

# The role of EPC/ESCO in the energy renovation of public buildings

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# Introduction

- ▶ Improving energy efficiency is key to a sustainable energy policy and to climate change mitigation strategies
- ▶ It is an EU-level intention to include both the financing community and the private sector in the activities and in financing actions like renovation of buildings
- ▶ The private sector, including energy service companies (ESCOs) can play an important role in improving energy efficiency at the market level,
- ▶ The concept of ESCOs – as a PPP with the specific aim of implementing energy efficiency investments - is built on a long-term partnership between the public sector and the private sector, respectively, and on sharing the risks connected to the investment between the partners

# The governance of ESCOs/EPC

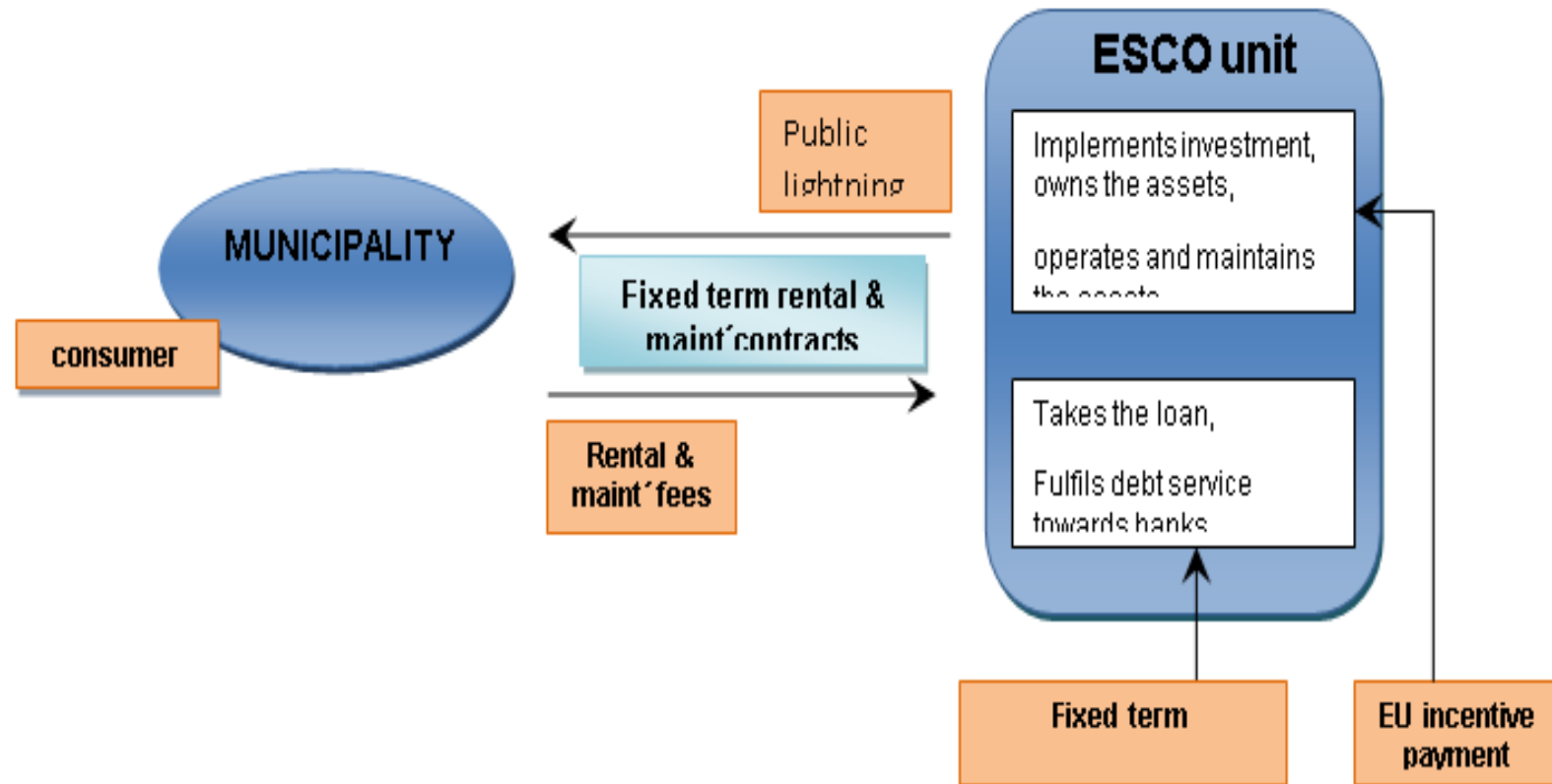
- ▶ A difference still exists in the interpretation of what is meant by an ESCO in the market place
- ▶ In the European context, the importance of ESCOs/EPC is recognized by various EU directives and initiatives such as the Energy Efficiency Directive (2012/27/EU, EED), which sets explicit requirements to promote the market of energy services through its Article 18.
- ▶ An ESCO delivers energy services and/or other energy efficiency improvement measures in a user's facility and accepts some degree of financial risk in so doing.
- ▶ The payment of the services is based (wholly or in part) on the achievement of energy efficiency improvements and on meeting other agreed performance criteria.

# The governance of ESCOs/EPC

- ▶ EPC is a contractual agreement between the beneficiary and the provider of an EE improvent measure, verified and monitored during the whole term of the contract, where investments (work, supply or service) are paid for in relation to a contractually agreed level of EE improvement/energy performance criterion, such as financial savings (2012/27/EU)
- ▶ ESCO companies carrying out EPC contracts are more commonly referred to as EPC providers, to distinguish them from those ESCOs who do not use performance guarantee
- ▶ Thus EPC providers more commonly offer a savings guarantee and link their remuneration to meeting the agreed savings targets (guaranteed savings model or shared savings model)
- ▶ Definitional varieties still exist at national level in the EU.

# An example of an ESCO structure

(a typical structure in the EBRD MFEE scheme operative in Hungary between 2009-2014)



# The role of ESCOs/EPC

- ▶ ESCOs have the necessary know-how to provide turn-key services,
- ▶ ESCOs have the solutions how to achieve energy cost reduction in an efficient way,
- ▶ ESCOs can handle projects – from energy audit and management to project design and implementation, maintenance and operation, monitoring and evaluation of savings and energy equipment supply,
- ▶ ESCOs can manage or mobilize financial resources, take out loans,
- ▶ ESCOs can undertake installation and maintenance work,
- ▶ ESCOs can collaborate with other market players and address market barriers
- ▶ .....while public sector institutions, municipalities usually lack these elements of knowledge and know-how

# ESCO market overview

(based on the study by JRC Science for Policy Report of 2017)

- ▶ The average ESCO market of the EU has been on a rising trend in the last decades, the 2008 financial crisis caused only a short backdrop,
- ▶ Energy services markets included many contract/contractor types and few types of clients (industry and public sector),
- ▶ As of 2016 there are still many types of contracts, however EPC is more and more regarded a distinguished contract type,
- ▶ The total EU market was estimated at €2.4 billion ESCO revenue in 2015 with a forecasted growth to € 2.8 billion in 2024 at a 1,7 % compound annual growth rate.
- ▶ 18 of the 28 member states reported unchanged markets, only 7 have grown during 2014-16 and 3 markets were decreasing (AT, HU, EE).

# Why to use ESCOs/EPC for the renovation of public sector buildings?

- ▶ Recent changes both in the marketplace and in the accounting rules related to ESCOs can boost the „appetite” of the public sector for ESCO/EPC solutions:
- ▶ There has been a considerable rise in energy prices recently, term contracts still represent a rising trend – this fact „improves” the return on energy efficiency investments
- ▶ The new principles set by Eurostat for the institutions of the public sector on how to account for investments: investments can be capitalized in the ESCOs books thus they will not increase the indebtedness of the institution/municipality (off-balance sheet solution)
- ▶ Introduction of the Energy Efficiency Obligation Scheme – utility companies and energy suppliers/traders can become motivated to enter the ESCO/EPC market as partners of ESCOs



# Benefits of the ESCOs/EPC

- ▶ The benefits of the know-how of the ESCOs can be leveraged to the public sector institutions/municipalities
- ▶ The risk sharing mechanism of the ESCOs motivates both parties to implement realistic measures for energy efficiency improvement, with efficiency both in implementation and operation
- ▶ There is no need for up-front financing on the part of the public sector participant
- ▶ The investment does not increase its level of indebtedness, offers off-balance sheet solution via a long-term purchase of service(s),
- ▶ By exploiting economies of size the public sector institution can benefit from further price advantages because of the investment/financing/contracting volume managed by the ESCO

# Thank you for your attention!

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