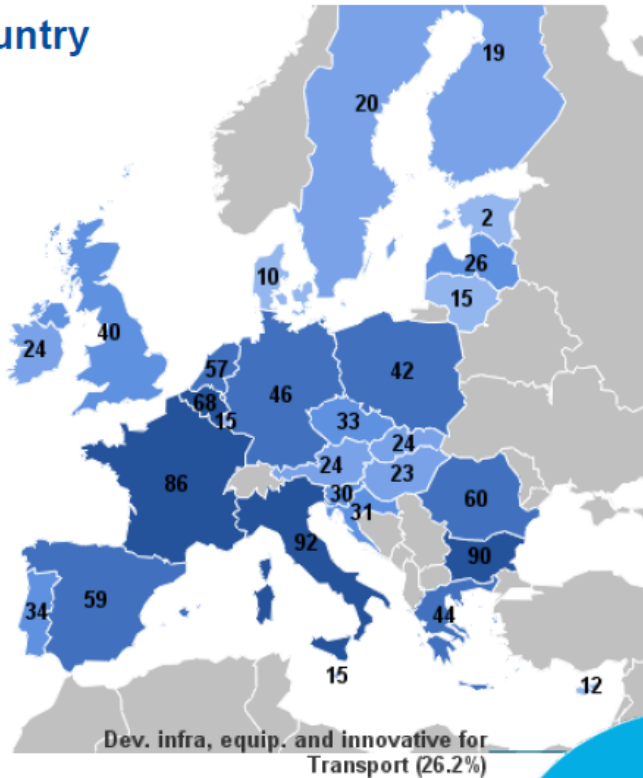
Direct requests to the Advisory Hub: overview

* situation as of 31/10/2019

Requests by country

Country	No. of requests
Italy	92
Bulgaria	90
France	86
Belgium	68
Romania	60
Spain	59
The Netherlands	57
Germany	46
Greece	44
Poland	42
United Kingdom	40
Portugal	34
Czech Republic	33
Croatia	31
Slovenia	30
Latvia	26
Austria	24
Ireland	24
Slovakia	24
Hungary	23
Sweden	20
Finland	19
Lithuania	15
Luxembourg	15
Malta	15
Cyprus	12
Denmark	10
Estonia	2
Total	1,041

*excludes 125 requests relevant for more than one EU country or no specific

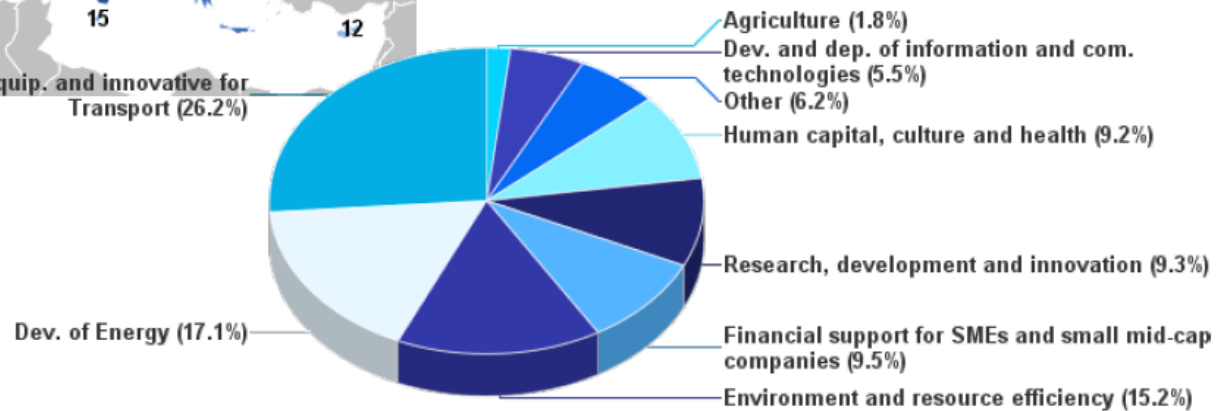


Total of 1,166 requests

958 project-specific requests

- Public sector : 442
- Private sector : 486
- Other (e.g. NGOs) : 30

Project-specific requests by sector (Tot. 958)



*The category "other" includes project-specific requests in which the sector is not indicated

Examples of assignments financed by the Advisory Hub (Non-Exhaustive list)



Investment Platforms and capacity building

- *Market assessment*
- *Design of proposed IP/ fund*
- *Capacity Building support to MA/ NPIB*



Support to reporting systems

- *Review of current accounting system*
- *Financial Debt Reporting*
- *Asset-Liability Management*
- *Training*



Business Plan and Bankability

- *Defining business plan*
- *Bankability assessment*
- *Economic and financial viability*

Market Development – Sectorial Demand Study

- *Demand Analysis*
- *Sample Review*
- *Case studies*
- *Need for Commission sign-off*



Project identification and initial screening

- *Safer Transport Platform, ITS*
- *Circular Economy*
- *SMEs & MidCaps*
- *Mobility, CEF Blending Facility*
- *Security and Defence*

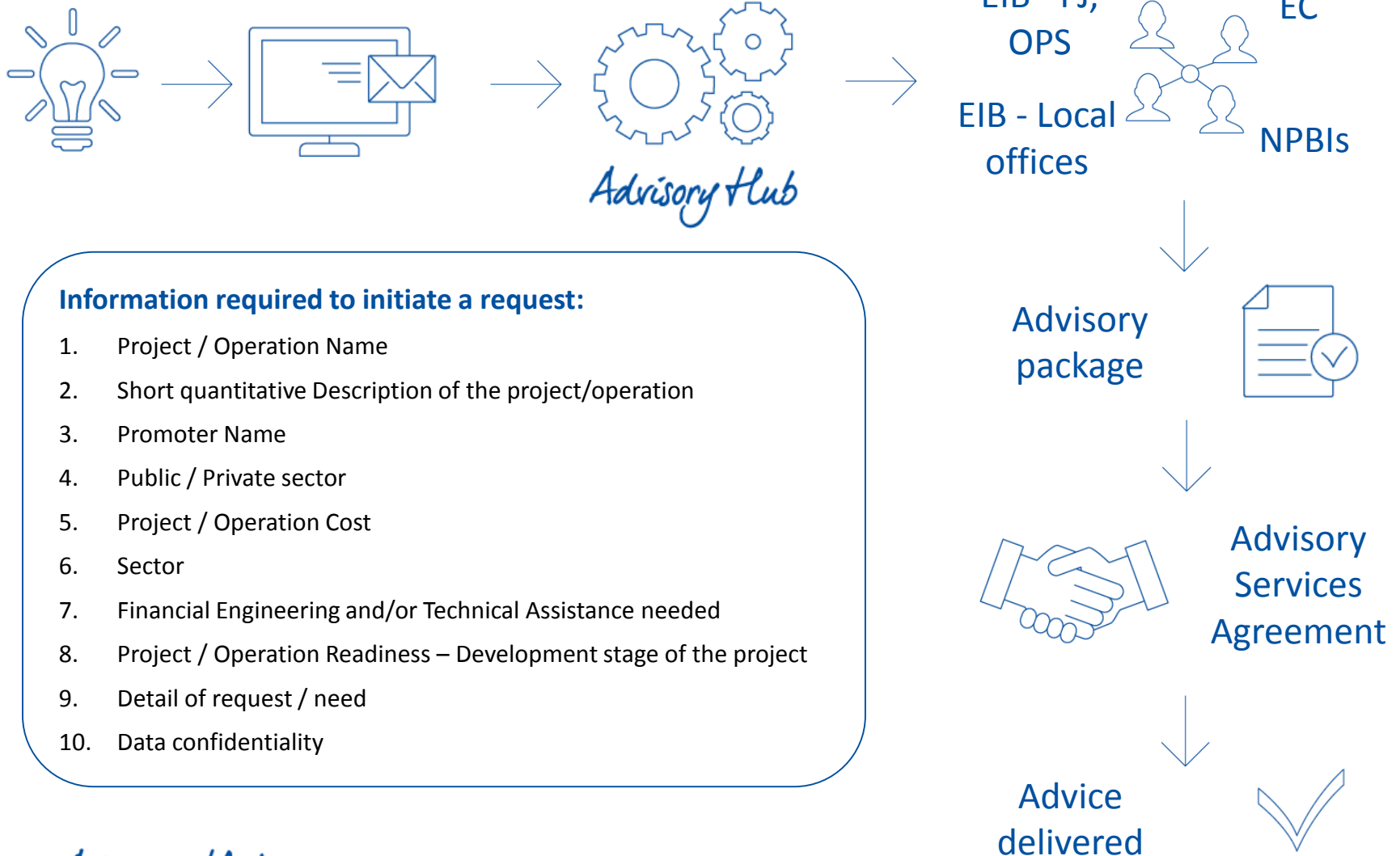


Financial Analysis and Modelling

- *Assumption Book*
- *Financial Model*
- *Financial note*



How does the Hub work on incoming requests?



Information required to initiate a request:

1. Project / Operation Name
2. Short quantitative Description of the project/operation
3. Promoter Name
4. Public / Private sector
5. Project / Operation Cost
6. Sector
7. Financial Engineering and/or Technical Assistance needed
8. Project / Operation Readiness – Development stage of the project
9. Detail of request / need
10. Data confidentiality

URBIS: A thematic advisory initiative

- A joint initiative



- Three types of support:

 Awareness raising  Tailor made advice  Innovative financing solutions

- Available to cities from all sizes and regions of the EU

- More information available on the EIAH website:

<http://eiah.eib.org/about/initiative-urbis.htm>



FAQs about the Advisory Hub



What is the geo scope of the Hub?

The European Union

Is the Hub only linked to EFSI projects?

No, support will not be limited to projects to be financed by EFSI (and/or the EIB)



Does the Hub provide financing?

The EIAH does not provide financing of any sort. Requests for financing addressed to the Hub are redirected to relevant resources as appropriate.

Who concretely delivers the advisory support provided via the Hub?

Experts of the EIB, its partner institutions and/or appointed external consultants



Does the Hub have local offices?

Currently the Hub operates mainly via the EIB headquarters in Luxembourg and its local offices. A network of local partner Institutions is developing

Is the support provided via the Hub free of charge?

In most cases, yes. A contribution may be requested from private sector beneficiaries in order to align interests and ensure ownership of results





Thank you for your attention!

Request support from the Hub
Contact the Hub for more info

eiah.eib.org
eiah@eib.org

