

Guide on the statistical treatment of EPC

European Energy Network, Thinking Group Meeting Sofia, 24 October 2018

Julia KENNEDY, European PPP Expertise Centre (EPEC)

European Investment Bank

EPC market in Europe

Obstacles and Potential

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

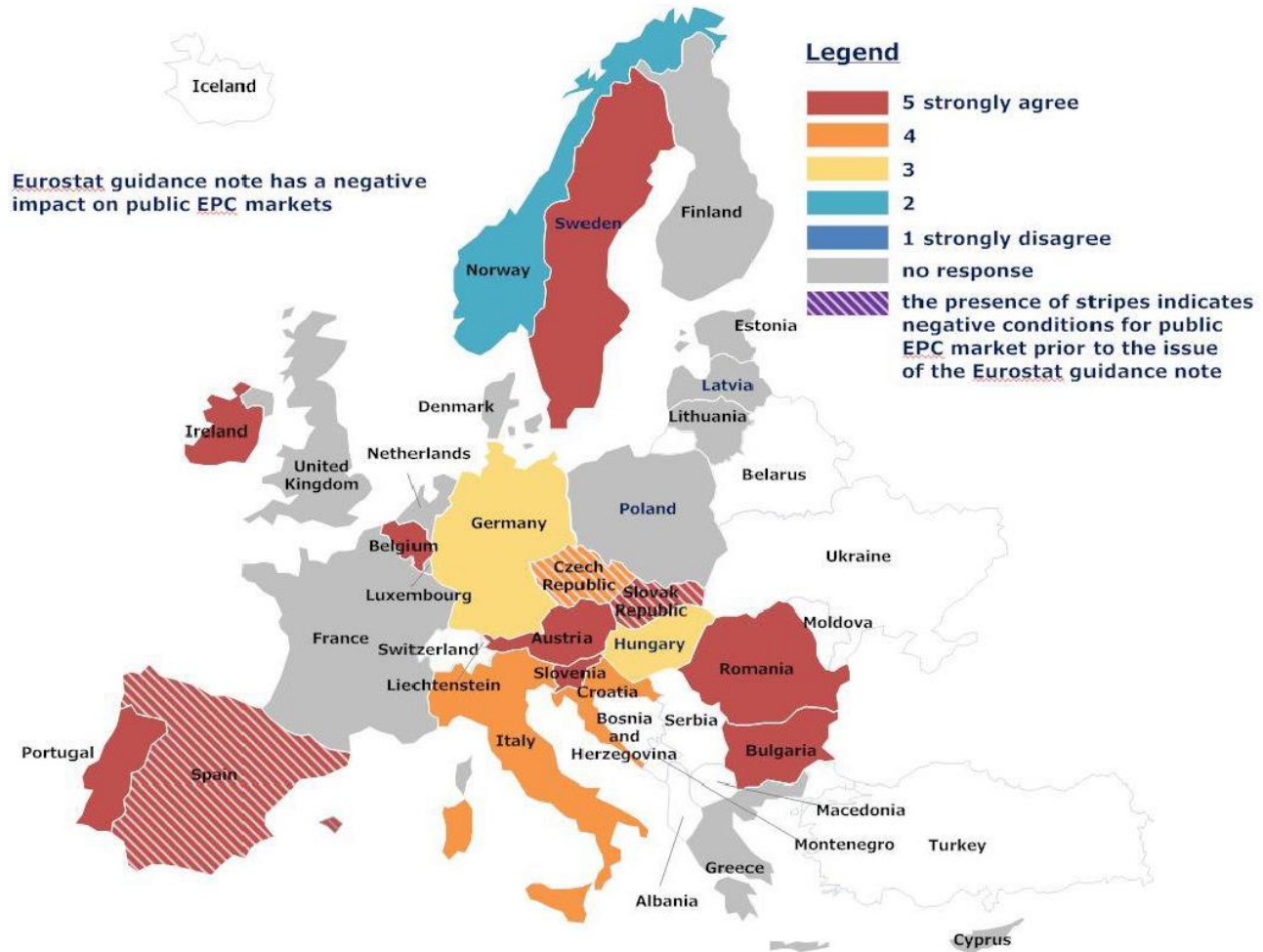
- Lack of information and awareness
- Lack of trust and track record
- Project development capacity of project promoters
- Procurement process
- **Statistical treatment of EPC**
- Access to finance for EPC providers
- Competition with investment grants

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

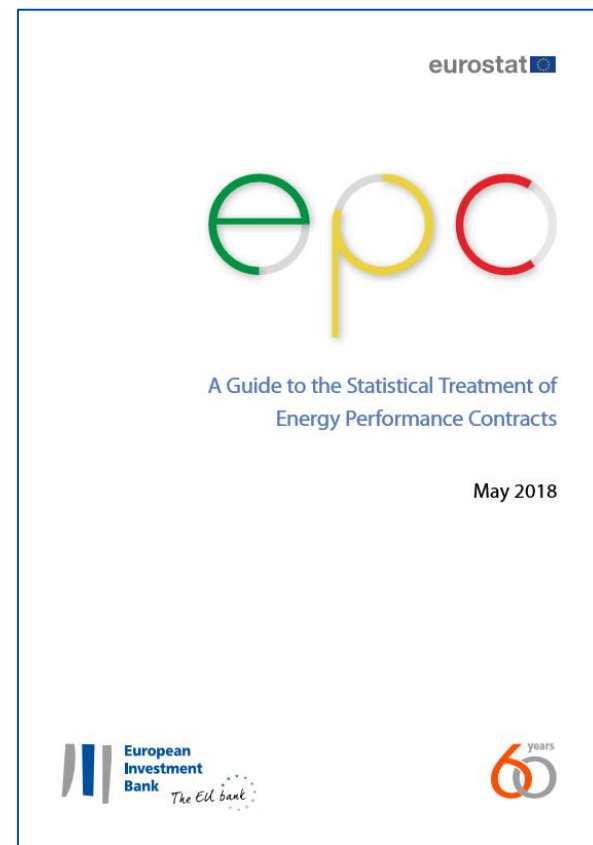
(according to 2017 JRC report 'Energy Service Companies in the EU')



Why a statistical guide on EPC?

About the guide

- Eurostat Guidance note from 2017 opened the way for 'off-balance sheet' EPC
- Focus on concept of 'economic ownership' = majority of risks and awards
- The practitioner's guide translates general rules into concrete provisions
- Guide covers typical contract provisions and structures
- Guide is official Eurostat guidance and the reference point for Eurostat advice and decision on EPCs



The Guide on statistical treatment of EPC

Scope of the Guide

- Energy Performance Contracting financed by private EPC provider
- Minimum contract length 8 years
- Energy efficiency related assets, including renewable energy
- Eurostat rules relate to statistical treatment in government accounts - not with accounting rules/practices and budgeting
- Guide does not deal with value for money or bankability

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

Selected themes

Guaranteed savings

- Guaranteed savings must exceed Operational Payments and Government grants
- Savings must be derived from a reduction in energy consumption (other energy related savings and revenues can also count)

Payment mechanism

- Principle of proportionality (% payment relates to % savings achieved)
- No cap on EPC provider's liability for savings shortfalls
- Authority can take up to 1/3 of excess savings

Selected themes

Financing arrangements

- Is **government participating** in the financing, through grants or loans/guarantees in the EPC investment? Impact depends on % provided
 - $\geq 50\%$ → ON BALANCE SHEET
 - $< 50\%$ → impact on balance sheet treatment
- **EU financing** (grants/financial instruments) does not impact on-off balance sheet treatment
- **ESIF programme** support needs to be divided between **EU financing** and **government financing**
- Is there are **forfeiting** arrangement in place? Does it shift risk back to the government?

Example of an EPC project

Hypothetical example: Hospital

Project facts

Key figures

- Investment cost:
EUR 5 million
- Investment grant:
EUR 1.5 million
- Guaranteed savings
40% compared to baseline
4 GWh of heat and electricity
- Annual guaranteed energy cost savings
EUR 400,000
- Annual payment to ESCO
EUR 320,000
- Contract length
10 years

Measures

- Building envelope insulation
- Replacement of windows
- Fuel switch to wood pellets
- Heating substations
- Thermostatic valves
- Heat pumps
- New cooling system
- Upgrade of indoor lighting

Financing

- Investment grant EUR 1.5m provided from national budget
- Bank loan to ESCO received a guarantee from an EU financial instrument

Hypothetical example: Hospital

Test against Eurostat guide

- ▶ Measures: measures are related to energy efficiency ✓
- ▶ Contract length: 10 years ✓
- ▶ Government financing: grant 20% ✓ **High importance**
loan 0% ✓
- ▶ Guaranteed savings vs payments to ESCO*:
Energy savings: $10 * \text{EUR } 400,000 = \text{EUR } 4\text{m}$
Payments: $\text{EUR } 1.5\text{m} + 10 * \text{EUR } 320,000 = \text{EUR } 4.7\text{m}$
Payments > savings ✗ On balance sheet

⇒ 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

EIB support to implement EPC projects

EIB support to EPC market

Lending – Blending - Advising

- **Creating awareness** on the benefits of EPC and its financing
 - Awareness sessions on Eurostat rules
 - Information on combination of EU grants and EPC
- **Technical support** to EPC projects
 - Support for preparing model contracts taking Eurostat rules into account can be potentially supported by **EIAH**
 - Market demand analysis can be potentially supported by **EIAH**
 - Technical assistance for project preparation through **ELENA** facility
- **Sustainable financing** of EPC projects
 - Providing lending to banks that onlend to ESCOs, e.g. **Private Finance for Energy Efficiency (PF4EE)** <http://www.eib.org/en/products/blending/pf4ee/index.htm>
 - Developing dedicated financial instrument or investment platforms using resources from Structural Funds and EFSI, potentially supported by **EIAH**

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

EIB support to EPC - Advising

Case: EPC programme of City of Ljubljana



EIB support to EPC - Advising

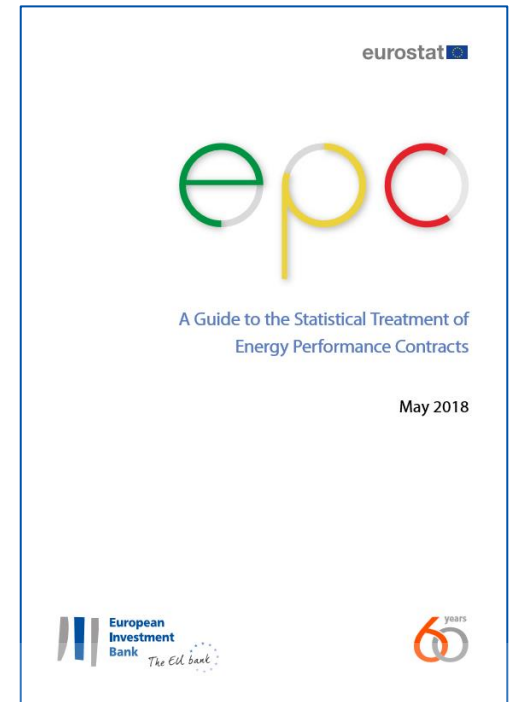
Case: EPC programme of City of Ljubljana



- **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



Download guide from

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

For further support contact

EIB Financial Instrument Advisory:

Robert Pernetta

r.pernetta@eib.org

Laurent Bender

l.bender@eib.org

ELENA:

elena@eib.org