

Guide on the statistical treatment of EPC
**National Roundtable on Financial Energy Efficiency in
Ireland**
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EPC market in Europe

Obstacles and Potential

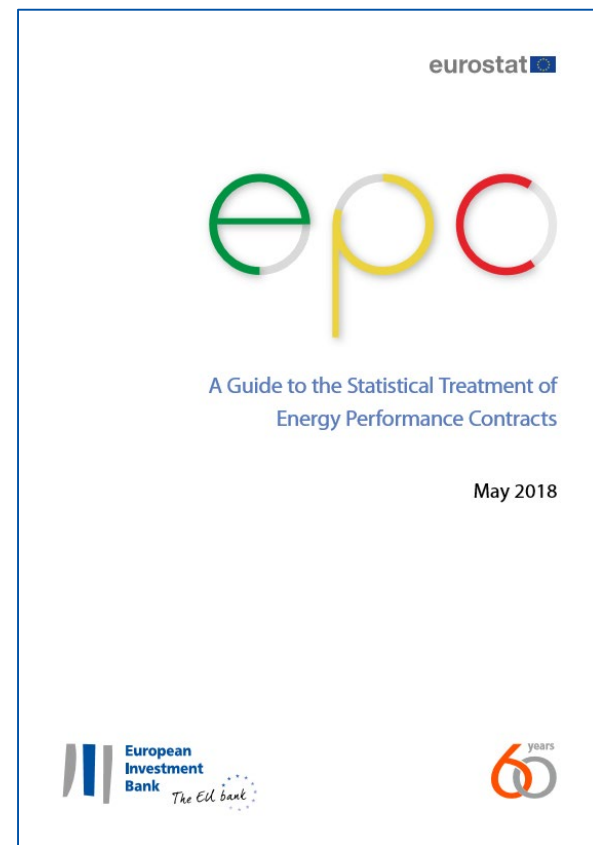
Potential of EPC market in the public sector is not exploited due to:

- 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

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 in-door lighting

Financing to project:

- Investment grant EUR 2m provided by 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: $\text{EUR } 1\text{m} + 10 * \text{EUR } 320,000 = \text{EUR } 4.2\text{m}$
Operational payments > savings ✗

⇒ 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**

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EIB support to EPC - Advising

Case: EPC programme of City of Ljubljana



EIB support to EPC - Advising

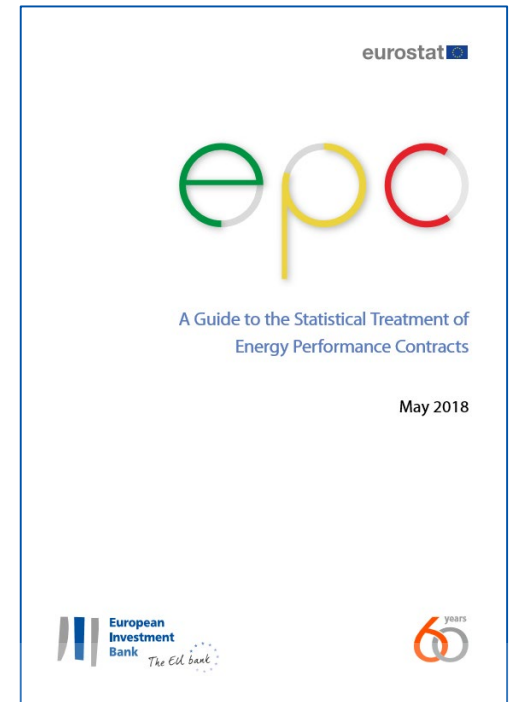
Case: EPC programme of City of Ljubljana



- **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

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